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Research Paper

The Effect of Board Characteristics, Firm Size, Macroeconomic, And Financial Decision on Financial Performance and Firm Value(Study of IDX Companies After Mergers and Acquisitions)

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ABSTRACT

The decision of mergers and acquisitions in theory has an impact on improving the corporate performance, because by joining two or more companies can support business activities, so that the profits generated are greater than if done alone. The period after mergers and acquisitions is a very important period because the impact of mergers and acquisitions on financial performance is achieved not in a short period. Increased efficiency and productivity as a result of the merger acquisition will have an effect on improving financial performance and also being able to increase closing prices and firm value. The purpose of this study was to analyze the effect of board characteristics, firm size, macroeconomic, and financial decisions on financial performance and firm value in the company after mergers and acquisitions.

The study design uses an explanatory research approach. The research sample is companies listed on the Indonesia Stock Exchange and conducted merger and acquisition activities during the period 2000-2012. 2012 is used as the end of the period with the aim of obtaining financial statement data for at least 7 years after the merger of acquisition, namely 2013-2019. The selection results produce a total sample of 21 companies, so the number of sample units is 21 x 7 years or 147 financial statements. Data analysis techniques using Partial Least Square (PLS).

The results show board characteristics has a positive and significant effect on financial performance, while firm size and financial decisions have a negative effect and macroeconomics had no significant effect. Furthermore, macroeconomics has a negative and significant effect on firm value, while financial decisions have a positive effect, board characteristics and firm size have no significant effects. Finally, financial performance has a positive and significant effect on firm value.

KEYWORDS*: merger, acquisition, board characteristics, firm size, macroeconomic, financial decision, financial performance, firm value.*

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I. INTRODUCTION

Annisa and Prasetiono (2010: 54) explain that a business merger is a form of merging one company with another company in order to gain control over assets and operations. The most common form of business mergers in the last two decades is mergers and acquisitions (M&A), where this strategy is seen as a way to achieve several more economic and long-term goals.

The financial performance and value of a company are also determined by the size of the company. The size of the company is seen from the total assets owned by the company, if a company has large total assets, it can be concluded that the company is a large company. Large companies are usually seen as companies that are relatively stable and capable of generating high enough profits. Outside parties and investors alike will see this large company as a good company to invest their funds so that it has a good name or reputation in the eyes of external parties. With this good reputation, managers will be more careful in managing the company. There will also be less manipulation and fraud in the company. By doing so, it is hoped that it will be able to improve financial performance and firm value. (Riyanto, 2001: 313).

Financial performance and company value are also determined by macroeconomic conditions. Macroeconomics can be said to be a determinant of fundamental factors that can influence manager's policy in determining the company's fundamental policies and at the same time the factors that affect firm value. When macroeconomic conditions are sluggish, the exchange rate fluctuates and inflation increases, which will weaken the company's fundamentals. Weakening fundamental factors will affect the firm value of the company. Exchange rate movements and inflation also have the potential to increase or decrease investment in the real sector and this has an impact on firm value. (Aditya, Yunita, and Trikartika, 2016).

Another factor that affects financial performance and firm value is financial decision. As is well known, financial theories in corporate finance have one focus: how to maximize the prosperity of shareholders or company owners (wealth of the shareholders). In an effort to maximize firm value, financial management implements three policies, namely: a funding policy, an investment policy and a dividend policy (Butje et al., 2019).

The structure of macroeconomic influence on financial performance and firm value is also inconsistent. Sujoko (2016) in his research stated that macroeconomic factors influence firm value. Different results are shown by research by Aditya, Yunita, and Trikartika (2016) state that macroeconomic factors have no effect on financial performance and firm value.

The structure of the influence of financial performance on firm value also still provides inconsistent results. Mishra and Kapil (2018) show that financial performance can affect firm value, this statement is also supported by the results of research by Hermawan and Mafulah (2014), Khafa and Laksito (2015), Wufron (2017), Adrianingtyas and Sucipto (2018), and Haryanto et al. (2018). Different results are shown by Swari and Pristiana (2020) who explain that financial performance has not been able to have a significant impact in increasing firm value.

II. STATEMENT OF THE PROBLEM

Based on the description that has been submitted in the background, which provides an overview of the relationship between board characteristics, firm size, macroeconomic, and financial decision variables on financial performance and firm value in the company after mergers and acquisitions, the statement of the problem can be presented as follows:

1. Are there any effects of board characteristics on financial performance of companies listed on the IDX after mergers and acquisitions?
2. Is there an effect of firm size on financial performance of companies listed on the IDX after mergers and acquisitions?
3. Is there any macroeconomic influence on financial performance of companies listed on the IDX after mergers and acquisitions?
4. Is there any effect of financial decisions on financial performance in companies listed on the IDX after mergers and acquisitions?
5. Is there any effect of board characteristics on firm value of companies listed on the IDX after mergers and acquisitions?
6. Is there an effect of firm size on firm value of companies listed on the IDX after mergers and acquisitions?
7. Is there any macroeconomic influence on firm value of companies listed on the IDX after mergers and acquisitions?
8. Is there any effect of financial decision on firm value in companies listed on the IDX after mergers and acquisitions?
9. Is there any effect of financial performance on firm value in companies listed on the IDX after mergers and acquisitions?

III. LITERATURE REVIEW

According to Darsono (2011: 101), financial management is the activity of owners and borrowers of companies to obtain cheap sources of capital and use them effectively, efficiently and economically to generate profits. Financial management is related to 3 activities, namely:

1. Activities to use funds, is activities to invest funds in various assets.
2. Funding activities, is activities to obtain sources of funds, both from internal sources of funds and external sources of funds.
3. Asset management activities, is after the funds are obtained and allocated in the form of assets, the funds must be managed as efficiently as possible.

The Indonesian Institute of Accountants provides a definition based on an accounting perspective that mergers are a business combination method. Business association itself is defined as the union of two or more separate companies into one economic entity because of the merger or obtaining control over the assets and operations of

another company. From this definition, accounting distinguishes business pooling into two categories, namely: pooling of interests / pooling of ownership and acquisition.

Acquisition comes from *acquisitio* or acquisition. Acquisition literally means buying or getting an object to add to objects that have been previously owned. In business terminology, the acquisition can be interpreted as the takeover of ownership or control over the shares or assets of a company by another company, and in the event of either the taking over or the company being taken over, it still exists as a separate legal entity (Moin, 2010: 8).

Company size is a value that shows the size of a company. According to Hilmi and Ali (2008), company size can be assessed from several aspects. The size of a company can be based on the total asset value, total sales, market capitalization, the number of workers and so on. The greater the assets of a company, the greater the invested capital, the greater the total sales of a company, the more turnover will be and the greater the market capitalization, the bigger the company is known to the public. According to Sartono (2010), large well-established companies will find it easier to obtain capital in the capital market compared to small companies. Because the ease of access means large companies have greater flexibility as well.

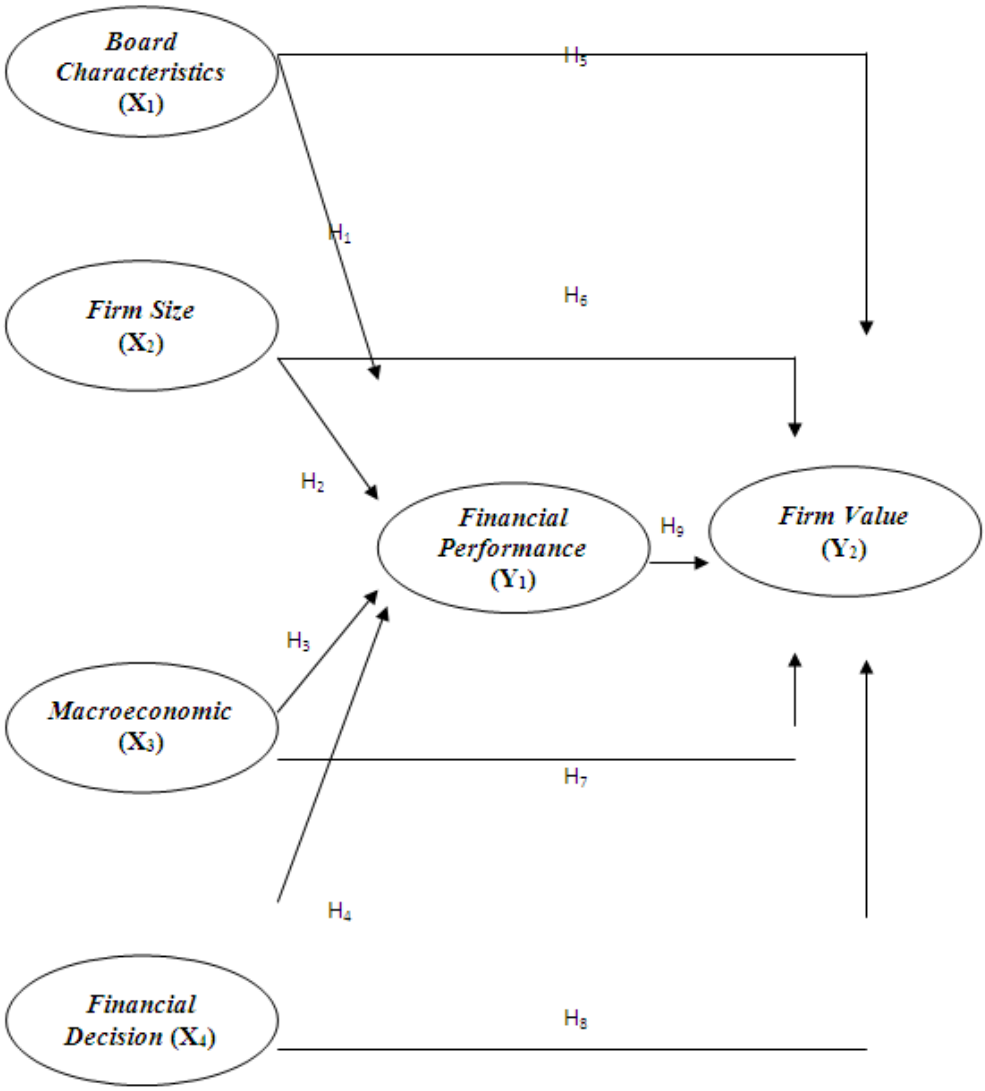
Macroeconomics is a branch of economics that discusses aggregate economic behavior, for example prosperity and recession, output of goods and services, total economy, output growth rate, inflation and unemployment rates, balance of payments and exchange rates (Dornbusch, Stanley, and Mulyadi , 1996: 3).

According to Mustafa (2017: 3), financial decisions explain several decisions that must be made, namely investment decisions, financing decisions or debt decisions, and dividend policy decisions. According to Sartono (2011: 50), the term financial decision can be interpreted as fund management related to the allocation of funds in various forms of investment effectively as well as efforts to raise funds for investment financing or spending efficiently. The executor of financial management is a financial manager. Although the functions of a financial manager in every organization are not necessarily the same, in principle, the main function of a financial manager is to plan, seek, and utilize in various ways to maximize the efficiency (effectiveness) of the company's operations.

Performance is data analysis and control for the company. Performance measurement is used by companies to make improvements on top of their operational activities in order to compete with other companies. For investors, information about the company's performance can be used to see whether they will maintain their investment in the company or look for other alternatives. In addition, measurements are also carried out to show investors and customers or the public in general that the company has good credibility (Munawir, 2014: 65).

Firm value indicates the level of prosperity obtained by shareholders. The higher the share price, the higher the shareholder's prosperity (Sari in Simarmata, 2014). Shareholders will make every effort to increase the firm value so that the level of welfare increases. For companies that have gone public, their firm value will be reflected in the stock prices listed on the stock exchange. The firm value can increase if the company is managed by competent people.

IV. FRAMEWORK HYPOTHESIS



H_1: Board characteristics affect the financial performance of companies listed on the IDX after mergers and acquisitions.
H_2: Firm size affects the financial performance of companies listed on the IDX after mergers and acquisitions.
H_3: Macroeconomics affects the financial performance of companies listed on the IDX after mergers and acquisitions.
H_4: Financial Decision affects the financial performance of companies listed on the IDX after mergers and acquisitions.
H_5: Board characteristics affect firm value of companies listed on the IDX after mergers and acquisitions.
H_6: Firm size affects the firm value of companies listed on the IDX after mergers and acquisitions.
H_7: Macroeconomics affects firm value of companies listed on the IDX after mergers and acquisitions.
H_8: Financial Decision affects firm value of companies listed on the IDX after mergers and acquisitions.
H_9: Financial performance affects firm value of companies listed on the IDX after mergers and acquisitions.

V. RESEARCH METHODOLOGY

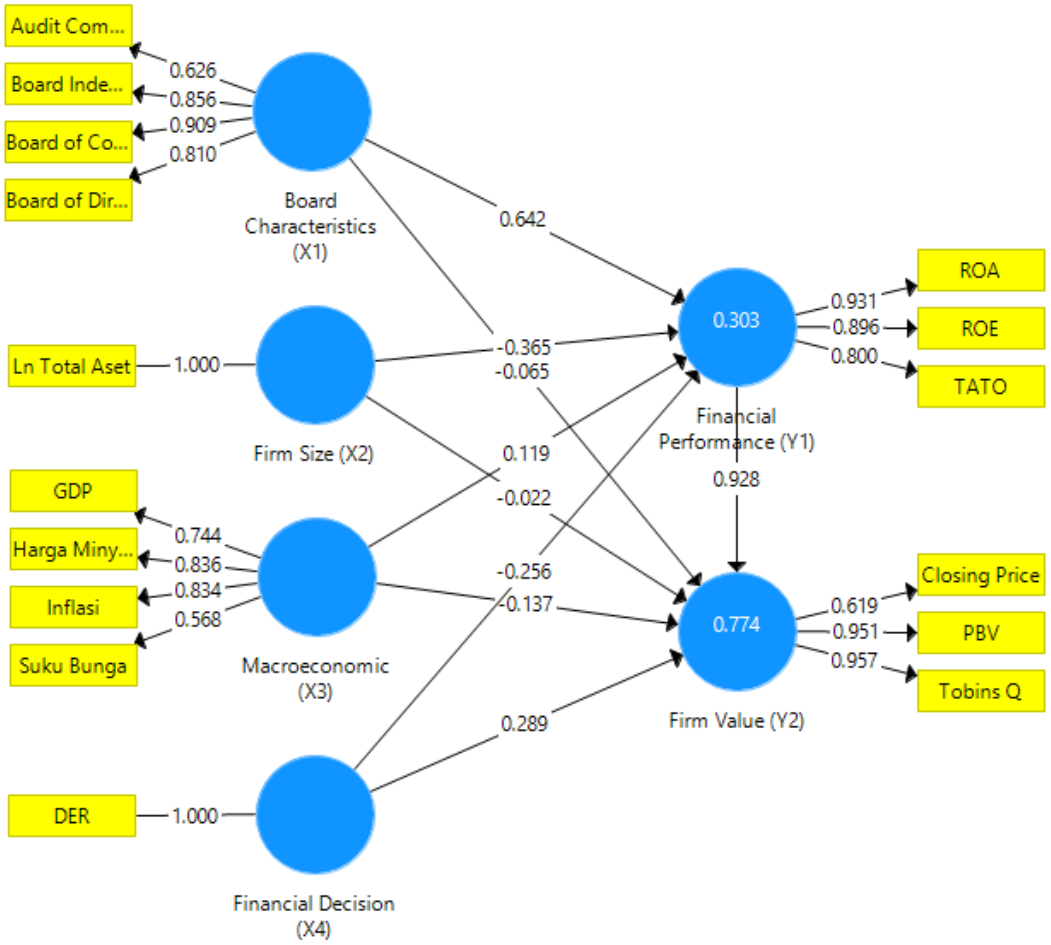
The population in this research were all companies listed on the Indonesia Stock Exchange and carried out merger and acquisition activities during the period 2000-2012. The year 2012 is used as the end of the period with the aim of obtaining financial statement data for at least 7 years after the merger acquisition, namely 2013-2019. The number of research samples decreased by 3 to 21 companies, so that the number of sample units was 21 x 7 years = 147 financial reports.

In this research, secondary data were obtained from published financial reports obtained from the Indonesian Capital Market Library. The list of companies that did the merger was obtained from the Indonesian

Capital Market Library, while financial report data was obtained through the IDX Indonesia Stock Exchange through its website http://www.idx.co.id/.

VI. HYPOTHESIS TESTING

The results of this research were conducted using a quantitative approach, using the PLS method processed by the SmartPLS v.3 program. The results of the study, then carried out a research discussion by linking the results of the study with the theoretical and empirical studies that have been described in the previous chapter. The results of the convergent validity analysis for each indicator on the variable board characteristics, firm size, macroeconomics, financial decision, financial performance, and firm value after the invalid indicators were removed from the model, resulted in the PLS model estimation as follows:



The analysis of the significance of the direct effect using PLS analysis was carried out using the inner weight table. In 2-tailed testing, the research hypothesis can be accepted if the t-statistic value is ≥ 1.96 or the p-value is smaller than the error rate (α) of 5%. The following is the path coefficient value (original sample estimate), the calculated t value (t-statistic), and the p value in the inner PLS model:

Hip.	Pengaruh Antar Variabel	*Original Sample*	*T Stat*	*P Values*	Note
H_1	*Board Characteristics* (X_1) → *Financial Performance* (Y_1)	0,642	8,594	0,000	Sig.
H_2	*Firm Size* (X_2) → *Financial Performance* (Y_1)	-0,365	3,546	0,000	Sig.
H_3	*Macroeconomic* (X_3) → *Financial Performance* (Y_1)	0,119	1,384	0,167	Not Sig.
H_4	*Financial Decision* (X_4) → *Financial Performance* (Y_1)	-0,256	2,927	0,004	Sig.
H_5	*Board Characteristics* (X_1) → *Firm Value* (Y_2)	-0,065	1,209	0,227	Not Sig.
H_6	*Firm Size* (X_2) → *Firm Value* (Y_2)	-0,022	0,366	0,714	Not Sig.
H_7	*Macroeconomic* (X_3) → *Firm Value* (Y_2)	-0,137	2,054	0,040	Sig.
H_8	*Financial Decision* (X_4) → *Firm Value* (Y_2)	0,289	5,153	0,000	Sig.
H_9	*Financial Performance* (Y_1) → *Firm Value* (Y_2)	0,928	22,015	0,000	Sig.

The results of hypothesis testing using the PLS bootstrapping results can be in accordance with the table above which can be explained as follows:

1. The coefficient of influence of board characteristics on financial performance is 0.642 (positive) with a T-statistics of 8,594 (greater than the t table value of 1.96) and *p value* of 0,000 (less than α = 5%), this shows board characteristics has a positive and significant effect on financial performance, meaning that the greater the characteristics of the company board, the higher the financial performance of the company. Based on these results, the first hypothesis which states that board characteristics have an effect on financial performance of companies listed on the IDX in the period after merger and acquisition activities is accepted **(H_1 accepted).**
2. The coefficient of influence of firm size on financial performance is -0.365 (negative) with T-statistics of 3.546 (greater than the t-table value of 1.96) and the *p value* of 0.000 (less than α = 5%), this shows firm size has a negative and significant effect on financial performance, meaning that the greater the size of the company, the lower the financial performance of the company. Based on these results, the second hypothesis which states that firm size affects the financial performance of companies listed on the IDX in the period after mergers and acquisitions, is also acceptable **(H_2 is accepted).**
3. The coefficient of influence of macroeconomics on financial performance is 0.119 (positive) with a T-statistics of 1.384 (smaller than the t-table value of 1.96) and *p value* of 0.167 (greater than α = 5%), this shows that macroeconomics has no effect. significant to financial performance, meaning that the greater the macroeconomic indicators do not have a significant impact on changes in the company's financial performance. Based on these results, the third hypothesis which states that macroeconomics has an effect on financial performance in companies listed on the IDX in the period after mergers and acquisitions activities cannot be accepted **(H_3 is rejected).**
4. The coefficient of influence of financial decision on financial performance is -0.256 (negative) with a T-statistics of 2.927 (greater than the t table value of 1.96) and *p value* of 0.004 (less than α = 5%), this shows financial Decision has a negative and significant effect on financial performance, meaning that the higher the company's financial decisions, which is indicated by the increase in debt decisions, the lower the financial performance of the company will be. Based on these results, the fourth hypothesis which states that financial decisions have an effect on financial performance in companies listed on the IDX in the period after mergers and acquisitions, is acceptable **(H_4 accepted).**
5. The coefficient value of the effect of board characteristics on firm value is -0.065 (negative) with a T-statistics of 1.209 (smaller than the t table value of 1.96) and *p value* of 0.227 (greater than α = 5%), this shows that the board characteristics have no significant effect on firm value, meaning that the greater the characteristics of the company's board will not have a significant impact on changes in firm value. Based on these results, the fifth hypothesis which states that board characteristics have an effect on firm value in companies listed on the IDX in the period after mergers and acquisitions, cannot be accepted **(H_5 is rejected).**
6. The coefficient of influence of firm size on firm value is -0.022 (negative) with a T-statistics of 0.366 (smaller than the t table value of 1.96) and *p value* of 0.714 (greater than α = 5%), this indicates firm size does not have a significant effect on firm value, meaning that the greater the size of the company will not have a real impact on changes in firm value. Based on these results, the sixth hypothesis which states that firm size has an effect on firm value of companies listed on the IDX in the period after mergers and acquisitions activities, cannot be accepted **(H_6 is rejected).**

7. 7. The coefficient of macroeconomic influence on firm value is -0.137 (negative) with T-statistics of 2.054 (greater than the t table value of 1.96) and *p value* of 0.040 (less than α = 5%), this shows macroeconomics has a negative and significant effect on firm value, meaning that the higher the macroeconomic indicators, which is indicated by the increase in interest rates, inflation and world oil prices, the lower the firm value will be. Based on these results, the seventh hypothesis which states that macroeconomics has an effect on firm value in companies listed on the IDX in the period after mergers and acquisitions activities is acceptable **(H_7 accepted).**

8. The coefficient of influence of financial decision on firm value is 0.289 (positive) with a T-statistics of 5.153 (greater than the t-table value of 1.96) and *p value* of 0.000 (less than α = 5%), this shows financial decision has a positive and significant effect on firm value, meaning that the higher the company's financial decisions, which is indicated by the increase in funding as a result of the debt policy, the more the company value will be increased. Based on these results, the eighth hypothesis which states that financial decisions have an effect on firm value of companies listed on the IDX in the period after mergers and acquisitions activities are accepted **(H_8 accepted).**

9. The coefficient of the influence of financial performance on firm value is 0.928 (positive) with a T-statistics of 22.015 (greater than the t-table value of 1.96) and *p value* of 0.000 (less than α = 5%), this shows Financial performance has a positive and significant effect on firm value, meaning that the higher the company's financial performance, which is indicated by the improvement in asset management indicators and profitability ratios, the more firm value will be increased. Based on these results, the ninth hypothesis which states that financial performance has an effect on firm value of companies listed on the IDX in the period after mergers and acquisitions activities, is acceptable **(H_9 accepted).**

VII. CONCLUSION

Research variables consist of Board Characteristics (X1), Firm Size (X2), Macroeconomics (X3), Financial Decision (X4), Financial Performance (Y1), and Firm Value (Y2). Based on statement of the problem, literature review, framework hypothesis , research methodology, and hypothesis testing that have been described in the previous chapter, it can be concluded as follows:

1. Board characteristics have a positive and significant effect on financial performance, the greater the characteristics of the company's board, the higher the financial performance of the company.
2. Firm size has a negative and significant effect on financial performance, the greater the size of the company, the lower the financial performance of the company.
3. Macroeconomics has no significant effect on financial performance, the greater the macroeconomic indicators do not have a significant impact on changes in the company's financial performance.
4. Financial decision have a negative and significant effect on financial performance, the higher the company's financial decision, which is indicated by the increase in debt decision, the lower the financial performance of the company.
5. Board characteristics have no significant effect on firm value, the greater the characteristics of the company's board will not have a significant impact on changes in firm value.
6. Firm size has no significant effect on firm value, the larger the firm size will not have a real impact on changes in firm value.
7. Macroeconomics has a negative and significant effect on firm value, the higher the macroeconomic indicators, which is indicated by the increase in interest rates, inflation and world oil prices, the lower the firm value will be.
8. Financial decision has a positive and significant effect on firm value, the higher the company's financial decision, which is indicated by the increase in funding as a result of debt policy, the more the firm value will be increased.
9. Financial performance has a positive and significant effect on firm value, the higher the company's financial performance, which is indicated by the improvement in asset management indicators and profitability ratios, the higher the firm's value will be.

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