CHAPTER I
INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In the era of globalization, many sectors and aspects of development have advanced and raised the competitiveness in the business world. This competition requires each company to maintain and improve its performance. Profitability has become an important indicator for the society to evaluate the performance of a company. Company with good and stable performances tend to gain and increase its reputation and more likely to be favored by investors.

Profitability of a company shows the capability in gaining profit and the level of return to be received by investors. Profitability also describes an entity to have a good opportunities or prospects in the upcoming future. The higher number of profitability in a business entity, means the capability of maintaining its survival will be more guaranteed (Hermuningsih, 2013).

The traditional view in business world in which company should only focused on good company performance by gaining the highest profit and ignoring the social impacts that arises from its business is now no longer acceptable. The development of business world today requires companies to invest in the social environment. The company is expected not only to prioritize the interests of management and capital owners (investors and creditors) but also employees, consumers, society as well as the environment.

Corporate Social Responsibility (CSR) is an accounting concept that emphasizes the responsibilities of a company towards its environment and society. CSR arises as a result of the company's operational activities that not only produce a positive impact, but also negative impact, especially towards the community and the environment around.

In Indonesia, CSR itself has the rule written on the constitution. According to Article 74 Paragraph 1 of the Limited Liability Company Law No. 40 year 2007, “Companies that carry out their business activities in the field of and/or related to natural resources, shall obliged to perform its Social and Environmental Responsibility”.

Another aspect to increase the profitability of a company is through the improvement of good governance within the company. The tight competition between companies encourages the entities to achieve optimal profits and maintain the sustainability of the company. According to Daniri (2006) management of the company in effort to achieve profit and continuity in a balanced manger, can be achieved through the implementation of Good Corporate Governance (GCG). The implementation is a significant effort for companies to overcome the obstacles that can prevent companies from achieving goals. GCG itself is not a new rule or phenomenon for the company, it has been long developed and increasingly sticking out since the 1998 economic crisis experienced by Indonesia.

As one of the pillars of the market economy system, GCG deals with the credibility of the company, as well as the healthy competitiveness and conducive business. The application of GCG can promote sustainable economic growth and stability through monitoring the management performance and ensuring management accountability to its shareholders. This certainly has an impact on achieving a more transparent corporate management system.

The risk or probability of failure or unexpected results of a company might ariseat any moment, this situation is labeled as financial distress on a company.Financial distress can be known by analyzing the company’s financial statements, so that the condition and financial development of the company can be clearly seen. According to Rayenda (2007), financial distress occurs because the company does not able to manage and maintain the stability of the financial performance, which causes the company to suffer an operational loss. Furthermore, losses that occur will results in capital deficiencies due to the decreases in the value of retained earnings used to make dividend payments, as well as the total equity. This condition indicates that the company is experiencing difficulties (financial distress) as they are facing the financial difficulties, and if the company is unstable from the above conditions, it might experience bankruptcy.

Indonesia's property market has slowed down the past years, after experiencing a sharp growth from the end of 2012 and throughout 2013. The Federal Reserve Bank of St. Louis has made an illustrative graph showing the price changes, and the decline starting in 2013.As shown, the average price increase has slipped from 14% in 2013, down to around 3% in 2017 and 2018.Indonesia's commercial property sector suffered one of the biggest setbacks in 2017 due to oversupply and slow demand. The vacancy rate of office space in the country's capital soared to 21.5%; significantly higher than that of 2016 at 15.7%.

An economic slowdown and the decline in the retail and energy sectors are mostly to blame for the sluggish growth of the commercial property industry in Indonesia. The situation slightly improved in the second semester of 2017; however, this trend is set to continue into 2018.

There are four main reasons for this decline, they are:

1. Political uncertainty
2. Lower occupancy rates
3. Introduction of a new luxury property tax
4. Drop in GDP per capita between 2014 and 2017

The GDP per capita was USD 3,680 in 2014 and decreased to USD 3,330 by 2017. The slowing economy was a main contributor, which resulted in a reduced purchasing power among the middle and upper middle class.

Figure 1.1 The Graphic of IDX Property During 2014-2018

Source: Investing.com (, 2019)

Based on figure 1.1, it can be seen that there is no significant increase of IDX Property during 2014-2018. The graphic stays flatfor this 3 years. This indicate that there is a problem with the property companies in Indonesia during this few last years.

In this study, as the three aspects were all important on the development and performance of a company, the researcher wants to analyze the effect of Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), and financial distress towards the profitabilityin a company and write it in this thesis entitled **"The Effect of Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), and Financial Distress Toward the Profitability at Property Company Listed in Indonesia Stock Exchange".**

1.2 PROBLEM LIMITATION

The researcher limits the research on how Corporate Social Responsibility (CSR), Good Corporate Governance (GCG) and financial distress affect the profitability of a company among the property industry sector companies that are listed in Stock Exchange Indonesia (IDX) 2014-2017. To do so, the researcher calculated using SPSS.

1.3 PROBLEM FORMULATION

Based on the background outlined before, the formulation of the research problems are as follows:

1. Do Corporate Social Responsibility (CSR) affect the profitability of a property company in IDX?
2. Do Good Corporate Governance (GCG) affect the profitability of a property company in IDX?
3. Do Financial Distress affect the profitability of a property company in IDX?
4. Do Corporate Social Responsibility (CSR), Good Corporate Governance (GCG) and Financial Distress affect the profitability of a property company in IDX?

1.4 RESEARCH OBJECTIVE

The research objective in this study are as follows:

1. To find out whether Corporate Social Responsibility (CSR) affect the profitability of a property company in IDX.
2. To find out whether Good Corporate Governance (GCG) affect the profitability of a property company in IDX.
3. To find out whether Financial Distress affect the profitability of a property company in IDX.
4. To find out whether Corporate Social Responsibility (CSR), Good Corporate Governance (GCG) and Financial Distress affect the profitability of a property company in IDX

1.5 BENEFIT OF THE RESEARCH

Benefits that can be obtained from this research are:

1.5.1 Theoretical Benefit

Theoretically, the results of this study are expected to be useful to strengthen the theory in accounting, especially about the influence of Corporate Social Responsibility (CSR), Good Corporate Governance (GCG) and financial distress towards the profitability in a company.

1.5.2 Practical Benefit

The practical benefits expected from this research are as follows:

1. For the writer

   This research can provide an overview and knowledge about accounting, especially about the influence of Corporate Social Responsibility (CSR), Good Corporate Governance (GCG) and financial distress towards the profitability in a company.
2. For the company

   This research is expected to be used as a suggestion to give more attention about Corporate Social Responsibility (CSR), Good Corporate Governance (GCG) and financial distress in a company.
3. For the other researchers

   The results of this research are expected to be used as a source of references who concerned in conducting related research in the future.

1.6 SYSTEMS OF WRITING

The research study comprises of five chapters with each chapter relating to the other. The systematic outline of writing in this research study is as follows:

Chapter I: Introduction

This chapter contains background of the study, problem limitation, problem formulation, research objectives, benefit of the research, cand the systems of writing.

Chapter II: Literature Review and Hypothesis Development

This chapter contains theoritical background, previous research, hypothesis development, research model, and framework of thinking.

Chapter III: Research Methodology

This chapter will describe the research design used, the population and sample of research, the method of data collection performed and the method of data analysis.

Chapter IV: Data Analysis and Discussion

This chapter describes the overview of the research objects discussed in this study and describes the data analysis and the detailed discussion.

Chapter V: Conclusion

This chapter contains the conclusions of what has been described in the previous chapters, and also contains suggestions for improvement for research development related to this research topic.