CHAPTER I

INTRODUCTION

1.1 Background

Indonesian crisis that began in mid-1997, one of them due to the poor level of corporate governance. It is characterized by lack of transparency in the management of public companies that control becomes very weak and the concentration of large shareholders in some families led to the intervention of the majority shareholder in the company's management is very pronounced and a conflict of interest which greatly deviate from the norms of good corporate governance (Fajari And Murtanto, 2005).

According to the agency theory to solve problems which one is a misalignment of interest through corporate governance (CG). Corporate governance is a mechanism used to ensure that the financial supplier, such as shareholders and bondholders, than companies earn returns from the activities undertaken by the manager, or in other words how suppliers perform the control of the company's financial manager.

One important goal is the establishment of a company to improve the welfare of its owners or shareholders, or maximizing shareholder wealth by increasing the value of the company. Increase in the value of the company can be achieved if the company is able to operate with achieving targeted profit. Through the profits from the company will be able to pay dividends to shareholders, increasing the company's growth and maintain its viability.

One of the important objectives to establishment a company is to improve the welfare of its owners or shareholders, or maximizing shareholder value through increased value of the company (Brigham and Houston, 2001). Barriers that companies face in achieving the company objectives are usually in on the things that are fundamental, namely : (1) the need for the company's ability to manage its resources effectively and efficiently, which covers all areas of activity (human resources, accounting, management, marketing and production), (2) the consistency of the system of separation between management and shareholders, so in practice the company is able to minimize conflicts of interest that may occur between management and shareholders, and (3) the need for the company's ability to create trust in people external funding, that external funds are used appropriately and efficiently as possible and to ensure that management acts in the best interest of the company. To overcome these constraints, then the company needs to have a corporate governance system, which is able to provide effective protection to shareholders and creditors, so that they can convince him to make a profit with a reasonable investment and high value, but it also must can guarantee the interests of the employees and the company it self.

The issue of corporate governance began to surface, especially in Indonesia in 1998 when Indonesia experienced a prolonged crisis. Many people say the length of the repair process in Indonesia due to the very weak corporate governance are applied in companies in Indonesia. In an attempt to overcome these weaknesses, the business people in Indonesia agreed on the implementation of corporate governance (CG) a system of good corporate governance, which is in line with the signing of a Letter of Intent (LOI) with the IMF in 1998, which is one of contents improvement is the inclusion of schedule Management Company in Indonesia (Sulistyanto, 2003).

Hanafi and Halim (1996) states that ROE is a measure of profitability from the perspective of shareholders. One of the main reasons the company operates is useful to generate profits for shareholders. Size of success in achieving this is the reason that ROE figures achieved. The greater the ROE reflects the company's ability to generate high returns for shareholders. This resulted in increased corporate value. Ross (2002) states return for shareholders could be receiving cash dividends or stock price changes in the period. Kennedy JSP (2003) examined the effect of ROA, ROE, EPS, Profit Margin, Asset Turnover, Leverage Ratio, and DER on Return stock. The samples used were LQ 45 on the JSE in 2001 and 2002. The results obtained showed only variable asset turnover, ROA, ROE, leverage ratio, DER, and EPS gives a real relationship with stock returns. Saepudin (2008) check on the influence of profitability ratios and IOS on stock prices on companies listed on the Stock Exchange in 2005-2007. From these studies note that ROE, ROA, NPM has a positive correlation to the stock price. Theory proposed by Modigliani and Miller stated that the firm's value is determined by the earnings power of the company's assets. The positive results show that the higher the earnings power more efficiently turnover assets or and higher profit margins from the company. This will have an impact on the value of the company. A result of analysis by Raharjo (2005) suggests that ROE has no effect on stock returns. This may be due to investors in buying stocks that do not consider the size of the ROE.

Research about effect corporate governance on the relationship between the financial performances against the company's value has a lot to do. Sri Rahayu (2010), examined the influence of *Corporate social responsibility (*CSR) and corporate governance and the relationship between financial performance and corporate value. Corporate governance is proxy by managerial ownership, financial performance is proxy by ROE, corporate value proxy by Tobin's Q. The result shows that the ROE no significant effect on company value, while Corporate Governance is proxy by managerial ownership is able to moderate the relationship between ROE and Tobin's Q.

Yuniasih and Wirakusuma (2007) investigated the influence of the financial performance against the company taking into account the value of CSR and corporate governance as a moderating variable. Financial performance is proxy by ROA, while corporate governance is proxy by managerial ownership. The results indicate that the ROA has a positive effect on firm value, CSR disclosure can moderate the relationship between ROA to value the company, but managerial ownership cannot moderate the relationship between ROA to value companies.

Carningsih (2009) Examining the Effect of Good Corporate Governance against the Relationship Between Financial Performance of Top Companies to consider corporate governance as a moderating variable, financial performance is proxy by ROA and ROE, corporate governance is proxy by an independent commissioner. The result indicates the Return On Assets (ROA) proved negative effect on firm value, while the Return On Equity (ROE) has no effect on firm value. While the proportion of independent commissioner as a moderating variable was not shown to affect the value of the company.

This research is the development of research Carningsih (2009), but that will be examined in this study is the ROE as a proxy variable of financial performance, because ROE is one of the most important variables are seen investors before they invest. ROE is also a basic test how effective the company's management to use investor money compared to the ROA which only measures a company's efficiency in generating returns from its assets (Clure, 2009). And in Carningsih (2009) use CG as moderate variable but in this study researcher use CG as Dependent variable. This study will analyze the automotive and components companies listed in Indonesia Stock Exchange between 2007-2012, so the results can be generalized and can present all existing manufacturing companies. This was due to the rapid increase in global sales of motor vehicles. It is based on news published by Indonesian Online Business (2009) who preaches the ground transportation industry or the automotive industry is one field that is growing rapidly in Indonesia. In 2008 the contribution of the automotive industry reached 8.2% of gross domestic product which is the biggest contributor to the category of manufacturing industry reached 27.4%. That's what puts the automotive industry as one of the three industries that are expected to drive the growth of national industry and economy of Indonesia.

As Researchers, I used corporate governance as dependent variable because its can affects the value of the company. According Herdinata (2008), companies in Indonesia have characteristics that do not vary with companies in Asia in general, where the company is owned and controlled by the family. Though the company grew and became a public company, but still significant family control. Based on research conducted by Claessens, Stijin, Simeon Djankov and Larry HP in Herdinata (2008), found that in 1996 the market capitalization of the shares held by the family of 10 companies in Indonesia reached 57.7%. For the Philippines and Thailand reached 52.5% and 46.2%. While the stock market capitalization of 15 companies controlled by the family in Korea amounted to 38.4% and 28.3% of Malaysia.

This shows the low managerial ownership structure because most are still dominated by family. Patterns and business ownership as this will encourage corruption, collusion, and nepotism, which in turn will bring down the value of the company. Managerial ownership is one of the corporate governance mechanisms that can affect the incentives for management to carry out the best interests of shareholders (Midiastuty and Machfoedz, 2003). CG emerge and evolve from agency theory, which requires the separation of ownership and control of the company. The higher the expected managerial ownership management will make every effort for the benefit of the shareholders. This is caused by the management will also benefit if the company makes a profit.

In this study the mechanisms of corporate governance indicators used is independent directors. This is based on the notion that the presence of independent directors in the company, it is expected that the empowerment of the board of commissioners may perform monitoring tasks and providing advice to directors more effectively and add value to the company. This state in Law number 1 year 1995 on Limited Liability Company (Company Law) where task of commissioners is overseeing the Directors discretion in running the company and provide advice to the board of directors. Independent Commissioner is a board member who is not affiliated with the Board of Directors, other board members and controlling shareholders, as well as free from the business relationship or other relationship which could affect its ability to act independently or to act solely in the interest of the company.

An expectation of the adoption of good corporate governance system is the achievement of corporate value (Tumirin, 2007). The presence of one of the corporate governance mechanism is expected to monitor the firm's managers can more effectively so as to improve the company's performance and corporate value. So if companies implement corporate governance system is expected to increase the company's performance will be better, with improved performance of the company is also expected to increase the company's share price as an indicator of the value of the company so that the value of the company will be achieved.

Thus, it is necessary for the author to find out how the effect financial performance on the value of the company and whether the CG has influence on company value. In this study, researchers took samples automotive companies and components.

1.2 Problem Statement

Based on the backgrounds which are explained before, so the problem statements in this research are:

1. Is financial performance significantly influence the value of companies listed in Indonesia Stock Exchange?
2. Is good corporate governance significantly influence the value of the automobile companies listed in Indonesia Stock Exchange.

1.3 Research Objective

This study aims to provide empirical evidence whether the financial performance has a significant impact on firm value, and to test whether corporate governance is able to influence the value of the automobile companies listed in Indonesia Stock Exchange.

1.4 Research Benefit

This research purposed to fulfill some advantages as follows:

a) For author, this research conducted to increase the intellectual thinking in accordance with increasing the competencies of this knowledge.
b) As a references for accounting practitioners to continue this research topic.

1.5 Scope of Research

The author of this study limiting investigated the influence financial performance and corporate governance on corporate value.

1.6 Writing Systematic

Chapter I is an introduction part which discuss the background, problem statement, aim of research, advantage of research and writing systematic. Chapter II consists of theoretical framework. This chapter discussed the good corporate governance theory. Chapter III consists of research methodology. This chapter explained the research kind, population and sampling procedure, research variable and measurement, test model, data analysis technique. Chapter IV consists of data analysis. This part will discuss the general description of sample, statistic descriptive, result of hypothesis test and discussion of data analysis which getting from research. Chapter V is conclusion. This chapter provides conclusion and limitation of research also suggestion for the next research.