FIRM Journal of Management Studies, Vol. 10(1), March, 2025
ISSN: 2527-5852 (Print) | ISSN 2541-3473 (Online)

The Influence of Financial Performance, Abnormal Returns, and External Factors on the Share Prices of Service Sector Firms

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Abstract

The COVID-19 pandemic has presented unprecedented challenges across all levels of society, particularly for business owners facing restrictive government policies aimed at curbing the virus's spread. In response, corporate expansion - such as mergers and acquisitions - has emerged as a strategic approach to sustain business operations during this critical period. This study pursues two main objectives: first, to examine whether significant differences exist in financial performance and abnormal returns before and after corporate acquisitions; and second, to investigate the influence of financial performance indicators, inflation, and interest rates on the stock prices of service companies. The analysis employs both parametric and non-parametric tests for the first objective, based on the results of data normality assessed through the Kolmogorov–Smirnov test. For the second objective, the study utilizes panel data regression involving multiple independent variables, supported by descriptive statistical analysis and classical assumption testing. Findings from the first objective reveal no statistically significant differences in Current Ratio (CR), Return on Assets (ROA), Return on Equity (ROE), Total Asset Turnover (TATO), Debt to Equity Ratio (DER), and Abnormal Returns pre- and post-acquisition. Conversely, results from the second objective indicate that CR, ROA, ROE, and inflation have a significant positive effect on stock price changes, while TATO, DER, and interest rates show a significant negative impact. These insights offer valuable implications for corporate strategy and investor decision-making during economic disruptions.

Keywords: *COVID-19; Financial Performance; Inflation; Interest Rate.*

Introduction

The COVID-19 pandemic has posed unprecedented challenges across all levels of society worldwide. As a novel virus causing severe illness and death, its rapid spread prompted governments to implement strict public health measures, including mandatory vaccinations and isolation protocols. In Indonesia, these measures took the form of Pembatasan Sosial Berskala Besar (PSBB), or large-scale social restrictions, which significantly disrupted social dynamics and triggered economic decline (Khoiri & Isnaini, 2022). This downturn led to a contraction in consumer spending as households prioritized savings during the recessionary period (Genoveva et al., 2021). Indonesia's economic growth, which stood at 5.17% in 2018, dropped to 5.02% in 2019 and then plummeted to -2.07% in 2020 (BPS, 2021). The prolonged impact of the pandemic has not only affected communities but also placed considerable strain on businesses, resulting in declining firm value and profitability.

In response to these conditions, companies have been compelled to adopt survival strategies, including business expansion. Expansion is a strategic move aimed at sustaining growth and competitiveness, which may occur through internal means—such as product diversification and market development—or external initiatives like mergers and acquisitions (Husna & Irawati, 2024). Among these, mergers and acquisitions (M&A) are critical decisions with long-term

Article History: *Submitted 26-02-2025, Revised 25-03-2025, Accepted 31-03-2025*

implications, particularly regarding financial performance. Factors such as inflation and interest rate volatility play a significant role in determining the success or failure of such ventures.

To make informed decisions, companies must evaluate financial and external risks prior to engaging in M&A activities. Key financial indicators include the current ratio (CR) to assess liquidity, return on assets (ROA) and return on equity (ROE) to measure profitability, total asset turnover (TATO) to gauge activity, and the debt-to-equity ratio (DER) to reflect solvency. Additionally, market-based performance can be observed through abnormal returns, while inflation and central bank interest rates represent external macroeconomic variables.

This study aims to address two key research objectives. First, it investigates whether significant differences exist in a company's financial performance and abnormal returns before and after an acquisition. Second, it explores the extent to which financial performance indicators, inflation, and interest rates influence stock price movements in service sector firms.

Literature Review and Theoretical Framework

The term acquisition, derived from Latin, refers to the process of assuming ownership or control, typically involving the purchase of another company's assets or shares. Unlike mergers, where one entity is absorbed into another, acquisitions allow the acquired firm to remain a separate legal entity. According to Government Regulation No. 27 of 1998, an acquisition is a legal act performed by an individual or legal entity to obtain all or a majority of a company's shares, resulting in a transfer of control over the company.

Mergers and acquisitions (M&A) are integral components of corporate strategy, driven by various motives such as financial synergy, market expansion, and operational efficiency (Hsu et al., 2017). Moin (2004) emphasized that economic gain is the primary motivation behind M&A, as firms expect the post-merger value to exceed the combined pre-merger value of the entities involved. Gupta et al. (2021) further argued that M&A activities aim to enhance synergy, operational effectiveness, and capitalize on capital market mispricing. M&A also facilitate strategic responses to competitive pressures across sectors, potentially boosting cash flow, increasing funding opportunities, and expanding market share (Normalita, 2018).

Liquidity Ratio and the Current Ratio (CR)

The liquidity ratio, particularly the current ratio (CR), serves as a key metric for assessing a company's short-term financial health and its ability to meet immediate obligations. In the context of M&A, liquidity plays a critical role in evaluating the financial viability and risk of target firms. Studies by Ramadhani & Yudiantoro (2024) and Tamahiwu et al. (2023), employing the Wilcoxon Signed Rank Test, found no significant differences in CR before and after acquisitions. Regarding its effect on stock prices, Suhar et al. (2023) reported a significant positive relationship, whereas Khasanah et al. (2021) found mixed results.

Profitability Ratios: Return on Assets (ROA) and Return on Equity (ROE)

Profitability is another core indicator of financial performance, with ROA and ROE being the most commonly used metrics (Gea & Johan, 2021). ROA is particularly useful in evaluating a firm's efficiency in utilizing assets, especially in multinational operations (Purwanto & Larasati, 2022). ROE measures shareholder returns and investment performance. While Husna and Irawati (2024) found significant changes in ROA and ROE post-M&A in telecommunications firms, Ramadhani and Yudiantoro (2024) reported no significant

differences. Both metrics, however, have been linked to stock price fluctuations (Khasanah et al., 2021).

Activity Ratio: Total Asset Turnover (TATO)
The activity ratio evaluates how effectively a company utilizes its assets to generate revenue. TATO is commonly used for this purpose, reflecting operational efficiency (Veronika et al., 2022). While Husna & Irawati (2024) identified significant changes in TATO after M&A, other studies, including those by Ramadhani & Yudiantoro (2024) and Tamahiwu et al. (2023), found no significant differences. Furthermore, Khasanah et al. (2021) reported no influence of TATO on stock prices, whereas Wardana & Fikri (2019) observed a weak, statistically insignificant positive effect.

Solvency Ratio: Debt-to-Equity Ratio (DER)
Solvency ratios, such as the DER, assess a firm's ability to meet long-term financial obligations. A lower DER indicates reduced financial risk and stronger solvency (Rahayu, 2019). Research by Ramadhani and Yudiantoro (2024) found significant changes in DER following M&A, while Tamahiwu et al. (2023) reported no such difference. DER has also been shown to impact stock prices significantly (Khasanah et al., 2021).

Market-Based Indicator: Abnormal Return
Investors prioritize returns when allocating capital, particularly in the capital market. Abnormal returns—returns that deviate from expected market performance—offer insights into investor reactions surrounding M&A events. Mellynia (2023) identified notable differences in abnormal returns before and after acquisitions, suggesting that M&A events influence market perceptions and investor sentiment.

Macroeconomic Variables: Inflation and Interest Rates
Macroeconomic indicators such as inflation and interest rates also influence corporate financial performance and stock valuations. Inflation, the general rise in prices over time, is often driven by currency devaluation due to excess money supply. Rachmawati (2018) found that inflation has a significant negative impact on stock prices. Similarly, interest rates—determined by monetary policy and market dynamics—can alter investor preferences, diverting funds from equities to fixed-income instruments (Tandelilin, 2017). While Rachmawati (2018) noted a negative effect of interest rates on stock prices, other studies (Aminuddin & Retnani, 2020; Pradhana Farrell & Fatimah, 2023) reported no significant influence.

Research Methodology

This study adopts a quantitative research method, which is grounded in the positivist paradigm and used to examine populations or samples through measurable data. Data collection in quantitative research typically involves standardized instruments, with subsequent analysis conducted using statistical techniques to validate predetermined hypotheses. Quantitative approaches are widely utilized in both social and scientific fields - including by biologists, psychiatrists, biochemists, sociologists, economists, and marketing professionals.

The research focuses on companies listed on the Indonesia Stock Exchange (IDX) that conducted acquisition activities during the period of 2020 to 2022. Out of 20 companies recorded to have undertaken acquisitions in that timeframe, only 10 met the following criteria

to be included in the study sample:

- The acquisition date occurred during the COVID-19 pandemic.
- The company is listed on the Indonesian Stock Exchange.
- The company operates within the service sector.

Variables and Measurement

The study investigates financial performance, market performance, inflation, and interest rates as the primary variables. The following financial ratios and indicators are used for measurement:

- *Current Ratio (CR):* A liquidity ratio used to assess a company's ability to meet short-term obligations. It compares current assets to current liabilities and serves as an essential tool for management decision-making, particularly in evaluating cash flow and short-term financial stability.
- *Return on Assets (ROA):* A profitability ratio that measures how effectively a company utilizes its assets to generate profit. ROA provides insight into management efficiency and operational health, and is often used by investors to evaluate investment potential.
- *Return on Equity (ROE):* This ratio evaluates how well a company uses shareholder equity to generate profits. A high ROE is generally desirable, indicating strong profit generation from investors' capital. Conversely, a low ROE may reflect operational inefficiencies or financial challenges.
- *Total Asset Turnover (TATO):* An activity ratio that measures a company's efficiency in utilizing its assets to generate revenue. TATO is helpful for assessing how effectively a company is deploying its asset base for operational success.
- *Debt to Equity Ratio (DER):* A solvency ratio indicating the proportion of debt used relative to shareholders' equity. It reflects the company's financial leverage and risk profile. Management can use this metric to determine optimal financing strategies and capital structure decisions.
- *Abnormal Return:* Represents the difference between actual returns and expected returns based on a benchmark or market model. This metric is crucial for assessing investment performance beyond standard risk-adjusted expectations, especially in the context of M&A events.
- *Inflation:* Defined as the general rise in prices of goods and services over time, inflation erodes purchasing power. It can result from demand-pull factors, cost-push pressures, or anticipated future inflation, all of which influence financial markets and investment decisions.
- *Interest Rate:* The cost of borrowing money or the return on savings, typically expressed as a percentage. Interest rates influence investment decisions and stock prices, often reflecting broader monetary policy trends and market conditions.

Data Collection and Analysis

The data collection design involves both primary and secondary data, although this study primarily utilizes secondary data. Data sources include official financial records from the Indonesia Stock Exchange (IDX) and financial platforms such as Yahoo Finance. Collected data includes financial statements, interest rates, and inflation rates from two years before and after each acquisition event.

The research is divided into two key topics:

1. *Comparative Analysis:* This examines differences in financial performance before and after acquisitions. A normality test using the Kolmogorov–Smirnov method will determine whether parametric (e.g., paired t-tests) or non-parametric tests (e.g., Wilcoxon Signed

Rank Test) are appropriate for analysis.

2. *Influence Analysis:* This evaluates the impact of financial performance and external macroeconomic variables (inflation and interest rates) on stock prices. The study employs multiple regression analysis, incorporating methods such as descriptive statistics, panel data regression, classical assumption testing, and multivariate regression models to determine the relationships among variables.

Results and Discussions

Descriptive Statistics

Descriptive statistics provide a summary of the main features of the data and offer an overview of the research variables. These statistics typically include measures such as minimum, maximum, mean, and standard deviation, which help in understanding the distribution and central tendency of the data.

Based on the results of the descriptive statistical analysis presented in Table 4.1, most of the data is relatively homogeneous and exhibits low variability, which supports the accuracy and reliability of the comparative analysis. However, two variables—Total Asset Turnover (TATO) and Abnormal Return (A/R)—show higher levels of variability, indicating that these data points are more heterogeneous compared to others.

Table 4.1.
Descriptive Statistics of Independent and Dependent Variables

Name of Variable	Minimum	Maximum	Mean	Standard Deviation
CR Before	0.336	5.492	2.129	1.694
CR After	0.370	5.266	2.074	1.760
ROA Before	-0.046	0.155	0.034	0.061
ROA After	0.0003	0.137	0.054	0.047
ROE Before	-0.197	0.224	0.071	0.124
ROE After	0.0004	0.185	0.105	0.057
TATO Before	0.040	2.580	0.866	0.944
TATO After	0.079	2.198	0.802	0.857
DER Before	0.173	4.932	1.825	1.791
DER After	0.129	3.158	1.403	1.232
AR Before	-12.86%	62.96%	13.66%	21.63%
AR After	-10.73%	29.58%	6.15%	12.98%
Inflation Before	1.8%	3.11%	2.57%	0.48%
Inflation After	1.8%	3.95%	2.8%	0.91%
Interest Rate Before	3.89%	5.39%	4.82%	0.56%
Interest Rate After	3.61%	4.91%	4.06%	0.39%

Source: Proceed data by Statistical Software

Comparative Studies

The paired sample T-test is a statistical method used to compare the mean values of two related variables - typically pre- and post-treatment or time-based data - to determine whether there is a statistically significant difference between them. Based on the results of the normality test, the data for Current Ratio (CR), Return on Assets (ROA), Return on Equity (ROE), and Abnormal Return (A/R) were found to be normally distributed. Consequently, a paired sample

T-test was applied to assess whether there were significant differences in these variables before and after the acquisition activities. The results of the paired sample T-test are presented below and provide insights into the financial and market performance changes experienced by the company's post-acquisition.

Table 4.2
Paired Sample T-test Result

Variable	Asymp. Sig(2-tailed)	α
Current ratio	0.841	0.05
Return on assets	0.174	0.05
Return on equity	0.225	0.05
Abnormal return	0.453	0.05

Source: Proceed data by Statistical Software

Based on the results of the paired sample T-test presented in Table 4.2:
- Current Ratio (CR) has a significance value of 0.841
- Return on Assets (ROA) has a significance value of 0.174
- Return on Equity (ROE) has a significance value of 0.225
- Abnormal Return (AR) has a significance value of 0.453

All of these significance values are greater than the alpha level ($\alpha = 0.05$), indicating that there is insufficient evidence to reject the null hypothesis (H_0). This means that there are no statistically significant differences in the CR, ROA, ROE, and AR variables before and after the acquisition activity. In other words, the acquisition did not have a significant effect on these financial and market performance indicators.

Wilcoxon Signed Rank Test

The Wilcoxon Signed Rank Test is a non-parametric statistical method used to compare two related samples when the assumption of normality is not met. It is especially useful for small sample sizes or skewed data distributions.

According to the normality test results, the variables Total Asset Turnover (TATO) and Debt-to-Equity Ratio (DER) do not follow a normal distribution. Therefore, the Wilcoxon Signed Rank Test was applied to examine the differences in these variables before and after the acquisition. The results of the Wilcoxon test are presented below and provide further insights into whether these non-normally distributed variables show statistically significant changes due to acquisition activities.

Table 4.3.
Wilcoxon Signed Rank Test

Variable	Asymp. Sig(2-tailed)	α
Total Assets Turnover	0.203	0.05
Debt Equity Ratio	0.114	0.05

Source: Proceed data by Statistical Software

Based on the results in Table 4.3, the Wilcoxon Signed Rank Test shows that Total Asset

Turnover (TATO) has a significance value of 0.203, and the Debt-to-Equity Ratio (DER) has a significance value of 0.114. Since both values are greater than the significance threshold of 0.05, the null hypothesis cannot be rejected. This implies that there are no statistically significant differences in TATO and DER before and after the acquisition activity. In summary, all variables tested using the Wilcoxon method do not exhibit significant changes as a result of the acquisition.

Influence Analysis

This study employs panel data regression analysis, which allows for the use of three potential models: the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). To determine the most suitable model, a series of diagnostic tests must be conducted, beginning with the F Statistical Test (Chow Test).

- F Statistical Test (Chow Test)
  The Chow Test, as presented in Table 4.4, is used to compare the Fixed Effect Model and the Common Effect Model. The F-statistic is calculated using degrees of freedom for both the numerator and the denominator. If the calculated F value exceeds the critical F value, it indicates that the Fixed Effect Model is more appropriate for the panel data regression. Conversely, if the calculated F value is less than the critical F value, then the Common Effect Model is preferred for the analysis.

Table 4.4.
Chow Test Result

Effect Test	Statistic	d.f	Prob.
Cross-section F	25.6249	(9,63)	0.0000
Cross-section Chi-Square	123.1332	9	0.0000

Source: Proceed data by Econometric Software

- Hausman Test
  The Hausman Test is a statistical procedure designed to determine whether the Fixed Effect Model or Random Effect Model should be preferred over the Common Effect Model in panel data regression. The test follows a Chi-Squared distribution, with the degrees of freedom corresponding to the number of independent variables in the model.

  If the Hausman statistic exceeds the critical value of the Chi-Squared distribution, the null hypothesis is rejected, indicating that the Fixed Effect Model is the appropriate choice for panel data regression. Conversely, if the Hausman statistic is smaller than the critical value, the null hypothesis is not rejected, suggesting that the Random Effect Model is more suitable for the analysis.

Table 4.5.
Hausman Test Result

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.2038	7	0.4080

Source: Proceed data by Econometric Software

- Lagrange Multiplier Test
  The Lagrange Multiplier (LM) Test is used to assess whether the Random Effect Model is

preferable to the Common Effect Model in panel data regression. This test follows a Chi-Squared distribution, with the degrees of freedom corresponding to the number of independent variables.

If the calculated LM value exceeds the critical value from the Chi-Squared distribution, the null hypothesis is rejected, indicating that the Random Effect Model is more appropriate for the analysis. Conversely, if the LM value is smaller than the critical value, the null hypothesis is not rejected, suggesting that the Common Effect Model should be used for the panel data regression.

Table 4.6.
Lagrange Multiplier Test Result

	Cross-section	Test Hypothesis Time	Both
Breusch-Pagan	99.1994	0.9502	100.1497
	(0.0000)	(0.3297)	(0.0000)

Source: Proceed data by Econometric Software

Based on the results of the stages above, the random effect model is the regression model estimation suitable for this study.

Normality Test

Figure 4.1 shows the test results to determine the normalcy level. The calculation of the Jarque-Bera is 0.051558, which is more significant than the threshold of significance of 0.05. There is evidence that the data is evenly distributed and meets the requirements of the normality test.

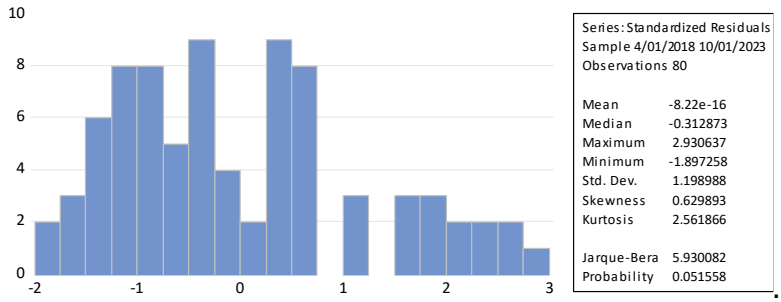

Figure 4.1. Normality Test Result
Source: Proceed data by Econometric Software

Multiple Regression Analysis

Multiple linear regression analysis is a statistical method used to model the relationship between a dependent variable and two or more independent variables. This technique allows for the inclusion of multiple independent variables, helping to explain their combined impact on the dependent variable.

The results from the multiple regression analysis, presented in Table 4.6, provide valuable insights into how the dependent variable can be estimated while accounting for the influence of various independent variables. According to Ghozali (2016), the coefficient of

determination (R^2) is a key measure that indicates how well the model explains the variance in the dependent variable. A higher R^2 value suggests that the model explains a greater proportion of the variability in the dependent variable.

Table. 4.7.
Multiple Regression Analysis Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.0570	0.4444	15.8781	0.0000
CR	0.1021	0.0513	1.9880	0.0506
ROA	1.0510	1.3764	0.7635	0.4476
ROE	0.8305	0.5141	1.6154	0.1106
TATO	-0.0706	0.0817	-0.8642	0.3903
DER	-0.2248	0.0528	-4.2517	0.0001
INFLATION	1.8114	3.5092	0.3366	0.7373
INTEREST RATE	-8.1015	4.6759	-1.7325	0.0875
Effect Specification				
			S.D.	Rho
Cross-section random			1.1953	0.9420
Idio syncretic random			0.2966	0.0580
Weighted Statistics				
R-squared	0.4947	Mean dependent var		0.5804
Adjusted R-squared	0.4456	S.D. dependent var		0.3989
S.E. of regression	0.2970	Sum squared resid		6.3532
F-statistic	10.0729	Durbin-Watson stat		1.1530
Prob(F-statistic)	0.0000			

Source: Proceed data by Econometric Software

The Coefficient of Determination (R^2)
The coefficient of determination, commonly referred to as R^2, measures the proportion of variance in the dependent variable that can be explained by the independent variable(s). The R^2 value typically ranges from 0 to 1, where an R^2 of 1 indicates that the model perfectly predicts the dependent variable, while an R^2 of 0 suggests no explanatory power.

In Table 4.7, the R^2 value calculated using EViews 12 is 0.445655, or 44.56%. This indicates that 44.56% of the fluctuations in the share price can be explained by the independent variables (CR, ROA, ROE, TATO, DER, Inflation, and Interest Rate) simultaneously. For more accurate and balanced results, it is often recommended to use the adjusted R^2, which takes into account the number of predictors in the model. Given that the adjusted R^2 is also 0.445655, we can conclude that the independent variables account for 44.56% of the variation in the dependent variable, with the remaining 55.44% attributed to other factors not included in the regression model.

Partial Test (T-test)
The partial test (T-test) examines the individual impact of each independent variable on the dependent variable. According to the findings in Table 4.7, the results are as follows:

1. *Current Ratio (CR):*
   The probability value is 0.050, which is equal to 0.05. The t-statistic is 1.9880, indicating that the current ratio partially significantly influences changes in the share price.
2. *Return on Assets (ROA):*
   The probability value is 0.4476, which is greater than 0.05. The t-statistic is 0.7635,

suggesting that the return on assets does not significantly impact the share price.

3. *Return on Equity (ROE):*
   The probability value is 0.1106, which is greater than 0.05. The t-statistic is 1.6154, showing that the return on equity does not significantly influence the share price.
4. *Total Assets Turnover (TATO):*
   The probability value is 0.3903, which is greater than 0.05. The t-statistic is -0.8642, indicating that total assets turnover does not significantly impact the share price.
5. *Debt-to-Equity Ratio (DER):*
   The probability value is 0.0001, which is less than 0.05. The t-statistic is -4.2517, confirming that the debt-to-equity ratio has a substantial impact on share prices.
6. *Inflation:*
   The probability value is 0.7373, which is greater than 0.05. The t-statistic is -0.3366, suggesting that inflation does not significantly influence the share price.
7. *Interest Rate:*
   The probability value is 0.0875, which is greater than 0.05. The t-statistic is -1.7325, indicating that the interest rate does not significantly influence the share price.

Conclusion

In this research, 13 different variables were employed, with six of them used in various tests on company activities, and seven independent variables utilized to assess the impact of financial performance and external factors on company stock prices. The results, derived from both parametric and non-parametric analyses, are summarized as follows:

- *Current Ratio (CR):*
  There is no significant difference in the current ratio before and after the acquisition; however, the current ratio significantly influences the company's share price.
- *Return on Assets (ROA), Return on Equity (ROE), and Total Assets Turnover (TATO):*
  These variables do not show a significant difference before and after the acquisition, and neither ROA, ROE, nor TATO significantly influences the share price.
- *Debt-to-Equity Ratio (DER):*
  The debt-to-equity ratio does not show a significant difference before and after the acquisition, but it significantly influences the company's share price.
- *Abnormal Return (A/R):*
  There is no significant difference in abnormal returns before and after the acquisition.
- *External Factors:*
  Inflation and Interest Rates do not have a significant impact on the share price.
- *Simultaneous Influence of Financial Performance and External Factors:*
  Both financial performance variables (CR, ROA, ROE, TATO, DER) and external factors (Inflation and Interest Rate) simultaneously influence changes in company share prices.

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