CHAPTER I

INTRODUCTION

1.1   Background Problem

There has been an issue of global merger and acquisition surge for the past ten years. As quoted from research shown through statistics made by FactSet Mergerstat, the global M&A has been showing sign of surging since the year 2004, mainly in the U.S. and European countries. Around that period, it was believed that the surged was caused by the greater access to financing for dealmakers and that the pressure from competitors in the market especially for strategic buyers, forced them to not only consider but to choose M&A as one of their way to strengthen their presence in the market.

The surge, as of lately was led by China, making it one of the leading countries regarding global M&A phenomenon with a transaction volume of nearly $5trillion in the year 2015 according to JP Morgan's report. China's M&A activity take a considerable leap both in 2015 and 2016.

While global merger and acquisition is known to be led by China and U.S., many countries nowadays has been undergoing quite significant increase in engaging themselves in merger and acquisition deals whether as a bidder or as the target. Among countries that undergo significant growth in merger and acquisition deals, Indonesia as of late 2018 is in the sixth (6th) position among seventy three (73) other countries listed in Institute for Mergers, Acquisitions, and Alliances

(IMAA) heat maps, with fourteen percent (14%) growth with the highest rank owned by Uruguay with a sixty percent (60%) growth. Indonesia is also ranked as the top player in merger and acquisition when compared with four (4) other East Asian countries (Malaysia, Philippines, South Korea, and Thailand) proven by the highest number of Cross Border Merger and Acquisition (CBMA) according to the research done by Song et al. (2010).

Reffering back to the issue in China, according to past research done, there were several explanations regarding China's sudden leap in M&A activity. One of the reason being gradual establishment and development of China's capital market and the impact of globalization played a significant role in the surging. Added with the condition of China's ascension to World Trade Organization in 2001 that in a way pushed Chinese enterprises to restructure and consolidate by doing M&A in order to keep up and defend themselves from the threat of foreign competitors. There were also the reason of wanting to seek further economies of scale in order to enhance their competitive advantage, M&As that had become easier in terms of relaxing terms in the process of gaining its approval along with the continually evolving regulatory and taxation, the restructuring of asset done by Chinese's state-owned company (Yang, Guariglia, & Guo, 2017).

While in Indonesia, there may be a possibility that the reason behind the surge of growth in merger and acquisition deal in Indonesia to leap to a sixth (6th) place is because of economic "packages" introduced by President Joko Widodo aiming to improve competitiveness and attract investments (Tarigan, Claresta, & Hatane, 2018).

According to A.T. Kearney's article on "*The Rise of Emerging Markets in Merger and Acquisition*", Indonesia merger and acquisition grew thrity eight percent (38%) annually, which is at par with Czech Republic. This might be due to the reason that stock markets in high growth emerging countries have significantly higher price-to-earnings ratios (PE) than those in mature markets, which causing all stock transactions may possess a power to enhance emerging companies' opportunities for deal making (Rothenbuecher & Hoyningen-Huene, 2012).

The fact that merger and acquisition is seen as one of the way for a company to grow and expand its business, boost the deals in Indonesia. Merger and acquisition as way of company growth is often seeked especially when the company is in the mature stage or the market the company is engaged in is in a mature stage. Another cause for the increasing of merger and acquisition might be on the level of liquidity. Liquidity in this case being represented by cash-holding or excess cash, reffering to Yang et al. (2017), Lie and Liu (2018). It is said that the rising cash hoards might have contributed to more takeover activity in recent decades, both because of the tendency to overinvest that might accompany excess cash and because of the conditional role that liquidity arguably plays in takeovers (Lie & Liu, 2018). Lie and Liu (2018). Also stated that this correspond to Harford (2005) that argues that economic, regulatory, and technological factors spur merger waves, but only if there is sufficient capital liquidity.

Nonetheless, all these are showing that it seems Indonesia, like China (Yang, Guariglia, & Guo, 2017), U.S. (Harford, 1999) , Europe (Nguyen, 2016), have the probability to make merger and acquisition deal or to enter into a merger

and acquisition deal, with the main focus on the liquidity of a company as one of the deciding factor.

With this in mind, the author is interested in studying, observing, and finding whether the same case also applies to other country surges in M&A. Whether when applied to Indonesia, it would also show same or similar result. Thus the author is interested in studying and writing about the effect under the title: "CORPORATE LIQUIDITY AFFECT M&A DECISIONS: EVIDENCE FROM INDONESIA?".

1.2   Problem Formulation

1. Effects of a company's liquidity on merger & acquisition decision
2. Effects of a company's liquidity on merger & acquisition decision especially towards a company that's subjected to tunneling

1.3   Purpose of Research

With the consideration of the issue mentioned above, the purpose of this writing is:

1. To confirm whether cash-rich firms are more likely to enter into merger and acquisitions.
2. To confirm whether cash-rich firms are more likely to enter into merger and acquisitions especially if they are subject to tunneling.

1.4   Advantage of Research

Advantages of research about executive compensation responsiveness towards changes in tax rates are as follows:

a. For Student

Order to meet graduation requirements in program *Sarjana Ekonomi Strata Satu* Pelita Harapan University. As the media to broaden the knowledge and to test students' ability in implementing the studies obtained during the study period in program *Sarjana Ekonomi Strata Satu* Pelita Harapan University.

b. For Company

As contribution information that can be used as materials for better understanding of the relationship of merger and acquisition decision of a company with its liquidity or financial state

c. For Reader

As a measure of students' ability in applying knowledge, especially related to merger and acquisition and its relation with the liquidity of each company.

1.5 Research Limitations

During the period of writing this research, there were some limitations faced by the author, such as when obtaining the data for the research from the listed company in Indonesia Stock Exchange where all of the data during period 2006 – 2016 are incomplete. There are also some limitations on finding the appropriate journal that supports the outcome of the research results.

1.6 Writing Scheme

To facilitate the preparation and discussion of the content of this report, the author will divide it into 5 (five) chapters outline, that can be described as follows:

1.6.1 CHAPTER I: INTRODUCTION

This chapter elaborates on areas studied, the purpose, and usefulness of research, research methods, and systematic discussion.

1.6.2 CHAPTER II: REVIEW OF RELATED LITERATURE AND HYPOTHESIS DEVELOPMENT

This chapter contains problems relating with liquidity effect on merger and acquisition and tunneling as a motive for merger and acquisition in Indonesia, along with hypothesis development.

1.6.3 CHAPTER III: RESEARCH METHODOLOGY

This chapter discussed methods to be used in conducting the research on finding whether corporate liquidity which is represented by the cash holding of a firm affect M&A decisions.

1.6.4 CHAPTER IV: ANALYSIS AND INTERPRETATION OF RESULTS

This chapter discussed the results obtained from the calculation done based on the appropriate model of regression for each data.

1.6.5 CHAPTER V: CONCLUSION AND RECOMMENDATION

This chapter summarizes the result from earlier conducted research into a conclusion regarding the findings of the research hypothesis with Indonesia as its concern.