

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The development of the globalization era is increasing rapidly, continuously changing and growing which has a strong impact on the economy. We are now in a free trade era that leads to a high level of competition among companies. Therefore, the development of financial performance plays a very important meaning for the company existence.

The development of a company's financial performance cannot be separated from the role of financial statements, namely income statement and balance sheet or other financial reports. In other words, financial statements are a determining tool in evaluating the financial position of a company at a certain time. A company is required to improve its performance in order to be able to maintain its financial position in times of crisis and in the fierce competition.

There are several strategies that can be used by a company to develop their financial performance, internally or externally. Internal strategies can be done for example, by improving the product quality, launching new products and improving customers' trust towards the product. One of the examples of external strategies is merger.

Many companies in Indonesia have done merger, starting from banking, manufacturing and property sector for example Bank Niaga and Bank Lippo, PT Gudang Garam and PT Surya Pamenang, PT Adhi Persada Properti dan PT Adhi Persada Realti. Based on the data that is obtained from Bursa Efek Indonesia, in 2017 there is only one company that done merger which is PT Ciputra Development Tbk merged with its subsidiaries, PT Ciputra Surya Tbk (CTRS) and PT Ciputra Property Tbk (CTRP). This is one of the latest mergers in

Indonesia. Through merger, CTRA believes it will strengthen its position as one of the largest integrated property company in Indonesia Based on the information that is obtained from IDX Fact Book (2017), Jakarta Stock Industrial Classification (JASICA) categorizes PT Ciputra Development Tbk into the Property and Real Estate subsector.

There are also several reasons why company is more interested in choosing merger and acquisition strategy than internal growth is because merger not only can improve the company's financial performances, but is also considered as a faster way to realize the company's goals by not starting a business from scratch (Hariyani *et al.*, 2011).

In order to assess whether the merger is successful or not, analysis must be carried out. In this research, financial ratios analysis is used in order to analyze whether there any significant difference or not before and after merger. Financial ratio analysis is the process of observing indices which related to accounting in financial statement such as balance sheet, income statements, and cash flow with the aim of assessing the financial performance of a company. This analysis is used to provide an overview of information about financial position and company's performance that can be used as a guide in making decisions (Utami, 2018).

There are five types of ratios to assess the financial performance of a company, they are: a. Liquidity ratios, illustrates the company's ability to meet its short-term obligations that are due soon, b. Solvency ratios, describes the company's ability to meet all its obligations, c. Activity ratios, used to measure the level of efficiency of utilizing the resource owned by the company in carrying out its daily activities, d. Profitability ratios, illustrates the company's ability in making profits, e. Valuation ratios, use to estimate the intrinsic value of the company (Hery, 2015). Calculating the ratios give

company evidence as what is expected and also sometimes it can give opposite signal to the company who has done merger.

A merger is said to be successful if conditions and financial position of the company increases which can be seen by observing the financial ratios. However, not all companies improve after done merger (Sudarsaman, 1999; Finansia, 2017).

Some previous researches that analyzed the differences in financial performance before and after merger showed inconsistent and different results. As it was done by Suhartinah (2018), who analyzed the difference in financial performance of PT MNC Kapital Indonesia Tbk before and after the merger and acquisition, from all the financial ratios used to measure the financial performance shows there were no significant differences before and after the merger and acquisition. Putra and Badjra (2018), who analyze the difference in the financial performance of PT Multi Bintang Indonesia before and after being acquired, and from all the financial ratios used to measure the financial performance shows there were no significant differences before and after the acquisition. Prakoso and Yahya (2016) who analyzed the difference in financial performance before and after merger of PT Bank OCBC NISP and the results shows from seven ratios used to measure the financial performance, there are two ratios that show significant difference. Putra and Agustin (2016) who analyzes the difference in financial performance before and after acquisition of PT Indospring Tbk, the results show that from 11 ratios used to measure the financial performance, two of the ratios have significant difference. However, on the other hand Irawanto and Yuniati (2016), who analyzed the financial performance of PT Bank Rakyat Indonesia showed from seven ratios used to measure the financial performance, there are five ratios that have significant difference.

Based on the different conclusions expressed by some researchers and also since the merger of CTRA is one of the latest

merger in Indonesia, the author is interested to conduct the research with the title “**Comparative Analysis of Differences in Financial Performance before and after Merging (Case study at PT Ciputra Development Tbk)**”.

1.2 Problem Limitation

The problem limitation is made for the author to focus on the objective of the research.

The problem limitations in this research are:

1. In order to see if there is any significant differences in PT Ciputra Development’s financial performance before and after merger, the author will measured by using financial ratios obtained from idx.co.id and processed by the author. The ratios include Profitability ratios (Net Profit Margin, Return on Asset, Return on Equity), Liquidity Ratio (Current Ratio, Quick Ratio, Cash Ratio), Activity Ratio (Total Asset Turnover, Fixed Asset Turnover, Receivable Turnover), Solvency Ratio (Debt to Asset, Debt to Equity, Times Interest Earned) and Valuation Ratio (Earnings per Share, Price to Earnings, Price to Book).
2. The company that will be used in this research is PT Ciputra Development Tbk and the financial report that will be compared in this research is two years before merger (2015-2016) and two years after merger (2017-2018)

1.3 Problem Formulation

Based on the background that has been described above, therefore the problem statement of the research is “Is there any significant difference in the financial performance of PT Ciputra Development Tbk before and after merger?”

1.4 Objective of the Research

This study aims to compare and analyze the financial performance of PT Ciputra Development Tbk before and after merger to find out if there is any significant difference or not.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The results of the study are expected to be used as further research materials that is related to merger and as an additional library for other parties who need it.

1.5.2 Practical Benefit

1. For the Author

It is hoped that this research can increase the author's knowledge about the difference of a company's financial performance after merger as well as the problems in it and also support the previous studies.

2. For the Company and Other Companies

It is expected to be used as a source of information for the company and also as the consideration for other companies in making decision on merger.

3. For the Investor

It is expected to be used as a consideration in making the right investment decisions, especially investment on company that has merged.

1.6 System of Writing

This research will be arranged systematically.

Chapter I: Introduction

In this chapter, author will discuss about the background, problem formulation, research focus, research objective and benefit of the research including theoretical and practical benefit.

Chapter II: Literature Review and Hypothesis Development

In this chapter, author will discuss the definition of merger and acquisition, types of merger, motives of merger, steps in doing merger, advantages and disadvantages of doing merger, definition of financial performance analysis and financial ratios used in this research, previous research and framework of thinking and hypothesis development.

Chapter III: Research Methodology

In this chapter, author will discuss about research design, research object, data collection method and data analysis method.

Chapter IV: Data Analysis and Discussion

In this chapter, author will apply quantitative data analysis method by calculating all the ratios for each year and then author will divide them into two groups, the year before merger and the year after merger. Author will also apply descriptive statistics analysis method to describe the mean and standard deviation. Next, author will do the hypothesis test by running the data through paired t-test for each of the ratios to find the significant differences. Finally, author will make a conclusion whether there is any difference or not before and after merger by looking at how many ratios show significant difference and how many do not.

Chapter V: Conclusion

Lastly, the author will give a conclusion, implication and recommendation for other companies and investors.