1. INTRODUCTION

1.1. Research Background

Mergers and acquisitions (M&A) have been a key corporate strategy to pursue growth through corporate re-inventing, market share expansion, and economies of scale. Even beyond, Mallette and Goddard (2018) stated that companies did M&A to survive in the medium to long term period with additional capability upgrades, market breakthroughs, and reshaping of consumer experiences. M&A itself is a general term that refers to the consolidation of businesses or assets through various financial transactions, which is set to deliver financial benefits for both parties involved (Business Development Bank of Canada, n.d.). In Indonesia itself, some astonishing stories about M&A came from big corporations. In 2017, Japan Tobacco Inc. acquired all shares of Gudang Garam's subsidiaries, one of Indonesia's largest cigarette production and distribution companies (Rafie, 2017). Although the initial intention was to enhance business expansion and investment, this event drew protests as it brought tremendous impacts on worker layoffs due to mechanization, losses for local farmers due to growing tobacco imports, and increased number of smokers in Indonesia (Putra, 2017). This issue clearly shows how M&A activities could significantly affect critical components of a company or even a country.

A database shows another side of M&A, where the National Development Planning Agency (*Badan Perencanaan Pembangunan Nasional*) reported an increasing trend of M&A in Indonesia from 2012 onwards, several years after the financial crisis (Purnomo, 2021). Ernst & Young mentioned that companies which executed M&A during the Global Financial Crisis in 2007 were able to outperform others by creating long-term value (Salsberg, 2020). In this case, the M&A performance is usually assessed through the event study method, implying that company stock's performance moved correspondingly to market reaction during and after the M&A announcement (Mestdagh, 2017; Chadam, 2018). As it highly relates to stock prices, the common formula used to measure M&A performance is cumulative abnormal returns (CAR), which is the difference between the projected and actual stock return (Nasdaq, n.d.). Hence, this CAR will be used to measure M&A performance in this study.

Digging deeper into M&A, it apparently cannot be separated from the evidence of stock return and corporate governance. Jensen and Ruback (1983) and Moeller et al. (2004) showed that during an M&A announcement, the acquirers received zero or negative gain, while the target companies contributed more positive return to the combined value, contradicting the initial plan where the deal should benefit both parties. Responding to that, Jensen (1986) and Morck et al. (1988) argued that it might be caused by overpaying of the target firm, excessive free cash flow (FCF) with no additional value, and the agency theory which observed the conflicting interests between the management and shareholders. Thus, corporate governance comes as a solution to ensure the aligned interests between shareholders and executives (Denis & McConnell, 2003), including the board which is crucial in the decision-making and monitoring function (Hermalin & Weisbach, 2001). Corporate governance, defined as the system of rules, procedures, and processes by which a firm is managed and controlled, has been a worldwide trending issue as globalization allows collaboration to be done beyond borders (Chartered Governance Institute UK & Ireland, n.d.). This fact conveys that corporate governance can be used as first-line defense to protect stakeholder rights and reduce potential risks. Additionally, digging deeper into corporate governance in Indonesia is needed as Verhezen (2019) found a crisis in Indonesia's corporate governance, due to the absence of strict legal enforcement and concentrated ownerships that create conflicting shareholders' interests.

Furthermore, corporate governance can reduce agency difficulties and encourage managers to function effectively (Terjesen et al., 2015). It is highly associated with the Board of Directors (BoD), in which Kaplan (2001) stated that BoD as the main vehicle for corporate governance is responsible for protecting stakeholders' interests by supervising the decision-making process. In relation to BoD, it cannot be separated from its characteristics, which is widely known as board structure. Board structure is important to consider as studies exhibited that it impacts companies and their performance differently. Moreover, there is no universal formula for an optimum board structure as it varies according to the situation of the respective organization, industry, and associated regulatory framework (OnBoard Meetings, 2022). Haqi (2017) then found a significant relationship between BoD structure and M&A performance, where boards influence M&A deal decisions up to the goals completion. The boards may carry out several functions before and during M&A, such as understanding the driver and logic of the deal, which might be challenging as cultural issues should also be mitigated (Financier Worldwide Magazine, 2019). It further relates to the two types of board systems: one-tier, consisting of one single board with executive and non-executive directors; and two-tier, consisting of two different boards: a management board and a supervisory board (Jungmann, 2006). In Indonesia, two-tier structure is mostly adopted based on the Law No. 40 of 2007; the authority to manage the company and supervision is separated, which fell to the role of Board of Directors and Board of Commissioners (BoC) respectively (Otoritas Jasa Keuangan, n.d.).

Further, article 125 section 1 in the law also stated that M&A can be done through the BoD or directly through the shareholders (Otoritas Jasa Keuangan, n.d.).

Evidence of board structures' effect on M&A performance, together with more findings about the role of BoD towards M&A, has made the researchers confident to study the relationship between those two variables, especially emphasizing the acquirer's side. In relation to that, Haqi (2017) found that some dimensions of BoD structures such as board size and CEO duality significantly and negatively affected M&A performance. However, the study by Chadam (2018) resulted in both same variables insignificant to the M&A performance. It shows that even though similar dimensions are used, results can still be different when tested in different situations. With this, as another study to be conducted in Indonesia besides a similar one by Novtaviani (2021), this research will be an ultimate guide for businesses to gain new insights on M&A activities in Indonesia. While Novtaviani (2021) focused on the effect of corporate governance on the companies' financial performance several years after the M&A deal, measured by Return on Assets (ROA), this research will emphasize the M&A performance measured by CAR on the acquirer's stock several days around the announcement date. Here, CAR is the measurement of a company's stock price performance and is determined over a short period to reduce the likelihood of any other events occurring during the event window influencing the stock price (Sevastyanov, 2016). With this, calculating CAR might become a base for comparing researchers' data and further used to answer the research questions. Moreover, as the independent variables under board structure are not fixed, each research might produce different outcomes depending on the variation of board structure's aspects used as the independent variables, further making this study unique.

In this manner, the researchers adopted the studies of Sevastyanov (2016), Mestdagh (2017), and Chadam (2018) that identified several independent variables of board structure: board independence, board size, CEO duality, board ownership, classified board, and gender diversity. However, the researchers will omit some variables. Firstly, one-tier and two-tier structures are omitted, as Indonesian companies mostly only adopt the two-tier structure based on the Law No. 40 of 2007 (Otoritas Jasa Keuangan, n.d.). Secondly, CEO duality, which refers to someone holding two positions as CEO and board chairperson (Chen, 2014), is omitted. This is because Law No. 40 of 2007 about Perseroan Terbatas does not mention anything about CEO positions in Indonesian companies (Badan Pemeriksa Keuangan, n.d.). Furthermore, while exploring companies' organizational structure, the researchers found that not all Indonesian companies have CEOs. Thus, the researchers omitted the variable to avoid any misleading interpretations. Thirdly, classified boards, where the directors are divided into separate classes and serve different terms length (Nasdaq, n.d.), is omitted. This is because the classified board is a common practice in the US Corporate Law (Wagner, 2007), and not in Indonesia; hence, the term cannot be found in Indonesia's corporate governance context.

To increase the research's precision, the researchers adopted the combination of control variables from Sevastyanov (2016), Mestdagh (2017), and Chadam (2018). Control variables were divided into two categories: firm-specific which comprises firm size, ROA, debt ratio, Tobin's Q, and free cash flow (FCF), and deal-specific, which encompasses method of payment, relative deal size, industry relatedness, and target public status. However, researchers excluded FCF as it served the same function as ROA to assess companies' current performance (Mestdagh, 2017; Chadam, 2018). With this, ROA and FCF might have the same potential of being the candidate for the control variable. Thus, as the researchers discovered some papers with a more comprehensive explanation of how ROA influences M&A performance, selecting ROA would provide an advantage of a solid foundation for the variable description in the following chapter. Lastly, ROA itself is chosen as there are still not many studies discussing ROA over FCF; hence, adding more value to the study. Researchers also removed the relative deal size as not all transaction size and real market value were disclosed in Bloomberg or annual reports. Similarly, the method of payment was also omitted as many public companies did not disclose their method of payment during M&A transactions in Bloomberg or Indonesian Stock Exchange (IDX).

Furthermore, the researchers set the scope of the study to be in the manufacturing industry under several considerations. Firstly, the manufacturing industry has made a huge contribution to Indonesia as exports of the sector reached US$93.7B, equal to 75.5% of Indonesia's total exports (Indonesian Ministry of Industry, 2019). Additionally, this sector also contributed 17.6% of 2019's Gross Domestic Product (GDP), showing that it still greatly contributes to the domestic economy (Julaika, 2020). Secondly, the expansion of Indonesia's manufacturing industry has resulted in Manufacturing Value Added (MVA) at 4.5%, holding the highest position among ASEAN countries (*Kementerian Investasi*/BKPM, n.d.). Lastly, besides the immense opportunities brought by the manufacturing sector to Indonesia, the long history of M&A in the industry has also taken part in the researcher's decision. According to Komisi Pengawas Persaingan Usaha (KPPU) (n.d.), there were only three M&A registered in 2010, coming from banking, manufacturing, and mining industries. In 2019, it increased to 101 M&A notifications, led by the industrial sector with 30 notifications, and the energy and banking sector with 20 and 16 notifications, respectively (Rizki, 2019). These remarkable achievements have made the manufacturing sector a perfect research object. Moreover, as other studies commonly used non-manufacturing industries as their subject, the researchers believe this study could add value by providing new insights into Indonesian manufacturing industries.

Specifically, the researchers will gather data from Indonesian public manufacturing companies that did M&A from 2010 to 2019. In this case, a 10-year period aims to help researchers obtain more accurate findings as more data can be collected. Further, 2010 is seen to be the correct starting point following the latest issuance of Government Regulation No. 57 of 2010 about business competition provisions of M&A in Indonesia, showing that the government has arrived at a more proper guideline of business conduct (Purnomo, 2021). Lastly, the ten-year time frame is a perfect data collection period as COVID-19 pandemic started to disturb Indonesia's businesses and economy in 2020 (Intan, 2020); hence, it is best not to include data from 2020 onwards to avoid disruption in the overall research result.

After all, this research is expected to benefit significantly and contribute to the interest of many parties, especially in Indonesia. Recalling the effect of M&A deals on a firm's growth, the essential role of BoD in a firm's managerial activities, and the big influence of the manufacturing industry on Indonesia's economy, the researchers hope that this study can help determine readers' upcoming business decisions related to M&A and corporate governance.

1.2. Research Questions

Through this research, the researchers aim to find the relationship between board structure and M&A performance by questioning:

Table 1.1.

Research Questions

1.	Controlling for firm size, ROA, debt ratio, Tobin's, industry relatedness, and target public status, does board structure in terms of board size, board independence, board ownership, and gender diversity affect mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019?
2.	Controlling for firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status, does board structure in terms of board size affects mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019?

3.	Controlling for firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status, does board structure in terms of board independence affects mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019?
4.	Controlling for firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status, does board structure in terms of board ownership affects mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019?
5.	Controlling for firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status, does board structure in terms of gender diversity affects mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019?

1.3. Research Objectives

The researchers' objectives encompass points related to the research questions:

Table 1.2.

Research Objectives

1.	To investigate the impact of board structure in terms of board size, board independence, board ownership, and gender diversity towards mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019, using the control variables of firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status.
2.	To investigate the impact of board structure in terms of board size towards mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019, using the control variables of firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status.
3.	To investigate the impact of board structure in terms of board independence towards mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019, using the control variables of firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status.
4.	To investigate the impact of board structure in terms of board ownership towards mergers and acquisitions performance of Indonesian manufacturing companies listed

	in IDX during 2010-2019, using the control variables of firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status.
5.	To investigate the impact of board structure in terms of gender diversity towards mergers and acquisitions performance of Indonesian manufacturing companies listed in IDX during 2010-2019, using the control variables of firm size, ROA, debt ratio, Tobin's Q, industry relatedness, and target public status.

1.4. Research Benefits

This study is expected to benefit several parties as follows:

Table 1.3.

Research Benefits

Academicians	This research can be considered as one of the pioneers in studying the relationship between board structure and M&A performance in Indonesia's manufacturing industry. Therefore, this study is expected to help expand academicians' knowledge base on board structure and M&A. Accordingly, as studies on this topic are still limited, this research can also be used as a reference for future research on similar topics.
Business Institutions	Through this study, business institutions can understand how corporate governance significantly influences M&A performance. In this case, business institutions should improve their corporate governance, especially on the board structure side, to elevate their M&A results. This research also suggests businesses to assess target companies' board structure before the deals are made to ensure maximum benefits for both parties. Lastly, this study highlights the importance of analyzing crucial aspects, such as management and stock return, so that any business strategies can generate expected outcomes.
Business Professionals	It is expected that this study can be the ideal guide for business professionals, especially shareholders and investors on their investment decision. Typically started with a due diligence process, the targeted parties can use this research as the basis of their decision to invest in a company that is in the process or already had an M&A deal, with attention to the board structure. Further, the study evaluation is based on real data analysis on leading

	Indonesian companies, which can assist the decision-maker in arranging more measured planning for minimizing investment risks and maximizing investment return.