FACTORS AFFECTING FIRM VALUE: THEORETICAL STUDY ON PUBLIC MANUFACTURING FIRMS IN INDONESIA

Moeljadi
Brawijaya University and Triningsih Sri Supriyati,
University of Muhammadiyah Malang
Email:

ABSTRACT

This study aims to examine theoretical relationship between of social responsibility, Corporate Governance, Company Size, Corporate Profitability and Firms Value in context of Manufacturing Company listed at Indonesia Stock Exchange. This study classifies the variables into three variables type, namely: exogenous, endogenous and intervening variables. Exogenous variable were Social Responsibility, Corporate Governance and Company Size. Endogenous Variable was Firms Value, while intervening variable was Profitability. This study result was to make model about the relationship among exogenous, endogenous and intervening variables.

Keywords : The Social Responsibility, Corporate Governance, Firm Value.

BACKGROUND

Monetary and fiscal policies that issued on time can overcome Indonesian economy recession in a relatively short time. Stock markets started to revive. Since March 2009 Indonesia economy begins to grow that will provide opportunities to public companies that listed on Indonesia Stock Exchange, especially manufacturing companies, to create higher profits. As a result, stock price that reflecting company value tends to rise from the investors point of view. Investor assessment to stock price of manufacturing company that listed in Indonesia Stock Exchange tends to change. The change of company value perception was can not be from financial statements of a manufacturing company. A company that has a high social value, such as care for the social, economic, and environment, carry out activities of social responsibility, was expected to stimulate sales growth that accompanied by an increase in company value.

Financial report was important information for investors to make investment decisions. One way to know company's financial condition was to analyze financial ratios (Higgins, 2006). Siallagan and Machfoedz (2006) states that financial ratios were useful to predict financial difficulties, results of operations, financial condition now and future, as well as a guide for investors regarding the past and future performance. Go public companies were required to include the relevant financial ratios in accordance with Decision of Bapepam Chairman No. Kep-51/PM/1996 dated January 17, 1996 (JSE) in order to predict firms value. Firms value itself was affect d by several variables; among them were profitability, corporate social responsibility, corporate governance and company size.

Firms value was investor perception of company that often associated with stock prices. Company value was something very important in investment transactions. Data on Indonesian Stock Exchange show that book company value was addressed differently by investors. Price to Book Value (PBV) was not always equal to 1. This suggests that investors look company sometimes higher or lower than its book value. Furthermore, Siallagan and Machfoedz (2006) stated that low quality of earnings can create bad decision-making for investors and creditors that reducing company value. Firms value will be reflected in market price of its stock. Haruman (2008) revealed that increase in firms value can attract investors to invest. Interested investors would want a return (profitability) that higher.

Weston and Copelan (1995) define profitability as company's ability to generate profit. Higher profitability can increase company’s stock price. Brigham in Sujoko (2007) revealed that based on Signaling Theory, high profitability shows company's prospects were good that investors will respond positively and will increase firms value. Higher dividend payments demonstrate the better prospects of company so that investors would be interested to buy stock and market company performance will increase.

The CSR can be interpreted that company will voluntarily integrate social and environmental concerns into their business operations and interactions with stakeholders (Djalil, 2003). Broader understanding assumes that social responsibility becomes an integral part of investment strategy, core business strategy, management instruments, as well as company's operations. This concept considers that social responsibility was not a cost but an investment company (Kusumadilaga, 2010).

Investors also want good corporate governance. This occurs due to dynamic competition. Company’s management should work rightly and not cheat to improve company's financial performance and firms value.

Another perception of company value could not be separated from the investors view about company size itself. Large companies tend have lower financial difficulties and has good economic growth in future. Manufacturing companies that implement and report information about good social responsibility, good corporate governance, and large size were expected to give effect to increase in company's financial performance in review of profitability, thus achieving the purpose of company was to maximize shareholder value.

The relationship between companies value and corporate social responsibility can also be analyzed from institutional and stakeholders theoretical literature. This theory develops the conceptualization of organization as a social system that was extensive and to shape behavior (Freeman, 1984; Donaldson and Preston, 1995). Companies can identify important actors in environment, become an institution, or stakeholders such as employees, customers, and investors (Donaldson and Preston, 1995; Freeman, 1984). This theory also states that management-related stakeholders can effectively improve financial performance through creativity, development or maintenance of an important resource for company (Jones, 1995). Agency theory was also related to corporate social responsibility, in which the individual or group with business relationship authority (principal) will give authority to another individual or group (agent) to act within its authority and form of welfare for the principal (Jensen and Meckling, 1976). Stakeholder theory says that company was not the only entity that operates for its own sake, but should provide benefits to its stakeholders. Therefore, existence of a company was affect d by support from stakeholders (Donaldson and Preston, 1995).

Corporate social responsibility activities of company were shown to have a long term positive effect that reflected in company profitability. Social care can provide benefits such company's products acceptance by public. It can increase sales growth. High sales will increase firms value (Balabanis, 1988; Brammer et al., 2005; Dahlian and Veronica, 2008; Kusumadilaga, 2010; Byus et al., 2010).

A number of previous empirical literatures have tested the relationship between social responsibility and financial performance (McWilliams and Siegel, 2000; Waddock and Graves, 1997; Hillman and Keim, 2001; Orlitzky, Schmidt, and Rynes, 2003; Margolis and Walsh, 2003; Griffin and Mahon, 1997; McGuire, Sundgren, and Schneewiess, 1988). Some studies focus on relationship between social responsibility and profitability and company value (Orlitzky et al., 2003; Margolis and Walsh, 2003). Findings showed different results (Orlitzky et al., 2003; Griffin and Mahon, 1997; Margolis and Walsh, 2003). Orlitzky et al. (2003), states that social responsibility was a thing that can contribute to company value, which means company's resources were being used to enhance the interests of shareholders, while Griffin and Mahon (1997) and Margolis and Walsh (2003) revealed that corporate social responsibility was not contribute to financial firms value, since most investors were oriented towards short-term performance.

Agency theory becomes framework for corporate governance that led to separation of ownership and manager of company. Jensen and Meckling (1976) identifies two ways to reduce adverse action of manager to damage investors, first was outside investors supervise company and second was to restrict manager's actions (bonding). Companies with good corporate governance structure can affect on financial company performance to make better corporate governance and higher ability to generate profits. Good governance can improve the internal control system to make company company's operations more efficient, effective, and economical (Jensen, 1993; Larcker et al., 2005; Jhunjhunwala and Mishra, 2009; Al-Rashed, 2010; Untung, 2010). However, different results show that good corporate governance can have a negative effect on company profitability (Bauer et al., 2004). Thohiri Research (2011) gives the result that corporate governance does not significantly affect on level of company profitability. It contradictory needs further research.

Gibrat law implies that growth process was random, average independent growth of companies was associated with company size and other company characteristics. Issue of whether company size has a systematic effect on growth rate becomes an interesting subject of investigation. Similarly, weather company size has a relationship with level of corporate profits (Iriji and Simon, 1974; Chesher, 1979; Amir Khalkhah and Mukhopadhyay, 1993; Almus and Nerlinger, 2000; Audresch et al., 2004). Generally, empirical test by Gibrat law did not provide clear evidence about relationship of company size and company's financial performance (Hart and Oulton, 1996; Caves, 1998; Del monte and Papagni, 2003; Coad, 2007).

Positive accounting theory (Watts and Zimerman, 1976) stated that large companies politically more sensitive than small firms. Company size has positive effect on profitability. It means that larger company has better operation to generate huge profits. (Ammer et al., 2003; Kaen, 2010). While Amato and Wilder (2001) and Hermawan (2010) shows that size does not affect on company's financial performance (profitability).

This study was an extension of previous research to formulate new research propositions based on theories and previous research. The purpose of this study was to produce a new model that was more complete, thorough and wide-ranging (Ferdinand, 2006).

THEORETICAL STUDY

Agency Theory

Agency conflicts occur due to differences in interests between owners and managers (Jensen and Meckling, 1976). On one hand, owners want the manager to work hard to maximize the owner utility. However, on other hand, managers also tend to strive to maximize their own utility. Agency theory implies the existence of information asymmetry between managers as agents and owners (in this case a shareholder) as principal. Jensen and Meckling (1976) states that if the two groups (the agent and principal) were the people who seek to maximize utility, then there was little reason to believe that agent will not always act in best interest of principal

Agency theory seeks to answer the agency problem if the parties work together with different goals and division of labor. Specifically, agency theory discuss existence of agency relationship, where one particular party (the principal) delegates work to another party (the agent), which does the job. Agency theory was the underlying contractual relationship between principal and agent, so the focus of this theory was to determine most efficient contract that underlies the relationship between principal and agent. Agency theory was based on assumptions (Eisenhardt, 1989). These assumptions can be divided into 3 types, namely assumptions about human nature, organizational and information. Assumption of human nature emphasizes that humans have selfishness (self-interest), have limited rationality (bounded rationality), and do not like the risk (risk aversion). Organizational assumption was that there was a conflict between members of organization. Assumptions about the information in this case were that information as a commodity that can be traded.

Jensen and Meckling (1976) showed the presence of three additional elements that can limit deviant behavior of agents. These elements were existence of managerial labor market, capital markets and market elements to support owner and dominate the ownership of company (market for corporate control). Agent or manager can not have a future if the performance was bad, they will be dismissed by shareholders. Managerial labor market opportunities will remove managers who do not have good performance and behavior deviates from shareholders desire.

Corporate governance was a concept that was based on agency theory to provide confidence to investors that they would receive a return on funds they have invested. Corporate governance was concerned with how the investors believe that managers will benefit them, confident that manager will not steal/embezzle or invest in projects that were not related to fund (capital) that have been invested by investors, and relates to how the investors control the manager (Shleifer and Vishny, 1997). In other words, corporate governance was expected to function to suppress or decrease agency cost.

Stakeholder theory

Concept of corporate social responsibility has been known since the early 1970s. Stakeholder theory was a collection policies and practices relating to stakeholders, values, compliance with legal requirements, respect the community and environment, as well as the commitment of business to contribute to sustainable development. Stakeholders basically have the ability to control or affect economic resources used by company. Therefore, power of stakeholders was determined by strength of stakeholders toward source (Ghozali and Chariri, 2007). These strength were ability to restrict the use of limited economic resources (capital and labor), access to influential media, ability to manage company, or the ability to affect the consumption of goods and services produced by company (Ghozali and Chariri, 2007). When stakeholders controlling economic resources important to company, then company will react in ways to satisfy desires of stakeholders. Therefore, stakeholder theory generally relate to how to manage their stakeholders.

Ullman (1985) explains stakeholder’s management depends on strategy adopted by company. There were two strategies that can be used, active or passive. Active strategy was when company tried to affect the organization's relationship with stakeholders that considered influential or important. Meanwhile, companies that adopt passive strategies tend not to constantly monitor the activities of stakeholders and deliberately did not seek the optimal strategy to attract the attention of stakeholders.

Legitimacy theory

Corporate Social Responsibility Disclosure (CSRD) or corporate social responsibilities (CSR) was one mechanism that can be used to communicate with stakeholders and company suggested that corporate social responsibility was a way in which some organizations can improve legitimacy. Dillard et al. (2004) stated that theoretical framework explain that organizations implement a voluntary reporting environment in relation to theory of legitimacy.

Guthrie and Parker (1977) suggest that organizations disclose their environmental performance in a variety of components to get a positive reaction from the environment and getting legitimacy for companies. Legitimacy theory provides potential solutions based on economic studies. It found a "social contract" (Dierkes and Antal, 1985; Gray et al., 1995) and dimensions of contract that can potentially increase due to diversification of company's international activities. CSRD may also be seen as a tool to establish, maintain, and improve the legitimacy of company in where they issued opinion and public policy (Patten, 1991) and can reduce the political, social and economic exposure and pressure.

Barkemeyer (2007) reveals legitimacy theory power of corporate social responsibility in developing world organization was two things. First, capability to put the profit maximization makes clearer picture about the motivation of companies to enlarge their social responsibilities. Second, legitimacy of organization can incorporate cultural factors that shape different institutional pressures in different contexts. So the theory of legitimacy was one of theories underlying Corporate Social Responsibility to perform (CSR) within company.

Positive Accounting Theory

Accounting practices of a company was not necessarily the same with others. However, company has freedom to choose one of alternative procedures available to minimize costs and maximize the value of corporate contracts. Therefore, managers have a tendency to perform an action that positive accounting theory named as opportunistic actions (Scott, 1997).

Watts and Zimmerman (1986) explains that large companies were more sensitive than small ones. This was due to large enterprises face greater political costs because it was a public entity that more highlighted. Company size shows a certain amount of resources which can be compared with other resources. Due to more intensive scrutiny, large companies were motivated to show higher profitability than smaller companies.

Signaling Theory

Signaling theory explains how signals success or failure of management (agent) was delivered to owner (principal) (Akerlof, 1970). This theory explains company's incentive to voluntarily report information to capital markets even though there was no requirement of regulatory agencies. Company also shows information for internal purposes. Management reports the information by aims to maintain investor interest in company. Financial information was aimed to reduce information asymmetry between company and external parties (Wolk et al., 2001).

Signaling theory emphasizes the information importance for investment decisions by outside company. Information was an essential element for investors and business people. Complete, relevant, accurate and timely information was required by investors in capital market as an analytical tool to make investment decisions.

Company Value

Siallagan and Machfoedz (2006) stated that company's main goal was to maximize company value. Low earnings quality will create bad decision-making by investors and creditors, so that company's market performance will decline. Pawestri (2006) states that company's market performance will be reflected in market stock price.

Christiawan and Tarin (2004) stated some concept of value to describes firm value, among others: the nominal value, market value, intrinsic value, book value and liquidation value. Christiawan and Tarin (2004) concluded that most representative concepts to determine the market company performance was intrinsic value, but it was very difficult to estimate the intrinsic value, because of its determination requires the ability to identify significant variables that determine the profitability of a company. Those variables differ from one company to another. Therefore, market value was used by reason of ease of data was also based on an assessment of a moderate.

Haruman (2008) stated that higher company's market performance can attract investors to invest. Investors interested return or profit to be derived from the investment in form of embedded capital gains and dividends, being a part of advantage given to shareholders. In this case the manager must decide whether the profits from company during the period will be distributed in whole or in part only distributed as a dividend and remainder being held companies or so-called retained earnings.

Profitability

Company profitability was company's ability to generate net income from the activity undertaken in an accounting period. Profitability can become an important consideration for investors in their investment decisions. With a bid to get the high profits, was expected to attract investors in investing. Many leaders use financial performance as basis for company's performance. Companies that can get huge profits can be said to be successful, or have a good financial performance. Profitability was the end result of a number policy and decision management (Brigham and Gapenski, 2006). Company profitability was a company's ability to generate net income from the activities carried out in an accounting period.

Profitability was the ability of company to generate profits. Profit becomes basis of dividend distribution, whether cash dividends or stock dividends. Hermi (2004) revealed the profit was obtained from difference between the incoming treasures (revenue and profit) and outlay (expenses and losses). Profit of company can be held (retained earnings) and can be divided (as cash dividends). Higher net profit increases the return on investment in form of dividend income to investors.

Corporate Social Responsibility

Achda (2007) defines corporate social responsibility (CSR) as company's commitment to responsible to their operation effect in social, economic and environmental life. Although income and employment has significance today but there were many factors that contribute to assessment of social performance to respects the cultural differences of employees, responding to environmental problems, providing high-quality products that safe to use.

CSR definition in according to ISO 26000 was Responsibility of an Organization or the impact of its decisions and activities on society and the environment, through transparent and ethical behavior that contributes to sustainable development, health and the welfare of society, takes into account the expectations of stakeholders, is in compliance with applicable law and consistent with international norms of behavior and is integrated throughout the organization and practiced in its relationship. Corporate social responsibility expressed in Sustainability Reporting. Sustainability Reporting explain about economic policy, environmental and social and performance of organization and its products in context of sustainable development. Sustainability Reporting should become a strategic document which puts high level issues, challenges and opportunities

Corporate Governance

Corporate governance concept was first started by Barble and Mears in 1932. They make a book to analyze the separation of ownership and control. Separation implies the appearance of a conflict of interest between the shareholders with management in a dispersed ownership structure. Concept of corporate governance was also used in 1970s when there were several corporate scandals and several companies has political activities as well as the unhealthy culture of corruption.

Corporate governance term began was discussed again by Cadbury Committee in its report in 1992, known as Cadbury Report cards. This report was seen as a turning point that determines corporate governance practices around the world (Tjager et al., 2003: 26). Cadbury Committee defines Corporate Governance as: "A set of rules that define the relationship between shareholder, managers, creditors, the government, employees and others internal and external stakeholders in respect to their rights and responsibilities".

Organizational for Economic Corporation and Development (Siswanto and Aldridge, 2005: 2) defines corporate governance as follows:

"Corporate Governance is the system by which business corporations are directed and control. The corporate governance structure specifics the distribution of right and responsibilities among different participant in the corporation, such as the board, the managers, shareholders and other stakeholder, and spells out the rule and procedure for making decision on corporate affairs. By doing this, it also providers the structure through which the company objectives are set and the means of attaining those objectives and monitoring performance".

Australian Stock Exchange (ASE) defines corporate governance "the system by which companies are direct and managed. It influences how company can set and achieve the objectives, how risk is monitored and assessed, and an how performance is optimized"

Concept of good corporate governance (GCG) was a new phenomenon in Indonesia, in post-crisis corporate governance since 1997. This was introduced by Government of Indonesia and International Monetary Fund (IMF) in context of post-crisis economic recovery. Then the concept of corporate governance becomes a reference for companies in Indonesia.

Company Size

Company size can be defined as effort to Asses Company based on assets, number of sales, average total sales and average total assets. Generally, Indonesia researchers use total assets or total sales as a proxy of company size. Company size will be very important for investors and creditors because it will be associated with risk of investment made. Rachmawati and Triatmoko (2007) mentions that large company's total assets shows the company has a good or positive cash flow, so it was considered to have good prospects in long term. It also reflects that company was relatively more stable and better generate profits than firms with small total assets.

Company's policy will have implications on cash flow outlook for the future. It affect on tax that received by Regulator (government) and effectiveness to provide protection to general public. Company size will affect corporate debt policy. Bigger company needs more money to run company's operations. One source was debt. Brigham (1999) states that companies with high growth rates tend to require large fund from external sources. Increased debt would increase company's market performance.

Company value

Company value can be seed from several approaches. Balance sheet approaches see company value as value of its assets. This simple method sees company value in balance sheet. Method to Measure Company's income value was based on income statement. Company value can be determined by sales, earnings or other indicators.

Another approach was goodwill. Company value was calculated from book value plus goodwill. Company value was a function of future cash flows and level of return. Brigham (1999) defines company value as the value given to management of financial markets and corporate organizations as a company continues to grow. This value was determined by market perceptions of companies performance sustainability that represented by market value of shares outstanding.

Some researchers use different measurement as proxy for company value. Most of them use Tobin's Q as a proxy for company value (Yermack, 1996; Siallagan, 2006). Tobin's Q was defined as the ratio of book value of debt plus the market value of equity divided by book value of equity. Brigham (1999), and Wahyudi and Prawesti (2006) use a proxy ratio of market value to book value. This ratio was defined as the market value of equity divided by book value of equity.

RESEARCH PROPOSITION

Effect of Social Responsibility on Profitability

Corporate social responsibility disclosure or corporate social responsibilities (CSR) was one mechanism to communicate with stakeholders and company suggested that corporate social responsibility allegedly become gate to earn profits and legitimacy. Guthrie and Parker (1977) suggests that organization was always constantly express their social responsibility in order to get a broad positive reaction from the environment and getting legitimacy for company's business. Legitimacy theory provides potential solutions based on studies in economic studies. Social contract and contract dimensions could potentially increase due to diversification of company's international activities (Dierkes and Antal, 1985; Gray et al., 1995b).

Company's concern to environment can have a positive effect for general public and particular to company to increase product acceptance and company image, so company's financial performance will be increased. Good financial performance was shown by high company profitability.

Profitability can be considered a tool to make an investment decision for investors; greater dividend payout will save the cost of capital. On other side, managers (insider) can be increase power even and its stake due to receipt of dividends as a result of high profit. High profits were expected to attract investors to invest. Therefore, it can be formulated proposition 1 below.

Proposition 1: Better corporate social responsibility disclosure can increase company profitability.

Effect of Corporate Governance on Profitability

Corporate governance was based on agency theory to provide confidence to investors that they would receive a return on funds they have invested. Corporate governance was concerned with how the investors believe that managers will benefit them, confident that manager will not steal / embezzle or invest in projects that were not related to fund / capital which has been invested by investors, and relates to how investors control the manager (Shleifer and Vishny, 1997).

Good Corporate Governance can minimize fraud in company's operations that decrease financial performance of company. One of good corporate governance mechanism was presence of independent board and ownership by institutions, because the agency can monitor agency to improve its performance by increasing company's profits, so company profitability be increased. Corporate governance was expected to suppress or lower the Agency Cost.

Agency theory was basis of contractual relationship between principal and agent. Focus of this theory was to determine the most efficient contract that underlies the relationship between principal and agent. Agency theory was based on three assumptions (Eisenhardt, 1989), namely assumptions about human nature, organizational and information. Therefore, it can be formulated proposition 2 below.

Proposition 2: Good Corporate Governance can increase company profitability.

Effect of Company Size on profitability

Company size can be defined as an effort to measure how large a company. Generally, Indonesia researchers use total assets or total sales as a proxy of company size. Company size will be very important for investors and creditors because it associated with investment risk. Rachmawati and Triatmoko (2007) stated that company with large total assets shows the maturity. Company has a positive cash flow and was considered to have good prospects in a relatively long period of time. It also reflects that company relatively more stable and better able to generate profits than firms with small total assets. It can be a positive signal for the market in which investors would prefer to invest in large companies because of financial condition stronger and more profitable operations. Large companies will be preferred because investors get assurance operations and better business prospects in future. Company size with large scale can create high profitability. Therefore, it can be formulated proposition 3 below.

Proposition 3: Greater manufacturing company size can increase company profitability.

Effect of Corporate Social Responsibility on Firm Value

Achda (2007) defines corporate social responsibility (CSR) as company's commitment to responsible to their operation effect in social, economic and environmental life. Although income and employment has significance today but there were many factors that contribute to assessment of social performance to respects the cultural differences of employees, responding to environmental problems, providing high-quality products that safe to use.

Corporate social responsibility begins with spirit of philanthropic (charitable), but due to strong pressure from the public, corporate social responsibility become social license for company operation. Originally, corporate social responsibility was shifted from philanthropy corporate citizenship. It means there was reconciliation with social order and further contributes to community. Siallagan and Machfoedz (2006) stated that company's main goal was to increase company's market performance. Low quality of earnings can create bad that decreasing company's market performance. Therefore, it can be formulated proposition 4 below.

Proposition 4: More extensive corporate social responsibility disclosure can increase Firm Value

Effect of Corporate Governance on Firm Value

Corporate governance was used by "Board" to drive and control and supervise the organization's resources in an efficient, effective, economical and productive (Syakroza, 2003). This definition explains that corporate governance as a system was used to direct and manage the activities of company. This system has a great effect to determine business objectives to achieve the target.

Corporate Governance Implementation in a company can effect on effectiveness, economical and productive so that effect on achievement of corporate objectives. Benefits of Good Corporate Governance will be seen from the premium that investors were willing to pay company equity (market price). It was based on premise that higher the implementation of good corporate governance in a company can provide added value to company. Therefore, it can be formulated proposition 5 below.

Proposition 5: Good corporate governance can increase Firm Value.

Effect of Company Size on Company Value

Rachmawati and Triatmoko (2007) mentions that company with large total assets has reached a maturity stage where company has a positive cash flow and was considered to have good prospects in a relatively long period of time, but it also reflects that company relatively more stable and better able to generate profits than firms with small total assets. Company value can be seen from several approaches. Balance sheet approach assumes that company value was value of its assets. This simple method sees company value from balance sheet.

Large company has wider base of stakeholders. Policies of large enterprises will have greater effect on public interest than the smaller companies. For investors, company policy will have implications on cash flow outlook in future. Investors were more interested in company with good financial condition, so that investors will be attracted to make their investment, and affect on higher company value. Therefore, it can be formulated proposition 6 below.

Proposition 6: Larger company can increase Firms Value.

Effect of Profitability on Firms Value

Hermi (2004) revealed the profit was obtained from difference between the incoming treasures (revenue and profit) and outlay (expenses and losses). Profit of company can be held (retained earnings) and can be divided (as cash dividends). Higher net profit can increase the return on investment in form of dividend income to investors. Investors buy company stock to get a return. Higher ability to obtain profit can increase expected return of investors. It makes company’s market performance become better.

Company value can be seed from several approaches. Balance sheet approaches see company value as value of its assets. This simple method sees company value in balance sheet. Company income value was based on income statement. Company value can be determined by sales, earnings or other indicators. According to Imelda (2011) company's profitability affect on company value. Therefore, it can be formulated proposition 7 below.

Proposition 7: Higher profitability can increase Firm Value.

Corporate Social Responsibility, Corporate Governance, Company Size, Profitability and Firm Value.

Company profitability was company's ability to generate net income from the activity undertaken in an accounting period. Company makes various policies to obtain high profitability; one of them was corporate social disclosure. Corporate social responsibility disclosure was an important issue in world of business. Higher profitability that caused by disclosure of corporate social responsibility may affect company value. investors were not only profit-oriented, but also non financial aspects became the focus of attention as corporate social responsibility. In addition, investors have understood the benefits provided when company carry out their social responsibilities. It indirectly makes corporate social responsibility affect on company value. Anggraini (2006) stated more extensive disclosure of corporate social responsibility may affect on high company value through high level of profitability.

Corporate governance explains relationship between various participants in determining the direction of company and company's performance. Corporate governance can easy funding access, improve efficiency in decision making, increase public confidence, and improve transparency and accountability. Good corporate governance able to control and directing the company operations as well as the parties involved in it, so it can be used to eliminate agency problem. Good corporate governance indirectly affect company value, because company with good corporate governance was believed by investors that company's financial performance was very good, as seen from the ratio of company's profitability. It can not be separated from the implementation of good corporate governance that can monitor insider with good performance, by increasing company's profits. Almilia and Ikka (2007) states that good corporate governance can improve the company's stock performance that contributes to high firms value.

Company size indicates companies scale. Companies with large scale have a greater incentive to improve profitability, because company has complex operational activities than small firms.

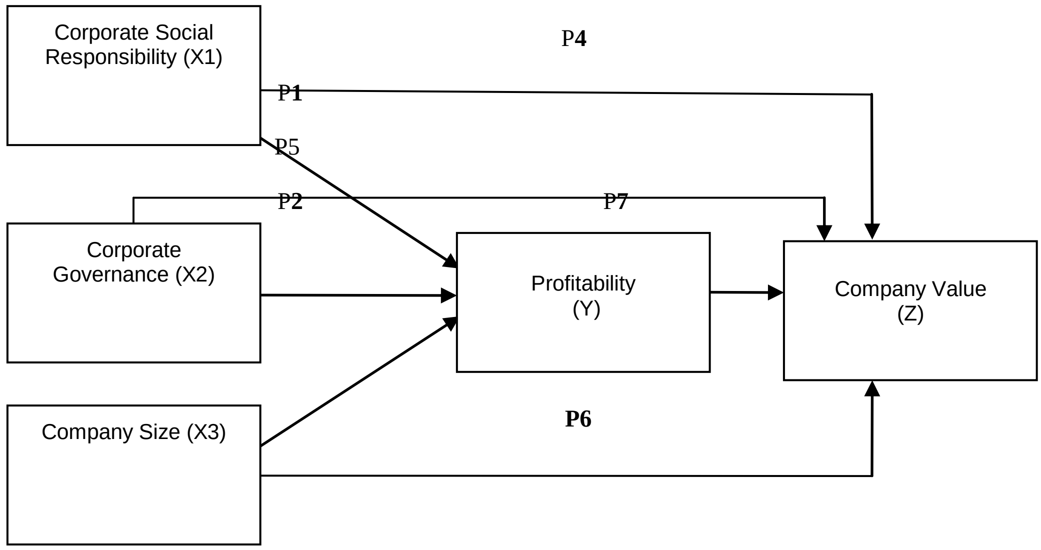
Rachmawati and Triatmoko (2007) mentions that company with large total assets shows the maturity. Company has a positive cash flow and was considered to have good prospects in a relatively long period of time. It also reflects that company relatively more stable and better able to generate profits than firms with small total assets. Large companies will be preferred because investors have better assurance operations and business prospects in future. Company size with large scale able to create high profitability, and indirectly affect on company value. Therefore, it can be formulated proposition 8 below.

Proposition 8: Corporate Social Responsibility, Corporate Governance, and Company Size affecting Firms Value, with Profitability as an intervening variable.

RESEARCH MODEL

Based on proposition that showing relationship between variables, the research model can be described in Figure 1 below.

Figure 1. Research Model



Basis to establish research model and research propositions can be shown below.

P1: Dierkes and Antal, 1985; Gray *et al*., 1995; Byus et.al., 2010.
P2: Shleifer and Vishny, 1997; Eisenhardt, 1989; Al-Rhased, 2010;
P3: Rachmawati and Triatmoko, 2007; Mak and Kusnadi, 2002;
P4: Achda, 2007; Siallagan and Machfoedz, 2006; Wahyudi and Pawestri, 2006; Susilowati, 2008.
P5: Syakroza, 2003; Sotojo and Aldridge, 2005; Avita , 2010.
P6: Rachmawati and Triatmoko, 2007;
P7: Hermi, 2004; Imelda, 2011.
P8: Anggraini, 2006; Almilia and Ikka, 2007; Rachmawati and Triatmoko, 2007;

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on research model presented above, it can be delivered the following explanation related to condition of public companies manufacturing in Indonesia.

1. Corporate Social Responsibility level can affect the profitability of manufacturing companies. It was because most manufacturing companies have been aware the benefits of corporate social responsibility implementation that supported by corporate social responsibility disclosure.
2. Good Corporate Governance can lead to higher profitability of manufacturing company. It was because with higher institutional ownership can increase company profitability.
3. Larger companies can increase the profitability of a manufacturing company. It was because manufacturing company generally show large scale.
4. Corporate Social Responsibility disclosure level may increase in company value. That was because manufacturing companies were aware of benefits received from the application of practices and corporate social responsibility disclosure broadly.
5. Good Corporate Governance can trigger to increase value of manufacturing companies. This was due to high awareness of manufacturing companies to implement good corporate governance as a necessity, not just compliance with existing regulations.
6. Larger Companies can increase the value of manufacturing firms. That was because manufacturing companies generally have large size.
7. Higher profitability can increase the value of manufacturing firms. That was because company able to generate profits for shareholders with their own capital owned.
8. Corporate Social Responsibility, Corporate Governance, and Company Size indirectly may affect on company value through Profitability. This was because that with more extensive disclosure of Corporate Social Responsibility, better corporate governance, and larger company size can create high profitability, and therefore contributes to high firms value.

Suggestion

Studies presented above were a theoretical examination that still needs further verification. Therefore, for further research were expected to conduct empirical research in order to prove whether the proposition can be accepted or rejected.

REFERENCES

Abbot. 2000. The Concept of legalization dalam international organization. *Journal legalization and world politics. Vol. 54, No.3. Summer 2000.*

Akerlof, G. A. 1970. The Market for "Lemons": Quality Uncertainty and the Market Mechanism. *The Quarterly Journal of Economics* **84** (3): 488-500.

Almilia, L.S., dan D. Wijayanto. 2007. Pengaruh Environmental Performance Dan Environmental Disclosure Terhadap Economic Performance. *Proceedings The 1st Accounting Conference*.

Almus, M. and E. Nerlinger. 2000. Testing 'Gibrat's Law' for Young Firms - Empirical Results for West Gennany'. *Small Business Economics*. Vol. 15, No.2 p.1-12.

Al-Rashed, W. E. 2010. Corporate Performance Under Corporate Governance In The GCC Countries. *Malaysian Accounting Review. Vol. 9, No. 2 p.139-16.*

Amato, L. and R. P. Wilder. 2001. The Effects of Firm Size on Profit Rates in US Manufacturing. *Journal of Law and Economics. Vol. 34, No. 3 p.181-190.*

AmirKhalkhali, S. and Mukhopadhyay, A. K. 1993. The influence of Size and RD on the Growth of Firms in the U.S. *Eastern Economic Journal.* Vol.19, *No. 2 p.223-233.*

Ammar, A., Hanna, A.S., Nordheim, E.V., and Russell, J. 2003. Indicator Variables Model of Firm's Size-Profitability Relationship of Electrical Costractors Using Financial and Economic Data. *Journal of Construction Engineering and Management*. *Vol. 129, No.2 p.192-197.*

Audretsch, D. B., L. Klomp, E. Santarelli and A. R. Thurik. 2004. Gibrat's Law: Are the Services Different?. *Review of Industrial Organization.* Vol. 24, No.2 p.301-324.

Balabanis, George, Phillips, Hugh C., Lyall, and Jonathan. 1988. Corporate Social Responsibility & Economic Performance in the Top British Companies: Are They Linked ?. *European Business Review*. Vol. 98, No.1 p.25-44.

Barkemeyer, Ralf. 2007. Legetimacy as a key driver and determinant of CSR in Developing Countries. *Paper for the 2007 Marie Curie Summer School on Earth System Governance, 28* may-06 june 2007.

Bauer, R., N. Gunster and R. Otten. 2004. Empirical Evidence on Corporate Governance in Europe: the Effect on Stock Returns, Firm Value and Performance. *Journal of Asset Management. Vol. 5, No. 2 p.91-104.*

Brammer, S., C. Brooks, and S. Pavelin. 2008. Corporate Social Performance and Stock Returns: UK Evidence from Disaggregate Measures. *Working Paper Series.*

Brigham, E.F and J.F Houston. 1999. Majamenen Keuangan. Jakarta : Erlangga.

Brigham, EF and LC Gapenski. 2006. Fundamental of financial management. Jakarta: Salemba Empat.

Byus, K., D. Deis, and B. Ouyang. 2010. Doing Well by Doing Good: Corporate Social Responsibility and Profitability. *SAM Advanced Management Journal.* Vol. 3, No.1 p.44-55.

Caves, R. E. 1998. Industrial Organization and New Findings on the Turnover and Mobility of Firms. J*ournal of Economic Literature. Vol. 36, No.4 p.141-149.*

Chesher, A, 1979. Testing the Law of Proportionate Effect. *Journal of Industrial Economics.* Vol.5, No.2 *p.403-11.*

Coad, C. G. 2007. The Effect Of Firm Size On Financial Reporting. *Journal of Accounting and Economics* 33 : 375-400.

Dahlia dan Veronica. 2008. Pengaruh *Corporate Social Responsibility* terhadap Kinerja Perusahaan (Studi Empiris Pada Perusahaan yang Tercatat Di Bursa Efek Indonesia pada Tahun 2005 dan 2006). Jurnal FE UNS. Semarang.

Del monte dan Papagni. 2003. The distorting effect of the prudent-man laws on institusional equity investment. *Journal of Financial Economics* 17 ; 145-176.

Desyah Kurniawan. 2010. Analisis pengaruh rasio keuangan terhadap nilai perusahaan (Studi Empiris Pada Perusahaan yang terdaftar di BEI tahun 2008, 2009, dan 2010). Jurnal Ekonomi Bisnis dan Akuntansi.

Donaldson, T. and Preston, L. E. 1995. The stakeholder theory of the Corporation: Concepts, evidence, and implications. *The Academy of Management Review.* Vol. 20, No.2 p.65-91.

Donovan, Gary and Gibson, Kathy (2002). Environmental Diclosure in the corporate annual report : a longitudinal Australian study. *paper for presentation in the 6th interdisciplinary environmental association conference, montreal Canada.*

Eisenhardt, K. M. 1989. Agency Theory: An Assement and Review. *Academy of management review*. Vol. 14, No.2 p.57-74.

Ferdinand, Augusty. 2006. Metode Penelitian Manajemen: Pedoman Penelitian Untuk Penulisan Skripsi, Tesis dan Disertasi Ilmu Manajemen. Semarang : Badan Penerbit Universitas Diponegoro.

Freeman, E. R. 1984. Strategic Management: A stakeholder approach. Pitman: Marshfield MA.

Griffin, J. J. and Mahon, J. F. 1997. The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business and Society Review.* Vol. 36**,** No.1 p.5-31.

Hart, P. E. and Oulton, N. 1996. Growth and Size of Firms. *Economic Journal*. Vol. 5, No. 2 p.1242-1252.

Haruman, Tendy. 2008. Pengaruh Struktur Kepemilikan terhadap Keputusan Keuangan dan Nilai Perusahaan (Survei pada Perusahaan Manufaktur di PT. Bursa Efek Indonesia). Simposium Nasional Akuntansi XI.

Hermawan. 2010. Analisa Faktor-faktor yang mempengaruhi financial Reporting oleh perusahaan publik yang terdaftar di BEJ. *Jurnal Akuntansi dan Keuangan* 8 (1) ; 75-90.

Hermi, 2004. Hubungan Laba Bersih dan Arus Kas Operasi terhadap Dividen Kas pada Perusahaan Perdagangan Besar Barang Produksi di Bursa efek Jakarta pada Periode 1999-2002. Media Riset Akuntansi, Auditing, dan Informasi. Vol. 4, No.3, p.247-258

Higgins, C. Robert. 2006. *Analysis for financial management, Eight Edition*. Singapure : Mc. Graw Hill.

Hillman, A. J. and Keim, G. D. 2001. Shareholder value, stakeholder management, and social issues: What's the bottom line?. *Strategic Management Journal.* Vol. 22, Vol.3 p.125-136.

Husnan, Suad. 2000. Manajemen Keuangan Teori dan Penerapan Keputusan Jangka Pendek. Yogyakarta : Badan Penerbit UGM

Iriji, Y. and Simon, H. A. 1974. Interpretations of Departures from the Pareto Curve Firm-Size Distributions. *Journal of Political.* Vol. 7, No.2 p.15-31.

Jensen, M. C. dan W.H. Meckling. 1976. Theory of The Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics,* Vol.3, p. 305-360.

Jensen, M.C. 1993. The Modern Industrial Revolution, Exit, and the Failure of Internal Control System. *Journal of Finance. Vol. 48, No. 2 p.831-880*.

Jhunjhunwala, S. and R. K. Mishra. 2009. Corporate Governance and Corporate Performance. *International Journal of Business Research. Vol. 9, No.2* p.62-67.

Jones. 1995. Earnings Management during import relief investigations. *Journal of Accounting Research* 25 (2) : 193-28.

Kusumadilaga, Rimba. 2010. Pengaruh Corporate Sosial Responsibility terhadap nilai perusahaan dengan profitabilitas sebagai variabel moderating (studi empiris pada perusahaan manufaktur yang terdaftar di bursa efek indonesia). Jurnal FE UNS.Semarang.

Larcker, D. F., S. A. Richardson and I. Tuna. 2005. *Ratings Add Fire to The Governance Debate. Financial Times, Mastering Corporate Governance*. Part Two.

Mak dan Kusnadi, 2002

Mak dan Kusnadi. 2002. Pengaruh Penerapan *Good Corporate Governance*,dan Manajemen laba terhadap Kinerja Keuangan Perusahaan. Jurnal Akuntansi Universitas Gunadarma. Vol.2 No.1, p.1-24.

Margolis, J. D. and Walsh, J. P. 2003. Misery Loves Companies: Rethinking Social Initiatives by Business. *Administrative Science Quarterly. Vol.* 48, Vol.5 p.268-305.

McGuire, J. B., A. Sundgren and Schneeweis. 1988. Corporate Social Responsibility and Firm Financial Performance. *Academy of Management Journal.* Vol. 31, No. 5 p.354-372.

Mcwilliams A., Siegel D. 2001.Corporate social responsibility and financial Performance: correlation or misspecification?. *Strategic Management Journal. Vol. 21, No. 5 p.603-609.*

Orlitzky, M, Schmidt, F.L., and Rynes, S.L. 2003. Corporate Social and Financial Performance: A Meta-Analysis. *Organization Studies. Vol. 24, No.3 p.403-441.*

Sembiring, Eddy Rismanda. 2005. Karakteristik Perusahaan dan Pengungkapan Tanggung jawab Sosial: Studi Empiris pada Perusahaan yang Tercatat di Bursa Efek Jakarta. Simposium Nasional Akuntansi 8.

Shleifer, A. and R.W. Vishny. 1997. A Survey of Corporate Governance. *Journal of Finance*. Vol. 52, No.2 p.737-783.

Siallagan. H, dan M. Machfoedz. 2006. Mekanisme Corporate Governance, KualitasLlaba dan Nilai Perusahaan. Simposium Nasional Akuntansi IX.

Siswanto Sutojo dan Aldridge, E. John. 2005. Good Corporate Governance : Tata Kelola Perusahaan Yang Sehat. Jakarta : PT. Damar Mulia Rahayu

Thohiri. 2011. Pengaruh Good Corporate Governance terhadap Kinerja Keuangan Perusahaan (studi empiris pada perusahaan food and beverage yang listed di BEJ). Jurnal Bisnis Strategi. Vol. 9.

Ullman, A. 1985. Data in Search of a Theory: A Critical Examination of the Relationship Among Social Performance, Social Disclosure, and Economic Performance. *Academy of Management Review*. Vol.10, No.1 p.540-577.

Waddock, S. A. and Graves, S. B. 1997. The corporate social performance-financial performance link. *Strategic Management Journal. Vol.* 18, No.2 *p.303-319.*

Wahyudi, Untung dan Pawestri, Hartini Prasetyaning. 2006. Implikasi Struktur Kepemilikan Terhadap Nilai Perusahaan: Dengan Keputusan Keuangan sebagai Variabel Intervening. Simposium Nasional Akuntansi 9.KAKPM 17.

Watts, R. L. and J. L. Zimmerman. 1978. Towards a Positive Theory of the Determination of Accounting Standards. *The Accounting Review, Vol. 53, No. 1 p.112-134.*

Weston, J. Fred., dan Thomas E. Copeland, 1995, Manajemen Keuangan, Edisi 8.Jilid 1. Jakarta : Gelora Aksara Pratama.

Wolk, H. I., Tearney, M. G., and Dodd, J. L. 2001. *Accounting Theory: A Conceptual and Institutional Approach, Fifth edition*. South-Western : College Publishing.

Yermack, D. 1996. Higher market valuation of companies with a small board of directors. *Journal of Fianacial Economics*. Vol. 40, No.2 p.185-211.