
Corporate Strategy Analysis in Increasing the Value of the Firm through Mergers and Acquisitions in the Banking Sector (Case Study on the BCA Group)

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Abstract

This study aims to determine the company's strategy based on after experiencing corporate mergers and acquisitions, considering the value of the firm and the company's financial ratios in the financial industry sector (a case study on the BCA Group). Quantitative research is carried out by analyzing Financial Statements one year before and one year after the merger and acquisition corporate action is carried out which has been audited from 2018 to 2020. Qualitative research is carried out by conducting interviews with Bank BCA Senior Employees (20 years experience at BCA) and employees of the BCA Syariah business unit. Technical analysis of quantitative data using SPSS software, technical analysis of qualitative data is carried out using the Strength-Weakness-Opportunity-Threat (SWOT) matrix. The results showed that the value of the firm experienced the highest value when the merger and acquisition corporate action was carried out in that year. Quantitative analysis of financial ratios before and after the corporate action was carried out did not show significant results. The corporate strategy recommendation based on a comprehensive analysis of the company's current conditions and conditions is to determine the strategy aggressively, this is due to internal strength factors and existing opportunities that are expected to be maximized by the company. This strategy is intended to support an aggressive growth policy, this may be done because the company has opportunities and strengths so that it can take advantage of existing opportunities.

Keywords: corporate strategy, corporate action, mergers and acquisitions, value of the firm.

1. Introduction

Indonesia's economic conditions recorded unsatisfactory results in 2020. It recorded minus growth at -2.07%. The last minus growth experienced by Indonesia was in 1998, coinciding with the occurrence of the monetary crisis experienced by Indonesia in that year. However, this condition is in line with the movement of stocks in Indonesia. If we look at the movement of

stocks in Indonesia in 2020, we will find that there has been a very deep decline in the Indonesian stock market. The Composite Stock Price Index, which was initially in the range of 6,000, fell sharply to its lowest point around 3,900 in March 2020. What's interesting is that in economic conditions, there were still companies that were able to perform well throughout 2020. If you look at the development of Bank BCA's share price, BCA was able to continue to perform well last year. Even when the performance of the financial sector experienced minus conditions in 2020, Bank BCA was still able to maintain its performance at a positive value. In 2019, BCA carried out a corporate action in the form of a merger and acquisition. Bank BCA did not just acquire one bank, but two banks were acquired almost at the same time, the two banks were Rabobank Internasional Indonesia and bank Royal Indonesia. If you look at the development of BCA's profit and revenue from year to year, BCA shows its performance as the top-ranked bank in Indonesia. In 2020 BCA's net profit has indeed decreased compared to the previous year, however, BCA's operating income has increased compared to previous years.

Mergers and acquisitions are considered as a way to provide solutions to accelerate the growth of a company. Mergers and acquisitions are expected to be able to strengthen the position of existing companies in the industry. The process of mergers and acquisitions does require a large amount of money to carry out the process, but this is considered commensurate to increase the value of the firm (company value). Research conducted by Selcuk (2015) found that companies that carry out mergers and acquisitions get an increase in value on the stock exchange ranging from 5 – 8 percent. Another study conducted by Muhammad, et al (2019) found that mergers and acquisitions have a significant impact on bank performance, especially in terms of liquidity, profitability and investment. This research was conducted in Pakistan with respondents from the banking industry. This finding reinforces the theory that mergers and acquisitions can have a positive impact on banks. Research conducted in India actually found different findings. The results of research conducted by Ansari & Mustafa (2018) found that there was no significant difference after the merger process was carried out. This is contrary to the assumption that mergers and acquisitions are the most effective way to accelerate growth in a company. Another study conducted by Edi and Rusadi (2017) in Indonesia found that companies experienced a decline in financial performance after carrying out mergers and acquisitions, especially for the debt to equity ratio. This finding explains that the merger process that is carried out will make the debt to equity ratio (DER) decrease significantly. This phenomenon is explained as a good action from corporations in their business activities, so that the use of debt over equity can be minimized. This result is inversely proportional to acquisitions, because acquisitions actually provide an increase in the debt to equity ratio (DER) which can mean that the company's debt burden is getting higher due to the acquisition process being carried out. Research conducted by Pratiwi and Sedana (2017) on multinational companies on the Indonesia Stock Exchange also found that the financial performance of multinational companies was not significantly different compared to before mergers and acquisitions. Another study conducted by Fatima and Shehzad (2014) found that only Return on Equity had a significant impact after the merger and acquisition process was carried out at bank companies in Pakistan.

Some of the research above made researchers want to analyze mergers and acquisitions implemented by BCA bank. The method used is to compare the financial statements in the period

before mergers and acquisitions and after mergers and acquisitions occurred. There are several points that are focused to be compared in this study, namely liquidity ratios, investment ratios, solvency ratios and profitability ratios. A study with a similar method was conducted by Awan and Mahmood (2015) at commercial banks in Pakistan, the results showed that liquidity ratios, investment ratios, solvency ratios and profitability ratios have a significant impact on companies. In addition, the research conducted will check whether the value of the firm has a significant impact on the merger and acquisition process.

2. Method

The research was conducted on banking companies that carried out a merger and acquisition strategy in 2019. An analysis was carried out on the company's financial statements to see the impact of mergers and acquisitions on the company. The research was conducted within 2 months, from June to July 2021. The research was carried out using a qualitative approach based on theories and literature related to the value of the firm, mergers & acquisitions, and company's financial performance. The research will also use interviews with bank management to deepen information and enrich research findings. Quantitative analysis is carried out by comparing ratios before and after the merger & acquisition strategy is carried out. The types of data used include secondary data such as the financial statements of Bank BCA, bank BCA Syariah and bank BCA Digital December 31 2020 and bank BCA stock prices obtained from www.idx.co.id and related company websites, as well as literature studies by studying books, articles and research journals related to the research conducted. In addition, the data was also obtained by conducting interviews with the company's top management. In this case, the interview targets were BCA bank management, BCA Digital bank management and BCA Syariah bank management.

The method used to collect data for quantitative analysis is secondary data collection, in this case the data in question is information published to the general public through information channels that can be accounted for. Meanwhile, the method used to obtain qualitative data is to conduct interviews. Interview is an interaction process carried out by two or more people, where both parties involved have equal rights in asking and answering. In conducting interviews, the researcher made a list of questions and explained them concretely in interrogative sentences and also adapted them to the actual context during the interview.

The company's value of the firm is measured by looking at the company's Price Book Value (PBV) before and after mergers and acquisitions carried out by the company. Price to book value (PBV) is a valuation ratio to assess how expensive or cheap a stock is by comparing the stock price to the book value. company. The PBV formula is the share price divided by the book value. Analysis of financial statements is also carried out by comparing the company's financial performance measured by calculating ratios (Liquidity ratios, Investment ratios, Solvency ratios, Profitability ratios) in the financial statements before and after mergers and acquisitions carried out by the company.

3. Results

The acquisition and merger processes carried out by BCA have complied with all regulations governing banking merger and acquisition processes in Indonesia, namely Article 126 of Law no. 40 of 2007 concerning Limited Liability Companies (“UUPT”) and Article 4 paragraph (1)

PP No. 27 of 1998 concerning Merger, Consolidation and Acquisition of Limited Liability Companies (“PP 27/1998”). Notifications to the public, permits from the GMS, as well as OJK permits were fulfilled by BCA without exception. The value of transactions carried out in the merger and acquisition process is considered appropriate and has been stated in the acquisition plan or merger plan issued by BCA or its subsidiaries.

One of the company values (Value of the Firm) can be measured using PBV (Price Book Value), which is an investment valuation report that is often used by investors to compare the market value of a business share with the total value recorded in its book. Book value is the most important asset value of a company listed in an annual financial report and is calculated by subtracting the company's liabilities from its assets.

Table 1. BBCA Stock Condition in 2018-2020

	2020	2019	2018
Highest Price	Rp 35.300	Rp 34.000	Rp 26.975
Lowest Price	Rp 21.625	Rp 25.575	Rp 20.600
Closing Price	Rp 33.850	Rp 33.425	Rp 26.000
Market Capitalization	Rp 834.572 M	Rp 824.094 M	Rp 641.030 M
Net Earnings per Share	Rp 1.100	Rp 1.159	Rp 1.049
Book Value per Share	Rp 7.487	Rp 7.059	Rp 6.151
P/E	30,8	28,8	24,8
P/BV	4,5	4,7	4,2

(Sources: Yearly Report BCA, 2020)

The interesting thing from the PBV analysis of Bank BCA is that the highest PBV value occurred in the year the merger and acquisition process was announced. When compared to when the merger and acquisition process was completed, the highest PBV value occurred when the merger and acquisition process was announced to the public in 2019. From the table above we can also see that there has been an increase in book value per share every year, from 2018 which is at IDR 6,151, in 2019 it increased to IDR 7,059 and continues to increase in 2020 to IDR 7,487.

What is also of concern is the significant increase in market capitalization in 2019. In 2018 the market capitalization of BCA's shares was at 641 T, this figure increased to 824 T in 2019. Compared to the increase in 2020 which increased to 834 T, or an increase of around 10 T, the increase in market capitalization in 2019 is much greater. The increase in market capitalization is closely related to the BBCA share price on the stock exchange, if the share price increases it will be directly proportional to the market capitalization. Referring to the condition of BBCA's shares in 2019, there was an increase in BBCA's share price at that time.

Table 2. Information Stock BBCA In 2021

June Closing Prices 2021	Rp 30.125
Total Equity	187.496.940.000.000
Issued and fully deposited capital	24.655.010.000 shares
Book Value per share	Rp 7.605
P/BV	4,16

(Source: Financial Report BCA per June, 2021)

In BCA's mid-year report in June 2021, PBV numbers have decreased compared to 2019 and 2020. PBV conditions in mid-2021 are similar to BCA's PBV figures in 2018. If we look at the PBV trend, BCA's highest PBV currently occurs during the process mergers and acquisitions in 2019.

On July 29, 2021 the meeting of the Board of Directors & Commissioners of BCA PT Bank Central Asia Tbk (BCA) approved the stock split corporate action with a ratio of 1: 5 (1 old share becomes 5 new shares). The nominal value per unit of BBCA shares is currently IDR 62.50, while the nominal value per unit of BBCA shares after the stock split will be IDR 12.5. For information, BBCA's share price at the time this release was issued was around the level of IDR 30,000 per unit share. "Through this stock split corporate action, we hope that BBCA's share price will be more affordable for retail investors, especially the demographic of young investors who are currently actively enlivening the stock exchange. This is also a form of our support to increase trading liquidity in the domestic capital market." said BCA President Director Jahja Setiaatmadja (bca.co.id). The stock split process will follow applicable regulations and requires shareholder approval through an Extraordinary General Meeting of Shareholders which is planned to be held on September 23, 2021. After obtaining approval from shareholders, BCA will coordinate with the Indonesia Stock Exchange to process the stock split. expected to occur in October 2021.

PBV is one of the parameters for determining the fair price of a stock. In 2021 BBCA plans to carry out a stock split using a 1:5 ratio, this means that BBCA shares on the stock market will return to their normal PBV of around 1 if the stock split has been carried out. Returning the decision to carry out a stock split is done to keep BCA's liquidity maintained. If a stock is too expensive, its liquidity will be threatened, so doing a stock split is one method to maintain stock liquidity.

Based on the results of interviews with informants, it was stated that BCA's financial fundamentals were the focus of BCA in developing the company's business. Fundamental here means that good company performance is supported by good corporate governance as well. This condition will encourage increased trust and loyalty from customers towards BCA as a financial management partner. The increase in share prices when corporate mergers and acquisitions were announced was more due to public interest in institutions on the stock exchange, but the consistency of the company's value which was maintained to grow from time to time reflected

good financial fundamentals and the trust of customers to invest in companies in long period of time.

Further in-depth study of the results of calculating financial ratios is carried out by conducting interviews. Some of the things that were obtained in the interviews were the condition that there were no significant differences in financial ratios before and after the merger and acquisition process. This was possible because BCA had a good fundamental financial condition when carrying out the merger and acquisition process. BCA's condition during the merger and acquisition process was not in a bad financial condition, so that its continuously improving performance was not only based on the condition of the mergers and acquisitions. The corporate actions taken by BCA in conducting mergers and acquisitions are a strategy that has a comprehensive and mature calculation. Neat planning and in-depth studies have been carried out before making the choice to carry out mergers and acquisitions.

4. Discussion

4.1 Strategi Holding Company

The philosophy of a holding company is to strategically manage a private company. If the parent company can run the company better than the subsidiary can run on its own as well as better than any other management, then value has been created, and this is the company's huge competitive advantage. The corporate action taken by BCA made BCA as the holding company have one additional subsidiary, namely BCA Digital, this was due to the acquisition of Bank Royal Indonesia. Meanwhile, the strengthening of its former subsidiary, BCA Syariah, took place by merging with Rabobank Indonesia. All assets and liabilities of Rabobank Indonesia will be transferred to BCA Syariah when the merger is completed. One of the advantages of implementing a holding company strategy is the holding company's ability to provide direction and assistance to its subsidiaries. BCA Digital, as a new subsidiary acquired by bank Royal Indonesia, received a capital injection of 1 trillion rupiah from BCA. In addition, credit that is the responsibility of BCA Digital is transferred to BCA Syariah or BCA. This condition can be implemented because BCA is the holding company of BCA Syariah and BCA Digital, so BCA Digital is expected to show better performance in the future.

4.2 Strategi Business Unit

Strategic Business Unit (SBU) implementation will make the company have several strategic business units. The existence of several SBUs within the company is expected to be able to make the company move faster and more productively in facing competition in the industrial world. The existence of several SBUs is expected to be able to support the company's existence in the public by providing customer satisfaction in the industry they are involved in. In the context of BCA, the existence of BCA Digital is an attempt to present a new SBU within the BCA Group. This SBU has a specific market, namely you young Indonesian millennials and in general it is different from other business units in the BCA Group. In the future, BCA Digital is expected to be able to appear on the Indonesia Stock Exchange by conducting an IPO within the next one to two years. This time is needed for BCA Digital to be able to build a good portfolio as a banking institution, so it is hoped that this will become an attraction for investors who wish to invest in the stock market. The BCA Group has several business units, including insurance, financing,

sharia banking and securities. Each business unit is given the freedom to create and is expected to support each other and create an integrated financial ecosystem under BCA.

4.3 Strategi Konglomerasi

The company will carry out a conglomeration strategy as part of its plan to expand its business and increase company profits. This strategy makes companies develop goods or services that are different from what the initial business did. This is part of company diversification with the courage to add new business to the company. BCA carries out a conglomeration strategy using the merger and acquisition method. Mergers and acquisitions mean that BCA does not have to create a business unit from scratch. The existing business units were taken over by BCA and conditioned to become business units that match the needs and requirements of BCA. This strategy was implemented by BCA in 2008 when it acquired UIB bank. After the acquisition of Bank UIB, Bank UIB was changed to BCA Syariah. Even though UIB bank was originally a commercial bank and was not classified as a sharia banking, however, because it was acquired by BCA, BCA made changes according to BCA's development plan and strategy. The same thing happened in 2020, Rabobank Indonesia, which is a commercial bank, was also merged with BCA Syariah, which is a sharia banking. This condition is carried out as part of a strategic plan from BCA so that it can continue to grow and develop in the Indonesian banking industry.

5. Conclusion

The results of the qualitative and quantitative research conducted can be concluded that the acquisition process carried out by BCA for Rabobank Indonesia and Bank Royal Indonesia was carried out in accordance with applicable regulations and each stage was fulfilled without exception. The effect of this corporate action is an increase in the value of the company's firm which occurs maximally during the process of announcing mergers and acquisitions corporate actions to the public. On the other hand, the financial ratios for companies that carry out mergers and acquisitions experience significant changes, if you look at the results of the annual reports in the year before the merger and acquisition process takes place and in the year after the merger and acquisition process takes place. The interesting thing is that based on statistical calculations of financial ratios before and after the merger and acquisition process is carried out, it turns out that there is no significant difference between the financial condition before and after the merger and acquisition process is carried out by BCA.

The conglomeration strategy was carried out by BCA to be able to expand its business and increase company profits. Implementation of this strategy has made BCA a holding company that has the ability to manage and regulate its subsidiaries so that they can provide maximum benefits for stakeholders. The Business Unit strategy implemented by BCA has made BCA today have nine subsidiaries where each subsidiary is expected to be able to support and support each other to create an integrated financial ecosystem under BCA. BCA as a banking institution in Indonesia must be able to adapt and prepare itself for the latest developments. Optimizing BCA's IT infrastructure will play an important role in providing reliable and trusted services to BCA customers. The readiness of IT infrastructure can provide maximum support for the entire financial ecosystem under BCA.

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