

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Development is closely related to technology. In the era of globalization and advancement of technologies, survival and sustaining of companies has become a big challenge. Companies are forced to rework on their strategies to survive in the current market scenario. Hence, to survive in this highly competitive economy, it is necessary to diversify where it would facilitate in enhancing its development process. This would enable in raising the shareholders' wealth. In order to attain the vision of the company and to maintain its business, companies need to restructure the strategies. Therefore, the strategies used can be both internal or external strategy either for short and long-term goals. Internal strategies can be done by developing products, launching new products or by maintaining and improving the quality of existing products. Meanwhile, external strategies can be carried out by cooperating with other parties through merger. Most companies choose to do merger due to more benefits can be obtained. In addition, companies are able to grow faster rather than establish their own business. One of the motives behind the companies to do the merger is the economic motive, related to the purpose of the companies, which is to increase the value of the companies or maximize shareholders' prosperity. According to *Biro Riset Kontan*, merger and acquisition activity increased by 3.4 percent in 2017 with a transaction of 44.82 billion rupiah.

Business development entails tasks and processes to develop and implement growth opportunities within and between companies. Business development is the creation of long-term value for a company from customers, markets and relationships. This aims in increasing revenues, growth in terms of business expansion and increasing profitability. It can

be taken to mean any activity by either a small or large company. Business development can be linked to the various functions and departments:

1. Sales

The sales department plays a pivotal role in the success of the business. The unique and important role of sales is to bridge the gap between the potential customers' needs and the products or services that the company offers that can fulfill their needs.

2. Marketing

Marketing involves promotion and advertising aimed at the successful sale of products. It plays an essential role in achieving sales targets. Business development initiatives may allocate an estimated marketing budget. A higher budget allows aggressive marketing strategies like personal visits, road shows and free sample distribution. Lower budgets lead to limited online, print and social media advertisements and billboards.

3. Strategic Initiatives or Partnerships

The business development team weighs all the pros and cons of the available options, then selects the one that best serves the business.

4. Business Planning

To create a new product, business planning team will manage to work towards the desired goal based on the cost and time related assessment.

5. Product Management

The function of product management in a company is to plan, predict, produce and sell a product. Product management guides the company on how to invest its limited sources in order to create a competitive product according to market needs.

6. Vendor Management

Through vendor management, the relationship with vendor can be built as a strategy to strengthen the businesses of both parties. This strategy benefits both company and its supplier.

7. Networking

Many of the business development need expertise in networking skill. This skill is necessary to do contact with vendors, agencies and regulators.

8. Cost Savings

Business development is not just about increasing sales of products and reach market. Strategic decision is needed to measure cost cutting.

Table 1.1 Table of Phenomenon

Company Name	Period	Return on Asset (Y1)	Return on Equity (Y2)	Net Profit Margin (Y3)	Earnings Per Share (Y4)	Debt to Equity Ratio (Y5)
PT AXA Financial Indonesia (Before Merger)	Q1 2017	0.008	0.06	0.101	934.934	6.152
	Q2 2017	0.006	0.045	0.071	690.883	6.527
	Q3 2017	0.008	0.058	0.14	937.731	6.15
PT AXA Life Indonesia (Before Merger)	Q1 2017	0.014	0.029	0.069	45.843	1.135
	Q2 2017	0.02	0.046	0.115	65.828	1.291
	Q3 2017	-0.031	-0.087	-0.263	-210.541	1.785
PT AXA Financial Indonesia (After Merger)	Q4 2017	-0.006	-0.045	-0.067	-701.122	6.102
	Q1 2018	0.002	0.017	0.196	120.28	4.956
	Q2 2018	-0.001	-0.011	-1.639	-71.98	5.141
	Q3 2018	0.005	0.033	0.075	223.28	4.895
	Q4 2018	-0.001	-0.009	-0.019	-61.08	5.053

Source: Prepared by the writer (2019)

In this research, this company is being used because it shows unstable financial performance after the merger, which can be seen in

Table 1.1. The financial performance is being analyzed by using financial ratios, which are return on asset, return on equity, net profit margin, earnings per share and debt to equity ratio.

Previous researches yielded different result regarding the changes of financial performance before and after the merger using ratios. Nurul Syafitri (2016) indicated a significant difference on debt to equity ratio, debt to total asset ratio, fixed asset turnover, total asset turnover, net profit margin, return on equity, return on asset, price earning ratio. Meanwhile, there was insignificant difference on current ratio and cash ratio. Linda Finansia (2017) indicated a significant difference on total asset turnover and insignificant difference on current ratio, fixed asset turnover, debt to total asset ratio, net profit margin and return on asset. Muhammad Aji Nugroho (2010) reported a significant difference on debt to equity ratio and no significant difference on net profit margin, return on asset, return on equity, debt ratio, earning per share, total asset turnover and current ratio. Gian Pradipta Setyananda (2018) indicated a significant difference on total asset turnover. Meanwhile, there was no significant difference on current ratio, debt to equity ratio, return on equity and abnormal return. Gusti Ary Suryawathy (2014) reported an insignificant difference on current ratio, cash ratio, debt to equity ratio, debt to total asset ratio, return on equity and return on investment. Putri Novaliza (2013) indicated a significant difference on return on asset and no significant difference on current ratio, quick ratio, inventory turnover, total asset turnover, debt ratio, total debt to equity ratio, return on equity, net profit margin and operating profit margin.

Due to the different results of previous studies conducted regarding this topic, the writer decides to conduct a research study to analyze the financial performance of a company before and after the merger. Therefore, the writer would want to do **“The Comparison of Financial**

Performance Before and After Merger of PT AXA Financial Indonesia”.

1.2 PROBLEM LIMITATION

The limitation of this research is as follows:

1. This research focuses on the company's financial performance measured using financial ratios which is acquired from financial statement that is published by the company. The financial ratios used in this research are return on asset, return on equity, net profit margin, earning per share and debt to equity ratio.
2. The company that will be researched is PT AXA Financial Indonesia. The company merged with PT AXA Life Indonesia in 2017.
3. The period of this research is only limited from 2017 to 2018.

1.3 PROBLEM FORMULATION

Based on the background of study described in the previous section, the problems identified by the writer are:

1. Does return on asset show significant difference before and after the merger of PT AXA Financial Indonesia?
2. Does return on equity show significant difference before and after the merger of PT AXA Financial Indonesia?
3. Does net profit margin show significant difference before and after the merger of PT AXA Financial Indonesia?
4. Does earnings per share show significant difference before and after the merger of PT AXA Financial Indonesia?
5. Does debt to equity ratio show significant difference before and after the merger of PT AXA Financial Indonesia?

1.4 OBJECTIVE OF THE RESEARCH

Based on the problem formulation, the objective of this research is:

1. To analyze whether return on asset shows significant difference before and after the merger of PT AXA Financial Indonesia.
2. To analyze whether return on equity shows significant difference before and after the merger of PT AXA Financial Indonesia.
3. To analyze whether net profit margin shows significant difference before and after the merger of PT AXA Financial Indonesia.
4. To analyze whether earnings per share shows significant difference before and after the merger of PT AXA Financial Indonesia.
5. To analyze whether debt to equity ratio shows significant difference before and after the merger of PT AXA Financial Indonesia.

1.5 BENEFIT OF THE RESEARCH

Upon the completion of this research, it is expected to bring several benefits for multiple parties.

1.5.1 THEORETICAL BENEFIT

This research is expected to bring several theoretical benefits which are:

1. For the writer, this research may help the writer to gain more knowledge regarding the ratios used to analyze the financial performance before and after merger of an insurance company.
2. For future researcher, this research can be used as reference to next research that related with this research topic.

1.5.2 PRACTICAL BENEFIT

The result of this research is expected to be useful for a company. Provide feedback and consideration in taking decisions that will be used for the development of a company which will perform a merger in the

future according to the purpose of the company. This research will help in setting the right timing for undertaking merger. Poor timing during merger may cause financial distress due to the competitive in business world. Besides, lack of information on merger may lead to inappropriate decision making by policy and regulator makers leading to collapse of financial sector.

1.6 SYSTEMS OF WRITING

The systems of writing have the intention of giving a clear picture of how the whole sections of the research will be covered. Through systematically ordering the chapter from beginning to the end, it is expected that it could help the reader in having a clear understanding of the research. This research will be arranged based on five chapters.

CHAPTER I: INTRODUCTION

This chapter starts with background of study about business. Problem limitation will be limited on those ratios which can be obtained from financial statement. Then, problems will be formulated regarding the issue that will be discussed along with the explanation of objective and benefit of the research. Lastly, an overview of the main chapters in this research will be presented in systems of writing.

CHAPTER II: LITERATURE REVIEW

This chapter explains the theoretical background which contains some basic theories about merger, the types and the purpose of merger, advantage and disadvantage of merger, financial statement along with the ratios. Prior researchers will also be

presented to support this research. Then, hypothesis will be developed along with the research model. The construction of framework of thinking is useful for illustrating the flow of the research starting from the background of the study, research problem, theoretical background and hypothesis.

CHAPTER III: RESEARCH METHODOLOGY

This chapter discusses more about the research design, its population and sample, the data collection method, the operational variable definition and variable measurement along with the data analysis method. The writer conducts quantitative approach with comparative study using secondary data. It will discuss how the researcher conduct the research starting from how the raw data collected and the process of analyzing the data will be explained more in this section.

CHAPTER IV: DATA ANALYSIS ANF DISCUSSION

This chapter explains about the general description of the research object, the data analysis along with descriptive statistic, result of data quality testing and hypothesis testing, as well as discussion of the results.

CHAPTER V: CONCLUSION

This chapter is an important part which gives a clear explanation of what have already been explained in discussion chapter. It contains the conclusion of the

research study conducted. Besides, it gives recommendation and the implication from the result of the research both theoretically and practically. It is expected to be useful to the readers.

