

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

Capital market is one of the sources in economic progress for the company and acts as a means for the community to invest in shares. In general, companies or investors that invest in shares aim to maximize their own or shareholders' wealth. It can be measured by multiplying stock price with the number of shares (Helfi, 2017).

According to Kurnia (2015), the price of a stock that occurs on the stock market at a given time is determined by the market participants and the demand and supply of the tangible shares in the capital market. When the stock demand increases, the share price will tend to increase. On the contrary, when many people sell their shares, then the share price tends to decrease.

Management performance of a company can also affect stock price. Whether a company's internal management is good or bad, it will affect the performance of the company itself where the performance results will be directly proportional to the level of income which will also have an impact on the level of the company's stock price (Helfi, 2017). Syafaatul (2014) stated that the stock price will move in the same direction as the company's performance. Stock prices will increase if the company has good performance and decrease when the company performance is bad. Therefore, the management of the company is expected to improve their performance in order to increase the stock prices and for the investors to invest in the company.

However, managements tend to have goals and interest that is not in accordance with the shareholders or principals which is known as the agency problem. The manager, acting as the agent for the shareholders, or principals, is supposed to make decisions that will

maximize shareholder's wealth but the manager's best interest is to maximize his own wealth (Tandias, 2017). Hence, one of the ways to protect the interest of shareholders and principals is by applying Good Corporate Governance (GCG) in the company.

Good Corporate Governance (GCG) is a system, governance, and professional business practices based on existing principles and that regulate the relationship between stakeholders such as shareholders, management, customers, suppliers, financiers, government and the community to optimize the value of the company. Good corporate governance consists of five principles which are transparency, accountability, responsibility, independence, fairness. (Syafaatul, 2014)

Good corporate governance is the key to the company's success to grow and provide long-term benefits and also to reduce the possibility of fraud by irresponsible parties especially for companies that are open and able to develop. Board of Commissioners, Managerial Ownership, and Institutional Ownership are the mechanism of corporate governance which is expected to improve company performance, enhance company value, gaining investors' trust and satisfying the shareholders. (Helfi, 2017)

The consumer goods industry is the companies that produce the daily needs of the general public. Industries that are in it includes food and beverages, pharmaceuticals, cosmetics, and other household appliances. (Mengenal Sektor Dalam Dunia Bisnis dan Saham di Indonesia, 2016)

Below is the stock price movement of three consumer goods industry in the period of 2013 – 2017.

**Table 1.1**  
**The Data of Stock Price of Consumer Goods Industry Companies Listed**  
**on Indonesia Stock Exchange in the Period 2013 – 2017**

Code	Company Name	Stock Price				
		2013	2014	2015	2016	2017
KLBF	PT.Kalbe Farma (Persero) Tbk	1,250	1,830	1,320	1,515	1,690
TSPC	PT.Tempo Scan Pacific Tbk	3,250	2,865	1,750	1,970	1,800
STTP	PT.Siantar Top Tbk	1,550	2,880	3,015	3,110	4,360

Source: prepared by the writer (2019)

From the table 1.1, I can be seen that the stock price of PT. Kalbe Farma Tbk was increasing from 2013 to 2014 by 580 but it decreased in the next year into 1,320. From 2016, the stock price started to increase again into 1,515 and followed by the next year into 1,690.

As for PT. Tempo Scan Pacific Tbk, the stock price was decreasing from 2013 – 2015 with the amount of 385 and 1,115 respectively. In 2016, there was an improvement in the stock price with the amount of 1,970 and remained with the same amount in 2017. The stock price of PT. Siantar Top Tbk was increasing continuously from the amount of 1,550 in 2013 until 4,360 in 2017.

The stock price from the three consumers good industry above showed different result as there was fluctuation and enhancement of the stock price. In addition, along with the increasing population growth in Indonesia, the volume of consumer good needs continues to increase as most of the products is the daily needs in the environment. (Helfi, 2017)

Moreover, despite of the weakening currency, high inflation and decreasing GDP growth, the consumer goods sector is still considered attractive by investors. In 2014, the consumer goods price index grew by 22.2%, the third highest in the Indonesia Stock Exchange. Therefore, researcher is interested to choose consumer goods industry as the object research. (Indonesia's FMCG Sector; Marred by Low Confidence but Boosted by Modern Retail, 2016)

The table below shows the movement of board of commissioners, managerial ownership, institutional ownership and stock price as the variables of this research from two companies in consumer goods industry sector listed on Indonesia Stock Exchange in the period of 2013 – 2017.

**Table 1.2**  
**The Data of Board of Commissioners, Managerial Ownership, Institutional Ownership and Stock Price of Consumer Goods Industry Companies Listed on Indonesia Stock Exchange in the Period 2013 – 2017**

Code	Company Name	Year	Board of Commissioners	Managerial Ownership	Institutional Ownership	Stock Price
ULTJ	PT.UltraJaya Milk and Trading Company Tbk	2013	3	0.17800	0.46600	4,500
		2014	3	0.17900	0.46600	3,720
		2015	3	0.17900	0.46600	3,945
		2016	3	0.11490	0.37100	4,570
		2017	3	0.33850	0.36860	1,295
WIIM	PT.Wismilak Inti Makmur Tbk	2013	3	0.24608	0.22478	670
		2014	3	0.24608	0.22478	625
		2015	3	0.24608	0.22478	430
		2016	3	0.24842	0.27622	440
		2017	3	0.38027	0.05143	268

Source: prepared by the writer (2019)

From table 1.2, it can be seen that the stock price in both companies keeps on declining with the amount of 4,500 in 2013 and 1,295 in 2017 for PT. UltraJaya Milk and Trading Company Tbk. For PT. Wismilak Inti Makmur Tbk, the stock price in 2013 is 670 and continue to decrease each year until 268 in 2017. However, the stock price of PT. UltraJaya Milk and Trading Company Tbk increased in 2016 with the amount of 4,570 compared to the previous year with the amount of 3,945.

Moreover, the amount of the board of commissioners in both companies remains the same for 5 years which is 3. The managerial ownership for PT. UltraJaya Milk and Trading Company Tbk

experienced ups and down where it started to decrease in 2016 and increased into 0.3385 in 2017. Different from UltraJaya, the managerial ownership in PT. Wismilak Inti Makmur Tbk increased continuously during 2016 and 2017.

As for Institutional Ownership, PT. UltraJaya Milk and Trading Company Tbk kept on declining from 0.466 to 0.3686 in 2013 – 2017 and fluctuation occurred for the institutional ownership in PT. Wismilak Inti Makmur Tbk where it remained the same with the amount of 0.224768 in 2013 – 2015 and slightly increased in 2016 but decreased into 0.05143 in 2017.

According to Jurinita (2015), The board of commissioners is responsible and authorized to oversee the actions of the board of directors and provide advice to the board of directors. It is expected that board of commissioners can carry out effective supervision so the management does not take actions that is not in accordance with shareholders. However, the research conducted by Helfi (2017) stated that there was negative but no significant impact of board of commissioners toward stock price.

Managerial ownership helps in uniting the interests between shareholders and managers, the higher the proportion of managerial ownership, the better the company's performance. With the better performance of the company, it is expected that the company's stock price will increase as well. (Helfi, 2017)

However, Syafaatul (2014) stated in his research that managerial ownership had no significant impact toward stock price which is also showed in Helfi (2017) research that there was no significant impact and there was negative impact of managerial ownership toward stock price. But different from the research conducted by Ulum (2017) which showed negative impact but there was significant impact of managerial ownership toward stock price.

According to Syafaatul (2014), Ownership by institutional investors will encourage optimal supervision of management performance to improve company performance as well as the company's stock price. But, the result in his research showed that there was no significant impact of institutional ownership toward sock price. This result is in accordance with the research done by Ulum (2017) where there was no significant impact but it has negative impact toward stock price. On the other hand, Toruan (2014) stated that there was positive and significant impact of institutional ownership toward stock price.

Due to inconsistent result from some of the previous researches using the independent variable of board of commissioners, managerial ownership and institutional ownership and dependent variable of stock price, the researcher is interested to analyse Good Corporate Governance influence to stock price. Thus, the researcher is interested to research **“The Impact of Good Corporate Governance on Stock Price in Consumer Goods Industry Listed in Indonesia Stock Exchange”**

## **1.2. Problem Limitation**

The researcher limits the problem of this research as follows:

1. The year of the annual financial statement being used which is in 2013 – 2017
2. The data used in this research are obtained from the Indonesia Stock Exchange and the companies' websites and only focus on the companies in consumer goods industry sector that listed in Indonesia Stock Exchange.
3. The independent variables concentrate on three mechanisms in good corporate governance which are board of commissioner, managerial ownership and institutional ownership instead of using all the mechanism as the variables.



### **1.3. Problem Formulation**

Based on the background of the study described above, thus the problem of the study is formulated as follows:

1. Does board of commissioners partially have significant influence on consumer goods industry's stock price listed in Indonesia stock exchange 2013 - 2017?
2. Does managerial ownership partially have significant influence on consumer goods industry's stock price listed in Indonesia stock exchange 2013 - 2017?
3. Does institutional ownership partially have significant influence on consumer goods industry's stock price listed in Indonesia stock exchange 2013 - 2017?
4. Do board of commissioners, managerial ownership and institutional ownership simultaneously have significant influence on consumer goods industry's stock price listed in Indonesia stock exchange 2013 – 2017?

### **1.4. Objective of the Research**

In accordance with the formulation of the problem, the objective of this research is as follows:

1. To understand the influence of board of commissioners on consumer goods industry's stock price in Indonesia stock exchange.
2. To understand the influence of managerial ownership on consumer goods industry's stock price in Indonesia stock exchange.
3. To understand the influence of institutional ownership on consumer goods industry's stock price in Indonesia stock exchange.
4. To understand the influence of board of commissioners, managerial ownership and institutional ownership simultaneously on consumer goods industry's stock price in Indonesia stock exchange.

## **1.5. Benefit of the Research**

### **1.5.1. Theoretical Benefit**

#### **1. For Writer**

To analyse whether the implementation of Board of Commissioner, Managerial Ownership and Institutional Ownership which is the mechanism of Good Corporate Governance in consumer good industry company that is listed in Indonesia Stock Exchange have impact toward the company's stock price.

#### **2. For Readers**

This research is expected to provide better understanding and knowledge about Good Corporate Governance and its impact toward stock price. Moreover, it can be used as reference for other researchers to develop further research related to Good Corporate Governance in the future.

### **1.5.2. Practical Benefit**

#### **1. For Company**

The result of this research is expected to be used as material for consideration and input in making policy on the implementation of Good Corporate Governance in order to improve the companies' financial performance and maintain the stability of stock prices.

#### **2. For Investor**

The result of this research is expected to provide alternatives for investors' consideration in analyzing stock price movements of a company before making an investment decision.



## 1.6. System of Writing

To facilitate this research, then the writer compiled systems of writing consisting of the following details:

### **CHAPTER I: INTRODUCTION**

This chapter starts with background of study of how Good Corporate Governance is related to a company's stock price and the emergence of the agency theory. The problem limitation will be limited to the mechanism of Good Corporate Governance where only three of them are being used in this research. Then, problems will be formulated, along with the explanation of objective and benefit of the research. Lastly, an overview of the main chapters in this study will be presented in systems of writing.

### **CHAPTER II: LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

This chapter explains about theoretical backgrounds of Good Corporate Governance and its principles, stock price and agency theory. Prior researches will also be presented to support this study as comparison with the current research. Then, hypothesis will be developed along with the research model. Moreover, framework of thinking that consist of the overview of the background of the study, problem formulation, theoretical background and hypothesis development will be presented in this chapter as well.

### **CHAPTER III: RESEARCH METHOD**

This chapter explicates the research design, which is quantitative descriptive research. Then, population

and sample will be explained along with how the data of the study is collected. Sampling method being used in this research is the judgmental sampling which will be discussed in this chapter. Lastly, the definition and measurement of variable will be elaborated along with how the data will be analysed in this research.

#### **CHAPTER IV: DATA ANALYSIS AND DISCUSSION**

This chapter contains general view of research object, data analysis and discussion from the research that has been conducted.

#### **CHAPTER V: CONCLUSION**

This chapter contains conclusion of the research that has been conducted along with the implication and recommendation has been given by the writer that might be useful for others who are interested in this subject.

