

RESTRUCTURING, MERGER AND ACQUISITION

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Abstract

Companies need to develop an appropriate strategy in order to maintain its presence and improve its performance. One attempt to become a large company and strong is to implement the strategy of restructuring. The emergence of the free market era has an impact on increasingly fierce corporate business competition. This condition spurred business people to pay attention to the strategy pursued. In fact, the company continues to formulate and perfect its business strategy in order to win the competition. The realignment of restructuring the company's capital structure can execute through mergers and acquisitions. This research aim is to review the importance of merger activity and investment in terms of objectives and benefits. Methods used a literature review and secondary data. The research suggests that a company merger and acquisition support operation. There is good financial synergy and diversification, achieves economy of scale and scope that leads to cost efficiency and profitability, can obtain management skills, improve market forces, and may also be tax benefits. Because of that, the merger and acquisition were selective to enhance the company's performance.

Keywords : *Restructuring, merger, acquisition, M&A*

1. INTRODUCTION

Today's globalization has made almost all entrepreneurs on earth worried about global competition. To face globalization, many multinational companies are restructuring their businesses. Company restructuring is certainly very necessary to face global competition. With a company restructuring, of course the capital structure will become stronger and the mastery of market share will increase. Press Release via Pertamina's official website on September 1, 2021 with the title Completed Restructuring Process, All Pertamina Subholdings Ready to Step on Gas. Delivered that the Roadmap for the formation of Oil and Gas Holdings which started in 2018 with the formation of a Gas Subholding, then restructuring continued with the formation of 5 other Subholdings namely Upstream, Commercial & Trading, Refining & Petrochemical, PNRE and Shipping Subholdings, which began in June 2020 had been successfully completed in September 1, 2021.

This restructuring resulted in a streamlined structure and clearer holding and subholding powers. This has had a good impact on the decision-making process for investments that are more concise, operations move more agile, fast and focus on being able to carry out business development that is more aggressive and more responsive to changing conditions in the business world that occur. Pertamina group can also run operations more effectively and efficiently, one of which is through the integration of business processes from upstream to downstream. As reported by CNBC Indonesia on December 27, 2022 by Feri S. (2022) with the title 'Agile Issuers Caplok Here and There, Evidence that RI is Anti-Crisis?'. Throughout 2022, a number of companies have announced interest and purchase agreements. Some have completed acquisitions and some are still

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in the exploratory stage of finding the right buyer. In particular, M&A activities carried out by Indonesian issuers as parties making acquisitions, in 2022 will still be relatively busy. There are at least 12 large acquisitions made by Indonesian public companies, both domestic and foreign companies.

The following is a list of jumbo acquisitions made by Indonesian issuers in 2022, as follows:

1. Medco through its subsidiaries is known to have acquired all of the shares issued by ConocoPhillips Indonesia Holding Ltd (CIHL) from Phillips International Investments Inc., which is a subsidiary of ConocoPhillips Company (COP). The transaction value for the acquisition of ConocoPhillips Indonesia Holding Ltd is worth US\$ 1.35 billion.
2. The energy company belonging to the Sinar Mas group, PT Dian Swastatika Sentosa Tbk (DSSA), officially completed the acquisition of a metallurgical coal mine in Australia on 12 August 2022. The acquisition value of the shares was US\$ 380 million.
3. PT Batutua Tambang Abadi with PT Hamparan Logistik Nusantara and PT Provident Capital Indonesia have agreed on a conditional share subscription agreement which is effective as of March 24, 2022. The transaction value of the shares between the three companies reached IDR 5.37 trillion.

According to Josua T., et al (2016: 86) in the book *Mergers and Acquisitions (M&A) from a Strategic Perspective and Indonesian Conditions*. Corporate restructuring is needed when companies need to improve efficiency and profitability. The current business strategy is integrated into the restructuring program to obtain better financial performance in the short and long term. Corporate restructuring is intended as a reaction to a crisis or as part of a company's pre-emptive plan to survive in the industry. The restructuring process is a long one and requires patience. The process involves many challenging tasks and requires an analysis of social benefits and costs, therefore requires an expert in company management.

Previous Research

Journal the first was compiled by Helmalia (2016) entitled "Analysis of Acquisition and Restructuring Strategies in Corporate Business". Where the company needs to develop an appropriate strategy to maintain its existence and improve its performance. One of the efforts to become a big and strong company is to implement an acquisition and restructuring strategy. Acquisition strategy is the dominant means used by companies to develop diversification strategies and when acquisitions contribute poorly, companies may consider the need for operational restructuring. With the acquisition and restructuring strategy implemented by the company, it is expected to stabilize the company's business so as to reduce the company's risk.

Acquisition and restructuring strategies are absolutely necessary in order to maintain the existence of the company's business and improve the company's performance. A company's business will provide positive synergy if there is a change in the diversification strategy undertaken by the company. When a company shows a poor performance, it is necessary to acquire and restructure operations with the aim of stabilizing the company's business. Restructuring basically has the goal of providing a change to the company's business environment, the restructuring strategy changes the composition of the company's business portfolio. Companies can carry out three types of restructuring strategies, namely downsizing, downscoping and leveraged buyout.

Previous research secondly with the title "Mergers and Acquisitions Restructuring Company Financial Performance: Perspective 2b 1f (Better, Bad And Faulty)" conducted by Dwi RS and Rita A. (2022). M&A activities include mergers, acquisitions, takeovers, tender offers, alliances, joint ventures, minority equity investments, licenses, divestitures, spin-offs, split-ups, carve-outs, leveraged buyouts, leveraged recapitalizations, double recapitalizations, reorganizations, restructuring, and contracts related to financial difficulties and other adjustments. In neoclassical M&A theory, it is explained how companies try to improve their capabilities and resources (GOOD).

A good M&A decision is an external investment decision that results in a positive net present value. In general, M&A activities carried out by companies include (1) methods of developing growth opportunities. (2) long-term decisions and several years. (3) to revise the product and market portfolios in which they seek to develop investment programs that increase value. Description of the advantages of M&A activity in redistribution theory (BAD) and behavioral theory (ERRORS). Redistribution theory argues that M&A is motivated by tax benefits, market forces, extraction from bondholders, breach of trust with the workforce, and shifting pension costs to the government. Meanwhile, behavioral theory explains egoism, market misjudgment, agency, and organization theory.

The third research is research conducted by I Nyoman NAP and NS (2022) entitled "Improving Performance Through Mergers and Acquisitions". Company restructuring by rearranging the company's capital structure can be done through mergers and acquisitions. The purpose of this study is to review the importance of M&A activities in terms of their objectives and benefits. The method used is literature study and secondary data. The results show that the motives of companies that support M&A are obtaining operational and financial synergies, diversification, achieving economies of scale and scope that lead to cost and profit efficiency, being able to gain management skills, increasing market power, and also being able to get tax benefits. Therefore, the decision of M&

Definition of Restructuring

Journal (I Nyoman NAP, Nengah S., 2022), Restructuring (Harjito, 2014) is rearranging the company's capital structure to make it better which can be done through mergers and acquisitions. Corporate restructuring is designed to change the ownership structure of a company which can result in a change in the proportion of debt used. One of them is obtaining additional funds from shareholders so that the capital structure can be better which can also have an impact on increasing profitability.

Books (Josua T., et al., 2016: 85), Restructuring can be defined as a process of changing the modification of the debt structure, capital including significant organizational operations, it is hoped that this change process will later have a significant impact on organizational performance. The restructuring process is usually carried out with the aim of achieving conditions like before the merger acquisition occurred. Therefore restructuring is usually carried out by selling the entire business organization (divestiture), selling part of the ownership (equity carveouts), separating the subsidiary from the parent company (spin-off) or making many subsidiaries where the holding company only functions as administrative management (split). -up). This is the underlying reason why restructuring is usually carried out for organizations that feel the M&M process is A doesn't have the kind of impact it produces. However, it should be noted carefully that an organization can of course carry out restructuring even though it has never previously carried out a merger or acquisition.

Journal (Helmalia, 2016), Restructuring is an activity to change the company structure (Husnan, 2002:405). Thus, the notion of restructuring can actually be in the sense of getting bigger or getting slimmer. If interpreted in the first sense, the acquisition activity is also an attempt to carry out restructuring. Companies that carry out vertical integration clearly carry out business restructuring of their companies. In this way the company can secure the source of raw materials or the distribution of its products. Besides that, restructuring can also be interpreted as an appropriate business strategy to be implemented in companies that are categorized as under performing. Restructuring is an inbound and process for company management, while the outbound generated by the restructuring tends to be different in each company. The range of outcomes (outbound) intended depends on management's perception of restructuring.

Definition of Mergers and Acquisitions

Mergers and acquisitions (M&A) in general, are defined as the purchase of an entire company or certain assets by another company. Described in neoclassical economic theory where a new combination will be more productive in the management of the parts put together, and will

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benefit from the synergy. The synergy of new parts can be interpreted in general as a new combination of assets offered that has more value than the previous combination. In addition, the new combination of assets that is formed has gone through many contractual arrangements in M&A, because M&A has traditionally been considered a joint venture, for example combining the assets of two or more separate companies into a new organization. It is the same as in acquisitions, namely a combination of new assets that are considered to have a greater value than the companies that will be controlled if they are still standing separately. The traditional description for M&A is an activity that emphasizes achieving corporate value for shareholders (Dwi RS, Rita A., 2022) (Bhagat S., Shleifer A., Vishny RW, Jarrel G. and Summers, 2018).

Journal (I Nyoman NAP, Nengah S., 2022) Merger is a combination or amalgamation of two or more companies where the company loses its existence to become one unit. In this sense, a merger occurs when two or more companies come together, and one of the companies ceases to exist after being absorbed by the other. Meanwhile, an acquisition or takeover occurs when one company (acquirer) acquires a majority stake in the target company, which retains its name and legal structure. Takeovers are divided into friendly takeovers and hostile takeovers.

2. IMPLEMENTATION METHOD

The research method is literature review which is also called library research or literature review which is a form of research that conducts studies, reviews criticizes an idea, concept, model, research results that are in the context of academic-oriented literature (academic-oriented literature), then will reformulate the theoretical influences and relationships and methods in related themes, (Dwi RS, Rita A., 2022) (Cooper, 2010). While the nature inherent in this form of research is descriptive analysis, which outlines all the findings which will then be presented as well as a form of description that is easier to understand.

This research is a literature study as a theoretical review related to Restructuring and M&A by using studies of relevant journals and books which are expected to provide a broader understanding of Restructuring and M&A that occur so that it can open insights regarding how to improve company performance through restructuring, M&A.

3. RESULTS AND DISCUSSION

Restructuring Strategy

In other circumstances the company uses a restructuring strategy due to changes in the external and internal environment. Restructuring may be suitable for the company's position, so it can create more value for holding shares, providing a change in the environment. Journal (Helmalia, 2016), Companies can adopt three types of restructuring strategies, namely downsizing, downscoping and leveraged buyout, .

a. Downsizing

Downsizing is a reduction in the size of a company's workforce and sometimes the number of operating units but that may or may not change the composition of a company's business portfolio. Companies can use downsizing as a restructuring strategy for different reasons. The most cited reason is that companies expect increased profits from reduced costs and more efficient operations.

b. Downscoping

Compared to downsizing, downscoping has a more positive impact on company performance. Downscoping is the disengagement, division or other means of eliminating business that is not related to the company's core business. In general, downscoping is described as a series of actions that cause a company to strategically refocus its attention to its core business.

c. Leveraged Buyouts

In general, leveraged buyouts (LBOs) are used as a restructuring strategy to correct managerial mistakes or because managers make decisions that are primarily self-serving rather than those of shareholders. Leveraged buyouts are a restructuring strategy in which

one party buys all of the company's assets so that the company becomes privately owned. When the transaction is finalized, the company's stock is no longer sold to the public.

Achievement of Restructuring Results

The short and long term results of the three restructuring strategies are shown in the following figure.

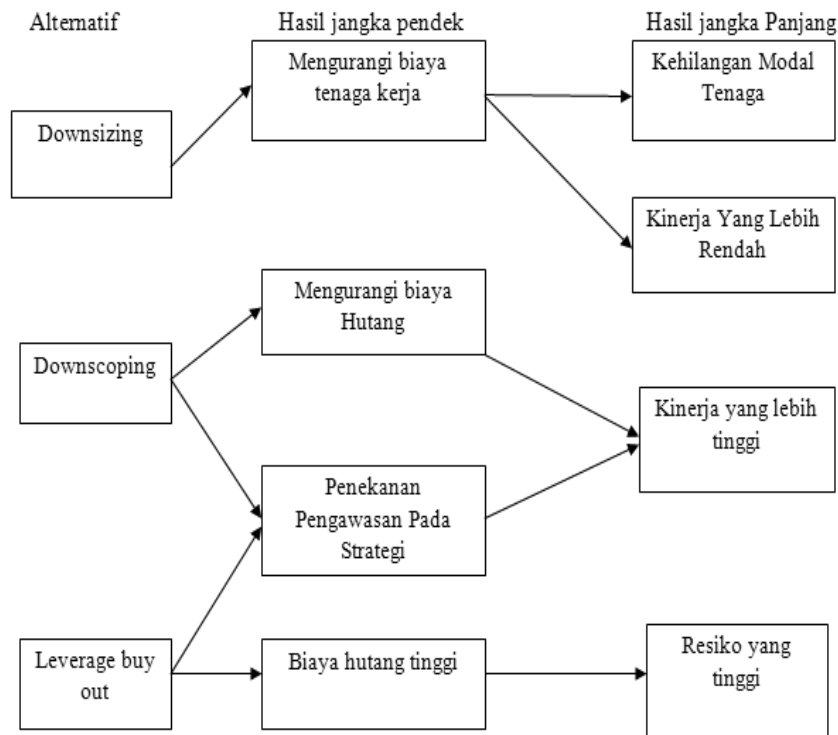


Image of Restructuring and Results

As shown in the image above, downscoping plays an important role in producing more positive results in the short and long term than using downsizing or LBOs. However, positive results from downscoping in the short and long term will only be achieved when the company uses the restructuring strategy accordingly, namely in a way that allows the company to refocus on its core business.

Merger and Acquisition (M&A) Failure

Decisions in M&A do not always match expectations. The failure of M&A decisions to create shareholder value can occur for several reasons. Some empirical evidence as well (I Nyoman NAP, Nengah S., 2022) (Gumanti, 2020) explains that the failure of M&A can be caused by:

1. The acquisition is not in accordance with the company's capabilities
In this case, many company acquisitions deviate greatly from the ability of their management.
2. Too high growth expectations from acquisitions
In this case, managers often have expectations of exaggerating the value to be obtained from the acquisition.
3. Expect too high of a reduction in costs
Managers' main reason for creating cost savings is that cutting costs disproportionately or cutting costs excessively only exacerbates the problem.
4. Underestimating the difficulty and cost of value extraction

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In this case revenue growth and cost reduction certainly require effective planning and implementation. The existence of communication problems and delays can be one of the reasons for the unsuccessful acquisition.

5. Downplaying post-acquisition integration difficulties

In this case integration should be able to create synergies and reduce costs so that integrated planning is needed. Many companies tend to put too much emphasis on internal aspects rather than customer problems.

6. Extra payment

7. In this case, the acquisition is oriented towards increasing value, where it does not benefit if it turns out that the fees paid are too expensive.

There are many causes that can impact the failure of this M&A decision. One of the reasons for the failure of M&A can also be caused by conditions in which to achieve its strategic and financial goals there is a cultural clash of the merged companies.

Performance Improvement Efforts Through M&A

The strategic decision of company control through M&A that occurs in one company where the acquirer company takes over another company as the target company. Merging companies that aim to achieve synergies with the hope that the value of the combined companies will be greater than companies that are separated from the existence of cost efficiency after M&A. The existence of a merger of companies thus providing a better opportunity to control the market with the combined resources.

M&A in the journal (I Nyoman NAP, Nengah S., 2022) (Gumanti, 2020), namely M&A decisions must be able to increase shareholder added value which can be achieved for several reasons to create synergies, increase growth, increase supply chain price strength, to eliminate competition, economies of scale, operating economies, diversification, tax optimization, better financial planning, economic necessity, increased market reach and industry visibility, and to acquire new technologies. Several other reasons for M&A decisions are the ongoing need to adapt to a dynamic environment as well as to reduce profit volatility, risk, increase the potential value of diversification.

Companies should be able to be selective and considerate in making this M&A decision. Dynamic environmental changes provide potential and opportunities to the company as one of the strategic decision methods and strategies in its development and growth.

There is difficulty in drawing conclusions about whether M&A has led to shareholder wealth creation. In this regard, many empirical studies have been carried out, one of which is that several studies have shown that M&A can generate profitability. The rationale for shareholder value can be measured as the increase in share value associated with the merger. This proxy share value reflects long-term earning capacity, net present value of increased cash flow due to merger synergies. The hope is that with the merger shareholder value will be increased by the synergies that emerge due to cost reductions achieved through economies of scale, a combination of company functions, a simplified sales force. The existence of capital efficiency, the achievement of increased income through product development synergies,

Through mergers, M&A as a strategic decision to enhance the growth of the company and its operations. In line with M&A theory which shows that the motives of companies that support M&A are gaining operational and financial synergies, diversification, achieving economies of scale and scope that lead to cost and profit efficiency, can gain management skills, increase market power, and can also get tax benefits (I Nyoman NAP, Nengah S., 2022) (Jensen, 1986).

The basic motive of a company to carry out M&A activities is to create value for shareholders by increasing their value. Therefore, one of the efforts to improve company performance can be done through M&A as a selective strategic decision. Shareholder value measured as the increase in the value of shares associated with the merger, namely the value enjoyed by shareholders by owning shares of the company.

M&A Strategic Decisions

Effective integration and the right price, are the two principles that are the foundation for success in the M&A process. In the conceptual framework for strategic M&A decisions can be identified as follows (Ahern, KR, & Weston, 2019);

- 1) Successful M&A must occur within the framework of a company's strategic planning process.
- 2) M&A includes the use of several adjustment methods: mergers, divestitures, partners, investments, share buybacks, LBOs.
- 3) Multiple adjustments are made repeatedly over an extended period of time.
- 4) M&A alone cannot create a strong company.
- 5) To achieve higher returns to shareholders than its comparator companies requires effective organization and the development of a strong portfolio of growth opportunities.
- 6) Companies must have strength in markets where their core capabilities provide a competitive advantage.
- 7) In each market area, the company must achieve competitive leadership or abandon segments.
- 8) A combination of internal programs and M&A is necessary for continued leadership.
- 9) The company should have a group of officers who have developed experience in all forms of M&A and constantly react with top executives.
- 10) All segments of the company must recognize its various strategies and contribute to the overall result based on seamless interaction.
- 11) Continuous review of managers based on plans, programs, and carried out by their implementation should be top executives.
- 12) Managers who are not executing should be replaced.
- 13) Executive compensation should be based on meaningfully measured performance.
- 14) The chairman and/or president need to interact continuously to provide executive inspiration and development.
- 15) The system must select and develop managers with dedication, passion and leadership. The moral of all of the above is that M&A can't do the job itself.

But M&A can play a critical role in developing an organization that delivers superior returns to shareholders. Supporting this, an empirical study by Harding and Rovit (2004) in the journal (Dwi R., S., Rita A., 2022) found that when a company has completed the M&A stage process, a higher annual return will be achieved. It was also explained that according to them companies involved in several acquisitions of small companies will provide better performance than companies that acquire several relatively large companies. This condition explains in part that integration challenges increase exponentially with target size and because private company M&A outperforms acquisitions of public companies in both the short and long term (Chang, 2020).

4. CONCLUSION

Restructuring basically has the goal of providing a change to the company's business environment, the restructuring strategy changes the composition of the company's business portfolio. Companies can carry out three types of restructuring strategies, namely downsizing, downscoping and leveraged buyout. Company restructuring by rearranging the company's capital structure to make it better, can be done through mergers and acquisitions (M&A). M&A is a combination or amalgamation of two or more companies which is carried out based on a mutual agreement. Some empirical evidence related to the application of M&A in several of these countries, proves that it has not been able to show consistently in predicting post-acquisition performance. Several reasons for the failure of M&A according to Gumanti (2020) (I Nyoman NAP, Nengah S., 2022), namely that the acquisition is not in accordance with the company's capabilities, too high expectations of growth from acquisitions, there are too high expectations of reduced costs, underestimate the difficulty and cost of value extraction, underestimate the difficulties of post-acquisition integration, overpayment. One of the reasons for the failure of M&A

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can also be caused by conditions in which to achieve its strategic and financial goals there is a cultural clash of the merged companies.

There are several goals and reasons for the company to carry out this M&A, one of which is to create value for shareholders by increasing the value of the company. This is in line with the objective of conducting an M&A agreement to increase profitability, but empirical evidence explains that M&A cannot always affect profitability and financial performance. However, M&A is a very important tool in responding to a dynamic strategic environment in terms of controlling assets and targeting the company's business industry activity.

Through mergers, M&A as a strategic decision to enhance the growth of the company and its operations. This strategy is in line with M&A theory which suggests that the motives of companies that support M&A are obtaining operational and financial synergies, diversification, achieving economies of scale and scope that lead to cost and profit efficiency, can acquire management skills, increase market power, and can also benefit tax. Therefore, selective M&A decisions can be said as an effort to improve the company's performance.

An important thing that becomes the question is which integration activities may be carried out in M&A as a pre-agreement to achieve good not a mistake. As well as the M&A process synergies series should be considered in future research. To achieve a good corporation must have the courage to re-construct and even withdraw if surprises arise during due diligence. If the deal fails after closing, the company needs to have a contingency plan in place to identify the right time to back out, resulting in the least possible losses and write-offs.

Identify the requirements for successful M&A, i.e. where M&A must fall within the corporate strategic framework. Profitable product market opportunities must be identified and the company's capabilities should be internalized and developed to support increasing the company's potential. M&A is done on a solid foundation. M&A decisions are required to assist the company in continuing, strengthening and expanding the strength of the company. M&A can not only make a company stronger by bringing together companies with low company values. M&A decisions made over a long period of time are effective because long-term planning has been prepared and analyzed based on capabilities so that it can help managers achieve superior returns to shareholders.

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