



THE BOARD OF DIRECTORS AND THE PERFORMANCE OF COMPANIES ON CONDUCTING MERGER IN INDONESIA

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Abstract: This study aims to examine the impact on the result of the merger which causes the adjustment structure of the board of directors toward the changes in the performance of companies that conducting mergers in Indonesia. Company performance seen as the dependent variable will be evaluated from the accounting performance and market performance. Accounting performance is measured by Return on Assets (ROA) and market performance is measured by Tobin's Q. The independent variable in this study is Board Size (the size of the board of directors) which measured by looking at the number of boards of directors in the company. The sources of data and its types that utilized for the study are company secondary data. The data includes companies that carried out mergers in 2005-2008 and the analysis period obtained after 10 years the companies merged in 2005-2018. The sampling method used in this study was purposive sampling. This study uses a total sample of 8 non-financial companies listed on the Indonesia Stock Exchange (BEI) with a total sample of 79 observations. The result of this study shows that changes in the size of the board of directors have significant impact on changes in Return on Assets (ROA) and changes in Tobin's Q.

Keywords: Merger, board size, returns on asset, Tobin's Q

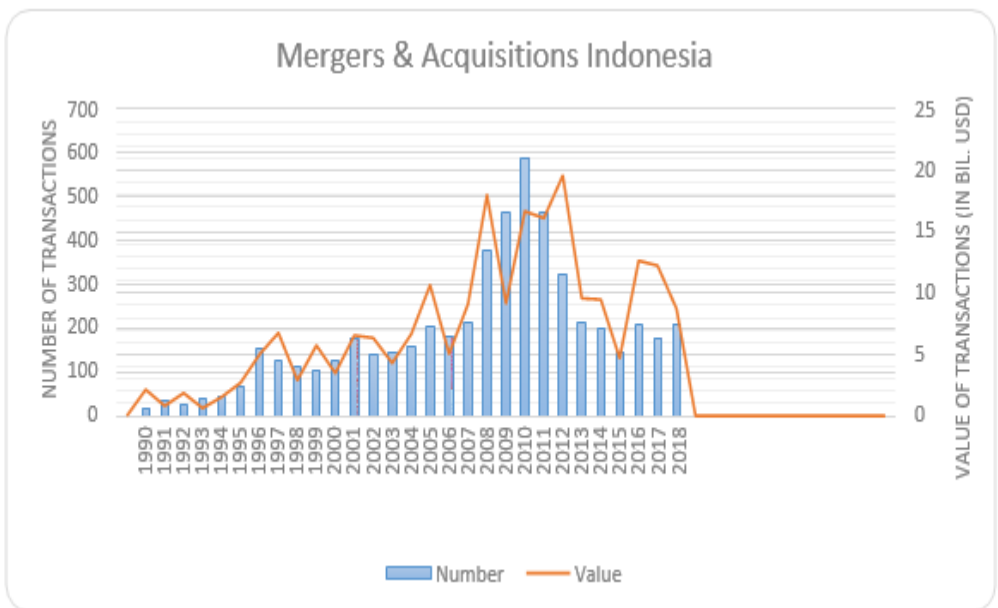
INTRODUCTION

Business expansion is something normal that many companies practice it to be able to compete in the business enterprise. Business expansion also occurs due to changes in the era of globalization. Since the ASEAN region started to run the MEA (Asian Economic Community) program in 2015 until now, trade between countries has become increasingly tight. Any company that wants to survive in the midst of competition between countries need to have a right strategy so that company is still able to maintain its existence and ideal performance, one of which is by expanding the business. According to Sudana (2015: 274), one of the company's actions to expand its business could be done in two ways, namely internal and external expansion.

The external expansion by implementing merger and acquisition is an effective way to reach new markets without having to build a new company from a scratch. The merger itself is not a new thing for many companies. The rapid development of mergers in Indonesia, especially during the economic crisis, triggers many companies to apply merger or acquisition as a strategy to support their business and hence reducing their competitors and it is a way for companies to change their policies that exist after the crisis. This policy was done to help and to improve the financial condition of the company and increasing the size of the company for the sake of competition. In addition, merger and acquisition are expected to ease economic recovery from the existing crisis.

Figure 1 shows the number of mergers and acquisitions transactions in Indonesia in 1990-2018. After the crisis, many companies in Indonesia triggered to start merger and acquisition, year 2005 became the starting point for the increase in merger and acquisition transactions in Indonesia til 2010 became the highest point at which most reached 600 (six hundred) merger transactions and acquisitions in Indonesia. The merger action and application in Indonesia not only took place locally, but also between countries.

Figure 1. Mergers transaction and Acquisitions in Indonesia between 1990-2018



Source: *Institution of Merger, Acquisition and Alliance website.*

It is not simple matter for a company to make a difficult decision to have merger, because it is a strategic decision for the company.

Company needs an internal role before and after the company decides to merge in order to achieve goals that are in line with company expectations. Companies that conducting merger directly will have an impact on the structure of the board of directors in companies that have merged into one. There is a high probability that the existing director of the company that merged will be terminated (Hauser, 2018).

There are several changes in the companies that have been merged. One of them is the change in the structure of the board of directors. This change occurs because there is a possibility that the board of directors in merging company will end, given the fact that when two companies with two boards of directors merge into one company, in most cases the position of the board of directors in the merged company will be terminated in the larger company (Hauser, 2003). 2018) alternatively there is an increase in the number in the board of directors to obtain greater collective information from the new board of directors (Guest, 2009).

The board of directors itself is also one component that has important role and function in the management of the company (Kilic and Kuzey, 2016). As part of the internal element that has significant influence on the company, hence (Abdullah, 2004 and O'Connell, 2010) the board of directors has duties and responsibilities to make decisions regarding the strategies to be carried out for development of the company, by supervising and ensuring that managers have performed their duties properly, expands the company's relationships so that the company's existence in the external setting becomes bigger

and more influential. Board of directors has a role to influence on the whole activities of the company and in need adaptation in adjusting the activities as the result of the merger between companies. A strong board of directors will also improve company's performance that conducts mergers.

For the company that decides to conduct merger has the obligation to assess the impact of goals' achievement in the company after the merger. The success of the merger in the company can be judged from condition of the company's performance. Company performance is the company's ability to manage existing resources so that it can give value to the company. The company's performance has the benefit knowing to what extent the progress and development of company so that it becomes a benchmark for the level of efficiency and productivity in the company.

Measurement of company performance could be done in several ways, namely using different approaches for different purposes. Accounting performance and company market performance is a form of approach with measurements that used to see the company's performance at the company. In this study, accounting performance is measured using Return on Assets (ROA) to assess the company's internal performance, while the company's market performance is carried out to assess the company's external performance. The success of mergers and acquisitions could be seen from the company's performance. The progress in company performance shows the success of the strategy in business development at the company.

LITERATURE REVIEW

Concept of Mergers

Merger is to combine two companies with different company size and scale leaving only one company to survive, usually the company with a larger size will absorb company with a smaller size to become a greater one (Sudana, 2015: 274). According to the Law of the Republic of Indonesia No. 40 of 2007 the Merger, Consolidation and Takeover of Limited Liability Companies states that a merger is a legal act carried out by one or more companies to merge with another existing company and results in the assets and liabilities of the consolidating company become the property of the surviving company and for the legal entity status of merging company ends by law.

Merger is different from acquisition and consolidation. An acquisition is a merger of two or more companies in which the company that take over buys a portion of the acquired company's shares, as the result the management control of the acquired company will move and become the rights of the acquirer, at the same time the two companies continue to run as a separate legal entity (Sudana, 2015: 274). While consolidation is the merger of two companies and relatively at the same size into one new company (Sudana, 2015: 274).

In most cases, company decided to do a merger with the aim of creating a synergy, meaning that the result obtained from the merger is expected to be greater than if each company operates separately. However, there are several specific reasons why the company merges: to meet economical operations, to accelerate company's growth,

diversification to cut the risk that will be facing by the company (Sudana, 2015: 275).

Concept of Company Performance

Performance is a description of the achievement done from the activities that carried out in realizing the company's goals. Company performance is company's ability to manage the resources owned by the company so it gives value to the company. Company performance also could be used as a benchmark to assess the success of management and to evaluate the company's achievements for a certain period of time.

The success of the merger could be seen by evaluating the company performance. The method used in assessing the company's performance is based on the financial data that have been published. The data is the most common tool for corporate evaluation purposes, but not always become representative of the results and economic conditions. There are several other ways to assess a company performance, each way has different approach for different purposes. In this study, the company's performance appraisal will be viewed from two sides, namely the accounting performance and the company's market performance. Accounting performance is kind of measurement carried out to analyze financial ratios intending to assess the company's operating activities or company performance. Market performance could be measured by the Tobin q ratio indicator, this ratio is a ratio to measure the value given to the management and company's organization as indicator that a company continues to grow.

The Concept of the Board of Director

The board of directors, according to Cadbury (1992) has the responsibility to manage a strategy of company aims to enforce organization on business managements and report them to the shareholders regarding management administration. The board of directors also has a role in monitoring management decisions as well as an internal control established to prevent or cut agency problems between shareholders and internal management as a result of the separation between ownership and control.

The functions and duties that have to carry out by the board of directors according to article 12 paragraphs (1) to (5) on the duties, responsibilities and authorities state that the task of board of directors is to carry out and being responsible for the company management in accordance with the aims and objectives of the company. In carrying out the duties and responsibilities in its management, the board of directors has obligation to hold the annual General Meeting of Shareholders (GMS) and other GMS in accordance with the provisions of the law and the articles of association. Each member as well as the board of directors required to carry out their duties and responsibilities with a trust, full of responsibility, and full of prudence. In order to have effective implementation of the duties and responsibilities, the board of directors has authority to form a committee. While the board of directors forms a committee, the board of directors obliged to evaluate the performance of the committee by the end of each year.

A board of directors with a sufficient number of members will show that the division of duties of each member will be understandable, so that it will be more effective and efficient in achieving company goals and resolving company affairs. The member board of directors who are entitled to represent for task outside and inside the company will be greatly helped by the large number of members in the company (Nugroho and Raharjo, 2014).

The necessary effect that will happen because the company decides to merge will have a result of changes in the company structure, one of them is the change in composition of the board of directors. The change in the composition of the board of directors occurs because of the possibility that the merging company might terminate its board of directors, given the fact that when two companies with two boards of directors merged into one big company, some place of the board of directors in the merged company might be terminated (Hauser, 2018) alternatively there will be an increase in number of the board of directors in order to get greater collective information from the new board of directors (Guest, 2009).

Model Analisis

In this study for the analytical model that used are two kinds as follows:

$$\Delta ROA_{i,t} = \alpha + \beta_1 \Delta DIR_{i,t} + \beta_2 \Delta SIZE_{i,t} + \beta_3 \Delta LEV_{i,t} + e \dots \dots \dots (1)$$

$$\Delta Tobin's Q_{i,t} = \alpha + \beta_4 \Delta DIR_{i,t} + \beta_5 \Delta SIZE_{i,t} + \beta_6 \Delta LEV_{i,t} + e \dots \dots \dots (2)$$

Explanation:

α	: Intercept of a regression equation
β	: Coefficient of regression
$\Delta ROA_{i,t}$: Profitability of the company i in year t
$\Delta Tobin's Q_{i,t}$: Change in market value of company i in year t
$\Delta DIR_{i,t}$: Change in the size of the board of directors of company i in year t
$\Delta SIZE_{i,t}$: Change in company size i in year t
$\Delta LEV_{i,t}$: Change in the company's financial leverage in year t
e	: error

METHODS

In this study, the type of data is secondary one that is in the form of annual reports of companies merged for the period 2005-2008 and after 10 years of mergers. The companies studied were from the non-financial sector that listed on the Indonesia Stock Exchange (BEI) and Commission for the Supervision of Business Competition (KPPU). The data obtained were from the official website of the Indonesia Stock Exchange (BEI), the company's website, and the website of Commission for the Supervision of Business Competition (KPPU).

RESULT AND DISCUSSION

The descriptive statistical analysis was carried out to all variables used for the study on the sample of non-financial companies that had merged. The description of the results of this study explains the number of observations (N), the lowest value (minimum), the highest value (maximum), the average (mean), and standard deviation of the research variables. This part describes results and descriptive analysis on the variables used for study, both the dependent variable, namely changes in return on assets (Δ ROA) and changes in Tobin's Q (Δ TOBIN'SQ), and the independent variable namely changes in the size of the board of directors (Δ DIR.), and control variables, namely firm size (Δ SIZE) and leverage (Δ LEV).

Table1. Description of Research Variable Statistics

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	79	-,093570	,388865	,03210125	,076184559
TOBINS	79	-1,321940	3,447185	,12731748	,815161807
DIR	79	-6,000000	4,000000	-,40506329	2,121435093
SIZE	79	-,057998	3,584172	,80382294	,810883071
LEV	79	-,675334	,472683	-,11072578	,205413139
Valid N (listwise)	79				

Source: Processed data in 2019

This study used two measurements of company performance, namely changes in return on assets (Δ ROA) to measure the company's accounting performance with a minimum value (Δ ROA) of - 0.093570 and a maximum value (Δ ROA) of 0.388865. The

average return on assets (ΔROA) in this study is 0.032101 with a standard deviation of 0.076184.

To measure other company performance the change in Tobin's q ($\Delta TOBIN'S Q$) is used to measure market performance with a minimum value ($\Delta TOBIN'S Q$) of 0.1321940 and a maximum value ($\Delta TOBIN'S Q$) of 3.447185. The average change in Tobin's Q ($\Delta TOBIN'SQ$) in this study is 0.127317 with a standard deviation of 0.815161.

In this study independent variable is the change in the size of the board of directors (ΔDIR), which has a minimum value (ΔDIR) of -6,000000 and a maximum value of 4,000000. The average change in the size of the board of directors (ΔDIR) in this study is -0.405063 with a standard deviation of 2.121435.

Table 2. The Result of Normality Test

a. ΔROA

		Unstandardized Residual
N		79
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.04697349
	Absolute	.099
Most Extreme Differences	Positive	.099
	Negative	-.063
Kolmogorov-Smirnov Z		.880
Asymp. Sig. (2-tailed)		.421

a. Test distribution is Normal.

b. Calculated from data.

b. Δ Tobin's Q

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		79
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.74386187
Most Extreme Differences	Absolute	.140
	Positive	.140
	Negative	-.079
Kolmogorov-Smirnov Z		1.245
Asymp. Sig. (2-tailed)		.090

a. Test distribution is Normal.

b. Calculated from data.

Source: Processed data in 2019

The regression model considered good and notable if the data could be distributed normally or close to normal (Ghozali, 2006:110). In this study, the normality test used statistical tests by looking at the significant value of Kolmogorov-Smirnov (K-S). Based on the test results, table 2 explains that Asymp. Sig. (2-tailed) in the Kolmogorov-Smirnov test has gone through the outlier stage and produces a residual value in the merging companies as indicated by the change in return on assets (Δ ROA) of 0.421 and changes in Tobin's q (Δ TOBIN'S Q) of 0.090. It can be concluded that the sample data on the merging companies that used by researcher has met the requirements in determining the normality test and the data for this study were distributed normally because of the Asymp. Sig. $>$ 0.05 and passed the normality test.

The regression model analysis used to obtain the regression equation by entering changes one by one in order to know the influence between the independent variable and control towards dependent variable either simultaneous or partial. In this study a significant level used is of 1%, 5%, 10%. If the result shows a *p-value* above (α) then H0 is accepted and for H1 is rejected, and vice versa. The result of the multiple linear regression tests for this study can be seen in table 3.

Table 3. Results of Panel Data Regression Analysis

Coefficients ^a								
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	-.015	.008		-1,781	.079		
	DIR	.009	.003	.249	3,433	.001	.963	1,038
	SIZE	.068	.007	.728	10,187	.000	.994	1,006
	LEV	.039	.027	.105	1,450	.151	.969	1,032

a. Dependent Variable: ROA

Source: Data processed in 2019

***), **), *): the significance at level 1%, 5%, dan 10%

The change in the board of directors have significant positive impact on changes in return on assets with a significant probability value of 0.001 or less than the levels of significant (α) 1%, 5%, and 10%. In a company, the board of directors is accountable to manage the company in accordance to the company's goals. For the proper company management, the board of directors requires a sufficient composition of the board of directors, with many positions on the

board of directors will be affecting to the quality of managerial supervision. In companies that had merged, there is a possibility of motives related to the interests of managers that will seek one's own profit at the expense of profits for shareholders. Thus, with a proper number from boards of directors, the board of directors able to monitor, to discipline, and to remove ineffective management teams to ensure that managers are enacting shareholder interests.

The change in the number of directors after the merger will have a result for the management function to run properly, the number of boards of directors that undergoing changes will have a result in the workload assigned to the board of directors being adjusted to the capabilities the board of directors. The effectiveness of the management function due to changes in the number of the board of directors will stimulate management improvement of the company in organizing operational activities and will increase the profit which means that the company's performance will also increase. The results of this study are in line with a research conducted by Houser (2018) in relation to the changes in the size of the board of directors have very significant positive impact on the changes in return on assets.

The change in the board of directors has significant positive impact on changes in Tobin's Q with a significance probability value of 0.001 or less than the levels of significant (α) 1%, 5%, and 10%. In a company, the functions and duties of the board of directors are accountable for regulating company strategy and organizing management that will be reported to the shareholders. In order to

maximize its duties and functions properly, the board of directors requires a sufficient composition of the board of directors to obtain greater collective information from the new composition of the board of directors.

The change in the number of the board of directors will become more effective because it is accompanied by changes in the number of resources that will be allocated with various thoughts after the merger to determine effective steps to utilize resources to improve company performance. The change in the number of boards of directors after the merger will also increase investor confidence because the new of boards of directors after the merger will make management more proportional in organizing each management function to carry out by the board of directors. The growing trust from investors is based on ability of each board of directors and will affect the hence increase in company performance as measured by Tobin's Q.

CONCLUSION

This study examines the impact of the size of the board of directors on the company's performance by using two measurements, namely changes in Return on Assets (Δ ROA) and changes in Tobin's (Δ TOBIN'S Q). Based on the results of research conducted after the company merged in the next 10 years with a total of 79 observations consisting of 8 non-financial companies listed on the Indonesia Stock Exchange and KPPU (Commission for the Supervision of Business Competition) in the period 2005-2018, the following conclusions were drawn:

Change in the size of the board of directors has significant positive effect on company performance as measured by change in Return on Assets (Δ ROA). This shows that change in the number of directors after the merger process will have impact in the improvement of company management in organizing operational activities and hence company performance will also increase.

Change in the size of the board of directors has significant positive effect on company performance as measured by changes in Tobin's q (Δ TOBIN'S Q). This shows that change in the number of boards of directors after the merger will increase investor confidence, because it based on the ability owned by member board of directors and will affect the increase in company performance as measured by Tobin's Q.

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