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# Company Merger as a Form of Corporate Development in the Face of Economic Globalization

**Kingkin Wahyuningdyah[1], Sunaryo[2], Yennie Agustin[4], Kasmawati[5]**

[1,2,3,4] Faculty of Law, University of Lampung, Bandar Lampung, Indonesia

**Abstract:** This study is to examine the purpose of this study explaining Company Merger as a form of company development in the face of economic globalization. The development of companies in the era of economic globalization has become something that should be done in order to maximize the prosperity of company stakeholders and face changes in the business world in each country. Various strategies can be carried out in order to develop the company. One of the strategies to develop a business that is currently developing is through a merger, both in the form of mergers. The problem that will be discussed in this study is How to Merge Companies as a Form of Company Development in the Face of Economic Globalization. The research method used is a normative research method with a statute approach approach and analyzed using content analysis.

**Keywords:** Mergers[1], Economic Globalization[2], Enterprise Development[3]

## INTRODUCTION

The current process of globalization has increased the level of relations between countries, and even given rise to the process of unifying the world economy. This is reflected in the opportunity to be part of global production. Thus, each country must be able to create the most optimal level of efficiency and productivity, so that it has high competitiveness in the global market. In the era of globalization, every economic actor is required to increase his ability to compete both in producing and marketing a product and breaking through its increasingly unclear boundaries or in other words must be able to compete in a competitive economy. This is because, in the era of globalization, production and marketing capabilities are based on the ability to create goods or services that can be sold around the world and are able to compete globally by utilizing technological developments. It is undeniable, that global challenges rest on the globalization of the economy that gives birth to a world without borders, thus allowing goods, services and people to move freely from one country to another.

The development of economic globalization has now occurred throughout the world, including in the Southeast Asian region. The result of economic globalization in the Southeast Asian region, one of which is the Economic Community of the Association of Southeast Asian Nations (ASEAN) so as to allow free trade between ASEAN member states, both state-owned and private, to carry out economic activities freely from trade to investment with the aim of advancing the economy of each country and overcoming development gaps, especially in countries that have economic conditions that have weak. The impact of the Asean Economic Community causes many opportunities to be created but also makes it a challenge that every company must face in maintaining its survival. The implementation of the Asean Economic Community directly presents challenges in the form of increasing competence in the market. For this reason, in the face of an increasingly broad free market in the future, companies are required to innovate and implement appropriate business strategies, in order to increase company profits while maintaining the company's extension in the market. There are several strategies that companies can do, for example by forming strategic alliances, joint ventures, and also mergers and acquisitions. Of the many strategic

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options, mergers and acquisitions are one of the most popular business expansion strategies carried out to maintain the company's survival.
Article 1 paragraph (1) of the Government Regulation of the Republic of Indonesia Number 57 of 2010 concerning Merger or Amalgamation of Business Entities and Takeover of Company Shares That Can Result in Monopolistic Practices and Unfair Business Competition states that a Merger is a legal act carried out by one or more Business Entities to merge with another existing Business Entity which results in the assets and assets of the merging Business Entity switching because the law to the Business Entity that accepts the merger and subsequently the status of the merging Business Entity expires due to the law. Business expansion or expansion strategies are considered effective to strengthen a business and are generally seen as one of the indicators of a company's progress characterized by taking long-term projects. Another reason companies merge companies is to increase the company's growth quickly and efficiency in taxes. Quoting from Brigham and Houston in Aprilia said that the reason why companies merge is that synergies are generated through a combination of activities simultaneously from the strength or more elements of the merged company in such a way that the combined activities produce a greater effect compared to the summation of the company's activities if they work alone. Mergers are often seen as an effective and profitable strategy, namely to monopolize a business field, achieve a certain economies of scale, utilize market forces, or to gain better access to operations and so on.
A merger is a merger of two or more companies that causes the loss of one of the company names. Meanwhile, acquisitions are different from mergers because in a merger, it does not cause one of the companies to dissolve as a legal entity but rather the taking of a portion of the majority of shares from one of the acquisition companies. The acquisition gives rise to a relationship between the parent company (acquirer) and the subsidiary company and subsequently the two have an affiliate relationship. The main reason companies do mergers as their business strategy is because mergers are considered a quick way to realize company goals where companies do not need to start a business from scratch. Another reason is that business actors combine businesses to create an efficiency goal where efficiency is expected to create efforts to emphasize production factors so that production results can compete in the market and can attract consumers.
The practice of mergers is very popular with companies around the world for operational and financial gain. The merger itself has positive benefits including increasing efficiency through synergies created between merged companies, expanding the portfolio of services offered and expanding the company's revenue. The success rate of a company in conducting a merger can be seen from the financial performance issued by the company. Financial performance is an achievement shown by management in making profits / profits and increasing company value.
Measurement of the company's financial performance can be done by using financial ratios. These financial ratios are useful for managers to determine business strategies that can be done to develop the company. Therefore, the company's financial performance is considered appropriate enough to assess the success rate of the merger carried out by the company. Based on the description above, the problem in this study is how to merge companies as a form of company development in the face of economic globalization.

## RESEARCH METHODS

The research method used is a normative research method, using a statute approach related to Company Mergers as a Form of Company Development in the Face of Economic Globalization. The statute approach is to examine matters related to legal principles, legal views and doctrines, and laws and regulations related to Company Mergers as a Form of Company Development in the Face of Economic Globalization, with accurate data and accountable for their truth. In addition, an in-depth examination of the legal facts is also held to then work on solving the problems that arise in the symptoms concerned.

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## RESULTS AND DISCUSSION

### *Economic Globalization*

Economic Globalization is the enhancement of economic integration and interdependence of national, regional, and local economies around the world through the intensification of cross-border movements of goods, services, technologies, and capital. While globalization is a series of processes involving various economic, political, and cultural exchange nets, contemporary economic globalization is driven by rapid growth of information across all kinds of production and marketing activities and the development of science and technology. Economic globalization consists in the globalization of production and finance, markets and technologies, the regime of organizations and institutions, enterprises and labor. Although economic globalization has expanded since the advent of interstate trade, its growth has increased dramatically in the last 20-30 years thanks to the framework of the General Agreement on Tariffs and Trade and the World Trade Organization. All countries are slowly removing trade barriers and opening current accounts and capital accounts. The modern economic boom is caused by the integration of developed countries with developing countries through foreign direct investment, reduction of trade barriers, and cross-border immigration.

While globalization radically increases incomes and economic growth in developing countries and lowers the price of goods in developed countries, it also changes the balance of power between developed and developing countries and has an impact on the culture of countries involved in globalization. Changes in the location of the production of goods made many jobs move to other countries so that workers in developed countries were forced to change careers. Economic globalization has a close relationship with free trade that makes the disappearance of obstacles in international trade. These obstacles such as export or import costs are very expensive so that they have an impact on product prices becoming expensive. Basically, globalization tries to eliminate or reduce the economic problems that occur in international trade. Globalization can be defined as a process of developing economic activity across regions and nationally. This can be seen through the movement of information, capital, labor, goods and services through trade and investment channels. There are several definitions referred to as globalization, including the following:

[1] Internationalization. Interpreted as increased international relations activity. Although each country still maintains its identity, it still becomes interdependent with each other.

[2] Liberalization. It is defined as the diminishing boundaries of a country. For example, export and import prices, migration traffic and foreign exchange.

[3] Universalization. It means the widespread spread of material and immaterial throughout the world.

[4] Westernization. It means a form of universalization, where the wider spread of culture and way of thinking from western countries so that it has a global influence.

[5] Transplanetary and supraterritorial relations. Stating that the global world has its own ontology, not just a combination of different countries.

So far, the term globalization has not given a definite term. The concept of globalization must be studied again in more depth and then we are able to assess how economic globalization affects poverty. Indeed, until now, we have not had a definitive definition and concept of globalization. We assume that expert agreement on the definition of globalization has not been or is unlikely to be reached. Globalization has penetrated all fields, including economics. This requires anticipatory steps and efforts from economic actors. Companies engaged in various fields, inevitably have to adapt to the demands of the situation. At the very least, it makes various improvements in all parts, whether human resources, finance, marketing, production or research and development. If a company is slow to adapt, it is obvious that it will fall behind and be defeated in the competition.

In the era of economic globalization, competition between companies is getting tougher, only those who survive will come out as superior competitors. To compete, of course, demands the readiness of all areas

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within the company. No one field should be weak. In this time of globalization, companies are competing very fiercely. These conditions require companies to always develop strategies and innovate in order to survive or even be more developed than before. Therefore, companies need to think of the right strategy so that the company can maintain its existence and improve its performance. One of the ways that a company can do this is by forming an alliance or joining another company to keep the company. A merger is the union of two or more separate companies into one economic entity because one company merges with another company or gains control over the assets and operations of another company. Mergers can be carried out in a variety of ways that are based on legal, taxation, or other reasons. A merger can be in the form of purchasing shares of a company by another company or purchasing the net assets of a company by another company. Mergers are carried out by issuing shares or by surrendering cash, cash equivalent assets, or other assets.

So, the process of globalization from the economic side is a change in the world economy that is fundamental or structural in nature and will continue at an increasingly rapid pace following technological advances which are also accelerating processes. This development has increased the level of interdependent relations and also sharpened competition between countries, not only in international trade but also in investment, financial and production activities. Economic globalization is characterized by the depletion of the boundaries of economic activity or markets nationally or regionally, but increasingly globalizes into a single process involving many countries. In the optimal level of globalization product flows and factors of production across countries.

In economics, broadly speaking the phenomenon of globalization can be seen from the growth of cross-border economic activity in various forms. Among them, two forms of economic activity that are noticeably increasingly globalized, namely trade flows and international capital flows. Therefore, the flow of globalization and the flow of world trade and investment take place simultaneously. International Trade Flows The share of domestic consumption expenditures on goods and services imported from other countries is increasing, and the share of domestic production of goods and services exported is increasing. This increase makes the volume of trade between countries in the world increase, both absolutely and relatively, namely the ratio of international trade (exports and imports). According to the theory of international trade, trade between countries without barriers has the opportunity to benefit each State through the specialization of commodity production favored by each of those States. But in reality it is not necessarily that the theory creates prosperity for the States involved. The impact of economic globalization on a country's economy can be positive or negative, depending on the country's readiness to face the opportunities and challenges that arise from the process.

Company Merger as a Form of Company Development in the Face of Economic Globalization

A merger is a legal action undertaken by one or more companies to merge with another existing company resulting in the assets and assets of the merging company being transferred due to the law to the company accepting the merger and subsequently the status of the merged company expires due to the law. There are two different types of mergers, namely horizontal mergers and mergers. A horizontal merger is a combination of two or more LLCs with the same production output and the same selling area. Meanwhile, a vertical merger is a combination of two or more companies with a multilevel relationship between the company as a producer and the company as a distributor. A company conducted a merger citing declining business development. This can be due to insufficient capital, or weak competitiveness of the company. The company will merge with a strong and dominant competitive company. In detail, the merger is carried out with the following objectives:

[1] Increase the amount of capital.
[2] Keep production going.
[3] Keep the production line safe.
[4] To make the company more synergistic.
[5] Suppress the amount of competition and achieve monopolistic

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Company Merger is the merger of one or several business entities so that from an economic point of view it is a single entity, without merging the merged business entity. This is also regulated in the provisions of Article 1 number 9 of Law Number 40 of 2007 concerning Limited Liability Companies. The merger of these companies can be carried out by any type of company, including the company. Another opinion states that a merger of a company is a merger of two or more companies by maintaining the establishment of one of the companies and liquidating the company of the other company. A merger is the absorption of a company by another company. The merger of companies is carried out with the aim of improving the efficiency and performance of the company, acquiring new markets or customers owned by the company that is the object of the merger, making investments in excess and unused company finances, reducing or hindering competition and maintaining business continuity. A company merger has several advantages, namely using the name of the company that takes over, the cost is lighter and no new business license is needed, while the disadvantage of a company merger is that it can cause new polemics such as control over the company.

The conditions that must be met so that a company can merge with another company. The first condition is, according to the explanation of article 126 paragraph 1 of Law Number 40 of 2007 concerning Limited Liability Companies is that a merger cannot be carried out if it harms the interests of certain parties. In this case, certain parties are the interests of the company, minority shareholders, company employees, the interests of creditors, other business partners of the company, the interests of the community and fair competition in doing business. The second requirement is that based on the explanation of article 123 paragraph 4 of Law Number 40 of 2007 concerning Limited Liability Companies, certain companies that will merge must obtain approval from the relevant agency. A certain company means a company that has a special business field, including bank financial institutions and non-bank financial institutions. And what is meant by related institutions is Bank Indonesia for the merger of companies engaged in the banking sector.

The legal consequence of the merger of the company against the existence of the expropriated Limited Liability Company is that it ends due to the law (Article 122 paragraph 1 and paragraph 2 of Law Number 40 of 2007 concerning Limited Liability Companies), while the Limited Liability Company that takes over still uses its name and identity. When viewed from the distribution of shares, the shareholders of a merging Limited Liability Company are only entitled to own limited to the shares combined, while for shareholders of a Limited Liability Company company that takes over, they are entitled to own shares that are more dominant than the merged Limited Liability Company. In principle, there are two motives that encourage a company to merge, namely economic motives and non-economic motives. Economic motives are related to the essence of the company's goal of increasing the value of the company or maximizing the prosperity of shareholders. On the other hand, non-economic motives are motives that are not based on the essence of the goals of the company, but are based on the subjective desires or personal ambitions of the owner or management of the company. Only economic and rational reasons can be accepted so that merger activities can be accounted for. Broadly speaking, the motives for mergers include economic motives, strategic motives, political motives, synergy motives, and diversification motives.

[1] Economic Motives. The essence of the purpose of the company, in the perspective of financial management is how much the company is able to create value for the company and for shareholders.

[2] Strategic Motives. Strategic motives also include economic motives when merger activities are directed towards achieving the company's strategic position in order to provide a competitive advantage in the industry. Mergers also have a strategic motive if done to control other companies.

[3] Political motives. Political motives are often carried out by the government to force companies, both State-Owned Enterprises and the private sector, to merge. This political charge is taken for the benefit of the general public or macroeconomics.

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[4] Synergistic Motives. Synergy comes from the word synergos which means to work together. In the context of a merger, synergy is defined as the extra result obtained if two or more companies perform a business combination.

[5] Diversified Motives. Diversification is a business diversification strategy that can be done through mergers. Diversification is intended to support the company's business activities and operations in order to secure a competitive position.

The classification of mergers is very much when viewed from various angles. This classification is inseparable from the ever-evolving procedures for mergers. By understanding this classification, we will see from which angle the merger is implemented. Classification of mergers by economic activity can be classified into 5 types, namely:

[1] Horizontal Merger is a merger between two or more companies engaged in the same industry. Prior to the merger of companies these companies competed with each other in the same market/industry.

[2] Vertical Merger is an integration involving companies engaged in the stages of the production process or operation. This type of merger is carried out if companies in the upstream industry enter the downstream industry or vice versa from the downstream industry to the upstream industry.

[3] Conglomerate merger is the merger of two or more companies each engaged in an unrelated industry.

[4] Market Existence Merger is a merger carried out by two or more companies to jointly expand the market area.

[5] Product Existence Merger is a merger carried out by two companies to expand the product line of each company.

In many management literature it is found that mergers provide many benefits. Some of the benefits that may result from the merger process include getting cashflow quickly because the product and market are clear. Obtaining ease of funds/financing because creditors have more confidence in established and established companies. Acquiring experienced employees. Get established customers without having to start from scratch. Obtaining an established operational and administrative system. Reduce the risk of business failure by not having to look for new consumers and Save time to enter to enter new businesses. Acquire infrastructure to achieve faster growth.

Mergers allow for a pooling of power between companies. Companies that are too small have important corporate functions. Another benefit is that it can save the company from bankruptcy. For companies that have difficulty with liquidity and are pressed by creditors, the decision to merge and acquire with a strong company will save the company from bankruptcy. Merging companies will ideally make a company bigger. Mergers can be a strategy in facing the era of economic globalization where the boundaries of competition between companies are getting tighter.

There are several reasons why companies carry out merger activities, namely to gain synergies or the ability to complement each other, strategic opportunities (strategic opportunities), increase effectiveness and exploit mispricing in the capital market. The decision to merge has many benefits but is also inseparable from drawbacks and problems, one of which is the cost of carrying out merger and acquisition activities which are very expensive and the results are not necessarily as expected

## CONCLUSIONS

Based on the results of research related to Company Mergers as a Form of Company Development in Facing Economic Globalization. The development of the era of globalization which is increasingly rapid and continuously changing and growing has a strong impact on the global economy. We are now in the era of free trade which has resulted in the level of business competition among companies getting tougher and giving rise to a lot of unfair competition, a lot of fraud being committed in order to become a superior company. Intense competition between companies can result in a decrease in the level of success of a

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company. According to one of the strategies that can be carried out by the company so that the company can survive or develop is to do mergers and acquisitions. Mergers are a fast growth strategy to access new markets for new products without having to build from scratch and are long term and more economical. Business combinations through mergers and acquisitions are expected to obtain synergies, namely the overall value of the companies after mergers and acquisitions is greater than the sum of the values of each company before the merger. Economic globalization is a process of economic and trade activity, in which various countries around the world become a unified and increasingly integrated market power without any state territorial barriers or boundaries. The globalization of the economy means that there is a need to remove all boundaries and barriers to the flow of goods, services and capital.

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