

CHAPTER I

INTRODUCTION

1.1. Research Background

Maximizing the company value is very important for a company, since it also means maximizing shareholder wealth which is the company's main purpose (Jallo et al., 2017). Increased and continuously improved of company's value is part of the long term goals for every company. The company value is usually reflected in the stock market price of the company; the higher the stock market price then the higher the value of the company. Putu et al. (2014) examine that the company could implement a number of ways to obtain company value. It stated that corporate governance (CG) and corporate social responsibility (CSR) are some of the ways.

In the process of value maximization would arise a conflict of interest between managers and shareholders that is discussed in the agency theory (Jallo et al., 2017). Wahyudin (2012) explained that CG arises as a result of this agency problems that there are behaviors generating personal benefits especially from the agent (manager) by inflicting interest of another party (the principal or the shareholder) (Wahyudin and Solikhah, 2017). Some of the corporate governance structure that is believed to solve this agency problem are board of commissioners, board of directors and board committee since these structure are part of the internal mechanism that aims in dealing and balancing the conflict of interest between agent and the principal (Marini and Marina, 2017; Muryati and Suardikha, 2014).



In 2008, Smallman point out that CG primary aim is to ensure that shareholders get a return on their investment and at the same time in increasing its profits, company meets its social responsibilities. Furthermore, corporate governance empower for better monitoring and control so that the managers are more likely to make decisions for the best interest of the shareholders that will minimize opportunistic behavior of the managers that decrease company value (Siagian, Siregar and Rahadian, 2013). At the end, the implementation of corporate governance could lead to the increasing company value.

Frequently, many companies try to “get close” to their external parties. One way that they do is by implementing the corporate social responsibility (CSR). McManus (2008) bring out that CSR is a highly significant trend that the progressive companies are taking it seriously (Khan, 2016). CSR is one of the factors that affect the value of the company as one of the basic ideas underlying the CSR is the realization that the company has not only economic obligations to the shareholders but also has a social responsibility to the stakeholder (Jallo et al., 2017).

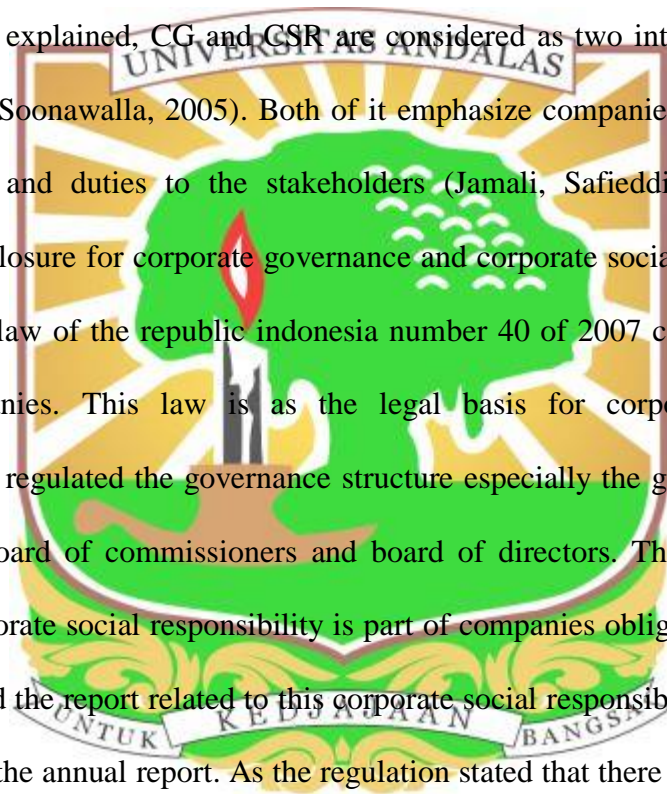
Eventhough CSR is clearly understood as embracing responsibility for corporate actions, CSR has ambiguous effect on the company value (Minor, 2016). There are two existing competing theoretical frameworks on the relationship between CSR and company value. Firstly, opinion about a negative relationship between CSR and company value by the reason of the increased cost related to the higher levels of CSR, which would put the company at an economic disadvantage. The example of this cost is extensive charitable contribution and establishing environmental protection procedures. Secondly, argument about a positive relationship between



CSR and company value due to the improvement of employee satisfaction and customer goodwill. Moreover, the failure to disclose CSR information may result in more occupational safety regulations, higher anti-pollution taxes and consumer boycotts (Khan, 2016). Accordingly, rising global awareness of social responsibility of companies has increased the need for high quality CSR disclosure (Habbash, 2016).

Further explained, CG and CSR are considered as two interconnected sides (Bhiamani and Soonawalla, 2005). Both of it emphasize companies to disclose their responsibilities and duties to the stakeholders (Jamali, Safieddine and Rabbath, 2008). The disclosure for corporate governance and corporate social responsibility is regulated in the law of the republic indonesia number 40 of 2007 concerning limited liability companies. This law is as the legal basis for corporate governance application that regulated the governance structure especially the general meeting of shareholders, board of commissioners and board of directors. This regulation also stated that corporate social responsibility is part of companies obligation that have to be budgeted and the report related to this corporate social responsibility activity must be disclosed in the annual report. As the regulation stated that there will be a sanction for the company who do not put their obligation into practice.

However, the implementation of corporate governance and corporate social responsibility is still far from what is expected. Lukviarman (2016) revealed that Indonesia corporate governance score is still low compared to the other country in South Asia. The poor implementation is also indicated by the fact that only 2 Indonesian companies that entered the list of 50 best companies in ASEAN Corporate



Governance Awards 2015 as being published by Primadhyta (2017). Similarly, the implementation of corporate social responsibility is also below the average. Suastha (2016) published that the score for CSR implementation quality for Indonesia is still low with the score 48,4 out of 100. Hence, the further reaserch is needed to find out the effect of CG and CSR that is considered still low in the implementation towards the company value.

There is some previous research that supported the effect of these two aspects, CG and CSR, towards the company value. Jallo et al. (2017) find out that CG and CSR has positive effect towards the company value. The research done by Putu et al. (2014) also reveals that CG and CSR have an effect in increasing company value. However, there is also research that reveals CG and CSR has no effect towards company value (Rahmadiani and Asandimitra, 2017).

For deeper understanding, the researcher interested in doing the research about the effect of corporate governannce and corporate social responsibility towards the company value. The research will be done to the consumer goods sector of manufacturing company listed Indonesia Stock Exchange during the yeard 2013-2017 since these sector tend to be stable and prospected to have the contribution for country's development in the future.

1.2. Problem Statement

Based on the description above, the problem to be studied are:

1. How does the effect of corporate governance in terms of board of commissioners, board of directors and board committee towards company value?

2. How does the effect of corporate social responsibility towards company value?

1.3. Research Objective

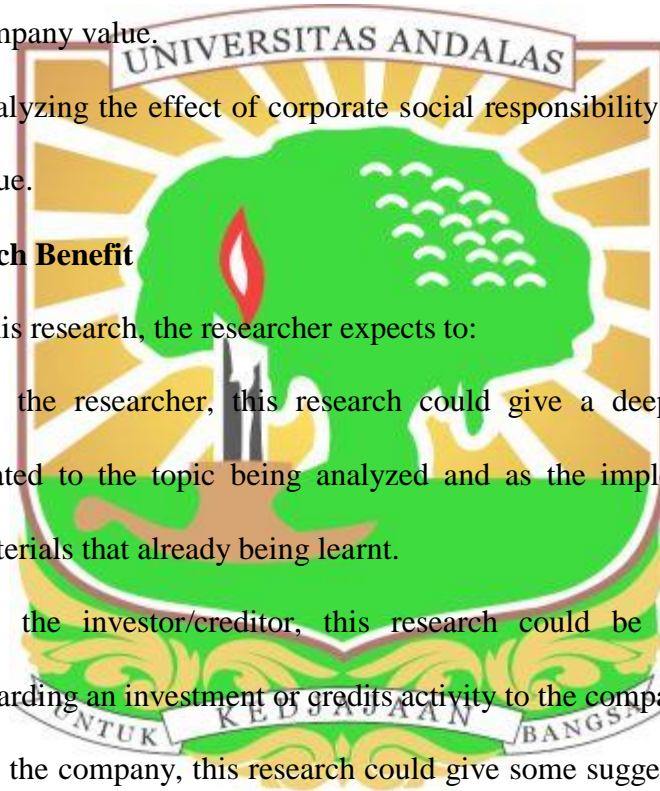
The purpose of this research is to:

1. Analyzing the effect of corporate governance in terms of board of commissioners, board of directors and board committee towards company value.
2. Analyzing the effect of corporate social responsibility towards company value.

1.4. Research Benefit

From this research, the researcher expects to:

1. For the researcher, this research could give a deeper understanding related to the topic being analyzed and as the implementation of the materials that already being learnt.
2. For the investor/creditor, this research could be the consideration regarding an investment or credits activity to the company.
3. For the company, this research could give some suggestion or additional information regarding to the decision making related to CG and CSR.
4. For the subsequent researchers, this research could be the reference for the further research related to CG and CSR.



1.5. Writing Systematic

The structure of this research paper is divided into 5 chapters and will be prepared as follows:

1. Chapter I: Introduction

This chapter aims to give information related to the background of the research, the problems that is being analyzed, the objective and the benefit of the research.

2. Chapter II: Literature Review

This chapter contains the theoretical framework as an explanation of theory that is relevant with all the research variables, review previous research or previous researcher's point of view, development of hypothesis and conceptual framework.

3. Chapter III: Research Method

This chapter give the information related to research design, population and sample, operational variable definition, data collection method and data analysis method.

4. Chapter IV: Data Analysis and Discussion

This chapter provide an explanation related to the result of the hypothesis testing as well as the interpretation and the discussion of the result.

5. Chapter V: Conclusion and Suggestion

This last chapter consist of the conclusion of the research, research implication for the relevant parties, research limitation and the suggestion for the next research.

