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Firm Performance Based on Acquisition, Merger, and Debt Policy on SOE in Indonesia

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ABSTRACT: This study aims to examine the effect of acquisitions, mergers, and debt policies on company performance in BUMN companies listed on BPS for the 2016-2020 period. The data collection technique used was purposive sampling, where the sample obtained was 317 that met the criteria. The data analysis techniques used in this study are descriptive statistics, classical assumption tests, multiple regression analysis tests and hypothesis testing. Based on the research conducted, the research results show that acquisitions and mergers havea significant effect on company performance, as well as debt policy which has a significant effect on company performance.

KEYWORDS: *Acquisition, Merger, Debt, Firm Performance*

I. INTRODUCTION

Corporate actions in Indonesia are becoming more common as global economic conditions trigger the adrenaline of companies to survive in difficult times. Acquisitions and mergers are part of the corporate actions that are currently in the spotlight in the Indonesian business world. Not only private companies, but State-Owned Enterprises (SOEs) are also taking part in these corporate actions. Currently, SOEs have ambitions to make the company's business not only much bigger, but also run more efficiently, so a number of strategic steps are taken, starting from mergers and acquisitions to consolidate the financial performance of SOEs according to their respective clusters.

Acquisitions and mergers provide several benefits to companies, mainly related to company performance. Companies that make acquisitions or mergers usually aim to expand their market network and protect their business in times of intense competition. When the company succeeds in expanding the market, of course, the profits obtained will also increase and be able to secure the company to remain stable.

For example, during the first semester of 2022, Telkom booked consolidated revenue of Rp72 trillion, growing 3.6% compared to the same period last year, and net profit of Rp39.4 trillion and Rp13.3 trillion, growing4.5% and 6.9% year-over-year, respectively. Starting from Mitratel's IPO last year and tower asset acquisition steps completed, Mitratel became the largest tower company and leader in the Southeast Asian market with ownership of more than 35 thousand towers.

In addition to acquisitions and mergers, debt policy is also one of the corporate actions taken by companies to harmonize the needs of companies when making acquisitions and mergers. Companies with acquisition plans will have a different debt policy from the debt policy before the acquisition. This is because thecompany must rack its brains to have sufficient funding with debt, but can be reinvested so that it can get a return and fund operational activities properly. The company's debt policy will be a small but important point reflected in the financial statements, where investors are able to see how the debt policy is applied. The sustainability of the company will also be seen in the financial statements as an assessment by creditors when providing debt or loans to the company. From this, debt policy will indirectly lead to various assessments from various points of view related to company performance.

Based on research conducted by Baldacchino, *et al* (2022), overall, although mergers and acquisitions successfully achieve growth potential, operational efficiency has decreased, which indicates that achieving a smooth consolidation process seems to require considerable management effort [1]. Of course, in this case it will affect the company's performance which can be reflected in the presentation of financial statements. Likewise with debt policy, where according to research conducted by Abuamsha (2022) concluded that ROA increases when long-term debt is used to finance assets in the insurance, investment and industrial sectors. On the other hand, in the service sector, ROA is negatively affected by the use of long-term debt, and only the ROA of

industrialcompanies is significantly affected by total debt [2]. From the results of previous studies, it can be said that acquisitions, mergers, and debt policies have an influence on the company's financial performance. The results ofprevious studies certainly have their limitations, so they still have to be re-examined in other types of company sectors.

The positive examples that can be drawn through state-owned companies do not mean that they can be generalized to all companies, even to the state-owned companies themselves. Acquisitions, mergers, and debt policies are inherent things that will one day arise in companies when facing certain conditions. However, whether acquisitions, mergers, and debt policies have a significant impact on company performance needs to be discussed in more depth and will be the main discussion in this article.

II. THEORETICAL REVIEW

Acquisition is a merger of two companies in which the acquiring company buys part of the shares of theacquired company so that the management control of the acquired company moves to the acquiring company, while the two companies each continue to operate as an independent legal entity [3]. Meanwhile, a merger is a cooperative effort by combining two or more companies, by combining all the assets of the company and later the company that stands using one of the more powerful company names or creating a new name for the merged company [4]. The main motives behind companies doing mergers and acquisitions are for synergies, tax considerations, purchasing assets below their replacement cost, diversification, personal incentives, breakup value [5]. According to Saputra, *et al* (2021) there are two main motives for a company to carry out acquisitions and mergers, the first motive is to maximize company value for shareholders which is manifested in the form of increased profits (economic motive). The second motive is to increase managerial benefits in another sense that managers have other motives besides maximizing firm value (non-economic motives) [6].

Several studies have found that target companies achieve productivity improvements after acquisitions and mergers. When the productivity of the company increases, it will certainly affect the performance of the company. However, there are other study results that show that there are large differences in post-acquisition productivity of small companies, less significant differences for medium-sized companies and unchanged results for large companies [7]. Acquisitions and mergers can be said to be a strategy of company management which is a form of responsibility to its shareholders to maintain company performance. This is a reflection of *agency theory* where management as an agents must be able to prioritize the sustainability of the company as a form of responsibility to shareholders. However, often acquisition and merger transactions are not carefully considered, and are carried out according to managerial motives, as well as due to the abundance of *free cash* and the desire to diversify their activities on the part of the largest digital platforms [8].

Corporate debt policy is the action of company management in order to fund the company's operational activities using capital derived from debt [9]. Debt policy is a company policy on how far a company uses debt funding. Debt policy is always related to funding issues for company operations, development, and research as well as improving company performance. Total debt to assets and interest coverage have a positive relationship with profitability, which means an increase in interest-based debt leads to higher profits, thus supporting debt financing [10].

Company management in terms of debt policy will look for strategies that are in accordance with the company's conditions, so that stakeholders feel safe with the debt policy, like the *principal's* responsibility to the *agent* in *agency theory*. Moreover, from the point of view of creditors, the company will be considered to what extent the ability to pay its debts. The greater the debt, the greater the possibility of the company's failure to pay debts so that it has the risk of bankruptcy. However, on the other hand, debt is very important for companies because a company is said to be good and large if it has a large amount of debt [11]. The debt policy itself can bebased on debt on behalf of the company or on behalf of the company owner. According to Cole and Sokolyk (2018) shows that taking debt on behalf of the company is related to a longer duration of existence and higher income, but taking debt on behalf of the company owner has no effect on the company's capacity to survive and results in lower income [12].

Companies that make acquisitions and mergers are able to develop the company through market expansion, reduce competition, and increase revenue sectors, so that they can produce improved company performance. Many companies, especially in developed countries, state that acquisitions and mergers are opportunities for company growth. So, it can be said that acquisitions and mergers have an influence on company performance. This is evidenced by Surya's research (2021) which states that the acquisition process has a significant positive effect on Return on Assets. However, in the same year, research by Catherine, *et al* (2021) stated that mergers and acquisitions have a negative effect on the company's financial performance.

H_1: Acquisitions and mergers give positive affect firm performance

The debt policy carried out by the company requires wise consideration, this is because the debt taken must be able to fund the company for operational management, even though it poses a risk to the company

regarding company performance. When the company's debt policy is implemented optimally, the company will be able to fulfill its obligations which can be reflected in the financial statements, so that this is a consideration for shareholders in assessing company performance. So, it can be said that debt policy has an influence on company performance. This is evidenced by research by Hamid, *et al* (2022) which states that the Debt to EquityRatio (DER) has a positive and insignificant effect on profitability. However, research by Simanjuntak, *et al* (2021) states that debt policy has no effect on profitability.

H₂: Debt policy negatively effects on company performance

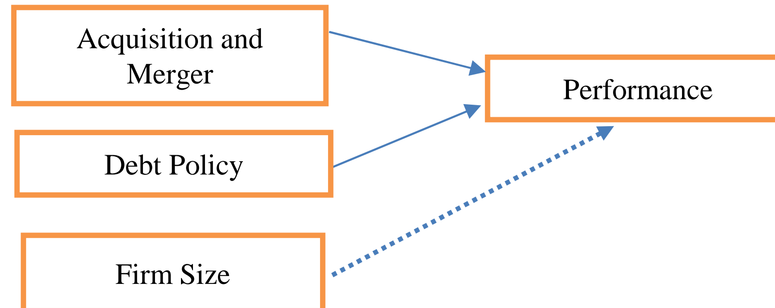

Fig 1. Research Framework

III. RESEARCH METHOD

This study aims to determine the effect of acquisitions, mergers, and debt policies on company performance, using quantitative methods. The data source used is secondary data obtained through the company's financial statements which can be accessed through the company's website. This research was conducted at State-Owned Enterprises (BUMN) for the period 2016-2020. Where the scope of research selected in this study is all types of BUMN clusters. The selection of this research sample is based on a non-probability approach using *purposive sampling* method. Where the sample selection criteria consist of (1) Companies listed as BUMN during the 2016-2020 period; (2) Companies that publish audited annual financial reports on the company's website during the 2016-2020 period; (3) Companies that publish annual financial reports with complete data in accordance with the research variables during the 2016-2020 period. The data analysis technique used in this research is multiple linear regression test with the help of the SPSS program. However, previously descriptive analysis and classical assumption tests will be carried out which include normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

The operational definitions of the variables in this study are as follows:

1) Company Performance

The company's performance is seen from the company's financial statements every certain period, whichcan be measured using financial ratios. One of the financial ratios that can be used is the profitability ratio proxied by *Return on Asset (ROA)*. The formula used in calculating the profitability ratio as stated in Catherine, *et al* (2021) is as follows:

$$ROA = \frac{Net\ Income}{Total\ Assets} \qquad (i)$$

2) Acquisitions and Mergers

Acquisitions and mergers are one of the corporate strategies that allow companies to increase product lines, expand operations, *go international,* and create new companies, thus it appears that companies that make acquisitions and mergers have several motives such as tax considerations, purchasing assets below their replacement cost, diversification, personal incentives, and so on. The measurement of companies that make acquisitions and mergers uses dummy variables. Just as the word "dummy" is a substitute in quantitative analysis models, where dummy variables are numerical substitutes for qualitative facts or logical propositions [13].

ACM = 1 if the firm conducts merger or acquisition; 0 otherwise ....(ii)

3) Debt Policy

Debt policy can be used to create the desired firm value, but this still depends on the size of the company. Where large companies are relatively easier to access the capital market. This debt policy measurement can use the *Debt to Equity Ratio (DER).* The formula used in calculating the *Debt to Equity Ratio (DER)* ratio as stated in Muharromi, *et al* (2021) is as follows:

$$DER = \frac{Total\ Debt}{Total\ Equity} \quad \text{(iii)}$$

4) Firm Size

Firm size is a scale or value where companies can be classified as large or small based on total assets, *log size*, share value, and so on. If the greater the total assets, sales and market capitalization, the greater the size of the company [14]. The formula used in calculating company size as stated in Rambe (2020) is as follows:

Size = Ln (Total Assets) ... (iv)

The regression equation as follows:

$$Perform = \alpha + \beta_1 ACM_1 + \beta_2 DP_2 + \beta_3 Size_2 + e \quad \text{(v)}$$

Where:

Perform : Performance
α : Constant
β1-β2 : Regression Coefficient
ACM : Acquisitions and Mergers
DP : Debt Policy
Size : Firm size
e : Error

IV. ANALYSIS AND DISCUSSION

The population used by researchers is state-owned companies reported through bps.go.id in its publication entitled "Financial Statistics of State-Owned Enterprises and Regionally-Owned Enterprises 2020". The *purposive sampling* method is used by researchers in determining the sample. This method limits the samplebased on predetermined criteria. The sample selection criteria are presented in Table 1 below.

No.	Sample Criteria	Number of Companies
1.	State-owned companies registered with BPS during the period 2016 - 2020	107
2.	State-owned companies that publish audited annual financial statements on the company's website	107
3.	State-owned companies that do not publish audited annual financial statements on the company's website	37
4.	BUMN companies that publish annual financial reports with complete data in accordance with the research variables during the period 2016 - 2020	70
	Total Company	70
	Research Year	5
	Total Sample	350
	Outliers	33
	Total Sample	317

Table 1. Research Sample Criteria

	N	Minimum	Maximum	Mean	Std. Deviation
Company Performance (Y)	317	-,0836	,1623	,0332	,0410
Acquisitions and Mergers(X1)	317	,00	1,00	,5096	,5007
Debt Policy (X2)	317	,0331	17,0714	1,9620	2,2589
Firm Size (Control)	317	20,1953	35,0151	29,7049	2,7678
Valid N (listwise)	317				

Table 2. Descriptive Statistics Results

In table 2, the dependent variable in the form of company performance has a minimum value of -0.0836 at Perum Pembangunan Perumahan Nasional in 2019, and a maximum value of 0.1623 at Perum Jasa Tirta I in 2017. While the average value of the 317 samples was 0.0332 at a standard deviation of 0.0410. This shows that the average sample company has good company performance, because the standard deviation results on company performance are greater than the average.

For the independent variable in the form of acquisitions and mergers that use *dummy* values, the minimum value is 0 and the maximum value is 1. While the average value of the 317 samples is 0.5096 at a standard deviation of 0.5007. This shows that the average sample company has not fully carried out acquisitions and mergers, because the standard deviation results on acquisitions and mergers are smaller than the average.

While the independent variable in the form of debt policy has a minimum value of 0.0331 at PT Permodalan Nasional Madani in 2016, and a maximum value of 17.0714 at PT Bank Tabungan Negara (Persero) Tbk in 2020. While the average value of the 317 samples was 1.9620 at a standard deviation of 2.2589. This shows that the average sample company has a good debt policy, because the standard deviation results on debt policy are greater than the average.

Variables	Predictions	t-test	p-value	Conclusion
Constant		0.06	0.009	
ACM	+	0.013	0.002	H_1 Significant
DP	-	-0.007	0.000	H_2 Significant
Size		0.000	0.820	

Table 3. Multiple Linear Regression Analysis Results

The Effect of Acquisitions and Mergers on Company Performance

The results of hypothesis testing show that the significance value of acquisitions and mergers is 0.002 with a beta value of 0.013. This shows that the significance level is smaller than 0.05, which means that H_1 is accepted and it can be concluded that the acquisition and merger variables affect company performance.

Corporate actions carried out by companies either through acquisitions or mergers are a path that a company can take to maintain its business. This is because through acquisitions and mergers, a company's funding will become stronger with the merger of assets and equity owned by the company which will then be managed effectively and efficiently to be able to fund operations while obtaining company profits. Not only that, acquisitions and mergers are often the most effective way to grow a company. This trend is reinforced by the increasing size of companies - the larger the company, the more they rely on acquisitions and mergers to grow [15]. The changes that occur after entities complete acquisitions and mergers will be reflected in the company's operating and financial position [16].

The results of this study contradict the research of Catherine, *et al* (2021) which found that acquisitions and mergers have a negative and insignificant effect on financial performance. However, this study is directly proportional to Surya's research (2021) which found that there is a significant effect of the acquisition process onfinancial performance.

The Effect of Debt Policy on Company Performance

The results of hypothesis testing show that the significance value of debt policy is 0.000 with a beta value of -0.007. This shows that the significance level is smaller than 0.05, which means that H_2 is accepted and it can be concluded that the debt policy variable has an effect on company performance.

Corporate debt policy as one of the company's management decisions to obtain funding from debt is seen to affect the performance of a company. Many companies obtain funding through debt on the grounds that it is easier to obtain funding and the resulting debt transaction costs are much cheaper than other alternatives such as

issuing shares. The debt policy of a business determines the extent to which it uses debt financing [17]. Top management favors debt financing because the cost of borrowed capital is cheaper than anticipated by the actual owners of the corporate organization or shareholders. The reduction in the cost of borrowed capital reduces financial expenditures while increasing the company's profits and profitability [18]. The debt policy used by the company will also be reflected in the company's financial statements which can be assessed as the company's performance by shareholders. The results of this study contradict the research of Muhharomi, *et al* (2021) which found that debt policyhas no effect on financial performance. However, this research is directly proportional to the research of Abuamsha & Shumali, (2022) which found that financial performance is influenced by debt policy.

V. CONCLUSIONS AND LIMITATIONS

This study provides empirical evidence regarding acquisitions, mergers, and debt policies that have an influence on company performance. The results of this study are expected to contribute to the development of agency theory, where the principal, in this case the shareholder, authorizes the agent to exercise authority in terms of corporate actions such as acquisitions, mergers, and in terms of corporate debt policy for the welfare of the company. In this study, of course, there are limitations in the implementation and presentation of research results. Some companies do not present detailed financial reports regarding the data that will be used to measure variables,so researchers have difficulty when inputting data. The limitations in the research that researchers do hopefully can be improved in future studies.

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