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The Influence Corporate Social Responsibility, Corporate Governance, Firm Size to the Value of Manufacturing Companies in Indonesia; Profitability as Mediating

Deddy Kurniawansyah and Sigit Kurnianto
Faculty of Economics and Business, Universitas Airlangga,
Jl. Airlangga 4 Surabaya 60286, Indonesia deddy
kurniawansyah@feb.unair.ac.id, sigit-k@feb.unair.ac.id

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Abstract.

This study purpose to test the effect Corporate Social Responsibility, Good Corporate Governance, Firm Size to value of the firm with profitability as intervening variable. This study population was by 133 manufacture company listed in the Indonesia Stock Exchange in 2013-2018. The sampling used in this study a senses method. Source of data is secondary data, obtained from the financial statements between the period 2013-2018 in the Indonesia Stock Exchange. This study used path analysis to analysis data with the help of the program Partial Last Square (PLS). The results obtained in this study is Corporate Social Responsibility, Good Corporate Governance, and Firm Size has a positive effect on profitability, and value of the firm. The profitability is intervening variables between relationship Good Corporate Governance, and Corporate Social Responsibility, Firm Size to value of the firm. The study implication is as reference for government in building policies about how far the implementation of corporate social responsibility in Indonesia which is ruled in Indonesian Law no.40-year 2007 about Limited Liability and increasing investor perceptions on financial performance manufacturing by good corporate governance, and firm size.

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I. Introduction

The perception of firms' value is basedon investors' perception against high social values, such as attention to social condition, economy, and the environment. Investor is believing that if a company cares about the environment, maintains good corporate governance, and increasing the scale of the company it can improve financial performance.The improved financial performance is positive signal for investors to made investments, so firm value will be higher. Most of financial performance is measured by profitability[1, 2, 3].

Many studieswere examining corporate social responsibility, good corporate governance, and firms' size to firm value, and financial performance. But that study showed the different result. Corporate social responsibility is directly affected to firm value [2, 3, 4, 5, 6]. Different result [7, 8]. Corporate social responsibility is directly affected to financial performance be measured with profitability [9, 10, 11, 12, 13]. Different result [5, 14].Good corporate governance is directly affected to value of firm[15, 16, 17, 18, 19]and is not in

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line [20, 21, 22]. Good corporate governance is directly affected to financial performance [23, 24, 25], and is not in line [26]. Study results shows the firm size is positively affect the financial performance [17, 18, 19, 27, 28].The firm size is directly affected to firm value [2, 6]. Difference result shows that the firm size is not affect to profitability [15, 29]while [30]shows the results that profitability is effect to firm value.

Many research results are inconsistent with the effect of corporate social responsibility, good corporate governance, and company size on profitability and firm value. These findings provide motivation for researchers to modifying more complex research.Because of that, whether it is theoretical explanation or empirical study which still happens controversial, the researchers are interested in doing research about the effect of corporate social responsibility, corporate governance, and firm sizeto value firm with profitability as mediating (study to manufacturing company listed in Indonesia stock exchange in 2013-2018). The reason for using horizon time economics condition is not stabile which caused by the treat of trade war between America and china in 2018 is forcing manufacturing to be able to continue to balance the desires of consumers and what is offered by the company, as well as forcing the company to be competitive both in the domestic market or the international market. this period is believed to affect fluctuations in company value. The implication this research is strengthened the theory of legitimation, stakeholders, agency theory and signaling theory. Besides, it was also as reference for government in building policies about how far the implementation of corporate social responsibility in Indonesia which is ruled in Indonesian Law no.40-year 2007 about Limited Liability.

II. Literature review

2.1 Agency Theory

Agency problems (agency problems) arise from duties between management and shareholders. Managers can make decisions that are not in accordance with the aim of maximizing the welfare of shareholders [2, 3]Agency problems can be minimized by strengthening strict monitoring through the application of good corporate governance [3, 5, 6].

2.2 Signalling Theory

Signaling theory explains how signals of success or failure of management (agent) are informed to the owner (principal) [2, 12]. Success in increasing profitability through corporate social responsibility reporting, the application of good corporate governance, and company size is a positive signal for investors. This success made the market price of the stock responded well by the market, so the value of the company increased [11, 12].

2.3 Stakeholder Theory

Stakeholder theory states that companies are not entities that only operate for their own interests but must provide benefits to their stakeholders [3, 13].This theory is used to explain social and environmental disclosure behavior, implementation of corporate governance, and company size.The company will try to satisfy stakeholders by disclosing the information needed (The company will try to satisfy stakeholders by disclosing the information needed) [12].

2.4 Legitimacy theory

Legitimacy theory states that a company has a contract with the community to carry out its activities based on the values of justice. Legitimacy theory encourages companies to

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ensure that their activities and performance are acceptable to the public through annual reports to illustrate the impression of environmental, economic, and social responsibility [3, 12, 13]. Companies that have legitimacy from the community will have an impact on financial performance and company value.

2.5 The effect corporate social responsibility toprofitability

Disclosure of corporate social responsibility is one mechanism that can be used to communicate companies with stakeholders [9, 11, 17]. Corporate social responsibility becomes an entry point to gain profits or improve legitimacy and strengthen the brand image of goods and services produced. This strategy is an appropriate tool to increase company sales which has an impact on increasing profitability. Corporate social responsibility is directly affected to financial performance by measured with profitability [9, 10, 11, 12, 13].Based on this, the hypotheses tested are:

H_1: Corporate social responsibilityis effect toprofitabilitymanufacturing in Indonesia.

2.6 The effect good corporate governance to profitability

The implementation of good corporate governance will minimize the risks arising from the company's activities so as to increase optimal profitability. Increased profits are directly related to the value of profitability. Good corporate governance is directly affected to financial performance [23, 24, 25, 31]. Ownership of shares by financial institutions is a strong factor to maintain good financial performance.Based on this, the hypotheses tested are:

H_2: Good corporate governance is effect to profitability manufacturing in Indonesia.

2.7 The effect firm size to profitability

Big companies will be chosen more by investors because of the assurance of certainty of operations and better future business prospects. The firm size with a large scale can create high profitability. the firm size is positively affecting the financial performance [17, 18, 19, 27, 28]. Based on this, the hypotheses tested are:

H_3: Firms size is effect to profitability manufacturing in Indonesia.

2.8 The effect corporate social responsibility to firm value.

Social disclosures in the annual reports of companies that go public have been shown to increase share trading volume. Most investors respond well to the social information that companies present in annual reports. The wider social disclosure in the annual report can give effect to the trading volume of the company's shares where there is a surge in trade around the publication of the annual report.Corporate social responsibility is directly affect to firm value [2, 3, 5, 6]. Based on this, the hypotheses tested are:

H_4: Corporate social responsibility is effect to value of manufacturing companies in Indonesia.

2.9 The effect good corporate governance to firm value.

The benefits of implementing good corporate governance can be seen from the premium that investors are willing to pay for the company's equity (market price). if investors are willing to pay more, then the market value of companies that implement corporate governance will be higher than companies that do not apply corporate governance practices.Good corporate governance is

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directly affected to value of firm [15, 16, 17, 14, 19]. Based on this, the hypotheses tested are:

H_5: Good corporate governance is effect to value of manufacturing companies in Indonesia.

2.10 The Effect firms' size to firm value.

Big companies have broader interests, so that various large company policies will have a greater impact on the public interest compared to smaller companies. For investors, the company's policy will have implications for the prospect of cash flow in the future. Investors are more interested in the company's good financial condition, so that the company's value increases.The firm size is directly affected to firm value [2, 6]. Based on this, the hypotheses tested are:

H_6: Firm size is effect to effect to value of manufacturing companies in Indonesia.

2.11 The Effect profitability to firm value.

Every company wants high company value because it shows the prosperity of shareholders. Investors believe that high profits can provide a high level of return (dividends), so the perception of potential investors towards the company is higher, followed by an increase in the company's stock market price.The higher the ability to obtain profits, the greater the return expected by investors, so that the company's value will be better.Profitability is influential to firm value [30]. Based on this, the hypotheses tested are:

H_7:Profitability is effect to value of manufacturing companies in Indonesia.

III. Research Method

3.1 Types, and Data Resources

The type of data used is a secondary data received by www.idx.co.id.The population of this research is manufacturing companies listed in Indonesian Stock Exchange in 2013 until 2018 was 133 company. The Population technique used in this research is saturated population. Based on saturated population was acquired 42 manufacturing companies.

3.2 Definition of Operational

The study consists of three variables, namely the independent variable (good corporate governance, corporate social responsibility, and firm size), the dependent variable (firm value), and mediating variable (profitability). Corporate social responsibility (X1) measured based oncorporate social responsibility disclosure Indexby Global Reporting Index[2, 6, 20]. This index will be scored 1 if the firm is disclosed and 0 if the firm is not disclosed. The good corporate governance measured based on institute authority [12, 24, 25]. Firm size measured based on total assets in the end of year which is adopted from [17, 29].Profitability uses proxy of Return on Equity [12, 24]. Firm value measured based onPrice to Book Value [3. 6].

3.3 Data Analysis

This research uses path analysis with the help of Partial Least Square (PLS). PLS testing criteria consists outer (indicators) and inner model (structural) test. Several reasons of choosing PLS are that PLS is based on (a) theory, (b), empirical research results, (c) analogy of relationship between variables of difference knowledge field, (d) normative cases, such as government rules, laws, etc., (e) other rational relationships.

IV. Results and Discussions

This research consists 42 samples of manufacturing companies. The summary of

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the variables' descriptive statistics used in this research is presented in table 1.

Table 1. Descriptive Statistic

Variable	Sample	2013	2014	2015	2016	2017	2018	Mean
Social Responsibility of Firm (X_1)	42	0.7519	0.7988	0.8716	0.8923	0.9178	0.9378	0.8617
Good Corporate Governance (X_2).	42	71.5200	73.3490	73.4952	73.7831	73.8988	74.6324	73.3984
Firm Size (X_3).	42	11.9494	11.9916	12.0537	12.4167	12.5304	13.0217	12.3272
Profitability (Y_1)	42	0.2140	0.1710	0.1939	1.1408	1.6721	1.8354	0.8712
Firm Value (Z_1)	42	1.8580	1.9335	2.3166	2.6781	2.8117	2.9072	2.4175

Based on table 1 it is shown that the mean of corporate social responsibility is 0.8617. The value which is close to 1 means that the responsibility disclosure is already vast, and appropriate to the Global Reporting Index standards. The mean of good corporate governance is 73,3984 or mostly authority of institute stock is 73%. This result indicates that the side of institute investors may encourage managers to focus its attention to firm's performance so that will decrease the opportunistic or selfish acts. The mean of firm size with indicator of total assets is 12.3272. This indicate that manufacturing companies has a total asset above 100 billion and category of big companies. The mean of profitability with ROE indicator is 0.8712. This indicates that the capability in producing net profit from firm equity in the amount of 87%. The mean of firm value with indicator PBV is 2.4175. This indicates the manufacturing has a decent firm value in the eyes of investors.

4.1 Outer Model Test (Indicator Test)

Outer model test principally is testing indicators to the latent variables or measuring how far the indicator can explain its latent variables. For reflective indicators like the one used in this research, the test was done by reading the result of outer loadings (convergent validity)presented in table 2, discriminant validity presented in table 3, and composite reliability presented in table 4.

Table 2.Convergent Validity

Indicator	Original Sample (0)
institute Authority < GCG	1
CSDI < CSR	1
ROE < Profitability	1
Total Assets < Firm Size	1
PBV < Firm Value	1

Table 3.Discriminant Validity

Variable	AVE
GCG	1
CSR	1
Firm Size	1
Profitability	1
Firm Value	1

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Table 4.Composite Reliability

Variable	Composite Reliability	Variable	Composite Reliability
GCG	1	Profitability	1
CSR	1	Firm Value	1
Firm Size	1		

Based on the results of outer loadings (convergent validity shown in table 2) resulted that every indicator is already valid because they have loading value above 0.5. From the result of Table 3 Discriminant validity can be known that every variable has enough discriminant validity, because the result was shown in the amount above 0.5. The result of composite reliability shown in table 4 results that every construct is worthy of inner model test, because the result was shown in the amount above 0.5.

4.2 Inner Model Test (Structural Test)

Inner model test to test hypothesis between latent variable with the other latent variables. This test is done by looking at the result of analysis path. Stability of this estimation is tested by using t-statistic test which achieved by bootstrapping procedure.

4.3 Path Analysis

Path analysis shows the influence and significance between latent variables in research. The result of analysis path can be seen by how large the coefficient of structural path (path coefficients) and the value of t-values for significance of prediction model (shown in table 5). The result intervening variable test by direct and indirect influence could be shown in table 6.

Table 5.The Result of Path Coefficients (Hypothesis Test)

Coefficient Beta	Statistic	(0/STERR)	Significance (>1.96)	Hypothesis
GCG :Profitability	0.678	20.742	Significant	Accepted
CSR : Profitability	0.868	4.751	Significant	Accepted
Firm Size : Profitability	0.772	6.816	Significant	Accepted
GCG : Firm Value	0.353	2.464	Significant	Accepted
CSR : Firm Value	0.371	2.715	Significant	Accepted
Firm Size : Firm Value	0.364	2.795	Significant	Accepted
Profitability : Firm Value	0.808	18.890	Significant	Accepted

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Table 6. Direct and Indirect Influence

Independent Variable	Depen-dent Variable	Media-tion Variable	Effect Direct	Indirect	Notes
GCG	Firm Value	Profitability	0.353	0.547	Mediation
CSR	Firm Value	Profitability	0.371	0.701	Mediation
Firm Size	Firm Value	Profitability	0.364	0.623	Mediation

4.4 Mediating test

Based on table 6, Coefficient direct influence of corporate social responsibility to firm value is 0,353. Then, it's coefficient indirect is 0,547.Coefficient direct influence of good corporate governance to firm value is 0,371. Then, it's coefficient indirect is 0,701. Coefficient direct influence of firm size to firm value is 0,353. Then, it's coefficient indirect is 0,547. The conclusion, profitability to be mediating variable, because coefficient value indirect is biggest than coefficient value direct of corporate social responsibility, good corporate governance, and firm size to value firm.

V. Discussions

5.1 The effect of corporate social responsibility to profitability of manufacturing companies

Based on table 5, corporate social responsibility is affect a positively to profitability with T-statistic is 4,751 (4,751>1,96), and coefficient is 0,868. The result of this research supports legitimation theory. The companies has a contract with people to do their activities based on justice value, and how firm handles several groups of interests to legitimate firm actions, so by revealing and perform the social responsibility, the firm will get its entrance to achieve profit and legitimation [9, 10, 11]. Disclosures which is going vaster will give positive signals to the sides cancerous to the firm (stakeholder) and also the stakeholders of firm (shareholder) [12, 13].The vaster the information sent to stakeholder and shareholder the more increasing of information regarding the firms received. This trust is shown by stakeholder by receivedof firm products so it will improve the profit affectionate to profitability.

5.2 The effect of good corporate governance to profitability of manufacturing companies

Based on table 5, good corporate governance is affecting a positively to profitability with T-statistic is 20,742 (20,742>1,96), and coefficient is 0,678. The result of this research receives empirical results from [23, 24, 25]. Decent corporate governance is related to how the investors sure that the manager will give profits for them, sure that the manager won't steal or obfuscating or invest it into projects which are not related with the funds or capitals invested by the investors, and related to how the investor controls the manager [24, 25].The institute ownership will review professionally the investment improvement which invested by the firm and having high control level toward management acts. This case will minimize the management potentials to cheats, and can align management priority, also other stakeholder priorities to improve the profitability.

5.3 The effect of firm size to profitability of

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manufacturing companies

Based on table 5, good corporate governance is affecting a positively to profitability with T-statistic is 6,816 (6,816>1,96), and coefficient is 0,772. The result of this research strengthened the empirical discovery firm with large total assets shows that the firm has already stepped on stage of maturity and also have the prospects in producing large profit compared to firms with small total assets [17, 27, 28].The large number of consumer demand causes lot of manufacturing firms which have large number of total assets doing production process in large scale, so that the number of total assets owned by firms will automatically growing [18, 19].The increase of total assets is more funds used in its' operation, one of them is by using self-funding from the firm in achieving larger profit and improving the firm's performance (profitability).

5.4 The effect of corporate social responsibility to value of manufacturing companies

The implementation and disclosures of social responsibilities may give uses to manufacturing companies which first, decreasing risks and accouchement of deviation acts of the firm. The firms which already done their social responsibilities consistently will get a vast support from community which feels the use of activity done. The result of this research receives empirical [2, 3, 5, 6]. The corporate social responsibility will lift the firm's image, which in long term will improve the reputation of firms which influences the increasing of firm value [2, 3]. Corporate social responsibility can function as protector and helping the firms in minimalizing the bad effects caused by some crises.

5.5 The effect of corporate governance to value of manufacturing companies

The institute ownership which is a part of corporate governance implementation in firm. One of the roles of institute ownership in realizing the corporate governance is encouraging the building of surveillance structure which is adequate and improve the disclosure quality of financial report. With decent corporate governance, firm's funds will be well managed also so in later them it may give influences to improvement of firm capability in creating profits, and affect in improvement of firm value.The result of this research accepts[15, 16, 17, 18, 19]. This value is decided by market perception to continuity of firm performance reflected by revolving value of stock market. This result is also appropriate to agency theory. There are a lot of methods implementable which one of them is by doing surveillance (outer investor) and doing limitation over acts (manager) so it will decrease chances of deviation by managers which later will improve firm value. The mechanism of the surveillance is the institute stakeholders.

5.6 The effect of firm size to value of manufacturing companies

The total assets owned by manufacturing firm shows the maturity where in this stage the firm's cash flow is very good and also able to produce profits even though it was disturbed by the economy slowdown. Past the global crisis the firm starts to rise and the condition became more stable, so there are a lot of manufacturing firms which have huge total assets. The result of this research accept [2, 6]. Assets shows assets which used in firm's operation activities. The improvement of assets followed by growing the result of firm operations can increase the trust between investors or other stakeholders toward firms. Because the total of large assets can improve financial and market

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performance toward firm. The presence of the trust makes the investors to be interested in investing their funds to the firm. Therefore, the manufacturing firm undergoes the firm value improvement.

5.7 The effect of profitability to value of manufacturing companies

Profitability of Manufacturing firm is influential to the firm value caused the firm is capable in producing profits for stakeholders with owned self-funds. The high profit will give an indication of a well prospect firm so it can take investor's interest to join in increasing stock demand. Then the growing stock demand will cause the firm value to increase. This result also[30].High profitability shows a decent firm prospect so that the investors will positively responds, and the firm value will improve. The larger prosperity level given by the firm will took interest of investors to own the firm and will give positive influences to stock prices in market. This case will improve the value of the firm.

VI. Conclusion

The conclusion of this research is corporate social responsibility, good corporate governance, firm size is affectinga positively to profitability and value of manufacturing companies. Profitability to be mediating variable between effect corporate social responsibility, good corporate governance, firm size to value firm.

6.1 Limitation

Some of the limitations in this research are:

There issubjectivity factor in deciding index, because there are no provisions which can be turned into standards or triggers, so the decision of index for fellow GRI indicator and be different between the researchers.

The number of year periods of surveillance only for five years, so the results can't be generalized to represent every type of firm listed in BEI and haven't reflected on various conditions.

Sample selection in this research uses non-probabilistic method, so that the firm used as sample for decided criteria.

6.2 Advice

Based on the conclusion and limitation of the described research, several advices that can be given are:

For next researchers will be hoped to do addition or other exogenous variable changes so it can explain the firm value on profitability vastly.

For next researchers will be hoped to add the research samples, so the result of research has a generalizing which is stronger and completing each other.

For next researches, it is recommended to use measuring index with numbers, such as scale of 1-5 (litre scale), this is for avoiding subjective evaluation.

For firms in Indonesia, to improve profitability, and firm value must improve the revelations of corporate social responsibility, improving a decent corporate governance, and having a huge firm size.

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