CHAPTER I

INTRODUCTION

1.1 Background of Research

One of the company's goals is to maximize the firm value. All companies definitely want a high value because it can reflect the success of a company in managing its resources to produce large profits which indirectly will also reflect the prosperity of shareholders is also high. High firm value can increase prosperity for shareholders, so that shareholders will invest their capital in the company (Haruman, 2008).

Firm value can be measured through various aspects, one of which is the market price of a company's stock because the market price of a company's stock can be a benchmark for investor valuation of each equity owned. Stock market prices show a central assessment of all market participants, stock market prices act as a barometer of company management performance. If the firm value is proxied by the stock price, maximizing the firm value is the same as maximizing the stock price. Every company wants high firm value in order to increase shareholder prosperity. There are many ways that can be used to measure the firm value, one of them is by using Price to Book Value (PBV), which is a ratio that measures the value of a company by dividing the stock price in the stock market with the book value of the stock. The following is a list of firm values as measured by PBV (Price to Book Value) in banking companies (2014-2017) :

Table 1.1 PBV Value of The Banking Industry (2014-2017)

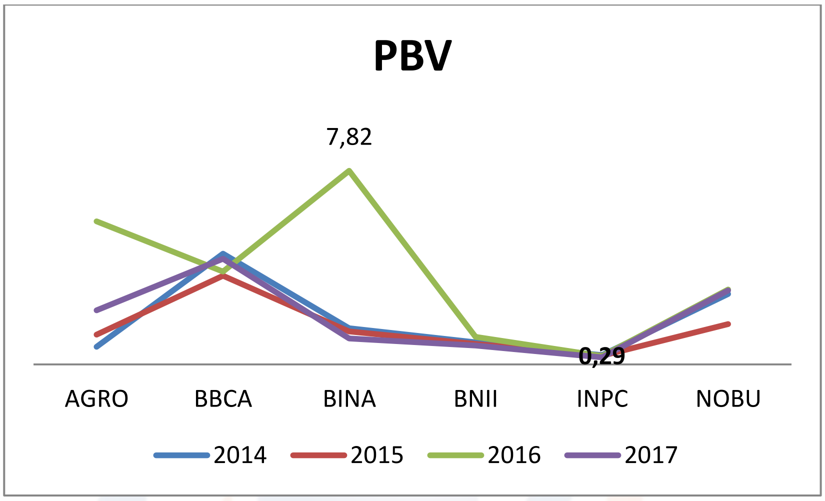
Company	PBV			
	2014	2015	2016	2017
Bank Rakyat Indonesia Agroniaga Tbk. (AGRO)	0,72	1,21	5,78	2,18
Bank Central Asia Tbk. (BBCA)	4,47	3,58	3,75	4,26
Bank Ina Perdana Tbk. (BINA)	1,46	1,34	7,82	1,05
Bank Maybank Indonesia Tbk. (BNII)	0,90	0,83	1,12	0,76
Bank Artha Graha Internasional Tbk. (INPC)	0,38	0,35	0,34	0,29
Bank Nationalnobu Tbk. (NOBU)	2,84	1,63	3,03	2,98

Source : Secondary Data Processed, 2019

Based on table 1 above, it can be seen that the PBV value of banking companies has fluctuated. This can be caused by several factors, one of which is a decrease in the company's financial performance. It can also be seen that banking companies in Indonesia have relatively small and fluctuating firm values. The company certainly is always expected to increase their value from time to time.

Small firm value can cause problems, as companies will lose their appeal in the stock market (Purbopangestu, 2014). The lower the firm value, the lower the investor's interest to invest. Companies that have a large PBV ratio can be said to have an overvalued valuation while stocks that have a PBV below 1 have a low valuation or undervalued.

Figure 1.1 PBV Value of Bank Companies (2014-2017)



Source : Secondary Data Processed, 2019

From figure 1, it can be seen that the PBV value of bank companies in the 2014-2017 period experienced a fluctuation. The highest increase was experienced by Ina Perdana Tbk. Bank (BINA) in 2016 amounting to 7,82. While the lowest decline was experienced by Bank Artha Graha Internasional Tbk. (INPC) in 2017 of amounting on 0,29. Thus a bank with a PBV value of more than 1 can be said to be financially healthy and more likely to benefit than a bank whose PBV value is below 1.

Firm value can be influenced by many factors, one of which is Corporate Governance. According to Shleifer and Vishny (1997), Corporate Governance (CG) is a system that regulates and controls companies that are expected to provide and increase firm value to shareholders. Corporate governance began to be widely discussed in 1997, when East Asian countries experienced an economic crisis and the revealed of large-scale financial scandals such as the Enron, Worldcom and Global Crossing scandals. The impact of such cases is the emergence of doubts from the community or stakeholders on the company and its supporting institutions. The development of the issue of corporate governance encourages increased attention to the issue of disclosure of corporate governance aspects of a company, both by investors and the government through the formulation of regulations or corporate governance standards. This is done by protecting stakeholders related to the event, and the most important thing is to restore public trust.

Various responses due to the issue of Corporate Governance emerged from various countries, including Indonesia. In Indonesia, the response to the development of issues regarding good corporate governance can be marked by the government's response to the establishment of the National Committee on Corporate Governance (KNKCG) in 1999, which later changed its name to the National Committee on Governance Policy (KNKG) in November 2004 based on the decision of the Coordinating Minister Economy No: KEP-49 / M.EKON / 11/2004. KNKG is an institution that aims to improve the implementation of good governance in Indonesia comprehensively and provide input to the government on issues of governance in the public and private sectors (Warsono et al., 2009). The establishment of this committee produced general guidelines for good corporate governance in 2006. This guideline is not a statutory regulation so it does not have binding legal provisions.

BAPEPAM (Capital Market Supervisory Agency) through the decision of the Chairman of the Capital Market and Financial Institution Supervisory Agency number: KEP-134 / BL / 2006 concerning the obligation to submit annual reports for issuers or public companies stating that the annual report must contain a brief description of the implementation of corporate governance that has been and will be carried out by the company in the last annual financial statement period. This regulation applies to the preparation of annual reports for the financial year ending on or after December 31, 2006. These decisions and regulations must be complied with by all issuers and public companies because there is legal force and also considers that annual reports are important sources of information for shareholders and community in making investment decisions.

The Forum for Corporate Governance in Indonesia (FCGI) revealed that besides being able to provide protection for shareholders and other fund owners, the implementation of GCG can also improve business performance and stock prices. Business performance can be measured through the company's ability to generate profits. Based on signaling theory, one of the factors that can influence firm value is profitability. Profitability is the ability to generate profits during a certain period using assets or capital, both capital as a whole and own capital (Harahap, 2007).

There are several studies that show that profitability has an effect on firm value, some of which are: research conducted by Bhekti Fitri Prasetyorini (2013) which found that Company size, price earnings ratio, and profitability influence the firm value. This research is in line with the research conducted by G. A. Sri Oktaryani, et al (2017) who found that GCG implementation has a positive effect on ROA and Profitability has a significant effect on firm value. Several previous studies of the effect of corporate governance to examine on firm values include: research conducted by Erna Wati Fitriana (2009) who found that Corporate Governance Perception Index has a significant effect on firm value. This is contrary to the research conducted by Tito Albi & Abdul Rohman (2013) who found that the CGPI score has no significant effect on stock value, and Truely Purnama Sari & Sedianingsih (2014) found that CGD does not have a significant positive effect on firm value.

The difference in this research with some of the above studies is first, researchers want to use the corporate governance disclosure index in measuring corporate governance. Although there have been many studies linking corporate governance with company value, not many studies have used corporate governance disclosure indices as a proxy for implementing good corporate governance. The use of corporate governance indices is quite important because in addition to being a positive signal for investors, it can also be known the level of compliance (compliance) of the company against the BAPEPAM Kep-134 / BL / 2006 regulations regarding disclosure of good corporate governance practices. The second difference lies in the 2014-2017 study period. By using the research period, the results of the study reflect more current conditions. The third, In this study, researchers used a banking company as the object of research. This is because the characteristics of the banking industry are different from other industries. In addition, the banking industry is a trust-based industry. To increase investor confidence, of course banks need to increase transparency and accountability. One of them is the disclosure of corporate governance.

The description above lies behind the researcher to conduct research on disclosure of Corporate Governance and its influence on firm value. Based on the description above, the topic of this study is: "THE INFLUENCE OF CORPORATE GOVERNANCE DISCLOSURE ON FIRM VALUE IN BANKING INDUSTRY LISTED IN INDONESIA STOCK EXCHANGE (2014-2017) "

1.2 Identification of Problems

Based on the background of the problems described above, the problem can be identified as follows:

1. Not all companies that disclose more corporate governance items have higher firm value.
2. Not all companies that disclose more corporate governance items have higher profitability
3. Not all companies that have higher profitability have higher firm value

1.3 Problem Limitation

The researcher uses restrictions on problems so that the results obtained are more specific and accurate, as follows:

1. This study only examines corporate governance disclosures on firm value.
2. This study examines objects in the bank sub-sector service companies listed on the Indonesia Stock Exchange (IDX) for the period 2014-2017.
3. The independent variable in this study is corporate governance disclosure.
4. The dependent variable in this study is firm value.
5. Intervening Variable in this study is profitability

1.4 Formulation of The Problem & Research Purposes

Based on the title and background of the research described above, the research problem can be formulated in the form of the following questions:

1. Does corporate governance disclosure affect firm value?
2. Does corporate governance disclosure affect profitability of the company?
3. Does profitability affect firm value?
4. Does corporate governance disclosure affect firm value through profitability?

The purpose of this study was to find empirical evidence related to the research question of the problem above.

1.5 Benefits of Research

This research is expected to provide benefits in the form of thought contributions, practice contributions, and policy contributions, including for:

1. Regulators. For BAPEPAM and BEI, this research is expected to provide empirical evidence regarding the effectiveness of regulations that have been issued regarding corporate governance disclosure in order to encourage increased corporate governance disclosure practices in Indonesia.
2. Investors or community capital market players in Indonesia, it is hoped that this research will also provide information and knowledge about company performance seen from corporate governance disclosure, so that it can be a more rational consideration when investing.
3. Creditors and financial analysts. This research is expected to help in assessing company performance when viewed from corporate governance disclosure.

4. The company. For management, namely helping managers in making the right decisions in order to improve performance in accordance with the desired company, so that the company's goals can be achieved.
5. Development of science. It is hoped that this study will add to the literature review on the relationship between corporate governance disclosure and firm value.