THE RELATIONSHIP BETWEEN CSR AND PROFITABILITY TO FIRM VALUE IN SRI-KEHATI INDEX

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Received: *February 13, 2014* Accepted: *September 23, 2014* Online Published: *March 28, 2015*

Abstract

This study aims to investigate the relationship between Corporate Social Responsibility (CSR), Profitability to Firm Value. The samples are all manufacturer companies that listed in SRI-KEHATI Index by using control samples (manufacturers company not listed in SRI-KEHATI Index). This study is empirically examined between CSR disclosure (environment, energy, health and safety, product, and community services), profitability (ROA) and firm value. For company that listed in Sri Kehati Index, this study found no significant relationship between CSR to firm value but there were positive significant relationship between profitability to firm value.

Keywords : Corporate Social Responsibility (CSR), Corporate Social Responsibility Index (CSRI), Firm Value, Profitability, Firm Size

1. Introduction

Corporate Social Responsibility (CSR) is getting an increasingly important issue for all over the world, due to a new attention to all the aspects of firms activities and their relationships with stakeholders. Carroll (1999) found that public interest on the role of businesses in society is driven by greater sensitivity and awareness of environmental and ethical matters. The public expectation of civic duty means going beyond adding value to the bottom line. Currently, CSR reporting practice development is globally imbalance. In Asia, evidence shows that many developing countries are moving in a positive direction with reference to corporate social reporting. Nurlela and Islahuddin (2008) analyzed the effect of CSR on firm value by using the percentage of management ownership as a moderating variable showed a significant effect on firm value but partially only percentage of management ownership has an effect on firm value.

In Indonesia, many companies implement the corporate social responsibility programs and concern to the social and environmental problem. Companies have to report any expenses occurred related to CSR program in financial report. This study will analysis the relationship between CSR and profitability to firm value. Firms, used as samples, are listed firms in Indonesian Stock Exchange (IDX) selected from SRI-KEHATI Index. SRI-KEHATI Index is stock market index that consists of 25 Indonesian firms that have excellent performance in promoting sustainable businesses, as well as having awareness of environmental, social and good corporate governance.

2. Literature review

2.1. Corporate Social Responsibility

In Indonesia, the discourse on CSR began to surface since 2001, but prior to this discourse has surfaced many companies CSR and very few are expressed in a report. This was probably because we do not have any means of support such as: reporting standards, skilled personnel (both accountant that prepare the report and the auditors). So that CSR is not considered important to report in detail because no one requires reporting on CSR.

CSR as an idea, the company no longer faced with the responsibility that rests on a single bottom line, the value of the company (corporate value) are reflected in the financial condition (financial) only. But corporate responsibility should be based on the triple bottom lines. Here, other than the financial bottom lines also social and environmental. Because financial conditions are not enough to guarantee the value of the company to grow in a sustainable. Sustainability will only be guaranteed if the company shows interest to the social and environmental dimensions. It is a fact how the resistance communities, in different places and times come to the surface of the companies that are considered not pay attention to aspects of social, economic and environmental (Nurlela and Islahuddin, 2008). The information disclosed in the annual report can be grouped into two, namely the mandatory disclosure, which is the minimum disclosures that must be disclosed (required regulations), and voluntary disclosure, where companies are free to choose the type of information disclosed that if only to support decision-making and increase the company's value to stakeholders and shareholders.

Voluntary disclosure rise because of the awareness of the surrounding environment, successful companies not only on profit but also concern for the environment surrounding communities (Yuliani, 2003). Research conducted by (Maksum and Kholis, 2003) states that have Corporate Social Responsibility (CSR) is an important thing to do for a company. Masnila (2007) stated that CSR disclosure in annual reports can be grouped based on the theme that was revealed, the type of disclosure, the level of disclosure, as well as locations where social responsibility is expressed.

According to Hackston and Milne (1996) in Nisya (2008), CSR is the process of communicating the social and environmental impact of economic activities on the organization of special interest groups and the community as a whole. In its operations, the company often causes problems for the environment and society as a social problem, pollution, natural resource, and waste.

According to the Prince of Wales Foundation, there are five important things that can affect the implementation of CSR, first, concerning the empowerment of human capital or human. Second, the environments are talking about the environment. Third is Good Corporate Governance. Fourth is social cohesion. That is, in implementing CSR not to cause social jealousy. Fifth is the economic strength or bamboozle environment towards economic independence.

In Company Law also mentioned the regulations regarding concerns about the environment, which is set in the Company Law Article 74 paragraph (1) which states: Limited Liability Company Act states that the company runs its business activities in the field and or relating to any source natural resources required to carry out social and environmental responsibility. This is what is meant by corporate social responsibility.

2.2. Signaling Theory

Signaling theory offers an intriguing opportunity for reconciling the strategic-actor and materialist approaches in the social sciences with approaches centered on meaning, social value, and ritual. Signaling theory is one theory that underlies the voluntary disclosure of where the company was driven to provide information to outside parties.

Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal. Accordingly, signaling theory holds a prominent position in a variety of management literatures, including strategic management, entrepreneurship, and human resource management.

Signaling theory in science communication in the disciplines of accounting is used to explain and predict the behavior patterns of communication to the public managers. Signaling theory in accounting for one of its functions is to assess any private information that will be issued by the management to shareholders. The manager seeks to communicate private information which tends to contain good news is to increase shareholder wealth (Jaswadi, 2004).

According to signal theory, companies with high earnings quality will result in persistent earnings, and are entitled to a high valuation from investors. Instead, the company will produce low-quality earnings are not persistent, and deserves a low valuation of investors indicated a low stock market prices (Bandi, 2009).

The theory of signals related to the capital market response in response to good news and bad news coming from a company that has been listed in the investment portfolio of the investor. With the information released by management to be addressed as good news or bad news can help investors to make upward revisions to earnings and performance of the company in the coming and decided to buy the company's stock. Conversely, if the prediction is higher than actual, which means bad news, investors will revise down and immediately sell the shares of the company because the company's performance does not match the expected (Ambarwati, 2008).

2.3. Firm Value

The company's main objective is to increase shareholder value. Value of the company is the investor's perception of the level of success of a company that is often associated with stock prices (Sujoko and Ugy, 2007).

The value of the company will be reflected in its stock price. The market price of the company’s shares that is formed between the buyer and the seller in the transaction is called the market value of the company, because the market price of the stock is considered as a reflection of the true value of the company's assets. The value of a company formed through the indicator value is strongly influenced by the stock market investment opportunities.

The existence of investment opportunities can provide a positive signal about the company's growth in the future, so as to enhance shareholder value. Literally, the value of the company can be observed through shareholder wealth that can be measured by its share price in the stock market (Hasnawati, 2005).

2.4. Corporate Social Responsibility and Profitability

The main objective of the company is gaining profits, yet in the development of today's companies can not just focus on maximum profit regardless of the surrounding environment. Concept 3 P: profit, people, and planet must always strived to be run simultaneously and continuously. There is a significant relationship between CSR activities and profitability of the industrial companies. Adopting such activities will improve the company’s reputation and positioning in the community and increase customer satisfaction. This however will lead to increase the market share and maximize profits.

There is a significant relationship between provide donations and establish non-profit projects and the profitability of industrial companies and there is a significant relationship between support projects and charities associations and the profitability of industrial companies (Dabbas and Al-Rawashdeh, 2012). The results of other studies of Olagunju and Omeyele (2012) by using a questionnaire to staff from 10 companies located in Logos obtain the result that the CSR effect on profitability. The consequence of this is CSR activities should not only be driven by profit motive but must also be ethical and transparent in the conduct of their business operation while remaining sensitive to the problems and aspirations of their host environment.

2.5. Corporate Social Responsibility and Firm Value

Corporate social responsibility is expressed in a report called Sustainability Reporting (sustainability reporting). CSR can be sustained if the program created by a company is really a shared commitment of all the elements that exist within the company itself. The company's main purpose is to increase the firm value. The value of the company is ensured sustainable growth (sustainable) when the company noticed the economic, social and environmental sustainability as a balance between economy, environment and society. CSR will increase the value of the company's stock price and the views of corporate profits (earnings) as a result of investors who invest in company stock. Nurlela and Islahuddin (2008) stated that the presence of good CSR practices, the expected value of the company will be judged well by investors.

Jensen (1986) stated that in the long run no company can maximize the value of the company, if it ignores the interests of stakeholders. In accordance with the views of stakeholder theory, Khanifar (2012) found the value of the company in the long run will be determined by the company's relationships with internal and external stakeholder.

3. Previous research and hypotheses

A number of different methods have been applied to examine the relationship between CSR performance and Firm value. McWilliams and Siegel (2000) point to a number of problems with CSR performance research; inconsistencies in defining CSR, selecting samples, as well as research design and misspecification of the models. As a result, a lot of research on CSR performance is not comparable.

Several papers have investigated the relationship between corporate social responsibility and firm value. Barnett (2007) insight that the impact of CSR on firm value depends on the ability of CSR to influence stakeholders in the firm. McWilliams and Siegel (2001) examined the relationship between the corporate governance ratings of firms and their equity prices. Their findings were the high governance ratings had higher firm value, higher profits, and higher sales growth. According to Orlitzky, et al (2003) insight that the impact of CSR on firm value has measured value as either market prices such as stock returns or accounting measures such as return on equity or return on assets.

On the basis of previous research there is positive relationship between CSR and firm value (Sen and Bhatachrya, 2001). According to McGuire, et al (1988) a firm has an investment in reputation, including its reputation for being socially responsible. Dowell, et.al (2000) measure firm value and find that multinational enterprises' adoption of strict global environmental norms is positively related to higher firm value. Nurlela and Islahuddin (2008) argued that the disclosure of CSR significant effect on firm value. This is because more and more disclosure of CSR then it shows the company's value, the better. Something similar is supported by research conducted by Wijayanti (2009) which concluded that there is a positive and significant relationship between CSR on firm value manufacturing.

Handayani (2010) states that the ratio of profitability have a significant effect on firm value. The samples are 18 companies on the Stock Exchange in the period 2003-2005. The tool is regression analysis. His study states that the ratio is found to significantly affect the value of corporate profitability. Yuniasih and Gede (2008) using a sample of 27 companies on the Stock Exchange during 2005-2006 with the result that profitability ratios affect the value of the company. The higher profitability ratios show the company in a good performance that will increase the value of his company. The results of a similar study revealed also by Frick and Andreas (2009) and Kiel (2003) which states that the ratio of profitability effect on firm value. The higher profitability ratios (ROE) is the ratio between the net income by total equity in a corporation showing its financial performance has increased due to greater profits, so it will have an impact on increasing the company's value as more and more investors to their shares to the company in question.

Maksum and Kholis (2003) states that social responsibility (CSR) is an important thing to do for a company and Maslina (2007) stated that CSR disclosure in annual reports can be grouped based on a theme that was revealed, the type of disclosure, the level of disclosure, as well as locations where social responsibility is expressed. Nurlela and Islahuddin (2008) argued that the disclosure of CSR significant effect on firm value. This is because more and more disclosure of CSR then it shows the company's value, the better. Something similar is supported by research conducted by Wijayanti (2009) which concluded that there is a positive and significant relationship between CSR on firm value manufacturing.

On the basis of the previous researches about the relation between CSR and firm value, then the hypotheses develop in this study are:

H1: *CSR gives positive impact on firm value of Indonesia firms*

H2: *Profitability gives positive impact on firm value of Indonesia firms*

4. Research method

4.1. Data and Sample

Firms used as samples are 25 listed firms (suspect) in Indonesia Stock Exchange (IDX) selected from SRI-K.EHATI Index. SRI-KEHATI Index is stock market index that consists of 25 Indonesia firms that have excellent performance in promoting sustainable businesses, as well as having awareness on environmental, social and good corporate governance. Sample firms were monitored from 2009 to 2010.

4.2. Variable Measurement and Model

Firm value. Firm Value is an economic measure reflecting the market value of a whole business. This study will use market to book value (MTB) as a measurement of firm value. MTM is the proxy for growth opportunity Gaver and Gaver (1993) and Black et al (2006).

*Corporate Social Responsibility***.** Corporate Social Responsibility is measured by the CSRI checklist that consists of 78 statements. The data of CSR activities are collected from firm annual reports and the content analysis used to check the information about CSR Activities done by the firms with the list of statements on CSR Disclosure checklist. If the CSR Activity of the firm is appropriate to the CSR checklist then get score of 1 otherwise get score of 0. The CSRI score is calculated by score of firm CSR Activities is divided by total score of CSR Disclosure Checklist.

$$CSRI_j = \frac{\sum X_{ij}}{n_j}$$

Where:
CSRIj = Index of Corporate social responsibility for company
$\sum X_{ij}$ = Number of items that been disclosed by the companies j
nj = Number of item for the company j

Profitability. Profitability measures the ability of the company to produce the earnings. Profitability is one of the financial performance measurements. This study will use the Return on Assets (ROA) as a measurement of profitability. ROA is calculated from Earnings after Taxes (EAT) divided by Total Assets.

Firm Size. Firm Size is used as control variables. Previous studies used firm size as control variables because the CSR activities, in some cases, affected by firm size. The firm size is calculated by the ln of total asset.

4.3. Research Models

The first regression model is used to examine the effect of CSR index and profitability to the firm value with firm size as control variable. The multiple regression modelsare represented as follows:

$$FirmValue_{suspect} = ß_0 + ß_1 CSRI_{suspect} + ß_2 ROA_{suspect} + ß_3 Firm\_Size_{suspect} + e \quad (1)$$

$$FirmValue_{nonsuspect} = ß_4 + ß_5 CSRI_{nonsuspect} + ß_6 ROA_{nonsuspect} + ß_7 Firm\_Size_{nonsuspect} + e \quad (2)$$

Where:
$ß_0, ß_4$ = intercept coefficient
$ß_1, ß_2, ß_3, ß_5, ß_6$, and $ß_7$ = coefficient of each independent variable

5. Results and discussion

Preliminary data used is 40, but due to problems of data normality, outlier removal is carried out as much as 4 data and data processes further as many as 36 data. Table 1 presents the descriptive statistics for firm suspect.

Table 1 – Descriptive Statistics ($Firm_{suspect}$)

	Firm_Values	CSRIs	ROAs	Ln Firm Sizes
Mean	3.025978	0.294878	0.104042	31.49389
Median	2.780850	0.282100	0.105950	31.48000
Maximum	5.415200	0.512800	0.268400	33.94000
Minimum	0.159800	0.230800	0.012300	29.40000
Std. Dev.	1.397022	0.068312	0.076955	1.454519
Observed	36	36	36	36

Firm value measured by market value divided book value of equity. The result shows average 3.025978. Table 1 shows that the average market value is 3.025978 times compared to the book value of its equity. The standard deviation of this variable is 1.397022 means that the deviation from the average of data for the variable value of the company amounted to 1.397022. CSRI average of suspect 0.294878 that means disclosure 29.4878%. The average number of social responsibility disclosure equal to 23 disclosure of 78 required disclosure. Profitability measured by net income divided by total assets (ROA). ROA suspect group have an average 0.104042. The average mean suspect group was able to generate a net profit of 10.4042% utilization of all assets owned.

Table 1 also appears that there is a small variation in CSRIs and ROAs. It means that the CSR Activities among firms are quite similar. The variation of ROA is also quite small among firms. The variation of firm size is quite big that means the different of the firm size among firms are quite big.

Table 2 presents the data used as a non suspect is a company within the same industry and has total assets of nearly the same, so the number of suspect and non-suspect firms are alike. The data used is a financial statement data of 2009 and 2010. Preliminary data used is 40, but due to problems of multicollinearity. Outlier removal is carried out as much as 6 data and data processed further as many as 34 data.

Table 2 – Descriptive Statistics ($Firm_{nonsuspect}$)

	Firm_Values	CSRIs	ROAs	LnFirmSizes
Mean	3.485366	0.209653	0.063061	30.41162
Median	2.301091	0.224359	0.054366	30.34814
Maximum	18.92810	0.269231	0.235380	32.74782
Minimum	0.004436	0.141026	-0.075353	25.57283
Std. Dev.	3.677762	0.038381	0.070277	1.627622
Observed	34	34	34	34

Firm value non suspect is 3.485366, means the market capitalization 3.485366 times to book value of its equity. Value of non-suspects group companies is higher than the group of companies suspected. CSRI has an average 0.209653 means non suspect disclosure CSR information is 20.9653%, or in other words, nonsuspect companies disclose 16-17 item of 78 required disclosure. Total disclosure of this group is less than the suspected group. ROA of nonsuspect group is 0.063061, meaning that the company is able to produce net profit 6.3061% of the total utilization of assets. Profitability of suspect group higher than the non-suspect groups.

Table 2 also provided that the variability of the data is very wide distance range minimum value maximum value is very large when compared to the average value. The average value of the enterprise value 3.485366 means that the value of the average market price for 3:48 times compared to the book value of equity per share. Variability to social responsibility disclosure index is small, with an average of 0.209653. Average shows that on average companies do as much disclosure of 14 items of 68 disclosure items that can be done. For variable ROA as a measure of profitability has little variability with an average value of 0.063061, which means that the average non-suspect firm has a profit of 6.3061% of its total assets. Firm size has a low variability.

The results of this study using multiple regression models are given in Table 3. The first part of the Table 3 is regression model with FIRM VALUE suspect as dependent variable and CSRI suspect, ROA suspect and Firm Size suspect as independent variables. The first model is used to examine the first hypothesis that stated CSRI suspect gives positive impact on FIRM VALUE.

Table 3 – Summary of Regression Model Suspect Firms

	Coefficient	Std. Error	t-Statistic	Prob.
C	-12.64501	5.637928	-2.242847	0.0320
CSRIS	-3.606223	2.931031	-1.230360	0.2275
ROAS	18.81931	3.098906	6.072889	0.0000
LNFIRMSIZES	0.469183	0.164355	2.854684	0.0075

R-squared	0.544995	Mean dependent var.	3.025978
Adjusted R-squared	0.502338	S.D. dependent var.	1.397022
S.E. of regression	0.985531	Akaike info criterion	2.913167
Sum squared resid.	31.08070	Schwarz criterion	3.089114
Log likelihood	-48.43701	Hannan-Quinn criter.	2.974578
F-statistic	12.77631	Durbin-Watson stat.	2.092459
Prob. (F-statistic)	0.000012		

Dependent Variable: FVS
Method: Least Squares
Sample: 1 36
Included observations: 36

The results showed that $ROA_{suspect}$ had positive effect on firm value $_{suspect}$. In otherwise, $CSRI_{suspect}$ had no effect on firm value $_{suspect}$. These results indicate that the more or less of the practices of CSR of the company do not have affect on the increase in the value of the company. This is because many companies have a few disclosure on their CSR compared with the total items that should be disclosed for industry.

Based on signaling theory which states that the company gives signals to the public with the intention of increasing the value of the company was not able to be explained by companies. Leastwise those items disclosed to the readers of company annual reports make investors pay less attention to or consider the disclosure of corporate CSR as one of the information that affects them in an investment. Therefore, CSR disclosures are not an element that affects the investor to assess overall company performance. Investors are likely to consider other matters such the company's financial performance in investing.

For non-suspect group of companies, explanatory power and CSRI ROA variables are controlled by the size of the company amounted to 22:38%, so it can be said that as many as 77.62% of the variance explained by the variable value of the company to another. The results showed that the model fit to predict the variance of the value of the company at the level of 5%. Variables ROA and CSRI are not statistically affect the value of the company, but the size of the company is able to control the influence of profitability and broad social responsibility disclosure.

The result of this research shows that there are differences in the influence of profitability on firm value. This indicates that companies listed in the Sri Kehati Index have better financial performance han companies that are not in the category of Sri-Kehati index. In addition, companies that enter into the index must have Sri-Kehati positive ROA and asset specific number. On the other hand, it shows that investors in Indonesia are keener in investing.

Table 4 – Summary of Regression Model Non Suspect Firms

	Coefficient	Std. Error	t-Statistic	Prob.
C	42.14231	12.21648	3.449628	0.0017
CSRI	-2.595284	14.70827	-0.176451	0.8611
ROA	-1.445449	8.745687	-0.165276	0.8698
FIRMSIZE	-1.250235	0.377762	-3.309583	0.0024
R-squared	0.294372	Mean dependent var		3.48536
Adj R-squared	0.223809	S.D. dependent var		3.67776
S.E. of regression	3.240171	Akaike info criterion		5.29926
Sum squared resid	314.9612	Schwarz criterion		5.47883
Log likelihood	-86.08742	Hannan-Quinn criter.		5.36049
F-statistic	4.171772	Durbin-Watson stat		1.61401
Prob(F-statistic)	0.013924			

Dependent Variable: FIRMVALUE
Method: Least Squares
Date: 08/15/12 Time: 10:12
Sample: 1 34
Included observations: 34

The results of this study indicate that the size of CSR practices do not affect the increase in the value of the company. This is because the company is an entity that operates only for its own sake and for its stakeholders. The results of this study are consistent with research Nurlela and Islahuddin (2008) which states that CSR variable has no effect on firm value. In addition to the Corporate Social Responsibility (CSR) as part of its business strategy. Basamalah and Jermias (2005) suggests that one reason is the social management reporting for strategic reasons. Although not mandatory, but it can be said that almost all the companies listed on the Indonesia Stock Exchange already disclose information about CSR in its annual report. From an economic perspective, the company will disclose the information because of necessity. The Company will acquire social legitimacy and maximize long-term financial strength through the implementation of CSR (Kiroyan, 2006)

6. Conclusion

This study aimed to investigate the influence of CSR disclosure on firm value. Object of this study were the firms listed in the SRI KEHATI index of the Indonesian Stock Exchange Market 2009 – 2010. The results of this paper give the evidences that profitability has positive effect on firm value, in otherwise, CSR has no effect on firm value. In addition, the processing of the data showed that there was no difference in the effect on firm value CSR between suspect and non-suspect firms. It also shows that CSR disclosures for sample firm involvement so that the amount disclosed in the CSRI is not too large. It also shows that the company's CSR program is not an important factor to be considered by investors in Indonesia.

These results indicate that the more or less of the practices of CSR of the company do not have affect on the increase in the value of the company. There are other factors that can be used by investor in investing such as firm characteristics.

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