CHAPTER I

PRELIMINARY

1.1. Background Issues

Maximizing the value of the company is one of the company's goals to be achieved (Anggraini, 2012). The value of the firm shows investors' perceptions of the success rate of companies that are often associated with stock prices (Kusumajaya, 2011). The value of the company also reflects the performance of the company that can affect investors' perceptions of the company. The higher the value of the company, the happier its shareholders (Julianti, 2015).The high corporate value will make investors interested in investing in the company. Before an investor makes a stock investment in a company, they will make stock valuations in advance based on information they get from the capital market (Julianti, 2015). An attempt by an owner or shareholder to maximize a company's value is to turn the company's management into an expert or professional called manager. However, in an effort to increase the value of the firm there will be a conflict of interest between the agent (manager) and the principal (shareholder) called agency conflict.

Agency theory explains the problems that arise when shareholders rely on managers to provide services on their behalf (Jensen and Meckling in Muryanti, 2014). The manager (agent), With the authority it possesses can act in the interest Personality and sacrifice the interests of shareholders (Trisnantari, 2010). The emergence of differences of interests between principals and this agent is the necessity of managing the company well. Jensen and Meckling in Muryanti (2014) argue that The interests of the agent must be in harmony with the principal to solve agency problems. Such conflicts of interest can be minimized by a mechanism capable of aligning the interests of shareholders with the interests of management (Purwaningtyas, 2011). According to Faqidkk (2013), to overcome the problem the company needs to apply the Corporate Governance or Good Corporate Governance (GCG).

Good corporate governance is a form of good company management inside which includes a form of protection of the interests of shareholders (public) as the owner of the company, and creditor as an external funder. In a Corporate governance system, the goodwill of a company provide effective protection to the holder's shares, and to the creditors to recover upon investment reasonably, Precise and efficient, as possible, and ensure that management acts as good as can be done for the benefit of the company (www.Fcgi.com in Sukamulja, 2004). Inescu's research in Muryanti (2014) states that Companies in Venezuela can reduce the cost of capital and Increase market value when improving corporate governance practices.

The concept of corporate governance came into existence when two legal experts, Adolf Augustus Berle and Gardiner C. Means published their monographs entitled "The Modern Corporation and Private Property", followed by Eugene Fama and Michael Jensen in "Separation of Ownership and Control" with Principal Agency Theory. The issue of corporate governance is growing when several important economic events occur. The Asian Financial Crisis of

1997, continued with the downfall of major corporations such as Enron and Worldcom in 2002, and the latest issue of the subprime mortgage crisis in the United States in 2008 (Purwaningtyas, 2011). The economic crisis in Asia and Latin America is believed to have arisen due to the failure of GCG implementation (Daniri, 2005, in Kaithatu, 2006). These events awaken the world to the importance of implementing good corporate governance.

Corporate governance began to become an interesting topic in Indonesia in 1998 when Indonesia was in crisis. One of the causes of the crisis in Indonesia is the weak supervision of the board of directors of companies that should be the responsibility of the board of commissioners. Many banks are bankrupt (liquidated) because their survival is untenable. One of the causes of bankruptcy is the lack of implementation of the principles of corporate governance in the banking environment (Effendi, 2008, in Muryanti, 2014). Therefore, the government including Bank Indonesia has made various efforts to encourage the realization of GCG in the environment banking. In the Bank Indonesia Regulation No.8 / 4 / PBI / 2006 dated January 30, 2006, realizations regarding to the implementation of GCG for commercial banks are made.

Corporate governance, in general, is a set of mutually balancing mechanisms between actions and managers' choices with the interests of shareholders (Susanti, 2011). Zhuang, et al (2000) in Husnan (2001) explains that the corporate governance system consists of (1) various regulations that explain the relationship between shareholders, managers, creditors, government and other stakeholders, and (2) Directly or indirectly enforce these rules or internal and external corporate governance mechanisms. Banhart and Rosenstein (1998) in Lastanti (2004) corporate governance mechanism is divided into two groups. First, the internal mechanisms, such as the composition of the board of directors or commissioners, managerial ownership, and executive compensation.Second, external mechanisms, such as market control, and debt financing levels. The Forum for Corporate Governance in Sukamulja (2004), states that the main goal of corporate governance is to create added value for all stakeholders. Corporate governance mechanisms are expected to reduce agency conflicts that occur between agents and principals, which further impact on the increase in corporate value.

According to The Indonesian Institute for Corporate Governance, corporate governance is defined as a set of mechanisms for Directing and controlling a company, so that the company's operations run in accordance with the expectations of the stakeholders. Corporate governance is a concept that regulates the alignment of the relationships of corporate organs, between shareholders, the board of commissioners and the board of directors that administrates the company. This relationship is governed by the principles of corporate governance such as accountability, responsibility, transparency, fairness, and independence (Purwaningtyas, 2011).

Implementation of the principle of good corporate governance concretely has several objectives, such as facilitating access to domestic and foreign investment, obtaining cheaper cost of capital, giving better decisions in improving the company's economic performance, increasing stakeholder confidence and trust in the company, protecting directors And commissioners of lawsuits as well as protecting the rights of minority shareholders. Companies that implement good corporate governance will be more efficient and increased competitive, which in turn makes it sustainable company (Purwaningtyas, 2011).

Research on audit quality is done by Dewata, et al. (2015) stated that the auditor quality variables show the quality of audit does not significantly affect the value of companies that were audited by KAP Big 4 and KAP non Big 4. Contradictions with research conducted by Siallagan and Machfoedz (2006) is that the quality of auditors does not affect the value of the company. Other research is shown by research conducted by Afiah (2015) which says that many local public accountant qualities do not meet international competency standard because accounting services market is dominated by The Big 4, so the majority of local KAP is unable to provide a programs to improve the quality of accountant.

Research on the influence of the audit committee on the value of the company conducted by Thaharah (2016) proves that audit committee has a significant positive effect on the value of the company, while Muryati (2014) proves that audit committee negatively influence the value of the company. In contrast to research Sari (2014) found evidence that audit committees positively insignificant to the value of the company. Finally, on research that has been done by Muryati (2014). Muryati research (2014) proves that the size of the board of directors positively affect the value of the company, in contrast to research Kusumastuti (2007) which proves that the size of the board of directors positively insignificant to the value of the company.

Based on the above description looking at the results of done research is still diverse in the importance of the implementation of good corporate governance mechanism. The authors are interested in taking the title "ANALYSIS OF THE EFFECT OF GOOD CORPORATE GOVERNANCE MECHANISM ON COMPANY VALUE Study On Banks Listed on BEI Period 2012-2016".

1.2. Problem Formulation

The inconsistency of the research results in the influence of good corporate governance mechanism on company value that becomes the background in this research. The inconsistency of the research results is in the variables used by the previous researchers. Research conducted by Azzahrah (2014), Purwaningtyas (2011), Rahmawati and Hanung (2007) stated that independent board of commissioner variables have no effects on firm value, but Muryanti (2014), Anggraini (2013), Siallagan and Machfoedz (2006) research pointed out its positive effects. In a study conducted by Azzahrah (2014) and Wulandari (2005), it is also said that institutional variable ownership did not affect the value of the company. This contradicts the research conducted by Muryanti (2014), Purwaningtyas (2011) and Susanti (2009) who said that it has a positive effect. Finally, on research that has been done by Dewata, et al. (2015) clearly says that the variable quality of auditors showed the quality of audit does not significantly influence the value of companies that were audited by Big 4 KAP and KAP non Big 4. Contradiction with research conducted by Siallagan and Machfoedz (2006) that the quality of auditors does not affect the value of the company. Research on the influence of the audit committee on the value of the company conducted by Thaharah (2016) proves that audit committee has a significant positive effect on the value of the company, while Muryati (2014) proves that audit committee negatively influence the value of the company. In contrast to research Sari (2014) found evidence that audit committees positively insignificant to the value of the company. Finally, on research that has been done by Muryati (2014) Muryati research (2014) proves that the size of the board of directors positively affect the value of the company, in contrast to research Kusumastuti (2007) which proves that the size of the board of directors positively insignificant to the value of the company.

From the above, then the problem formulation in this research is to re-examine whether the mechanism of good corporate governance affect the value of the company, then spelled out into several research questions as follows:

1. Does the independent board of commissioners influence the value of the company?
2. Does institutional ownership affects company value?
3. Does the quality of the auditor affects the company's value?
4. Dose the audit committee affects the value of the company?
5. Does the size of the board of directors affects the company's value?

1.3. Research Objectives and Benefits

1.3.1. Research Objectives

This study aims to analyze the influence of good corporate governance mechanism on company value, which is described as follows:

1. To analyze and prove the effect of an independent board of commissioners on company value.
2. To analyze and prove the influence of institutional ownership on corporate value.
3. To analyze and prove the influence of auditor quality on company value.

4. To analyze and prove the affect of the audit committee on company value.
5. To analyze and prove the size of the board of directors on company value.

1.3.2. Research Benefits

In line with the purpose of this study, the usefulness derived from this research can be described as follows:

1. Theoretical benefits

a. This research can develop insight, be critical and scientifically associated with the theory of good corporate governance based on agency theory.

b. This research is useful to develop science about good corporate governance and company value.

c. For comparison and development, as well as refinement of previous studies on company value.

d. Can add insight, knowledge, and can be used as a reference for future studies on good corporate governance and corporate value.

2. Practical Benefits

a. This research is useful for companies so that principals pay more attention to the performance of agents to reduce agency conflicts that occur so as to increase the value of the company.

b. This research will help the investor as an illustration in decision-making to invest funds in the company.

1.4. Systematic Writing

This system contains an explanation of the content contained in each chapter briefly from the entire proposal of this study. This research proposal is presented with systematic as follows:

CHAPTER I INTRODUCTION

In this chapter, we describe the background, problem formulation, research objectives and usefulness of the research.

CHAPTER II LITERATURE REVIEW

This chapter contains an explanation of the foundations of previous theories and research, the formulation of hypotheses and frameworks that are the result of literature review and theory relating to the issues to be studied.

CHAPTER III RESEARCH METHOD

This chapter describes research variables and operational definitions, sample determination, data types and sources, data collection methods, and analytical methods.

CHAPTER IV RESULTS AND DISCUSSION

This chapter will be presented with a description of the research object as well as the analysis of data and language that is done, in accordance with the analytical tools used.

CHAPTER V CLOSING

In this chapter, the authors provide conclusions from the results of research conducted and suggestions along with limitations that are useful for similar research purposes in the future.