

CHAPTER I INTRODUCTION

1.1 Research Background

Due to United States- China economy trade wars, multinational companies plan to move their company from China to other countries in order to survive in this trade tension (Kompas, 2019). According to Nikkei Asian Review, some companies namely Google, Nintendo and Dell are avoiding high import tariffs imposed on products from China worth 250 billion US dollars. Example on Japanese giant company, Nintendo has moved out its switch device manufacturing from China to Vietnam due potential increase tariffs on good produced in China (USA Today, 2019). While Google company, Alphabet Inc.'s has shifted many of its production of U.S.- bound motherboards to Taiwan, avoiding the 25% tariffs (Kompas, 2019).

In this trade tension which impact economic growth, family companies has plays crucial role, especially to boost country financial economical growth by increase Gross National Product (Yopie & Itan, 2016). Dynamical and changing international business circumtances has forces investor to engage in family-owned business (Global Business Guide, 2016). Family owned companies has a positive contribution to recover national economy circumstances with proof that some Indonesian companies has survived in era economic crisis on 1998 and 2008. Therefore, one of the keys to succor these companies is having a good corporate governance.

Recently, good corporate governance (GCG) had received so much attentions from academics. Good corporate governance is a strong foundation in managing business and key factor that allow growth of the value of family controlled company. Corporate governance performs various action in solving company's problems and problem solved usually decided on decision by largest shareholders (Yopie & Itan, 2016). In Indonesia, one of the largest shareholders is family. Indonesia has the highest rank in term to control of concentration between Eastern Asia (Indonesia, Hongkong, Malaysia, Singapore, Taiwan, South Korea, Philipines, and Thailand).

In addition, company operates is not just to satisfy for shareholder benefit, but stakeholders' interests has play a part too. Corporate Social Responsibility (CSR) has given company value added of a company performance. CSR activities ensure company operational activity are accepted by local communities (Deegan, Rankin, & Tobin, 2002).

Although many reseachers have investigated relationship between good corporate governance and corporate social responsibility to financial performance, but only a few have focused on earning management as mediating variable while none has examined the mediating role of earning management between good corporate governance and corporate social responsibility to financial performance in family-owned company.

Earnings management can occurs when asymmetry interest between by management (agent) and owner (principal) is different. Under these environment, a control tools to align different interest on both parties is crucially needed. Uwuigbe (2014) has found size of board commissioner and independent commissioner may decrease practice of earnings management and lead to better company performance.

Based on above description, author decided to examine corporate governance mechanism and corporate social responsibility to financial performance by incorporating earnings management as a intervening variable in Indonesia family- controlled firms. This model was adopted from Mahrani & Soewarno (2018) research which study on Indonesia manufacturing firms.

1.2 Research Problem

United States- China tradewars has lead to trade tension and brought struggles for farmes, manufacturers and caused higher price for consumers. Many countries (United States, Britain, Germany, Japan and South Korea) were all showing weak manufacturing signal because the slowing down investment in those countries and impact economy growth. Family company appears to be a very important role to help to boost the economical growth by raising the Gross National Product (Yopie & Itan, 2016). Therefore, role for investor to engage in family firm is very crucial.

1.3 Research Question

Research focus on examining relationship of corporate governance mechanisms and corporate social responsibility to financial performance with earnings management as mediator. Based on issue stated before, this research keen to answers following questions :

1. Does good corporate governance affect significantly to financial performance in Indonesia family-controlled firms?
2. Does corporate social responsibility affect significantly to financial performance in Indonesia family-controlled firms?
3. Does good corporate governance affect significantly to earnings management in Indonesia family-controlled firms?
4. Does corporate social responsibility affect significantly to earnings management in Indonesia family-controlled firms?
5. Does earnings management affect significantly to financial performance in Indonesia family-controlled firms?
6. Does earnings management mediate the relationship between good corporate governance and financial performance in Indonesia family-controlled firms?
7. Does earnings management mediate the relationship between corporate social responsibility and financial performance in Indonesia family-controlled firms?

1.4 Research Objectives

Main objective of this study is to examined the impact of corporate governance and corporate social responsibility on financial performance, and the potential mediating role played by earnings management.

Following details objective to achieve which are:

1. To evaluate relationship between good corporate governance to financial performance in family controlled firm
2. To evaluate relationship between corporate social responsibility to financial performance in family controlled firm
3. To evaluate relationship between good corporate governance to earnings management in family controlled firm
4. To evaluate relationship between corporate social responsibility to earnings management in family controlled firm
5. To evaluate relationship between earning management to financial performance in family controlled firm
6. To evaluate relationship between good corporate governance and financial performance through earnings management as mediating variable in family controlled firm
7. To evaluate relationship between corporate social responsibility and financial performance through earnings management as mediating variable in family controlled firm

1.5 Research Contributions

a. Researchers

This study aim to contribute new topic in researches regarding earning management as mediator in family controlled firms. This research expected to give other reseachers a comparison between performance in family company and manufacturing company as existing article.

b. Company's management

This study may realize family controlled company to aware their management activity and stakeholder activity that may cause increase or decrease in financial performance. Family controlled company may learn

developing a new strategy to operate better and adopt good governance practice.

c.

Investor

Shareholder may consider to invest in family controlled company because family company has proof to sustain its business pass generation.

Beside of that, this study may expected to contribute to shareholder knowledge about family company in Indonesia and make a better investment decision.