THE IMPACT OF M&A TO THE COMPANY'S FINANCIAL PERFORMANCE IN INDONESIA

A CASE STUDY ON MANUFACTURING COMPANY LISTED IN JSE

A <u>BACHELOR DEGREE</u> THESIS
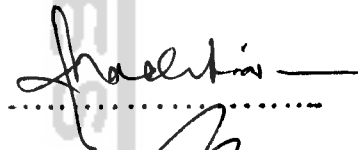
By

ETHIK NAFISA

Student Number: 97312091

Defended before the Board of Examiners
on October 24, 2005
and Declared Acceptable

Board of Examiners

Examiner 1:

Arief Bachtiar, Drs., MSA., Ak.
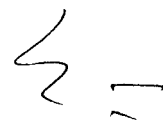
Examiner 2:

Ahmad Sobirin, Drs., Ak., M.B.A., Dr.

Yogyakarta, October 20, 2005
Faculty of Economics
Islamic University of Indonesia
Dean

Drs. H.Suwarsono, MA

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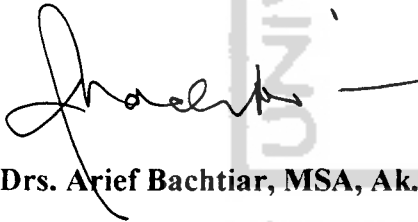
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Major Advisor

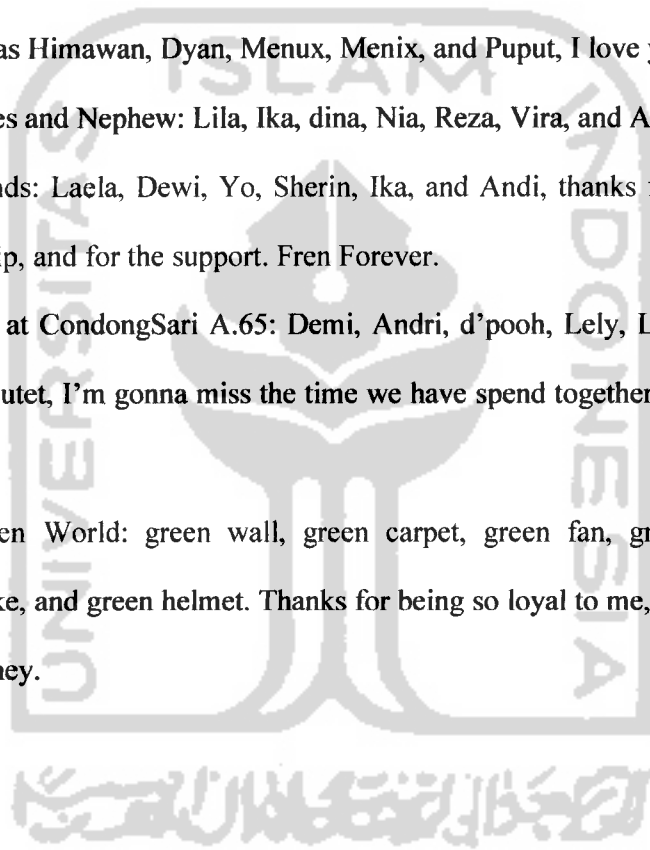**Drs. Arief Bachtiar, MSA, Ak.**   October 10, 2005

Co-Advisor

Any Pujiastuti   October 10, 2005

☼ My Second Parents: H. Bambang Oetomo, SH., and Hj, Siti Choiriyati, my oldest brother and sister for all love, kindness, and support. Thanks for open your heart and your home for me while I was doing my study.

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comparation from the two groups of ordinal data, as perposed in this research that is score of financial performance before and after M&A.

The steps to make parametic computation in Wilcoxon Sign Rank test are as follows:

1. Computing the difference (d) between each observation of the two groups.

2. Determining the difference of rank (d rank).

3. Classifying d rank based on the sign, and then summing up the positive d rank become T+, and add all the negative d rank become T-.

4. Computing Z value in the Wilcoxon Sign rank Test with this formula:

$$Z = \frac{T+ - \mu T+}{Ð T+}$$

Where,

Z   =   the value of Z in the Wilcoxon Sign rank test for big sample

T+   =   the sum of positive d rank

μT+   =   the value of T+

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5. Computing the value of probability (p-value) from the Z value based on "Probabilities asssoiated with upper tail of the normal distribution" table.

3. According to the decree of the Minister of State-Owned Enterprise No. KEP/100/MBU/2002 dated on June 04th, 2002, the financial performance of manufacturing companies before and after M&A did not change. Before M&A, the classification for the manufacturing company's financial performance was less healthy with the category of BBB. And after M&A the financial performance of manufacturing company's was still classified in the same health level.

4. The research findings indicate that the economic objectives of M&A activities do not achieved. It is probably because after M&A there is a monetary crisis, or maybe the M&A decision aimed to safe the company target from the threat of bankruptcy, as if a lot happen in monetary crisis period. So, the economic condition of one country has a big influence supporting the success of M&A activities.

5.2. Research Limitations and Further Research Suggestions

There were some limitations and further research suggestion in this research:

1. In measuring the company's performance, the researcher uses the decree of the Minister of State-owned Enterprise No. KEP-100/MBU/2002, dated on June 04th, 2002. In this case, the researcher only analyzes the company's performance from the financial aspect, which covers liquidity, activity, profitability, and solvability ratios. While the other factors outside the financial aspect are not taken into account because many of them can not be

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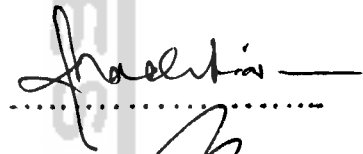### A <u>BACHELOR DEGREE</u> THESIS

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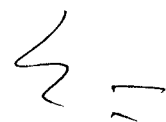
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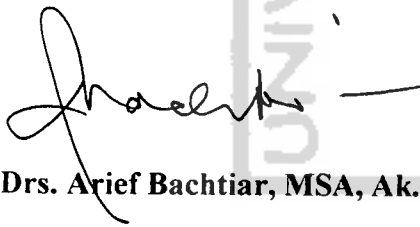
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measured quantitatively. Some non financial aspects included the operational and administration aspects such as technology, human resources, tax, corporate culture, and etc are important to take into account. That is why, this research does not describe the overall aspect of financial performance. The better result will be gained if the aspect of operational and administration are utilized too. For the next research, it will be better if the researches use all three aspects in appraising the financial performance of manufacturing companies in order to get more complete analysis result.

2. This research does not distinguish the type of M&A, whether it is horizontal, vertical, or conglomerate and whether it is internal or external acquisition. This research also does not consider the size of the companies implementing M&A. For the next research, if possible, it will be better to differenciate the type of M&A and also the size of the companies implementing M&A, so it will get better result.

3. The period covered in this research is only limited on 2 years before and 2 years after M&A decision for the companies that have M&A during January 1996-April 1998, because of limitation in getting the data for the companies who doing M&A activities. For the next research, it will be better if the researches use larger sample to get better result.

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