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Company Merger: Option Or Necessity?

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ABSTRACT

This study aims to analyze corporate mergers as a business strategy—whether they are pursued as a deliberate choice or as a necessity driven by external pressures such as financial crises, intense market competition, or regulatory changes. In the era of globalization and rapid market dynamics, many companies opt to merge to strengthen their market position, improve operational efficiency, and enhance shareholder value. This research employs a qualitative method with a case study approach, focusing on several Indonesian companies that have undergone mergers in the past five years. Data were collected through in-depth interviews, document analysis, and literature review on mergers and acquisitions. The findings reveal that most mergers are driven by a combination of strategic choices and market-driven necessities. In certain cases, mergers were imperative to ensure business continuity due to poor financial performance or regulatory pressures. The study concludes that corporate mergers should not be viewed dichotomously as either a choice or a necessity, but rather as a strategic process influenced by a variety of internal and external factors.

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Introduction (First subtitle; bold in first capital letters)

In the era of globalization and the industrial revolution 4.0, the business world faces increasingly complex and rapidly changing challenges. Technological changes, global economic fluctuations, transformation of consumer behavior, and increasing cross-sector competition create market dynamics that require companies to adapt quickly and[1] strategically. The company's inability to respond to such changes often results in decreased competitiveness, decreased profitability, and even the threat of bankruptcy.

Changes in market dynamics also include increasingly rapid digitalization and the penetration of disruptive technologies such as artificial intelligence (AI), big data, and business process automation. This technology is changing the way companies operate and interact with consumers. Companies that are unable to keep up with this digital transformation will be left behind and lose relevance in the eyes of customers and investors. In a situation like this, mergers or acquisitions with companies that have technological advantages are a logical strategy to maintain competitiveness and accelerate digital adaptation.

Mergers are one of the main strategies taken to answer these challenges. Many companies are merging to improve cost efficiency, expand market reach, acquire new technologies, and create synergies between resources[2]. Under certain conditions, mergers are a proactive strategy and a strategic choice of management. Nevertheless, in many cases, mergers also emerge as a form of necessity due to external pressures, such as economic crises, changes in government regulations, or pressure from shareholders and creditors[3].

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Pressure from the increasingly open global market due to free trade agreements is also an external factor that encourages the merger of companies. Local companies must be able to compete not only in the domestic market, but also face international players who have greater resources and capital. Mergers between domestic companies are one of the efforts to strengthen the bargaining position against global competition.

Government regulations also play a role in shaping the merger climate. The government often issues policies that encourage industrial efficiency, such as the consolidation of the banking, insurance, or energy sectors. These policies can be fiscal incentives, easing of ownership regulations, or vice versa—dual ownership restrictions that indirectly force entities to incorporate. This condition suggests that in many cases, mergers are not solely a strategic initiative of management, but also the result of the direction of state policies and the prevailing external conditions.

The monetary crisis that hit Indonesia in 1997–1998 has forced various large companies to consolidate their businesses through mergers or acquisitions for survival[4]. A similar thing happened during the COVID-19 pandemic, where a number of companies in the banking, transportation, and retail sectors merged as a strategy to survive market [5]pressures. In addition to economic pressure, regulator policies also encourage company mergers. For example, *Bank Indonesia's single presence policy* which forces banks with dual ownership to merge to comply with legal provisions[6].

The subsequent development of the business world related to company mergers is not solely the result of internal strategic planning, but is also often a response to inevitable external pressures. Therefore, it is important to evaluate whether the merger decision was made on the basis of managerial free choice or as a survival measure in the face of external environmental pressures.

In recent decades, the trend of mergers has shown significant increases both at the national and global levels. In the international world, *cross-border mergers* occur in response to economic globalization and market liberalization. Multinational companies tend to merge to expand their geographic reach, access new markets, and acquire technology or a competitive advantage from the target company. For example, the technology and pharmaceutical sectors have been the two industries with the largest merger volume in the world over the past two decades[7].

At the national level, especially in Indonesia, the trend of company mergers began to be evident after the 1998 economic reform. After the monetary crisis, the government encouraged consolidation in various sectors, especially banking, to create a more stable and efficient financial system. One example is the merger of Bank Mandiri which was formed from the merger of four state-owned banks. In the non-financial sector, the trend of mergers is also strengthening, for example in the telecommunications and energy sectors, where companies are seeking to improve operational efficiency and competitiveness through consolidation[8].

The main factor driving this trend is the need to achieve *economies of scale* and operational synergies. By merging, companies can reduce production costs, unify supply chains, and increase innovation capacity. In addition, mergers are also often used as a faster non-organic growth strategy than building a new business line from scratch. In a competitive market, this strategy is key to surviving and growing sustainably.

However, the merger trend is also inseparable from challenges. At the global level, differences in organizational culture, legal framework, and national political interests are often obstacles in the post-merger integration process. Similarly in Indonesia, challenges in the form of regulatory complexity, transparency of financial information, and resistance from employees or minority shareholders often slow down or even thwart the planned merger process[9].

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Overall, company mergers have become an important part of the modern business landscape, both nationally and globally. This trend is expected to continue in line with increasing market pressures, technological complexity, and government policies that support the efficiency and consolidation of the industrial sector. Therefore, a deep understanding of the motivations, mechanisms, and impacts of mergers is important for company management, investors, and regulators in responding to future business dynamics.

The phenomenon of mergers in the business world is often seen as part of a company's growth strategy. In this context, mergers are carried out voluntarily on the basis of long-term considerations by management to expand the market, increase efficiency, acquire new technologies, or eliminate competitors. This strategy is known as inorganic *growth* which is faster than organic growth. In practice, strategically designed mergers are usually supported by a rigorous due diligence process and negotiations that take into account the interests of all parties involved.

However, not all mergers are the result of completely voluntary strategic choices. In many cases, mergers are also carried out as a form of necessity, i.e. in response to the inevitable external environmental pressures. These pressures can be in the form of financial crises, regulatory policies, drastic declines in financial performance, or structural changes in certain industries. In these conditions, a merger is the only rational option to save the company's sustainability, avoid bankruptcy, or meet the legal obligations set by the regulator.

A clear example of mergers as a necessity can be found in the banking sector in Indonesia after the 1998 crisis, where the government through Bank Indonesia encouraged the consolidation of national banks to improve the stability of the financial system. Policies such as *the single presence policy* even directly force banks owned by one party to merge in order to comply with the provisions of the law. This phenomenon shows that mergers are not always born from proactive strategies, but also as a form of compliance with macro policies.

Although they come from different motives, both strategic mergers and mergers because they have to both have a big impact on the organizational structure, company culture, and the company's position in the market. Strategic mergers tend to result in greater synergies because they are carefully prepared, while mergers due to external pressures often pose challenges in operational and management integration, especially when organizational time and readiness are limited[10].

It is important for decision-makers to carefully understand the context and motivations behind the merger process. Whether the merger is part of a strategic planning or a survival step, both require a systematic approach, risk evaluation, and open communication with stakeholders. The success of a merger is determined not only by the reasons behind it, but also by the execution and post-merger integration carried out consistently and professionally[11].

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Method

This research and discussion uses a qualitative approach with a normative-juridical method, because the focus of the study is directed to the analysis of the legal provisions that govern company incorporation in Indonesia as well as the interpretation of relevant theories in explaining the phenomenon. This approach is suitable for studying laws and regulations, legal literature, and official documents related to company mergers, without involving empirical data or field statistics. This type of research is normative legal research, which is research conducted by examining primary and secondary legal materials. The nature of this research is descriptive-analytical, which is to describe and analyze systematically the laws and regulations, legal theories, and the results of previous research related to company incorporation as an option or necessity in Indonesia.

This research uses several approaches:

Legislative approach *(statute approach)*: namely the approach used to review relevant laws and regulations, such as Law No. 40 of 2007 concerning Limited Liability Companies, Law No. 5 of 1999 concerning the Prohibition of Monopoly Practices, as well as OJK and ICC regulations.

b. Conceptual approach *(conceptual approach)*: that is an approach that examines legal and business theories such as synergy theory, efficiency theory, and external pressure theory to explain the motivations and implications of mergers.

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c. Case approach *(case approach)*: that is, analyzing several examples of company mergers in Indonesia from a legal and strategic perspective, based on a literature study.

The analysis of legal materials is carried out qualitatively-descriptively, namely by interpreting the content of laws and regulations and relating them to theories and opinions of experts. This analysis aims to draw conclusions about how the law regulates mergers, what are the motivations for mergers in Indonesia, and whether mergers are a strategic choice or a legal/business imperative.

This method allows researchers to construct legal and academic arguments in depth without having to use field data. With a normative-juridical approach and literature analysis, this study can provide a theoretical and systematic understanding of the legal framework and business rationalization behind company incorporation in Indonesia.

Results and Discussion

A. Internal and External Factors That Encourage Company Mergers

Company mergers are one of the corporate strategies that are widely taken in the face of the dynamics of a competitive business environment. In practice, the decision to merge does not occur spontaneously, but through a complex planning and evaluation process. The factors driving mergers can be classified into two broad categories, namely internal factors and external factors.

Internal factors are drives that come from within the company itself. Usually, this factor is related to the strategic goals of the company's management, financial performance, operational conditions, and the organizational structure that is to be improved. Meanwhile, external factors include external influences such as market pressures, government regulations, economic policies, and technological developments. One of the dominant internal factors is the desire to create synergy. The merging companies hope to combine their strengths to create operational efficiencies, strengthen competitiveness, and increase shareholder value. This synergy can be in the form of production cost efficiency, distribution system integration, or strengthening technological capabilities[12].

In addition to synergy, another internal motivation is to improve the company's financial structure. In some cases, companies experiencing financial difficulties tend to look for strategic partners who can provide capital injections, improve cash flow, or reduce debt burdens. Mergers are considered a strategic solution to save the company from a prolonged internal crisis. Internal impetus also arises from the need to expand a product or service line. By merging, companies can complement each other in terms of product portfolios, distribution networks, and customer segments. This is a faster growth strategy than organically developing new products, which generally require more time and cost[13].

Another internal factor that is quite important is managerial efficiency. Some companies merged because they realized that the existing management was not optimal in carrying out operations. By joining with other companies that have more effective managerial structures, it is hoped that there will be a transfer of best practices and *a* strengthening of the decision-making system.

In addition to internal factors, there are also external factors that significantly influence merger decisions. One of the most dominant is market competition pressures. In a saturated and competitive market, companies are required to scale and capabilities to stay relevant. Mergers are one way to reduce the number of competitors and increase market share[14]. Changes in government policies and regulations are also a driver for mergers. In Indonesia, regulations such as *the single presence policy* issued by Bank Indonesia force financial entities that have dual ownership to merge. In this case, merger is no longer a strategic choice, but a legal obligation to comply with regulatory provisions[15].

Macroeconomic pressures, such as the global financial crisis, high inflation, or a slowdown in the national economy, can also encourage companies to join. In these situations, mergers are often a *survival strategy*, where weak companies seek protection from stronger companies. Another external factor is the rapid and disruptive development of technology. Companies that are unable to adapt to technological changes tend to look for partners who have technological advantages. In many cases, mergers are done to acquire technology, talented human resources, or digital systems that the originating company does not own.

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Globalization is also an external factor that cannot be ignored. Competition no longer only comes from domestic players, but also from foreign companies. To strengthen a competitive position, mergers are often carried out to form larger and resilient entities in the face of international competitors. Mergers also often occur due to encouragement from shareholders or investors. In certain situations, institutional investors such as banks, financial institutions, or venture capitalists encourage their portfolio companies to merge with other companies to increase valuation and create a profitable exit strategy.

The media and public opinion also play an indirect role as external factors. When one company merges and shows success, other companies in the same sector can be encouraged to follow the trend. This phenomenon is known as *a merger wave*, which is a wave of mergers triggered by external psychological and social factors of the industry. Overall, the merger of companies occurred due to a combination of internal pushes and external pressures. Merger decisions never stand alone, but are influenced by many interrelated aspects. Therefore, an analysis of the motivation of the merger must be carried out thoroughly and contextually in order to understand whether the merger is more of a strategic choice or a form of necessity due to external conditions.

B. Company merger as a strategic management choice or as a form of necessity due to external pressures

Company mergers or *mergers* are an integral part of modern corporate dynamics. This practice has become one of the important instruments in corporate restructuring, business expansion, and the rescue of entities threatened with bankruptcy. Mergers not only involve legal and financial aspects, but also contain strategic, political, social, and cultural considerations in its implementation[16]. In general, mergers can be divided into two main approaches: first, as a strategic choice of company management aimed at increasing competitiveness; Second, as a form of necessity due to external pressures, both from the market, regulations, and unstable internal conditions of the company[17].

As a managerial strategy, mergers are often chosen to expand market share, gain operational efficiencies, and strengthen the company's position against competitors. In this framework, a merger is considered a proactive step that a healthy company takes to take advantage of market opportunities or respond to specific industry trends[18].

For example, many large tech companies in the United States such as Google, Facebook, and Microsoft are conducting acquisitions and mergers to acquire new technologies, acquire superior human resources, and eliminate potential competitors early on. In this context, the incorporation of a company becomes part of *a long-term* oriented corporate foresight.

However, not all mergers are carried out under ideal conditions. In many cases, mergers occur as a form of necessity due to external pressures. Companies that face liquidity difficulties, drastic declines in revenue, or inability to compete due to technological changes, are often forced to merge in order to survive. External pressure also comes from the regulatory side. The government or financial authority may require the incorporation of a company for the sake of industrial stability. In Indonesia, this can be seen in the consolidation policy of small banks to meet the minimum capital requirements based on the classification of Commercial Banks Based on Business Activities (BUKU).[19]

Geopolitical conditions, a global pandemic, or an economic crisis can also be a catalyst for mergers. In the context of the COVID-19 pandemic, many companies in the tourism and aviation sectors have been forced to merge or be acquired by larger entities for the sake of their operational continuity. From a legal point of view, the merger is regulated in Law Number 40 of 2007 concerning Limited Liability Companies, which emphasizes the need for the approval of the General Meeting of Shareholders (GMS), information disclosure to the public, and protection of interested third parties such as creditors and employees.

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Mergers that are done strategically generally have a higher success rate. This is because the company has sufficient time and resources to design a post-merger integration strategy, align the organization's culture, and build a structured joint management system. On the other hand, mergers carried out under time pressure and crisis usually only solve short-term problems. Many mergers fail to achieve their goals due to poor integration, internal conflicts, or unrealistic financial expectations.

For management, the biggest challenge in a merger is bringing together two different entities that have their own systems, cultures, and interests. If not managed carefully, mergers can lead to internal resistance, loss of employee motivation, and a decline in overall company performance. Nonetheless, mergers remain an important instrument in a company's growth strategy. In an era of digital disruption, mergers are often the fastest way to enter a new business model, such as the merger of a conventional company with a *startup*.

In practice, mergers also involve an accurate assessment of the company's value. This aspect is very important so that there is no information asymmetry and potential losses in one of the parties. A strict and independent due diligence process is the main prerequisite for a healthy merger. The competition authority also plays an important role in overseeing mergers, to prevent monopolies or unfair competition practices. In Indonesia, this role is carried out by the Business Competition Supervisory Commission (ICC) which is authorized to evaluate the impact of mergers on the market[20].

Successful mergers typically show positive stock value growth, increased operational efficiency, and market share growth. However, not a few mergers actually result in loss of value and reputational destruction. So that mergers as a strategy or necessity depend on the context and readiness of the company. Under ideal conditions, mergers are a powerful tool for corporate transformation. However, under pressure, mergers will only be a temporary solution if they are not accompanied by good change management and sound governance[21].

In Indonesia, mergers have become a strategic phenomenon in the digital economy era. Many conventional companies are joining or acquiring digital startups to expand their services into the online realm. For example, the merger between Gojek and Tokopedia formed GoTo as a form of integration of transportation services, digital payments, and e-commerce in one ecosystem.

From a corporate governance perspective, a successful merger is a merger based on information disclosure, objective analysis, and careful risk management. Periodic post-merger evaluations are also important to gauge how well the integration is progressing and whether the initial goals are being achieved. Company incorporation can be a profitable strategic option if it is carefully planned and done professionally. Instead, mergers that are responsive to external pressures must be carried out with great caution so as not to backfire. A merger is not simply the union of two entities, but a transformation process that demands strong governance, strategy, and leadership[22].

C. The Impact of the Company Merger on the Company's Performance and Sustainability After the Merger Process

A merger or merger is a legal and managerial process that integrates two or more companies into one new entity with the aim of creating added value and synergies. In the context of Indonesian business, mergers are often used as a strategy for company growth, strengthening competitiveness, and a form of response to regulatory changes or market pressures.

The impact of mergers on company performance is a central issue that needs to be critically analyzed. Theoretically, mergers can result in operational efficiencies, economies *of scale*, and increase the company's bargaining power in the market. However, not all merger processes result in a positive impact on the company's financial and non-financial performance[23].

Post-merger company performance is usually measured through profitability indicators such as *Return on Assets (ROA), Return on Equity (ROE),* profit margin, and revenue increase. Studies in Indonesia show that in many

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cases, post-merger financial performance does not always improve significantly, and some even decline due to high integration costs and corporate culture mismatches[24].
Research conducted by Lestari and Ardianto on companies that merged on the Indonesia Stock Exchange during the period 2010-2015 showed that the average value of ROA and ROE did not show a significant increase after the merger. This shows that mergers do not necessarily have a direct impact on performance improvements. One of the main causes of merger failure in improving performance is the lack of planning in the integration process. Companies often focus on legal and financial processes, but neglect aspects of human resource management and organizational culture. In fact, it is the human factor that is most vulnerable to drastic changes due to mergers[25].

The sustainability of the company after the merger is an important issue that cannot be ignored. Sustainability in this context includes environmental, social, and *governance (ESG) aspects*. Mergers must be able to form an organizational structure that is not only efficient but also sustainable in the long term. In the Indonesian context, mergers between state-owned companies such as the merger of PT Bank BRI Syariah, PT Bank Syariah Mandiri, and PT BNI Syariah into PT Bank Syariah Indonesia (BSI) are examples of strategic mergers that seek to create global competitiveness while strengthening the sustainability of the Islamic financial sector.

The impact of the merger on sustainability is also reflected in how the merged company manages corporate social responsibility (CSR). Studies by the Ministry of SOEs show that after mergers, new entities have a tendency to focus more on national-scale CSR programs, but sometimes weaken in the implementation of local community-based programs. On the market side, mergers often create positive expectations from investors. This is usually reflected in the short-term increase in stock prices before and shortly after the merger announcement. However, in the medium and long term, these expectations are not always realized if the company is not able to show a real improvement in performance.

In addition to internal impacts, mergers also have an impact on the overall structure of the industry. If a merger causes a high concentration of the market, then there will be a risk of monopoly or oligopoly. Therefore, the Business Competition Supervisory Commission (ICC) has an important role in evaluating mergers so as not to harm consumers. From an operational perspective, mergers can increase efficiency through the elimination of overlapping business units. However, this often has an impact on termination of employment (PHK) and a decrease in employee morale, especially if internal communication is not managed properly[26].

Recent research found that 34% of mergers in the manufacturing sector in Indonesia resulted in a reduction in the workforce of more than 10% within two years post-merger[27]. While this improves short-term efficiency, its impact on workforce sustainability is noteworthy. The success of the merger is also largely determined by the clarity of the company's long-term strategy post-merger. Mergers without a clear strategic direction will only result in large entities that are inefficient, conflict-prone, and difficult to adapt to market changes.Evaluations of mergers must be carried out periodically, not only in terms of finance, but also in terms of governance and risk management. Companies that carry out mergers need to have an internal audit system and strengthened management oversight to avoid leaks or irregularities. In terms of financing, mergers financed by large debts have the potential to create new financial pressures for the merged companies. This can reduce investment flexibility and limit the company's ability to expand in the future. To ensure post-merger sustainability, companies need to develop an inclusive change management system. The transformation process must involve all levels of the organization, from top leadership to workers in the operational line[28].

The government also has a responsibility to ensure that mergers do not harm the public. In the context of SOEs, mergers should be carried out to improve public services, state efficiency, and not sacrifice the interests of the people, especially in strategic sectors such as energy, transportation, and finance. Empirical studies in Indonesia show that mergers designed and executed with long-term interests in mind are more likely to succeed than mergers driven solely by short-term profit considerations or crisis pressures.

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Mergers should also be seen as a complex strategic tool, requiring careful planning, cross-functional coordination, and ongoing evaluation. Companies should not rely on the assumption that automatic mergers will improve performance and sustainability. Finally, the impact of a company merger on performance and sustainability is highly dependent on the quality of planning, post-merger strategy, work culture integration, and adaptive corporate governance. Without a comprehensive approach, mergers have the potential to become a burden instead of a transformation opportunity[29].

Conclusion

Internal factors that drive the merger include management's desire to improve operational efficiency, improve capital structure, expand market share, and utilize the advantages of resources and technology owned by each entity. Mergers are also a strategy to overcome internal problems such as declining financial performance, limited production capacity, and weak innovation in facing growing business challenges. From the external side, increasingly fierce competition pressures, changes in government policies and regulations, digital technology disruption, and fluctuating macroeconomic conditions are the main drivers for mergers as an adaptive step and survive in the market.

Corporate mergers can act as a strategic management choice when carried out proactively to achieve competitive advantage, expand business networks, access new technologies, and create operational synergies that can increase company value in a sustainable manner. Mergers are part of long-term planning that is based on an in-depth analysis of the company's growth potential and efficiency. And in certain situations, company mergers also appear as a form of necessity due to external pressures such as financial crises, regulatory changes, tight market competition, or technological disruptions. Company mergers have a dualistic impact on the company's performance and sustainability, where mergers that are strategically planned and executed with effective integration management tend to improve operational efficiency, strengthen market position, and expand long-term competitiveness, while mergers carried out without structural and cultural readiness risk a decline in financial performance, internal conflicts, and organizational instability that can lead to a decline in financial performance. hinders the overall sustainability of the company.

Companies should treat mergers as an preferred strategy based on long-term analysis, rather than simply a reaction to external pressures. Mergers that are carried out proactively with careful planning, comprehensive feasibility assessments, and synergy considerations will have a better chance of creating added value and supporting sustainable business sustainability. In forced conditions due to external pressures, mergers must still be based on the principles of prudence and good governance, including the active involvement of all stakeholders and the implementation of inclusive integration management. This is important to minimize the risk of failure and ensure that mergers do not become a new burden, but are still able to generate a positive impact on the company's performance and stability.

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C. Legislation

Law No. 8 of 1995 concerning the Capital Market

Law No. 5 of 1999 concerning the Prohibition of Monopolistic Practices and Unfair Business Competition Statute Book of the Republic of Indonesia No. 33 of 1999.

Law Number 19 of 2003 concerning State-Owned Enterprises

Law No. 40 of 2007 concerning Limited Liability CompaniesStatute Book of the Republic of Indonesia No. 106 of 2007, Supplement to Statute Book of the Republic of Indonesia No. 4756.

Government Regulation Number 57 of 2010 concerning Mergers and Acquisitions of Business Entities that May Cause Monopolistic Practices and/or Unfair Business Competition

Regulation of the Minister of Law and Human Rights of the Republic of Indonesia Number 14 of 2021 concerning Procedures for Announcement and Registration of Mergers, Mergers, and Takeovers of Limited Liability Companies

Regulation of the Business Competition Supervisory Commission (ICC) Number 3 of 2019 concerning the Assessment of Mergers, Mergers, and Acquisitions of Company Shares that May Cause Monopolistic Practices and/or Unfair Business Competition

Financial Services Authority Regulation (POJK) Number 74/POJK.04/2016 concerning Merger and Merger of Public Companies