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Board Characteristics of merger and acquisition

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ABSTRACT
This study examines the relationship between CEO reputation and buy and hold abnormal return. This research is useful for companies when determining strategies in mergers and acquisitions activities. This research will help companies to further improve the criteria in selecting CEOs and directors. CEOs and directors who are selected according to the criteria, the company will get good corporate governance and will get a lot of strategies, suggestions or opinions from the CEO and directors. The sample of this research is companies that are listed on the Indonesia Stock Exchange. This research is quantitative in nature using secondary data with purposive sampling technique on companies that carry out mergers and acquisitions in 2012 to 2021. The data analysis used is a hypothesis test through the SmartPLS 3 application. This study found that the composition of the board of directors, the size of the board of directors and the dominance of the CEO had no significant effect on buy and hold abnormal return. These results also find that the influence of outside directors and CEO reputation shows a significant effect on the relationship between buy and hold abnormal return.

INTRODUNCTION

Merger is two companies that carry out the activities of merging companies into a new company. Acquisition is the merger of two companies to take over the shares, assets of the company by the company that has made the acquisition. Mergers and acquisitions often occur in small or large companies that are in need of financial assistance (Gu *et al.*, 2020). Mergers and Acquisitions (M&A) both have the same goal of gaining profits, increasing competitiveness, increasing market share. Mergers and acquisitions are an important strategy or tool that companies use in today's business environment. M&A is also one of the company's strategies that allow the company to expand operations, increase product lines, go international, and create new companies. The company's success in achieving M&A depends on the implementation of good corporate governance practices.

The objectives have been achieved due to good corporate governance with the assistance of shareholders, CEO, directors and other employees. The CEO is a top manager who leads the company and is responsible for the company's business activities. M&A activities the company must recruit a CEO who has a high reputation in order to help the company make decisions that develop the company. The CEO has a high position in managing and making decisions on the policies and performance of a company. Outside companies will be more aware of the existence of a good CEO when making decisions (Ibrahim & Jehu, 2018). CEO reputation which consists of CEO education, professional body participation, CEO tenure, CEO experience are criteria that can be considered in selecting CEOs in companies. The reputation of the CEO can help reinforce the connection between corporate governance and the company's relevant value (Edi & Kho, 2021). Besides the CEO there is a director who will help companies improve financial performance and attract investment from domestic and international investors (Novtaviani, 2021).

The director himself is a party who has an important role in the company's management function. Several company directors have shareholding with different levels of shareholding. Different directors' shareholding will make a difference in power, higher shareholding makes directors more powerful otherwise if directors with low shareholding will be less powerful. Different shareholdings have an effect on director board composition and director board size and also participate in M&A activities (Greve & Zhang, 2017). A strong director will improve performance in companies that have carried out M&A.

In research conducted by (Song et al., 2017), it was stated that the composition of the board of directors can be linked to financial performance, thereby increasing the ratio of profits to capital. Furthermore, research conducted by (Lim & Mccann, 2013) stated that external directors produce effective organizational functions or can improve financial performance. Based on the introduction that has been described, it can be concluded with several questions. This question will focus on M&A. Questions in the research that will be examined include: whether outside directors have an important influence in conducting M&A, whether conducting M&A can increase BHAR, whether increasing profits during M&A has an effect on CEO work experience, whether CEOs who have a good reputation can launch mergers and acquisitions activities. Based on this research, there will be some goal to be achieved. This study aims to determine the effect of CEO, director to M&A. This research will also know the role and influence of outside directors in M&A activities, find out companies that carried out M&A can increase BHAR, to determine the effect of work experience on M&A activities, Knowing a CEO's high reputation can affect M&A activities.

RESEARCH METHODS

Research using quantitative data based on the data provided such as financial reports and annual reports. According to (Sugiyono, 2018) that the quantitative method because research data is in the form of numbers and analysis uses statistics. This research was conducted using data from companies listed on the Indonesia Stock Exchange (IDX) from 2012-2021. The reason for choosing the time frame for this research is that there was an increase in the Indonesia Composite Index (ICI) before the pandemic. There was a successive decline in the Indonesia Composite Index (ICI) in 2019-2021. The research object selection method uses a purposive sampling method, which is in accordance with the research objectives. Purposive sampling is to determine criteria or special considerations in conducting research sample selection. Several criteria were used as the basis for selecting the sample, namely: The company has been listed on the IDX and have issued annual reports in 2012-2021, the company in that year has carried out M&A activities, the company's annual report has complete information needed in measuring all variables in this study. The data analysis used is a hypothesis test, statistics descriptive, F test and R test through the SmartPLS 3 application.

Table 1 Definition of variables

Variable	Definition
BHAR	(Market Price t + 2 – Market Price t) / Market Price t
Director Board Composition	Ratio of Outside director to total director
Director Board Size	Total of director
Outside Director Influence	Total of outside director
CEO Dominance	Long tenure of CEO in company
CEO Reputation	CEO's education, Professional body participation, CEO's tenure, CEO's experience
Firm Profitability	Return on Equity (ratio of net profit to total equity)
Firm Growth	Ratio of deduction on sales for two year period to sales of this year
Firm Capital Intensity	Ratio of asset to total sales
Firm CBMA Experience	Total of CBMA
Board Gender Diversity	Total number of female director

Table 2 CEO Criteria

	CEO's Education
1	Diploma or lower
2	Bachelor's degree
3	Master's Degree
	Professional body participation
1	No
2	Follow 1 professional body
3	Follow more than 1 professional body
	CEO's Tenure
1	No more than 1 year
2	No more than 3 year
3	More than 3 year
	CEO's experience
1	Previously served as management but not CEO
2	Previously served as CEO of non listed company
3	Previously served as CEO of a liested company

Source : Edi & Jefveny Kho (2021)

RESULTS AND DISCUSSION
Results

Table 3 Statistics Descriptive Result

	Mean	Min	Max	Standard Deviation
Y	2.696.432.714	2.000	11.173.184.000	3.065.421.712
X.1	87.537.329.703	0.000	857.142.857.000	194.151.812.515
X.2	5.168	2.000	11.000	1.830
X.3	1.218	0.000	6.000	1.191
X.4	3.713	1.000	12.000	2.542
X.5.1	2.356	1.000	3.000	0,522222222
X.5.2	1.079	1.000	2.000	0,1875
X.5.3	2.149	1.000	3.000	0,605555556
X.5.4	1.891	1.000	3.000	0,577083333
X.6	185.816.360.653	-7.452.516.541.000	7.764.944.903.000	1.133.878.178.970
X.7	255.382.005.069	-2.960.668.466.000	4.306.923.695.000	877.186.456.385
X.8	1.951.090.342.099	-4.548.803.533.000	8.875.613.062.000	2.031.175.918.012
X.9	0,309722222	0.000	4.000	0,590277778
X.10	1.119	0.000	8.000	1.253

Source: Data processed by the author

Statistics provide brief information about the characteristics of CEO and director in the performance of mergers and acquisition. Indonesian CEO has served more than 5 years. Averagely Indonesian CEOs who have a high reputation have a high level of experience, high knowledge and long tenure. Indonesian CEOs are low on association in the professional body. A CEO with a high reputation is important in executing acquisition decisions. Apart from the CEO, director within the company showed a high level. Indonesian directors at the company show high capacity as well as low capacity. Outside directors are important in companies but there are still companies that do not have outside directors. This study finds companies should reduce director capacity and increase outside directors. The study found companies should reduce director capacity and increase outside directors, besides this is the company can recruit a CEO who has a high reputation. Cooperation between outside director and the reputation of the CEO will make the company improve financial performance and also the company's reputation.

Table 4 T Test Result

	T Statistics (|O/STDEV|)	**P Values**
CEO Dominasi -> BHAR	0,6250	0,2563
Direktur Luar -> BHAR	2.016	0.044
Jenis Kelamin Dewan Direktur -> BHAR	1.218	0,1556
Komposisi Dewan Direktur -> BHAR	0,64097	0,2479
Modal Perusahaan -> BHAR	1.586	0,0785
Pengalaman Lintas Negara Merger dan Akuisisi ->BHAR	1.188	0,1632
Pertumbuhan Perusahaan -> BHAR	0,46042	0,35208333
ROE -> BHAR	1055,00000	0,2028
Reputasi CEO -> BHAR	2.137	0.033
Ukuran Dewan Direktur -> BHAR	1.648	0,06944444

Source: Data processed by the author

This study found out that director board composition did not affect BHAR. From the results it can be seen that the T Statistics <1.96. This shows that director cannot make decisions on their own but must obtain approval from shareholders and the CEO, so director cannot increase BHAR. Director board composition may have different impacts depending on the type of industry or company *(Song et al.*, 2017). The financial literature states that director board composition is very important with the ability to unite shareholders. In the literature, it has been identified that the variable that affects the director board composition is the investment or growth opportunities available to the firm. Director more suitable for managing shareholders and company investments. The company's growth can be managed by the director but the director cannot improve the financial performance (Kyereboah-Coleman & Biekpe, 2007). Directors who are unable to improve financial performance can declare by not being able to increase the BHAR rate. This finding supports the hypothesis by research (Bawaneh, 2020).

Large boards are associated with poor corporate governance quality; the lack of effective supervision may allow CEOs to pursue acquisitions in their personal interest rather than the shareholders' one (Teti *et al.*, 2017). Director board size gets a result of 1.64 which shows that it is not significant in explaining M&A return. This shows that the company cannot increase profits and the BHAR measurement will not increase if the investment is declared failed. This study finds out that director board size does not affect BHAR. This study shows that Indonesian companies still have many directors in the company which can make the company's performance low so that in terms of investment there will be failure and low level abnormal return. Companies that have many directors have difficulty in making decisions so that abnormal return will also experience difficulties in increasing. This finding and support hypothesis is studied by (Teti *et al.*, 2017).

The outside director develops social information through personal networks that work as direct and indirect relationships with other people in individuals and organizations. Relationships run by outside director can access more information and company-specific knowledge, so as to improve the quality of advice that can be provided to company management (Basuil & Datta, 2017). This study found that outside director results > 1.96, indicating a significantly positive result in explaining BHAR. Outside director who has social information through a private network can improve advice when making decisions about M&A, which will cause the company to experience improvements in financial performance and increase abnormal return. Outside director using the information obtained and making the right decisions can improve the BHAR level as well as the financial performance and reputation of the company. M&A activities enable outside director to provide top management with superior advice on the relative merits and demerits of a potential acquisition. This finding supports the hypothesis by research (Basuil & Datta, 2017).

CEO dominance measures by CEO tenure. CEOs who have long tenures have more experience than other CEOs. CEO Dominance can not help the company in improving the company's performance and success in investment and get abnormal return. CEO dominance is usually the most powerful member of the company and is an important factor in M&A. This study found the result of CEO dominance 0.6250, this result shows < 1.96, CEO dominance was not significant in explaining BHAR.

CEOs by looking at the length of their tenure can not give the company a decision that can help increase abnormal return. The length of a CEO's tenure cannot determine the increase in abnormal return, because a CEO does not necessarily have broad thoughts about the company's goals by achieving increased profits and extensive knowledge that is able to determine decisions. CEOs who have a long tenure can make a high turnover of internal directors to look for other opportunities (Kyereboah-Coleman & Biekpe, 2007). According to this study, CEO tenure can have an impact on company performance. CEO tenure is also associated with high performance (Saleh *et al.*, 2020). This finding supports the hypothesis by research (Teti *et al.*, 2017).

The results of the ceo reputation test are 2,137 which already exceeds 1.96, finds indicate that CEO reputation can significantly positively explain BHAR. A CEO with a high reputation has many outside acquaintances who will help with information on M&A. The CEO can use knowledge and experience as well as outside information to make suggestions and identify failures so the company can move forward. CEO reputation is an important element in the success of a company (Agustin & Bhilawa, 2020). In companies stock prices and capital expenditures are conditioned by the CEO. CEO experience, CEO knowledge, CEO tenure, participant professional bodies are all key roles in influencing how the CEO manages the company and strategy (Conte, 2018). The survey revealed the CEO reputation can reflect the individual skills of a CEO, in leadership style, credibility and charisma play a key role (Confetto *et al.*, 2018). The individual skills of a good CEO can increase the reputation of a CEO as well as the company.

Table 5 R Square Result

	R Square	**R Square Adjusted**
BHAR	0,2670	0,1856

Source: Data processed by the author

R square examines the effect of the explanation of the independent variable on the dependent variable. The value of R square is declared positive with a result of 0-1. The results of R Square are divided into 3 parts: strong, moderate and weak models. The value of R square shows 0.2670 or 27%, these values indicate moderate model results. The results of R square stated that the independent variable can explain the dependent variable by 27%. The remaining 73% of the independent variables cannot explain related to the dependent variable.

A few percent of the results show the independent variable is still in explaining the dependent variable. The results of this test indicate that the independent variable cannot affect BHAR. It can be seen from table 5 that it can be stated that there are only 2 variables, namely external directors and reputation ceo which can explain the dependent variable (BHAR).

Table 6 F Square Result

	BHAR
BHAR	
CEO Dominance	0.004
Outside Director Influence	0.040
Board Gender Diversity	0.008
Director Board Composition	0.007
Firm Capital Intensity	0.020
Firm CBMA Experience	0.014
Firm Growth	0.005
ROE	0.015
CEO Reputation	0,108333
Director Board Size	0.036

Source: Data processed by the author

F Square assesses the influence between variables. The f square value of 0.02 is declared small, 0.15 is said to be moderate, 0.35 is said to be large. The value of f square less than 0.02 can be stated that there is no effect on that variable. The average of the test results showed no influence between variables. The CEO reputation shows a significant positive. The CEO reputation variable shows the effect of this variable on other variables. Variables CEO dominance, board gender diversity, director board composition, ROE, firm growth and firm CBMA experience get insignificant results. Each variable has no effect between variables. Outside director influence variables, firm capital intensity, director board size showed a low significance because the results showed more than 0.02. Outside directors, firm capital and board size are also low effects between variables.

Discussions

The test results above show that outside directors are very important in M&A activities. Outside directors use personal relationships to obtain outside information. Outside directors can also monitor, provide advice, identify and provide advice to the company so that the company determines ways that can improve financial performance in M&A activities. Not only the director but also the CEO who has a high reputation is very important in the company. CEO reputation can make their own decision in improving the financial performance in a firm. M&A activities can improve company performance. The decisions taken by the board will determine the company's reputation as well as the company's financial performance. Improved financial performance can also increase BHAR rates. BHAR can find out whether the activities of M&A can improve the company's finances. A CEO who has served in the company for a long time will certainly have a lot of experience. CEOs who have a lot of experience cannot increase profits. CEOs who have a lot of experience but not with knowledge will make it difficult to make decisions due to lack of knowledge. Balanced knowledge and experience will make the CEO make the right decisions and can increase profits. CEOs who have more experience but lack knowledge will make the company fail in improving the company's financial performance. High reputation CEO can smoothly make decisions on M&A activities. A CEO with high knowledge and a lot of experience as well as assistance from outside directors will help the company improve the company's reputation and financial performance will also improve. so that CEOs reputation can easily carry out M&A activities and improve the company's financial performance and increase BHAR. The results of this study are in line with research conducted by (Basuil & Datta, 2017), which stated that M&A activities enable outside directors to provide superior advice to top management on the relative advantages and disadvantages of potential acquisitions.

CONCLUSIONS

Based on the results and discussion above, it can be concluded that this study examines the effect of CEO and director characteristics on buy-and-hold abnormal returns. These findings established CEOs as key players in buy-and-hold abnormal returns. A high CEO reputation can help a company increase purchases and maintain abnormal returns. The results show that outside directors are important in companies. Outside directors can use the experience and information gained to provide advice and make decisions regarding merger and acquisition activities. Therefore, the company must have a CEO who has a high reputation and an outside director so that they can help the company increase and hold abnormal returns and anticipate failure.

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