



## The Effect of Diversification Strategy and Implementation of Good Corporate Governance on Firm Value

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**Abstract:** This study aims to determine the effect of diversification strategy, good corporate governance implementation on firm value. The study consisted of 41 companies were classified as companies with the most trusted companies category in Indonesia in 2015 by SWA magazine. The analysis technique used is multiple regression analysis and testing using SPSS for Windows version 22 and also test the classical assumption of normality test, autocorrelation test, multicollinearity test and heteroskedastisitas test. The results of this study show that (1) better implementation of the diversification strategy did not result in a significant increase to the company's firm value, (2) better implementation of good corporate governance, will increase the company's firm value.

**Keywords:** Diversification Strategy, Good Corporate Governance, Firm Value, Resource Based Theory

### INTRODUCTION

The current development of the world economy, especially in 2015, can be said to be unfavorable for the business climate. This is due to the global economic crisis that has occurred recently. The effect has an unfavorable impact on all economic sectors, especially the macro sector of business. Economic and market conditions that tend to be full of uncertainty make company management obliged to try harder to achieve competitive advantage in the business world. Company management is required to have characteristics so that they are able to develop flexible business processes by bearing low costs and innovate to achieve competitive advantage through value innovation. This is intended so that the Company can survive in the midst of many competitors from abroad who usually have well managed their companies and have competitive advantages. One of the factors that can make a company survive is a good company management and diversification strategy, so that it is hoped that it will enable business actors to compete in the trade market, increase company

value and be able to maintain their existence and consistency due to market conditions and fluctuating economic conditions.

Every year, SWA Magazine always conducts research in Indonesia which produces the Most Trusted Companies or companies that have a trusted title in the eyes of the public. The implementation of the Most Trusted Companies ranking conducted by SWA Magazine is one of the efforts to promote and introduce to the general public companies that have more value in the business world.

The diversification strategy is one of the business strategies adopted to make the company a going concern. The diversification strategy has become the subject of debate whether diversification can bring benefits to the company (Li and Wong, 2003: 260., Chatterjee and Wernerfelt, 1991: 36) or actually bring benefits to the company. negative impact on competitive advantage in the long run (Berger and Ofek, 1995: 40., Billet and Mauer, 1998: 2). Although much research on diversification was carried out in the mid-1990s, Martin and Sayrak (2003) still emphasize that the study of diversification still plays an important role in understanding modern economics. Many authors suggest that companies that implement diversification need to have a better level of leverage to maximize the firm value of their companies (Kaplan and Weisbach, 1992, Li and Li, 1996), so it is necessary to investigate whether this diversification strategy has an effect on firm value in the company. with the category of most trusted companies.

In addition to the diversification strategy, the implementation of good corporate governance is also a special concern in the company's efforts to become a going concern and increase the value of the company. companies. The implementation of Good Corporate Governance begins with agency problems that arise due to a gap in interest between shareholders as owners of the company and management as agents, resulting in a conflict of interest (conflict of interest). Owners expect maximum return on the funds they invest. The management has an interest in obtaining incentives for managing company owners' funds. This has resulted in the company being forced to bear agency costs, namely the costs incurred for managers to act in line with the owner's goals (Nuswandari, 2009).

Company value is one of the most vital things for a company. Firm value is very important because high firm value will be followed by high shareholder prosperity (Bringham Gapensi, 2003). The higher the stock price, the higher the value of the company. High company value is the desire of company owners, because a high value indirectly indicates the prosperity of shareholders is also high. The wealth and prosperity of shareholders and companies is represented by the market price of shares which is a reflection of investment, financing, and asset management decisions..

## **LITERATURE REVIEW**

Diversification strategy is defined as an expansion for companies that are active simultaneously in different businesses (Pitt and Hopkins (1982). Meanwhile, according to Bettis and Mahajan (1985) business diversification is the diversity of types of businesses, both related and non-related. According to Fandy Tjiptono (132:2010) diversification strategy is an effort to find and develop new products or markets, or both, in order to pursue growth, increase sales, profitability, and flexibility.

GCG is the relationship between company management, directors, shareholders, and also other stakeholders involved in the company (Abor and Adjasi, 2007).

Firm value or firm value is a reflection of corporate governance which is assessed from the capitalization of the stock market which then describes the perception of the company's price. (Purbopangestu, 2014:2).

Resources-based view theory and agency theory are the theoretical bases that underlie the company's business practices that have been used so far. The theory of resource-based view of Barney is considered to have contributed to strategic management in terms of its emphasis on internal analysis of the company, even this perspective continues to experience development and modification (Wernerfelt, 1995). This theory then discusses that the company must achieve a sustainable competitive advantage.

**RESEARCH METHODS**

The data collection method in this study was carried out using library research techniques. The data collected in this study is secondary data. Secondary data is obtained through direct documentation techniques with research instruments in the form of documentation, namely data collection through the official website of the stock exchange and direct data requests to parties who have made ratings related to research variables. And library research will be focused on reading books, magazines, journals, and other sources related to this research.

The population which is also the entire sample in this study are all companies categorized as the most trusted companies in 2015. The data taken from each company are audited financial reports and GCG rating results, as well as data related to shares from IDX. The number of samples in this study were 41 companies (24 non-banking companies and 17 banking companies).

**Table 1. Variable Operations**

Variable	Variable Definition	Indicator	Scale
X1 Diversification Strategy	An effort to find and develop new products or markets, or both, in order to pursue growth, increase sales, profitability, and flexibility. (Fandy Tjiptono, 2010)	The indicator for the level of company diversification is the size of the number of business segments owned by the company. The Herfindal index is one way to measure the level of company diversification with indicators: $H = \frac{\sum_{i=1}^n \text{Segsales}^2}{(\sum_{i=1}^n \text{sales})^2}$ <ul style="list-style-type: none"> <li>• Sales or revenue of each segment</li> <li>• Total sales or revenue</li> </ul>	Ratio
X2 <i>Good Corporate Governance</i>	<i>Good Corporate Governance</i> is the relationship between company management, directors, shareholders, and also other stakeholders involved in the company (Abor and Adjasi, 2007)	<ol style="list-style-type: none"> <li>1. Commitment,</li> <li>2. Transparency,</li> <li>3. Accountability,</li> <li>4. Responsibility,</li> <li>5. Independence,</li> <li>6. Justice,</li> <li>7. Competence,</li> <li>8. Mission,</li> <li>9. Leadership,</li> <li>10. Collaboration.</li> </ol>	Ratio

Y Firm Value	Firm value is an investor's perception of the company, which is often associated with stock prices. High stock prices also make the company value high. The stock price is the price that occurs when the stock is traded on the market". (Fakhruddin & Hadianto, 2001)	The indicator of firm value in this study was measured using Tobin's Q with the main indicator:	Rasio
		$Q = \frac{(MVS + D)}{TA}$	
		<ol style="list-style-type: none"> <li>1. 1. Market value of equity, which is obtained by multiplying the number of outstanding shares of the company (<i>outstanding stock</i>) the closing price of the shares. Book value per share (MVS)</li> <li>2. 2. Book Value Total Liabilities (D)</li> <li>3. 3. Book Value of Total Assets (TA)</li> </ol>	

The data analysis method used in this study is multiple regression analysis to determine the effect of diversification strategy and the application of good corporate governance on firm value which was previously categorized into "non-banking company category" and "banking company & financial institution category". Based on the research paradigm stated earlier, the equation model for this research is as follows :

$$Tobin's Q = \alpha + \beta_1 DIVER + \beta_2 GCG + \varepsilon$$

Description:

- Tobin's Q : Firm value, is a measure of the company's performance.
- DIVER : Company diversification level.
- GCG : Good Corporate Governance Rating
- $\alpha$  : Regression constant or intercept.
- $\beta_1 \dots, \beta_9$  : Regression coefficient
- E : Random error factor or error

## FINDINGS AND DISCUSSION

Based on the results of data analysis and processing to obtain the results of implementing a diversification strategy on the object of research, namely companies with the category of the most trusted companies, PT. Bank Mandiri (Persero) Tbk. is a company in the category of banking & financial institutions with the largest diversification application level with a percentage of 0.231 and PT. Bank Pan Indonesia Tbk. (Bank Panin) is a company in the category of banking and financial institutions with the lowest level of diversification strategy implementation, which is 0.869. For the category of non-banking companies, PT. Jasa Marga Tbk. (Persero) is a company with the largest level of diversification application, namely 0.256. Meanwhile, PT. Aneka Tambang (Persero) Tbk. is a non-banking category company with the lowest level of diversification strategy implementation, namely 0.971.

Based on the ranking data of the Corporate Governance Perception Index (CGPI) conducted by the Indonesian Institute for Corporate Governance (IICG) PT. Telekomunikasi Indonesia achieved the highest GCG rating score of 0.918 or 91.8% in the non-banking company category, while the lowest GCG score in the non-banking company category was achieved by Panorama Transportation which only recorded a score of 0.654 or 65.4%. For the banking category, Bank BCA achieved the largest GCG

rating score of 0.915 or 91.5% and Bank BJB achieved the lowest rating score of 0.671 or 67.1%.

The largest firm value for the category of non-banking companies in this research object was achieved by PT. Ultrajaya. PT. Ultrajaya outperformed PT. Telkom and MNC Group recorded a firm value of 3,429, while the smallest Firm Value in the category of non-banking companies was achieved by PT. Krakatau Steel is 0.608. Bank BCA is a company in the banking & financial institution category with the largest firm value record compared to other banking companies & financial institutions in the most trusted companies in Indonesia. Investors assessed that the firm value of Bank BCA was 1.391 or 139.1% greater than the company's book value, while Bank Panin recorded the smallest firm value in the category of banking companies & financial institutions, which was 0.939 or 93.9%.

Tables 4.1 and 4.2 show the results of statistical tests of descriptive analysis for each category of companies tested in this study.

**Table 2. Descriptive Analysis Test Results for Non-Banking Categories**

Descriptive Statistics			
	Mean	Std. Deviation	N
TobinsQ	1.37954	.624212	24
DIV	.69754	.204197	24
GCG	.77171	.080375	24

**Table 3. Descriptive Analysis Test Results for Banking & Financial Institution Categories**

Descriptive Statistics			
	Mean	Std. Deviation	N
TobinsQ	1.04118	.129151	17
DIV	.58353	.212286	17
GCG	.77012	.070000	17

**T-test and f-test.**

The results of processing the t-test data for the category of non-banking companies using SPSS Statistics software are presented in table 4.14 as follows:

**Table 4. Results of Multiple Linear Regression T-Test for Non-Banking Category**

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.867	1.248		-1.496	.149
	DIV	.406	.580	.133	.699	.492
	GCG	3.840	1.474	.494	2.605	.017

a. Dependent Variable: TobinsQ

Companies in the non-banking category have  $df = n-k-1 = 24-2-1 = 21$ , so the ttable is 2.080. From the table above, it is known that the tcount for the diversification strategy variable is 0.699 and the significance is 0.492. In other words, at the 5% significance level, there is no significant positive effect of the diversification strategy

variable on the firm value variable. tcount is 2.605 and the significance is 0.017. In other words, at a significance level of 5%, there is a significant positive effect of the variable of implementing good corporate governance on firm value variables in non-banking companies.

The results of data processing for the category of non-banking companies using SPSS Statistics software are presented in table 4.15 as follows:

**Table 5. Results of Multiple Linear Regression T-Test for Banking & Financial Institution Categories Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.171	.353		.483	.637
DIV	.140	.139	.229	1.003	.333
GCG	1.025	.422	.555	2.428	.029

a. Dependent Variable: TobinsQ

Companies in the banking & financial institution category have  $df = n - k - 1 = 17 - 2 - 1 = 14$ , so the t table is 2.110. From the table above, it is known that the tcount for the diversification strategy variable is 1.003 and the significance is 0.333, in other words at the 5% significance level there is no significant positive effect of the diversification strategy variable on the firm value variable. It is known that the tcount value is 2.428 and the significance is 0.029. In other words, at a significance level of 5%, there is a significant positive effect of the variable implementation of good corporate governance on the firm value variable in companies in the banking & financial institution category.

The next test is the f-test. The f-test is carried out to determine the goodness of fit or ensure that the designed model related to the variables studied can be justified statistically, presented in tables 6 and 7 below:

**Table 6. F-Test Results of Multiple Linear Regression for Non-Banking Category**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.240	2	1.120	3.499	.049 <sup>b</sup>
	Residual	6.722	21	.320		
	Total	8.962	23			

a. Dependent Variable: TobinsQ



**Table 7. F-Test Results of Multiple Linear Regression for Banking & Financial Institution Categories**

		ANOVA <sup>a</sup>					
Model		Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	.081	2	.041	3.059	.079 <sup>b</sup>	
	Residual	.186	14	.013			
	Total	.267	16				

a. Dependent Variable: TobinsQ  
 b. Predictors: (Constant), GCG, DIV

Based on table 4.16 above for the non-banking category, the significance value of F is 0.049 and the Fcount is 3.499, while Ftable is 3.40. With a significance value smaller than 0.05 and a Fcount greater than Ftable, it can be concluded that at a significance level of 5% for the non-banking category there is a simultaneous significant effect of the diversification strategy variable (X1), good corporate governance (X2) to the firm value (Y) variable. As for the category of banking & financial institutions, table 4.17 shows a significance value of 0.079 for F and 3.059 for Fcount while Ftable is 3.59. With a significance value greater than 0.05 and a Fcount value less than Ftable, it can be concluded that at a significance level of 5% for the banking & financial institution category there is no simultaneous significant effect of the diversification strategy variable (X1), good corporate governance(X2) to firm value variable(Y)

After conducting a series of statistical data tests above, the results of the research can be explained as follows:

**1. Effect of Diversification Strategy on Firm Value**

The results of statistical tests on the two categories of companies that were carried out previously showed that the effect of the diversification strategy on the firm value of the research object was that there was no significant positive effect. The results of statistical tests on the two categories of companies show that the better the implementation of the diversification strategy does not always make the firm value of the research object company increase.

**2. The Effect of Good Corporate Governance on Firm Value**

The results of statistical tests on both categories of companies, both categories of non-banking companies and categories of banking & financial institutions that were carried out previously showed that the effect of good corporate governance on firm value in the two categories of company objects of research was that there was a significant positive effect.

**3. The Effect of Diversification Strategy and Good Corporate Governance on Firm Value**

The results showed that the relationship between the two independent variables, namely the diversification strategy and the implementation of good corporate governance, had a significant effect on the firm value of the company. This means that the diversification strategy and good corporate governance are simultaneously able to influence the increase in firm value of the company, but the resulting effect is relatively

small, namely only 25% for the category of non-banking companies and 30.4% for banking companies & financial institutions.

## CONCLUSION

Based on the results of research on the effect of diversification strategies and the implementation of good corporate governance on firm value in companies with the title of most trusted companies in Indonesia in 2015, it can be concluded that the better implementation of diversification strategies in companies does not result in a significant increase in firm value in companies categorized as the most trusted companies. and the better the implementation of Good Corporate Governance in the Company, the Firm Value of the Companies categorized as Most Trusted Companies will increase.

The results in this study do show that the implementation of good diversification does not necessarily have a significant positive impact on the increase in firm value in companies that are categorized as the most trusted companies. Therefore, the company should be more careful and conduct a thorough analysis. In this study also found that the better the implementation of good corporate governance (GCG) has an effect on increasing firm value in the company.

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