[*Nisa* et al., 6(12): December, 2019*] ISSN: 2349-5197
Impact Factor: 3.765

INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

FINANCIAL CHARACTERISTICS OF COMPANY THAT WILL PERFORM CORPORATE ACTION (PERIOD 2008-2017)

Nurul Wahidatun Nisa'*, Hadi Paramu & Nurhayati***
Economic and Business Faculty, Jember University, Indonesia

DOI: 10.5281/zenodo.3595031

Keywords: Corporate Financial Characteristics, Stock Split, Cluster Analysis.

Abstract
This research was conducted to find out how the financial characteristics of companies that will carry out *corporate actions* in the form of a *stock split*. 48 companies listed on the Indonesia Stock Exchange were selected as research samples by purposive sampling method. Research variables as many as 18 variables. The analytical method used is cluster analysis. There are three groups of companies for the period t-1 stock split, namely: the company is very good, the company performs well, and company risk. Three groups of t-2 stock split period companies are: well-managed companies, less efficient companies, and well-performing and efficient companies. Corporate finance moves dynamically so that the stock split action cannot be predicted since t-2.

Introduction

Company management is required to take the right decision every time they face changes or problems in the company in order to achieve the company's main objectives, namely maximum profit and welfare of shareholders, various decisions taken by the company's management can be said as corporate action. Corporate action is taken by the company policy that aims to improve performance or demonstrated performance in the short term and long term [1]. Corporate action has various forms. The range of corporate actions is decided by company management according to the conditions in the company. Corporate action are all ways to meet the funding requirements in order to increase the paid up capital of the opinion can be found one variety of corporate action is the right issue in the form of the issuance of new shares [2].

Variety of corporate actions, namely: right issue, convertible bonds (convertible bonds), warrants, bonus shares, stock dividends, and stock split [3]. Waran is a certificate that has the same properties with the derivative products of the call option but the difference with the call option warrants issued by the company are not issued by an individual. The owner or warrant holder has the right to buy shares of a company at a certain price and within a certain period [4]. In addition to other corporate action warrants, namely the HMETD (Pre-emptive Rights) or commonly known as the right issue. Right issue is the company's management's decision to issue new shares that are intended to be able to increase the company's capital, by offering first to the current shareholders (existing shareholders) [5]. Stock split is a management decision of a company to do a stock split, thereby causing the number of shares to increase in the market. The opposite of a stock split is a reverse stock split, the company's decision to do a reverse stock split is because the company's stock price is too low so some investors view the price reflects the company's performance. Another form of corporate action is a business combination which means there are two or more companies merging themselves into one to later be called by one company name. A business combination is often called an acquisition or merger, where an acquisition is an action or decision of a company or group of investors to buy a particular company.

Corporate actions with stock split motifs in Indonesia have been recorded 64 times from 2008 to 2017 [6]. This action is often carried out by company management to conduct research to find out how the characteristics of companies that carry out interesting corporate actions to do. Research on company characteristics was carried out by Stevens who examined how the characteristics of the company were acquired, the research sample was obtained from companies listed in The Federal Trade Commission (FTC). The ratio used to measure financial quality in his research is the ratio of profitability, liquidity, activity, and leverage. The analytical method used is Multiple Discriminant Analysis (MDA) by using ratio data in developing the best linear model to discriminate against groups that acquire from the acquired groups. The results show that there are four ratios that underlie the financial characteristics of the acquired companies, from which ratios can be estimated which companies will be acquired or take the decision to approve the acquisition with a classification accuracy of 70 percent for the original sample. The intended ratios are: long-term debt / assets, EBIT / sales, net working capital / assets, and sales / assets [7].

Belkaoui tests the ability of current and non- current financial ratios ranging from non-liquid assets, liquid assets to total assets, liquid assets to current debt, to liquid assets turnover groups to be able to predict takeover decisions. The research process uses discriminant analysis and the results show that non-current financial ratios are superior in predicting takeovers. The results of the analysis verify the superiority of second or third year predictions with a 15 percent misclassification rate [8].

Levine and Aaronovitch examined the company's financial characteristics and the theory of merger activity. The results show that the acquiring company is looking for less efficient companies to utilize their resources, and mergers as strategic decisions do not involve direct economic or financial benefits [9]. Meric, Leveen and Meric studied the financial characteristics of commercial banking companies involved in interstate acquisitions using multivariate analysis of variance and principal components analysis statistical techniques [10]. Aggarwal conducted a review of the financial characteristics of Japanese research populations taken from Japanese financial institutions and companies [11], Pasiouras and Gaganis examined the financial characteristics of 47 acquiring companies and 52 companies that were targeted for acquisition in the Asian commercial banking sector during the period 1998 to 2004. The study uses three logistical models and the results show that the opportunities involved in acquisition as an acquirer also increase with the size and cost efficiency. This means that banks that make more profit tend to be involved in acquisitions as acquirers rather than as targets [12].

Meric et al also conducted research on financial characteristics, which compares the financial characteristics of US and Japanese companies in the manufacturing of electrical and electronic equipment with the MANOVA (Multivariate Analysis of Variance) method. The results showed that US companies have a greater risk of bankruptcy compared to Japanese companies [13]. Meric, et al try to compare how the financial characteristics of manufacturing companies in the US and Europe by using a sample obtained from the Insight / Global Vintage Research database in October 2015. Research conducted using financial ratios and the method used is MANOVA (Multivariate Analysis of Variance)) the results of the study indicate that US manufacturing companies can achieve higher sales and total asset growth rates compared to European manufacturing companies [14]. Several previous studies have examined the financial characteristics of companies with different problems, the focus of this research is knowing how the financial characteristics of the company before doing a stock split.

Theoritical Framework

This study tries to find the characteristics of the company's finances before taking corporate action based on the company's financial statements two years and one year before the company takes corporate action. The information contained in the financial statements will then be synthesized and the results are expected to show how the characteristics or characteristics of the company that will carry out corporate action in the previous two years and one year. The financial characteristics of the company at t-2 and t-1 before carrying out corporate actions which are the results of the cluster analysis will also be compared descriptively to be able to know how the tendency of the company's financial characteristics in the two years before corporate action.

Research Methods

This research was conducted on all companies listed on the Indonesia Stock Exchange (BEI) in 2008 to 2017 that carried out corporate actions in the form of stock split. There were 64 companies from various sectors that carried out a stock split during this period. The method used for sampling is purposive sampling by setting several criteria. Based on the criteria used in sample selection, there are 48 companies that meet the criteria as presented in Table 1 below.

Table 1. Research Samples Determination

No.	Information	Number of Companies
1.	Companies that performed corporate actions in the form of a stock split in 2008 to 2017.	64
2.	Delisting company of the Indonesia Stock Exchange	(0)
3.	Companies that do not publish complete financial statements and perform delisting during the observation period,	(15)
4.	Companies that perform corporate actions in different forms in the same year	(1)
Final sample of the research		48

Source: www.idnfinancials.com 2008-2019 (data processed)

Results and discussion

This research was conducted through several stages that began by measuring financial ratios. The data used were the financial ratio data of 48 companies that selected as research samples, namely: Net Working Capital / Total Assets, Net Working Capital / Sales, Current Assets / Current Liabilities, (Current Assets-Inventories) / Current Liabilities, EBIT / Total Assets, EBIT / Sales, Net Income / Sales, Net Income / Equity, Net Income / Total Assets, LT Debt / Equity, LT Debt / Total Assets, Total Liabilities / Total Assets, Total Debt / Total Equity, Sales / Total Assets , Cost of Goods Sold / Inventory, Sales / (Current Assets-Inventory), Sales / (Accounts Receivable / 365), Sales / Inventories, and Sales / Net Fixed Assets. The data taken came from 1 year and 2 years before the stock split is performed.

Outlier Analysis

In this research, the outlier data were analyzed using the graphical approach (scatter plot). The results of the analysis that have been applied to each research variable show that there is no data that is far from the overall data collection pattern, so it can be said that the research data used in the study does not contain outlier data.

Correlation Analysis

Correlation analysis is performed to analyze whether there is a relationship or correlation between research variables. The results of the correlation analysis show that only the Current Assets / Current Liabilities and Current Liabilities variables have the strongest correlation of all the correlation relationships that exist between the t-1 and t-2, then the variable (Current Assets -Inventories) / Current Liabilities will be deleted and not included in the next analysis.

Cluster Analysis

Variables that have been selected to be research variables are further grouped according to their similarities using cluster analysis. According to Hair, et al (1998: 481) steps that need to be done are:

a. Formulate the Problems
   This study focuses on determining the financial characteristics of companies that carry out corporate actions in the form of stock split by involving all companies that carry out a stock split in 2008 to 2017
b. Choose the distance or similarity size.
   The results of the analysis carried out show that to be able to obtain the right clustering for the t-1 period, it was necessary to do 4 iteration stages with 12.046 as the minimum distance between cluster centers that occur from the iteration results. In the other hand, for the t-2 period, it was necessary to do 2 iterations with 12.202 as the minimum distance between cluster centers occurring from the results of the iteration.
c. Select the grouping procedure
   The non-hierarchical cluster method or K-Means Cluster was used as a method for analyzing clusters, both for t-1 and t-2 periods.
d. Interpret and create group profiles
   The results of the cluster analysis can be seen in Table 2 and Table 4. The results of the analysis are related to the previous process, which is standardization of data that refers to the Z-score.

Table 2. The Results of t-1 Cluster Analysis

	Cluster			F	Sig.
	1	2	3		
Zscore: Net Working Capital / Total Aset	,76493	-,05651	-,66406	3,557	0,037
Zscore: Net Working Capital / Sales	,27835	,06265	-,84078	2,218	0,121
Zscore: Current Assets/Current Liabilities	,11558	,01697	-,28397	0,245	0,783
Zscore: EBIT / Total Assets	1,54549	-,20659	-,67626	17,470	0,000
Zscore: EBIT / Sales	,72802	-,24830	,76852	5,243	0,009
Zscore: Net Income/Sales	,75476	-,17559	,20756	2,868	0,067
Zscore: Net Income/Equity	1,61031	-,25981	-,38381	18,677	0,000
Zscore: Net Income/Total Asset	1,73492	-,27944	-,41693	25,028	0,000
Zscore: LT Liabilities / Equity	-,17651	-,23705	1,95384	18,694	0,000
Zscore: LT Liabilities / Total Aset	-,37219	-,07445	1,05711	3,778	0,030
Zscore: Total Liabilities / Total Assets	-,52334	,03619	,47212	1,577	0,218
Zscore: Total Liabilities/Total Equity	-,30797	-,10621	1,19591	4,770	0,013
Zscore: Sales/Total Assets	,68768	,01588	-1,07709	5,417	0,008
Zscore: Cost Of Good Sold / Inventory	-,11913	-,19300	1,55639	9,116	0,000
Zscore: Sales / (Current Assets-Inventory)	,34140	-,05267	-,09871	0,471	0,627
Zscore: Sales/(Accounts Receivable/365)	-,14445	,04431	-,11677	0,137	0,872
Zscore: Sales/Inventories	-,17382	-,17598	1,51038	8,360	0,001
Zscore: Sales/Net Fixed Assets	,15004	,05439	-,60164	1,039	0,362

Source: processed data

A negative sign (-) indicates that the data is below the total mean while a positive sign (+) indicates that the data is above the total average. Based on the F value and the significance shown in the table, it can be seen how far or how close the difference between cluster 1, cluster 2, and cluster 3 can also find out whether it is significant or not. The higher the F value and the smaller / 0,000 significance value indicates that the variable has a high and significant difference between the clusters formed. Based on Table 2, it can be concluded that the period of one year before the stock split action, there are 11 variables that become a significant differentiator between cluster companies. The variables in question are: Net Working Capital / Total Assets, variable EBIT / Total Assets, variable EBIT / Sales, variable Net Income / Equity, variable Net Income / Total Assets, variable LT Liabilities / Equity, LT Liabilities / Total Assets, Total Liabilities / Total Equity, variable Sales / Total Assets, variable Cost Of Goods Sold / Inventory , variable Sales / Inventories. There is one variable that has the most distant and significant differences in each cluster that is the Net Income / Total Assets variable.

Three financial characteristics of the company in the t-1 period of stock split action, namely: cluster 1 is a cluster of companies that have financial characteristics (a) liquidity, profitability, above average, and (b) solvency, below average activity. Cluster 2 is a company cluster that has financial characteristics (a) above average solvency, and (b) profitability, solvency, and below average activity. Cluster 3 is a group of companies with financial characteristics (a) solvency, above average activity, and (b) below average average liquidity and profitability. Based on the financial characteristics inherent in each cluster, cluster 1 can be called a very good company with a total of 7 companies , cluster 2 is referred to as a good performing company with a total of 36 companies, and cluster 3 can be called a 5 company risk company.

Based on table 4, it can be concluded that there are 3 financial characteristics of the company in the t-2 period of the stock split action. The three clusters are distinguished by six variables that have significant differences between clusters: current assets / current liabilities, EBIT / sales variables, sales / total assets variables, cost of goods sold / inventory variables, sales / inventory variables, and sales / net fixed assets. Of the six variables, the variable cost of goods sold / inventory has the most distant and significant differences in each cluster.

Table 4. The Results of t-2 Cluster Analysis

	Cluster			F	Sig.
	1	2	3		
Zscore: Net Working Capital / Total Aset	,57240	-,77840	-,13366	2,408	,102
Zscore: Net Working Capital / Sales	,38356	-,51364	-,08978	1,017	,370
Zscore: Current Assets/Current Liabilities	,86278	-,57701	-,21759	5,722	,006
Zscore: EBIT / Total Assets	-,35403	-,16241	,10007	,819	,447
Zscore: EBIT / Sales	-1,01717	-,46472	,28747	9,181	,000
Zscore: Net Income/Sales	-,64521	-,18593	,17941	2,914	,065
Zscore: Net Income/Equity	-,39511	-,13721	,11049	1,017	,370
Zscore: Net Income/Total Asset	-,44143	-,17517	,12404	1,290	,285
Zscore: LT Liabilities / Equity	-,36269	-,13206	,10159	,852	,433
Zscore: LT Liabilities / Total Aset	-,34553	-,09672	,09600	,764	,472
Zscore: Total Liabilities / Total Assets	-,31031	-,15030	,08793	,626	,539
Zscore: Total Liabilities/Total Equity	-,12714	-,26560	,04154	,143	,867
Zscore: Sales/Total Assets	,88733	,25249	-,24664	6,227	,004
Zscore: Cost Of Good Sold / Inventory	,12414	-6,71908	,14805	1167,08	,000
Zscore: Sales / (Current Assets-Inventory)	,57335	,00131	-,15499	2,194	,123
Zscore: Sales/(Accounts Receivable/365)	-,14322	-,13814	,04244	,140	,870
Zscore: Sales/Inventories	-,19029	6,61481	-,12735	440,890	,000
Zscore: Sales/Net Fixed Assets	,93882	-,30266	-,24556	6,987	,002

Source: processed data

Three financial characteristics of the company in the period t-2 stock split action, namely: cluster 1 is a group of companies with financial characteristics (a) liquidity, above average activity, and (b) profitability, solvency below average. Cluster 2 group of companies with financial characteristics (a) above average activity, and (b) liquidity, profitability, below average solvency. Cluster 3 is a group of companies with financial characteristics (a) profitability, above average solvency and (b) liquidity, below average activity. Based on the financial characteristics inherent in each cluster, cluster 1 can be referred to as a company that is well managed by 10 companies, cluster 2 is referred to as an inefficient company 1 company, and cluster 3 can be called as a good and efficient company performing 37 companies.

Conclusion

There are three groups of companies for the period t-1 stock split, namely: the company is very good, the company performs well, and company risk. Three groups of companies formed in the t-2 stock split period, namely: well- managed companies, less efficient companies, and well perfoming and efficient companies. Based on the cluster analysis that has been done there are no special characteristics or characteristics that can characterize a company doing a stock split because the character of a company that did a stock split in the t-2 period with t-1 is different. The character of a company that will do a stock split tends to be better in year t-1, so it can be concluded that the company's financial situation moves dynamically so that the stock split action cannot be predicted since t-2.

Asquith et al (1989) and Mawarta (2001) conducted research on companies that conduct stock split, the results of the study showed that companies that did stock split experienced an increase in earnings before the stock split decision was taken, the biggest increase in profits at t-1 stock split. High profit in this study is indicated by the value of profitability that is above the average value or also referred to as an efficient company. The research of Asquith et al (1989) and Mawarta (2001) confirms that one of the characteristics of a company that will be a stock split is an efficient company.

ISSN: 2349-5197
Impact Factor: 3.765
INTERNATIONAL JOURNAL OF RESEARCH SCIENCE & MANAGEMENT

References

[1] Darmaji, Tjiptono dan Handy M. Fakhruddin. 2006. *Pasar Modal di Indonesia Pendekatan Tanya Jawab*. Jakarta: Salemba Empat.

[2] Nurmala dan Non, Ninin Ayu Salmah. 2015. “Reaksi Pasar Terhadap Pengumuman Right Issue Di Bursa Efek Indonesia”. *Jurnal Manajemen dan Bisnis Sriwijaya.* Vol 13 (3): 331-342.

[3] Samsul, Muhamad. 2006. *Pasar Modal Dan Manajemen Portofolio*. Surabaya: Erlangga.

[4] Galai, D dan Schneller, M. I. 1978. “Pricing of Warrants and The Value of The Firm”. *The Journal of Finance*. Vol. 33 (5) : 1333-1342.

[5] *Komaling, Anastasya M.* 2013. “Reaksi Pasar Atas Secondary Right Issue Pada Perusahaan Yang Go Publik Di Indonesia”. *Jurnal EMBA*. Vol. 1 (3): 118-128.

[6] www.idx.co.id/

[7] Stevens, D. L. 1973. “Financial Characteristics of Merged Firms: A Multivariate Analysis”. *Journal of Financial and Quantitative Analysis*. Vol 8 (2): 149-158.

[8] Belkaoui, A. 1978. “Financial Ratios As Predictors Of Canadian Takeovers”. *Journal of Business Finance and Accounting*. Vol. 5 (1): 93-108.

[9] Levine, Paul and Aaronovitch, Sam. 1981. “The Financial Characteristics of Firms and Theories of Merger Activity”. *The Journal of Industrial Economics*, Vol. 30 (2) : 149-172.

[10] Meric, G., Leveen, Serpil. S., dan Meric, Ilhan. 1991. “The Financial Characteristics Of Commercial Banks Involved In Interstate Acquisitions”. *The Financial Review*. Vol 26 (1): 75-90.

[11] Aggarwal, R. 1994. “Characteristics Of Japanese Finance: A Review And Introduction”. *Global Finance Journal*. Vol. 5 (2): 141-167.

[12] Pasiouras, Fotios. dan Gaganis, Chrysovalantis. 2007. “Financial Characteristics Of Banks Involved In Acquisitions: Evidence From Asia”. *Applied Financial Economics*. Vol 17 (4): 329-341.

[13] Meric, Ilhan., Gong, Linguo., Chaganti, Radha., and Meric, Gulser. 2012. A “Comparison of the Financial Characteristics of U.S. and Japanese Electrical and Electronics Equipment Manufacturing Firms”. *Southwest Business and Economics Journal*. Vol 20: 27-36.

[14] Meric, G., J. T. Bentley, W. C. Mccall, and I. Meric. 2016. “A Comparison of the Financial Characteristics of U.S. and European Manufacturing Firms”. *Studies in Business and Economics*. Vol 11 (2): 58-67.

[15] Hair, Jr., Joseph.F, dkk. 1998. *Multivariate Data Analysis. Fifth Edition*. Prentice-Hall, inc., New Yersey.

