

CHAPTER I

INTRODUCTION

1.1 Background of the Study

The primary purpose of any firm is to maximize its assets or value. Maximizing the firm's value is essential for the firm because it also increases shareholder wealth (Sucuahi, 2016). According to (Noeriwan, 2012) Firm Value is a condition that has been achieved as an illustration of public trust in the firm after undergoing a process of activities of several years, named after the firm was found and has grown significantly. Other than that, investors' perceptions of the firm's success rate, which are often associated with the stock price, are the firm value. Firm Value is the market ratio used to create the performance.

Firm value is using Price Book Value (PBV) as the indicator can be interpreted as a firm's level of success in maintaining its continuity. In general, most businesses want to improve their company's value over time in order to get investors to invest in them. Typically, a high firm value will have an impact on the share price, resulting in shareholder satisfaction. It will also boost market confidence in the company's current performance and future prospects. Investors will be attracted by the high dividends, and demand for the stock will rise. The worth of the company will undoubtedly rise as the share price rises.

Table 1.1**Price Book Value of Consumer Goods Company in year 2017-2019**

Company Name	Year	Price Book Value
PT. Mayora Indah Tbk	2017	6,14
	2018	6,86
	2019	4,63
PT. Bentoel International Tbk	2017	1,55
	2018	1,36
	2019	1,65
PT. Gudang Garam Tbk	2017	3,82
	2018	3,56
	2019	2

Source: idn.com,2020

From table 1.1, the writer takes 3 companies from all consumer goods companies listed on Indonesia Stock Exchange, which is PT. Mayora Indah Tbk, PT. Bentoel International Tbk, and PT. Gudang Garam Tbk.

As seen in the table above, there is no consistent pattern in the relation. Price Book Value of each company is increase and decrease, which causes the stock price to increase or decrease. Table 1.1 shows several goods companies which had high PBV, especially PT. Mayora Indah Tbk from 2017-2018, of which the PBV is 6. PBV ratio is stock price compares to the equity book value of each company. The PBV ratio of a good company is usually larger than one (> 1), indicating that the market value is more than the book value. The higher the PBV ratio value, the higher chance the investor's to invest the money in it (Ang, 2002), and thus the better the possibility for investors to purchase firm shares. Generally, investors will conduct research on a company before deciding whether or not to invest in it. Generally, the information and data needed for analysis come from the

company's financial statement. This research is essential for determining a company's performance throughout time. Typically, any company's financial statement should be presented in a clear manner in order to keep investors' trust. Investors can observe how many times the market value of a stock has been from its book value using the PBV ratio. This ratio can give you an idea of how the stock price is developing; hence the PBV ratio has an indirect effect on stock prices based on this statistic (Tryfino, 2009).

Consumer goods company is one of the companies that continue to grow from time to time. This is because the company Consumer Goods is a company that is needed to fulfill basic needs and to ensure the survival of all people in any part of the world. According to Lim and Juwita (2015) explains that Consumer Goods are produced in the large number and scale because it is very fast used by the community. Of course, the positive impact is that companies in this sector get a lot of attention from investors.

Corporate Social Responsibility (CSR) is a theoretical basis for the need for a company to build harmonious relationships with the community and the environment in which it operates. In theory, CSR can be defined as a company's moral responsibility towards its stakeholders, especially the community or the community around the work area and its operations. A company must uphold morality. A company's success from CSR's perspective is to promote moral and ethical principles, namely achieving the best results without harming other community groups. (Febrina and Suaryana, 2016).

The Global Reporting Initiatives (GRI) standard is a CSR disclosure standard that is becoming increasingly popular in Indonesia. The GRI barometer was chosen because it focuses on the criteria used to reveal an economy's, social, and environmental performance, with the goal of improving reporting quality and sustainability. However, not all businesses include CSR information in their annual reports. With a total of 91 indicators, with the topic of environment, energy, employee's health and safety, employee's benefit, product's safety, and community's involvement.

Regulations governing social responsibility are regulated in Law of the Republic of Indonesia number 40 of 2007 article 74 concerning social and environmental responsibility, which explains, "Companies that carry out their business activities in the fields and/or relating to natural resources are required to carry out social and environmental responsibilities". As referred to in paragraph (1), social and environmental responsibility is a corporate obligation that is budgeted and calculated as a company expense whose implementation is carried out with due regard to propriety and reasonableness. Companies that do not carry out the obligations referred to in paragraph (1) are subject to sanctions in accordance with the provisions of the legislation. Further provisions regarding social and environmental responsibility are regulated by government regulations. (Febrina and Suaryana, 2016)

CSR arises due to the modernization of the community, which already understands that the activities carried out by companies can bring negative impacts on their environment. Moreover, this is very close to the activities carried

out by manufacturing companies because manufacturing companies are the companies that interact with most people. In the production process, manufacturing companies inevitably will produce production waste, very closely related to the problem of environmental pollution. The production process carried out also requires the firm to have someone in the production department so that work safety issues must also be considered. On the other hand, manufacturing companies are companies that sell products to consumers, so that product safety and security issues are necessary to be disclosed to the public. Therefore, with the many problems that occur, it is expected that each company will increase awareness of its social responsibility by paying attention and considering the consequences of its operational activities. (Mutia et al, 2016).

Society has become increasingly critical and able to have social control over the business world. This requires business people to carry out their business more responsibly. Business people are not only required to benefit from their companies but they are also required to make a positive contribution to their social environment. Changes at the level of public awareness raise new awareness about the importance of implementing CSR. This understanding provides a guideline that the company is not only an entity that is selfish for profit, but the company is an entity that is obliged to carry out social and environmental responsibility. (Daniri, in Zhulaikha and Yulfaida, 2017).

CSR aims to create a higher standard of living by maintaining the sustainability of operating profits for stakeholders, as disclosed in the entity's financial statements. Financial statements become a tool for reporting entity

activities and as information that connects companies with investors because they contain disclosures, both mandatory and voluntary disclosures. (Syahrir and Suhendra, in Kamil and Herusetya, 2017).

The benefits obtained by the company by carrying out CSR activities include products that are increasingly preferred by consumers, and investors are increasingly interested in investing. Some other benefits include increasing sales and market share, strengthening brand positioning, increasing the company's ability to motivate and retain employees, and reduce operational costs. (Kolter and Lee, in Kamil and Herusetya, 2017).

Tax planning means fulfilling tax obligations correctly and in accordance with applicable regulations, but the amount of tax payable can be minimized to obtain the expected profit and liquidity.

According to Hanlon and Heitzman, (2013), Tax planning can be measured by the formula Effective Tax Rate (ETR). The Effective Tax Rate (ETR) can be defined as the amount of burden tax that must be paid by the tax subject in a reasonable amount so as not to obstruct the achievement of the objectives of the tax subject. The effective tax rate can be calculated of the total current tax expense divided by income before tax. The lower amount of the ETR value means tax avoidance by the company the greater and vice versa, the greater the ETR value, the avoidance of tax is getting smaller.

Taxes are a source of income for the state, while tax companies are a burden that will reduce net income. The difference in the interests of the tax authorities who want large and continuous tax revenues is certainly contrary to

companies' interests that want minimum tax payments. In addition, fluctuations in economic activity experienced by companies often do not get tolerance from the tax authorities because the tax authorities want progressive and stable taxation. The influence of fluctuations in economic activity will certainly have an impact on corporate financial reporting and tax (Kurniasih and Sari, 2013)

Tax planning is not debated about its validity, while tax avoidance is something that is generally considered an unacceptable act. The boundary between tax avoidance and tax planning is often unclear. The discussion regarding the extent to which the limits are allowed to distinguish acceptable tax planning practices from unacceptable tax avoidance is the subject of a long debate and is often resolved through the process up to the highest court level.

At the tax planning stage, corporate taxpayers need to correctly understand the recognition differences in the calculations profit according to financial accounting and fiscal (taxation). The difference is found in the book-tax difference, where if the tax is deferred accounting greater than the fiscal deferred tax, the company will get deferred tax benefit, and if it is deferred tax accounting is smaller than fiscal-deferred tax, then the company should pay deferred tax expense. Therefore companies must minimize fiscal deferred tax so that companies obtain cash reserves which are used to increase profits company.

Based on the description above, the researcher feels interested in doing research entitled: **“The Impact of Corporate Social Responsibility and Tax Planning on Firm Value at Consumer Goods Company listed on Indonesia Stock Exchange”**.

1.2 Problem Limitation

The problem limitation in this research are:

1. The research object is consumer goods companies that are listed on Indonesia Stock Exchange
2. In this research, Corporate Social Responsibility uses Corporate Social Responsibility Index (CSRI) as the indicator, Tax planning uses Effective Tax Rate (ETR) as the indicator, and Firm Value use Price Book Value (PBV) as the indicator.
3. The study is using data from 2017-2019.

1.3 Problem Formulation

Based on the background of the study, the problem formulation is formulated as follows:

1. Does Corporate Social Responsibility partially impact Firm Value at Consumer Goods Company listed on Indonesia Stock Exchange?
2. Does Tax Planning partially impact Firm Value at Consumer Goods Company listed on Indonesia Stock Exchange?
3. Do Corporate Social Responsibility and Tax Planning simultaneously impact on Firm Value at Consumer Goods Company listed on Indonesia Stock Exchange?

1.4 Objective of the Research

Based on the above problem formulation, the objectives of this study are as follows:

1. To analyze the impact of Corporate Social Responsibility on Firm Value partially at Consumer Goods Company listed on Indonesia Stock Exchange.
2. To analyze the impact of Tax Planning on Firm Value partially at Consumer Goods Company listed on Indonesia Stock Exchange.
3. To analyze the impact of Corporate Social Responsibility and Tax Planning simultaneously on Firm Value at Consumer Goods Company listed on Indonesia Stock Exchange.

1.5 Benefit of the Research

The benefits found in this research are as follows:

1.5.1 Theoretical Benefit

Theoretically, this study's results are expected to contribute and understand the development of knowledge about Corporate Social Responsibility and Tax Planning on Firm Value at Consumer goods companies listed on the Indonesia Stock Exchange.

This research can be used as a reference for other researchers which conducting the same topic research.

1.5.2 Practical Benefit

The research is expected to yield the practical benefits on the basis of the research objective as follows:

1. For Investors

This research is expected to give information to investors in understanding the factor that has an impact towards firm value at a consumer goods company.

2. For Firm

This research may become the reference for the firm to increase their firm value to attract investors.

