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Diversification, Corporate Governance, Corporate Social Responsibility, and Firm Value (Case Study in the Diversified Listing Companies in Indonesian Stock Exchange)

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ABSTRACT

The aim of this research is to test the relationship between diversification, corporate governance, corporate social responsibility, and firm value in diversified listing company. The analysis is done on 172 diversified listing companies in Indonesia Stock Exchange that should meet some criteria like have minimum 2 subsidiaries or 2 operation segments in annual report during the period 2010-2014, disclose corporate governance in annual report during the period 2010-2014, and disclose corporate social responsibility during the period 2010-2014. The model of research uses ordinary least square analysis.

The research findings show that diversification has not effects on firm value at diversified firm, corporate governance has effect firm value at diversified firm, and corporate social responsibility increases on firm value. Research findings point to a bright side of Montgomery approach explained about the reason of the company doing diversification does not occur in Indonesia case. One of the reasons was due to the world financial crisis that made the company in Indonesia did not growth. This research contradict with theory about corporate governance in diversified firm which indicated that the diversified firm had agency problem such as the relationship between commissioner and majority shareholder. This research just supported the theory about corporate social responsibility as a tool to increase the firm value. The biggest company using corporate social responsibility increased firm value by keeping good legitimacy on stakeholder perspective

Keywords: Diversification, Corporate Governance, Corporate Social Responsibility, firm value, agency problem, Montgomery approach, and Legitimacy.

1. INTRODUCTION

The crisis hitting the United States in 2007 had led to various economic problems faced by several countries in the world. The crisis resulted in earnings decline as experienced by numerous companies as well as in lower revenue from various sectors in several countries. The crisis had led to a loss of 20 million jobs (ILO) and caused losses of $ 10 Trillion (Buhl, 2010). Further, the crisis also caused a decline in economic growth among 20 countries of G20 members as many as 4.3%. In fact, it also hit Indonesia economy as there was a decrease of 2.1% from 6.1% to 4%, resulting in a slower growth of company. Slowing growth of company indeed also caused a decrease on the value of the firm in the market.

Firm value is an important matter for the organization to survive in business. Values reflect company's high level of prosperity of shareholders so that the company's goals can be achieved. Firm value can be enhanced through the implementation of good corporate governance (Breadley et.al, 2008). Business entity was established to maximize profits, maximize its value, and maximize the prosperity of its shareholders (Martono & Harjito, 2007); also, it aimed to increase the value of the firm itself (Hanafi, 2004). The frim value reflects the existing value if the investors want to buy the company. Sujoko (2007) stated that there are several influencing factors on firm value like ownership structure, diversification strategy, leverage, external factors (such as interest rate and market growth), and internal factors (including market share and profitability).

The ownership structure of most companies in Southeast Asia is mostly controlled by certain families (Cleassens et.al, 2001). This family business not only developed based on its business focus but also in other business segments under the family control (Harto, 2005). This family business has several subsidiaries in its business structure. Subsidiaries can be attained from acquisition process or holding company expansion. The group is often known as the diversification or conglomerate firms.

Diversified company can increase firm

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value (Yuliani, 2013; Aisyah, 2008; Khanna & Palepu, 2000; Palich et al., 2000). Yuliani (2013) found that the extension of diversified company's manufacturing sector results in an increase on firm value. Diversified companies can also improve the performance of the company (Palich et. al, 2000). Hitt et al. (2001) revealed that diversified company can create value by 1) the scope of the economic development corporation between business units within the company that can generate synergy benefits and 2) the development of market forces. Selcuk (2015) revealed that the diversification of the company in an emerging market can be profitable for the company because the company can obtain funding from internal sources.

On the contrary, some authors found that diversified companies may reduce the firm value (Harto, 2005; Fusui & Ushijima, 2007; Farooqi et al.., 2014). Farooqi et al. (2014) suggest that diversified companies based on its industry has a greater agency problem than the geographical diversification since companies diversified based on industrial activity earnings management may decrease the value of the firm compared to companies that perform based on geographical diversification.

Furthermore, Setionoputri et al. (2008) examined the diversified companies in manufacturing, wholesale and retail trading, and property and real estate. Diversified companies are measured using Herfindahl index while its value is measured through the excess value. The research found no impact of company diversification on firm value. Li & Wong (2003) explained that diversification associated with primary business concentration tends to be influenced by environmental factors in determining the value of contingent companies; whereas, companies that diversify on non-related focus will result in a decline on its value.

The majority of companies in East and Southeast Asia are a group of family companies that tend to have a weak governance. Governance practices do not have any clear authority distribution among the managers of the majority shareholder which then causes the expropriation of the minority shareholders (Cleassens et al., 2001). Companies need to make corporate governance in order to protect the interests of investors (Lapporta et al.., 2002).

Dennis et al.. (1997), Anderson et al.. (1998), Berry et al.. (2000) revealed that the diversified company do not have issues related to corporate governance. King & Santor (2008) found that companies that are not owned by a family tend to have a higher firm value compared to a company owned by certain families. Black et al.. (2005) suggested that good corporate governance can improve the performance of the company. Similar results were advanced by Siagian et al.. (2013) that corporate governance can increase the value of the firm.

Company is to achieve its goal in maximizing shareholder wealth through increasing the company's value that cannot be separated from the role of stakeholders. Companies certainly will not operate properly if the companies do not maintain a good relationship with the surrounding community. One of the ways for a company to survive is the company disclose its social responsibility to the community and other stakeholders. Companies that disclose corporate social responsibility will likely to have a good company value in the eyes of investors (Freeman, 1984). Corporate social responsibility can enhance shareholder value over the long term (Poddi & Verggali, 2009) and reduce the abnormal return when companies were excluded from the Domini Index (Becchetti et al.., 2012). Companies that disclose corporate social responsibility in order to cover information that is not good for their stakeholders and the market will tend to cause the price risk falling bigger; further, if the company disclose corporate social responsibility in order to provide good information to the shareholders of the risk of failure of the price to be lower (Kim et al.., 2014).

The implementation of corporate social responsibility in the conglomerate companies on the performance of companies has different results. Multinational companies (MNCs) tend to implement social responsibility that causes corporate social performance is enhanced (Breammer et al.., 2006). Conversely, Cho et al. (2015) revealed that MNC and conglomerate companies tend not to disclose its social responsibility on the domestic market.

This research aims to examine and explore the effect of diversified company on the firm value of the diversified company, the influence of corporate governance on firm value in the diversified company, as well as the implementation of corporate social responsibility to corporate value on a diversified company. This study was conducted over a five-year study period.

2. LITERATURE REVIEW

Companies in Southeast Asia is a company whose majority shareholding are controlled by certain families (Cleassens *et al.*., 2001). This family business not only developed based on its business focus but also in other business segments under the family control (Harto,

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2005). This family business has several subsidiaries in its business structure. Subsidiaries can be attained from acquisition process or holding company expansion. The group is often known as the diversification or conglomerate firms.

There are three approaches that lead a company to diversify, including 1) market approach, which is an approach taken by the company to dominate the market segment with the goal of producing optimal profit, 2) the agency approach, which is the conflict of interest between managers and shareholders that cause managers to act in accordance with their interests so cause harm to the owner of the company, 3) resource approach, which is the approach taken by companies that have excess resources at a cost to the company (Montgomery, 1994).

Diversified company can increase firm value (Yuliani, 2013; Aisyah, 2010; Khanna & Palepu, 1998; Palich *et al.*., 2000). Yuliani (2013) found that the extension of diversified company's manufacturing sector results in an increase on firm value. Diversified companies can also improve the performance of the company (Palich *et. al*, 2000). Hitt *et al.* (2001) revealed that diversified company can create value by 1) the scope of the economic development corporation between business units within the company that can generate synergy benefits and 2) the development of market forces. Selcuk (2015) revealed that the diversification of the company in an emerging market can be profitable for the company because the company can obtain funding from internal sources.

On the contrary, some authors found that diversified companies may reduce the firm value (Harto, 2005; Fusui & Ushijima, 2007; Farooqi *et al.*., 2014). Farooqi *et al.* (2014) suggest that diversified companies based on its industry has a greater agency problem than the geographical diversification since companies diversified based on industrial activity earnings management may decrease the value of the firm compared to companies that perform based on geographical diversification. Sayrak (1999) revealed a large corporate structure (complex) tend to cause agency problems and a decrease in the company performance. These problems arise because of the placement of excessive investment in the business segment that is not profitable (Jensen, 1986; Stultz, 1990) and their placement in the non-profitable subsidies on its business lines (Jensen, 1993; Meyer *et al.*, 1992).

Instead, Volkov *et al.* (2015) and Setionoputri *et al.* (2009) found that diversified companies do not affect the value of the company. Li & Wong (2003) revealed that diversified companies on related industry are influenced by factors such as contingent environmental aspects of institutional behavior that affect the company's strategy, but companies that do not relate the focus of its business can decrease the value of diversified companies.

H1 : there is a positive influence of diversified company on firm value of the diversified enterprise

The majority of companies in East Asia are a group of family businesses that tend to have weak governance. Governance practices do not have any clear authority distribution among the managers of the majority shareholder which then causes the expropriation of the minority shareholders (Cleassens *et al.*, 2001). Companies need to make corporate governance in order to protect the interests of investors (Lapporta *et al.*., 2002).

Siallagan & Machfoedz (2006), Herawati (2009) Klapper & Love (2002) found that the implementation of corporate governance can increase the value of the company. Corporate governance implementation is expected to reduce conflicts of interest between managers and shareholders, as well as between managers and other stakeholders, so that it can increase the value of the company.

Sayrak (1999) and Anderson *et al.* (1998) found that diversified company does not have a failure of corporate governance. This study differs from what had been found by Viera (2013) as there was no difference between focused companies and diversified companies in implementing corporate governance. In a diversified company, it provides greater remuneration for the CEO (Berry *et al.*, 2000); further, the managerial ownership reduces the decline in the firm value (Lee & Chen, 2000). Also, the director from the external can increase the value of the company (Sayrak, 1999).

Black *et al.* (2002) found that the implementation of corporate governance for listed companies in South Korea can enhance shareholder value. In addition, Black also explained that the ownership structure is an important element in corporate governance although the relationship between ownership structure and firm value is still not clear and may not be linear. In Korea, large insider stock ownership tends to increase the value of the company (Joh, 2003; Cho and Kang, 2002). Siaggian *et al.* (2013) found that the application of corporate governance as measured by the index can increase the value of the company.

Instead, King & Santor (2008) conducted a study of corporate governance practices and firm

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value in companies owned by the family. The results found that companies that are not owned by the family tend to have a higher enterprise value, compared with a company owned by certain families. Cleassens *et al.* (2002) revealed that firm value owned by the family is very low. This is because in the family ownership, there occurs low transparency disclosed to other stakeholders which then results in the low value of the company in the eyes of the market.

Jamali (2014) found that lowered corporate governance performance of a company can increase performance of company in general. This is supported by Larasasti (2009) as she argued that companies in Indonesia tend to have independent directors and audit committee just for fulfilling the regulations set by Bapepam LK and capital markets. The composition of the number of independent directors is still not able to perform optimized control of the management company for their shareholders a majority (greater than 50%) are still in control of the company to meet its interests that tend to harm minority shareholding. From the above presentation can be developed hypothesis

H2: there is a influence of corporate governance on the firm value of a diversified enterprise

Managerial ownership is the ownership of company's shares by managers, directors, and commissioners who actively participate in corporate decision (Jensen and Meckling, 1976). The ownership is one of the corporate governance mechanisms to reduce agency conflicts between management and shareholders.

Warfield *et al.* (1995), in their study that tested the managerial ownership with discretionary accrual and profit information content, found evidence that managerial ownership is negatively related to the discretionary accrual. Midiastuty and Machfoedz (2003) stated that managerial ownership is a mechanism that can limit the opportunistic behavior of managers, which is in forms of earnings management. The decline in earnings management actions by managers will surely increases the performance of the company.

Studies that examine the managerial ownership of diversified company were done by Denis *et al* (1997), and Chen and Ho (2000). High managerial ownership decreases the desire of the managers to diversify the company. The ownership structure in this case is not the main factor that causes the decline in the value of a diversified company. In contrast, Chen and Ho (2000) suggested that the (managerial) ownership had no effect on the desire of the managers to diversify the company. From the exposure above, the following sub hypothesis can be formulated.

H2.1: Managerial ownership positively influences the value of diversified enterprises.

Institutional ownership is an ownership by institutions such as insurance companies, banks, investment companies, etc. (Tarjo, 2008). Jensen and Meckling (1976) stated that the ownership has a very important role in the minimizing agency conflicts that may occur between managers and shareholders. It has significant importance in monitoring the management since it existence will encourage better supervision.

Balsam *et al.* (2002) and Jiambavo *et al* (1996) found a negative relation between unexpected discretionary accruals and the yield around the announcement date since the institutional investors had more timely and relevant access to sources of information and faster and easier way to identify the existence of earnings management than individual investor.

Elgazaar (2008) suggested that the larger the company's institutional ownership, the more the companies are encouraged to make disclosures, even more than those required by law. Hanifa and Cooke (2002) revealed that institutional ownership is related to the level of voluntary disclosure by companies listed in Bursa Malaysia Securities. Foreign institutional ownership is positively associated with the extent of disclosures made by the company (Lakhaal, 2003).

Researches on institutional ownership (blockholder) in diversified companies has been carried out by Denis et al. (1997) and Chen and Ho (2000). They found that blockholder ownership can reduce the interest of managers to diversify the company. Nevertheless, direct influence on the value of the company was not found. Based on the exposure above, the following sub hypothesis can be formulated.

H2.2: Institutional ownership positively influences the value of diversified enterprises.

The task of audit committee is to assist the board commissioners to ensure that the financial statements are presented fairly in accordance with generally accepted accounting principles, that internal control structure is implemented, that internal and external audit are conducted according to applicable auditing standards, and that the follow up of the audit findings is implemented by the management.

The audit committee is the body that exist within the company to ensure that the financial statements disclosed by the company is reliable for its corporate decision. The audit committee can monitor the mechanisms in the preparation of financial reports applied by the management, so the

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quality of the reports can be improved (Effendi, 2005). Small number of audit committee member will improve the quality of the supervision, while large number of audit committee member will cause problems in communication and coordination among themselves that will reduce the effectiveness of the board (Jensen, 1993; Bronson *et al.*, 2009).

Mc Mullen and Raghunandan (1996) found that the effectiveness of the audit committee can be increased by increasing the number of meetings held by the audit committee. In addition, Beasle *et al.* (2000) revealed that, if the audit committee did not hold meetings on a regular basis, the possibility of fraud will increase. The results of this study indicate that a growing number of meetings held by the audit committee will increase the value of companies for better management overseeing role. Based on the explanation, the following sub hypothesis is developed.

H2.3: Audit committee positively influences the value of diversified enterprises.

Vafeas (2000) mentioned that, in addition to managerial ownership, the role of board of commissioners is also expected to improve earnings quality by limiting the level of earnings management through the monitoring functions over financial reports. The Board of Commissioners, which is the culmination of the company's internal management system, has a role in overseeing activities. The role of board of commissioners may reduce earnings management practices so as to improve the quality of earnings in the financial reports.

Fama and Jensen (1983) stated that the presence of independent commissioners can act as a mediator in case of problems that may arise between managers and shareholders, can oversee management's policy, and can provide advice to management.

Banhard and Rosesntein (1998) suggested that the higher position of independent commissioner in the board's composition might lead to better company performance. KNKG (2006) emphasized that the function of board of commissioners are monitoring the activities of the company, that is to oversee the company's directors in running their work and to provide advice for the board of directors regarding the irregularities in the management of the companies. From the exposure above, the following sub hypothesis can be formulated.

H2.4: Independent commissioners positively influences the value of diversified enterprises.

Company is to achieve its goal in maximizing shareholder wealth through increasing the company's value that cannot be separated from the role of stakeholders. Companies certainly will not operate properly if the companies do not maintain a good relationship with the surrounding community. One of the ways for a company to survive is the company disclose its social responsibility to the community and other stakeholders. Companies that disclose corporate social responsibility will likely to have a good company value in the eyes of investors (Freeman, 1984). Corporate social responsibility can enhance shareholder value over the long term (Poddi & Verggali, 2009) and reduce the abnormal return when companies were excluded from the Domini Index (Becchetti *et al.*., 2012). Companies that disclose corporate social responsibility in order to cover information that is not good for their stakeholders and the market will tend to cause the price risk falling bigger; further, if the company disclose corporate social responsibility in order to provide good information to the shareholders of the risk of failure of the price to be lower (Kim *et al.*., 2014).

The implementation of corporate social responsibility in conglomerate companies on the performance of those companies have different results. Multinational companies (MNCs) tend to implement social responsibility which can enhance corporate social performance (Brammer *et al.*., 2006). On the contrary, Cho *et al.* (2015) revealed that MNC company and conglomerate tend not to disclose its social responsibility on the domestic market. From this explanation, we developed the following hypothesis:

H3 : there is a positive influence between corporate social responsibility and the firm value in a diversified enterprise

Method

The approach used in this study is positivist approach. Positivist approach has the following characteristics: (1) concerned with the position of the theory in the built framework and hypotheses, (2) emphasis on answers to whether there is any relationship among variables, (3) using quantitative data and analytical tools, and (4) produce analyzes for make generalizations.

This research is an explanatory research which aims to get an explanation of the relationship (causality) among variables through hypothesis testing. The location of this research is Indonesian capital market known as the Indonesia Stock Exchange. The population in this study are all companies listed on the Indonesian Stock Exchange (BEI) in 2009 and provide periodic

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financial reports from January 2010 to December 2014. Based on BEI per December 31, 2014 there are 505 listed companies, while the population in this study is a listed company since December 31, 2009 until December 31, 2014 which resulted in 377 companies.

Sampling in this research is done by using purposive sampling technique. Purposive sampling is a type of sampling method where the sample is chosen and selected based on certain considerations (Sekaran, 2003: 137). The criteria set for sampling in this study are as follows:

1. Companies that were sampled had been listed on the Indonesia Stock Exchange as of December 31, 2009 or a company registered not later than January 1, 2010. While the companies listed on January 1 onwards are not included in the sample
2. The company must have annual financial reports on a regular basis during the period of 2010 to 2014.
3. Companies that taken as a sample are companies that have business segments (or its subsidiaries) at least 2.
4. Companies disclose corporate governance practices and disclose corporate social responsibility during the study period.

In this study, there are four concepts studied, namely the diversification strategy of the company, corporate governance, corporate social responsibility, and the firm value. The variables and measurement of this research are as follows:

a. Firm value is a value that investor is willing to pay the company's assets. The company's value according to Breadley, Myers and Marcus (2006) can be measured using three methods, namely Price Earnings Ratio (PER), Stock Price, and Price Book Value (PBV). Harto (2005) tested the level of corporate diversification with the company's use of excess value and Tobin Q. While Khanna and Pelepu (1999) used excess value and ROA as a measure of the value of the company. Next, Rashid and Sardar (2013) measured the firm value by using Tobin Q. In this study, it used factor analysis to the three proxy like PER, Exval, and Tobin Q that were entered into the research model.
b. Diversification is a strategy of the company to develop the business by expanding the geographically business segments and expand market share of the existing, or develop a diverse range of products (Harto, 2005). Diversification of the company can be measured in three ways: 1) the number of business segments of the company, 2) the number of subsidiaries that go into consolidation or the level of share ownership of 50% or more, and 3) The Herfindahl index of total segment sales of the company in sum. While Sayrak (1999) revealed that the diversified company can also be measured by using the entropy index. This study used factor analysis for selecting a proxy which can be used in the research model which are between entropy index and Herfindahl Index.
c. Solomon & Solomon (2003) revealed that scholars defined corporate governance as a monitoring and control process to ensure that the management takes action in the best interests of shareholders. There are four corporate governance proxies used in this research such as managerial ownership, institutional ownership, audit committee and independent boards.
d. Corporate social responsibility (CSR) is the claim that the company not only operates for the benefit of the shareholders (shareholders) but also for the benefit of the stakeholders in business practice, workers, local communities, government, NGOs, consumers, and the environment (Nugroho, 2007). The measurement is done through calculating the amount of information disclosed by the company compared with the requirements of the Global Reporting Initiative contained in GRI 3.1. Number of items disclosures required as many as 78 statement.

3. METHODS

This study uses multiple linear regression analysis and factor analysis. Factor analysis is to simplify some of the variables to be a factor that is feasible and can be used in the research model. Factor analysis is important to determine which variables that can contribute significantly to the results of the research model. The regression equation of this study are as follows:

$$Y = a + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon ij$$

Explanation: X1: Corporate Diversification
X2: Corporate Governance
X3: Corporate Social Responsibility

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Table 1: Descriptive Statistics

Variable/ Indicator	Years				
	2010	2011	2012	2013	2014
Diversification					
Herfindahl	0.66	0.65	0.66	0.65	0.65
Entropy	0.16	0.15	0.15	0.15	0.11
Corporate Governance					
Managerial Ownership	2.12	2.07	2.39	2.43	2.34
Institutional Ownership	62.62	62.19	62.49	62.91	63.32
Audit Committee	6.84	7.12	7.85	7.95	7.45
Independent Board	0.44	0.42	0.43	0.42	0.42
CSR	0.36	0.36	0.36	0.37	0.37
Firm Value					
PER	46.39	19.86	40.2	5.17	25.33
Exval	2.89	2.41	3.19	6.5	7.28
Tobin q	2.22	1.74	2.41	1.74	3.26

4. RESULT AND DISCUSSION

First, in analyzing the research data, the first collected data is processed into ratios as the indicators of diversification decisions, corporate governance, corporate social responsibility, and the firm value. The following session describes each descriptive variable during the period of 2010 until 2014.

Based on the above data, the average of the Herfindahl index and entropy index do not change significantly but fluctuate. One of the reasons that cause this matter is the influence of the economic crisis. The economic crisis caused diversified companies suffered large losses compared with the focused company. Furthermore, diversified companies tend to sell loss-making segment. The economic crisis can be seen from the ratio of PER, Exval, and Tobin Q which experienced significant fluctuations.

Based on the above data, the average of managerial ownership and institutional ownership do not change significantly. One of the reasons causing this ratio changes was due to the economic crisis. Economic crisis resulted in the company losses. One of the alternatives to overcome funding shortage was by issuing new shares so that the company invited more investors or by selling the company's shares. Judging from the number of audit committee meetings, the average shows no significant change. This is due to no mandatory number of audit committee meetings in the published report so that some companies tend to ignore this. Total composition of the independent directors in the board of commissioners are likely to remain as a requirement to meet the regulations set by Bapepam-LK.

Based on corporate social responsibility, the proportion also did not change significantly. Improved disclosure of corporate social responsibility due to their awareness of the company's sustainability in the future requires that companies must disclose corporate social responsibility.

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Inferential Statistics

Normality test is done to test whether the data have a normal distribution. Data used in the study should be normally distributed because to provide relevant and reliable results. The data should be normally distributed should be free from outliers since the outliers can cause bias results. Hair et. al. (2006) stated that for the case of a small sample (n <80), the standard score with the value of + -2.5 is an outlier. While for large samples, the data are outliers if the value are between +-3 to +-4. If the standard score is not used, then we can determine outliers which is greater than 2.5 or between 3 until 4, depending on how large the sample is. In this study, researchers determined the data outlier if it has a score of + -3. After normality test, it can be concluded that there is a normal distribution of data from 356 data among 860 samples.

During eliminating the outliers, this study was also run factor analysis to determine the factors which are eligible to be measured in the regression model. Based on the results of factor analysis (see in the attachment 2), it shows that the diversification of the company is represented by a proxy of the Herfindahl Index. Next, corporate governance is represented by independent directors; also, the value of the company is represented by Exval.

Heteroscedasticity test was conducted to test whether the inequality residual variance occurred in regression model from one observation to another observation. If the variance of the residuals is different, the heteroscedasticity occurs. Yet, if the residual variance of an observation to another observation remains the same, then it is called homoscedasticity. This study

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indicates that the data is free from heteroscedasticity which can be seen on a scatter plot.

According to Ghozali (2007), multi collinearity test was conducted to test whether there is a correlation between independent variables in the regression model. A good regression model should not experience correlation among its independent variables. Multi collinearity test can reveal the values of Variance Inflation Factor (VIF) and Tolerance. If VIF <10 and tolerance> 0.1, there is no multi collinearity. In this study, it showed that the correlation between the independent variables no symptoms multi collinearity.

Autocorrelation test aims to test whether a linear regression model has a correlation between disturber error in period t with an error in the period (t-1). To diagnose the presence of autocorrelation in the model, this research used Durbin Watson (DW) test. Judging from the results showed that the value of d at 1.972, the value dl in the sample 200 with the number of parameter 4 at 1.728 and the value of du on a sample of 200 with number 4 parameter of 1.810. Based on the assumptions that must be met in the DW test it can be concluded that the model is free from autocorrelation.

Based on the goodness of fit test, the regression model showed decent models for regression analysis. Goodness of Fit of this research model can be seen from the F arithmetic > F table, or Sig. value <= 0.05. Judging from the sig N value of 0.015 which is smaller than 0.05, it can be concluded feasible models for regression analysis. The independent variables can explain the dependent variable correlation of 4,4%. It can be seen from the coefficient of determination (R2). The low value of R2 may be due to the presence of other variables that should be included in the research model but in this study those variables were not included. Results of hypothesis testing and the discussion will be discussed for each hypothesis. The following table presents the results of multiple linear regression.

Table 2. Analysis Result

Model		t	Sig.
1	(Constant)	-2.192	.029
	X1	-1.412	.159
	X2	2.235	.026
	X3	.446	.656
	X4	2.167	.031
	X5	2.036	.043
	X6	-.876	.381

Based on the table above, it shows that the value of -1.412 as the t arithmetic is greater than t table at a significance of 5% for 200 n data at -1.96. Based on this results, we should that reject the alternative hypothesis and accept the null hypothesis. Seen from the table, the sig shows that 0.159 is greater than 0.05, which means that the effect of diversification on firm value has a negative and not significant correlation.

Based on the table above, the t value which scores 0.446 is smaller than its t table at a significance of 5% for 200 n data at 1.96. Based on the results, it indicates that this research accepts null hypothesis and rejects the alternative hypothesis. The significance value shows that 0.656 is more than 0.05, which means that the influence of managerial ownership on firm value is positive but not significant. Based on table above, the t value of institutional ownership which 2,167 and audit committee which 2,036 are bigger than its t table at a significance of 5 % for 200 n data at 1,96. Based on the results, it indicates that this research rejects null hypothesis and accepts the alternative hypothesis. The significance value of institutional ownership which 0,031 and audit committee which 0,043 is smaller than 0.05, which means that the effect of institutional ownership and audit committee on firm value has a positive and significant. Based on the table above, the t value which scores -0.876 is bigger than its t table at a significance of 5% for 200 n data at -1.96. Based on the results, it indicates that this research accepts null hypothesis and rejects the alternative hypothesis. The significance value shows that 0.381 is more than 0.05, which means that the influence of independent commissioners is negative but not significant

Based on the table above, the t value which scores 2.235 is greater than its t table at a significance of 5% for 200 n data at 1.96. Based on the results, it implies that this research rejects the null hypothesis but accepts the alternative hypothesis. The significance values show that 0.026 is less than 0.05, which means that the influence of corporate social responsibility to corporate value is positive and significant.

Based on result, this study finds that diversification in Indonesia decrease the firm value of the diversified firms. The results of this study is different from the results of the research conducted by Yuliani (2013) and Aisyah (2008) who found that diversification can enhance shareholder value. This means that the vast manufacturing sector companies need to diversify for increasing the firm value (Yuliani, 2013). Diversification strategy in the financial aspects of the company aims to strengthen the firm value for all sectors of industry; moreover, the increase in debt will not decrease the value of the company (Aisyah, 2008).

Khanna and Palepu (1998) revealed that diversified company in emerging markets acts as financial intermediaries that cannot be handled by focused company. Financial intermediaries in emerging markets are still limited, so that there is a need of financial intermediaries to connect between the money holder and the company to ensure that the economy runs well. A company that has financial intermediary will have a greater firm value than focused company on its business industry since diversified companies can obtain funding which is relatively easier in running their projects that can

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enhance shareholder value. Selcuk (2015) revealed that the diversification of the company is able to increase the firm value in developing countries.

The results of this research support the results from Harto (2005), Berger and Offek (1994), Lang and Stultz (1994) who found that diversification decreases firm value. Diversified industrial companies tend to have a lower value than geographical diversification due to a failure of controlling the extent of geographic diversification impact (Bodnar et al., 1999). Sayrak (1999) revealed that a large corporate structure (complex) tends to cause agency problems and decreases company performance. These problems arise because of the allocation of excessive investment in the business segment that is not profitable (Jensen, 1986; Stultz, 1990) and their allocation in the subsidies of unprofitable business lines (Jensen, 1993; Meyer et al., 1992).

Cleassen and Heinekken (2001) revealed that, before the crisis, the diversified companies tend to have a higher value than focused company for their internal funding from its business group. While, during the crisis, the diversified enterprises' value was lower compared to the focused company as the business risk that was greater than the risk of a single company business. In addition, the use of funding through debt was at a greater risk. The cause of the declining value of the diversified company in 1990s in the United States was due to the economic crisis that led to financial difficulties (Denis et al., 1997).

Based on the result, this study finds that corporate governance at the diversified firm has effect on firm value. The results of this study contradict the results of research conducted by Siallagan and Machfoedz (2006), Herawati (2009), and Klapper and Love (2002) as they found that the implementation of corporate governance can increase firm value. Corporate governance implementation is expected to reduce conflicts of interest between managers and shareholders as well as between managers and other stakeholders which then can increase the firm value.

The results also support from Sayrak (1999), and Anderson et al. (1998) who found that diversified company does not have a failure of corporate governance. This study differs from Viera (2013) who found that there was no difference between the focused companies and diversified companies in implementing corporate governance. A diversified company provides greater remuneration to the CEO (Berry et al., 2000), more managerial ownership to reduce the declining trend of the firm value (Lee & Chen, 2000), as well as external director that can increase the value of the company (Sayrak, 1999).

The results of this research contradict King and Santor (2008) research as they conducted a study on corporate governance practices and firm value in companies owned by the family. The results found that companies that were not owned by a family tend to have higher enterprise value compared with a company owned by certain families. Cleassens et al. (2002) revealed that the value of the company on a firm owned by the family is very low. This is due to the low transparency disclosed to other stakeholders of family ownership which causes the low value of the company as perceived by the market.

Per sub hypothesis, this study found that managerial ownership and independent commissioners are not the factors that affect the value of the company. One of the reasons why managerial ownership is not a factor for declining value of companies is because managerial ownership in Indonesia is not a characteristic of companies. They tend to not recognize managerial ownership as in companies in the United States. Jamali (2014) revealed that corporate governance in Indonesia degrade the performance of the company. One reason is that companies in Indonesia uses independent directors and audit committee only to meet the regulations of Bapepam LK. In addition, the proportion of independent directors in the board of commissioner is not the proxy used in determining good corporate governance.

Per sub hypothesis, it is revealed that institutional ownership and audit committee can enhance the value of the company. Institutional ownership is an ownership by institutions such as insurance companies, banks, investment companies, etc. (Tarjo, 2008). Jensen and Meckling (1976) stated that the ownership has a very important role in the minimizing agency conflicts that may occur between managers and shareholders. It has significant importance in monitoring the management since it existence will encourage better supervision. Balsam et al. (2002) and Jiambavo et al (1996) found a negative relation between unexpected discretionary accruals and the yield around the announcement date since the institutional investors had more timely and relevant access to sources of information and faster and easier way to identify the existence of earnings management than individual investor, so they can supervise the management in order to make them work according to the company's objectives that can increase the value of the company.

The audit committee is the body that exist within the company to ensure that the financial statements disclosed by the company is reliable for its corporate decision. The audit committee can monitor the mechanisms in the preparation of financial reports applied by the management, so the quality of the reports can be improved (Effendi, 2005). Small number of audit committee member will improve the quality of the supervision, while large number of audit committee member will cause problems in communication and coordination among themselves that will reduce the effectiveness of the board (Jensen, 1993; Bronson et al., 2009).

Mc Mullen and Raghunandan (1996) found that the effectiveness of the audit committee can be increased by increasing the number of meetings held by the audit committee. In addition, Beasle et al. (2000) revealed that, if the audit committee did not hold meetings on a regular

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basis, the possibility of fraud will increase. The results of this study indicate that a growing number of meetings held by the audit committee will increase the value of companies for better management overseeing role.

Based on the result, the study finds that corporate social responsibility increases firm value at the diversified firm. The results of this study support the results of Breamer et al. (2013) who found that companies that have a wide geographic area tend to have a higher social performance compared with companies that have a narrow operating area. The company is likely to disclose corporate social responsibility as a company's business strategy to reduce the problems with stakeholders. Social performance of companies responded to the high value of the company in the market.

Corporate social responsibility can enhance shareholder value over the long term (Poddi & Vergalli, 2009). Corporate social responsibility reduces abnormal return when companies were excluded from the Domini Index (Bechhetti et al., 2012). Companies that disclose corporate social responsibility in order to cover information that is not good for their stakeholders and the market tend to cause the price risk falling bigger than when the company reveals corporate social responsibility in order to provide good information to the shareholders of the risk of failure of the price to be lower (Kim et al., 2014). Yet, the implementation of corporate social responsibility lowers the value of the company (Crisotomo et al., 2011).

The results of this study differ from Cho et al. (2014) who found that MNC company and diversified companies tend to disclose its social responsibility on the domestic market in South Korea. The reason of the company does not disclose its social responsibility for the domestic market is due to a small market scale and the company's economic of scope as those companies are more likely to use the right market with the proper scale of economic of scope (McWilliams & Siegel, 2001).

5. CONCLUSION

This research aims at examining and exploring the effect of company diversification, the influence of corporate governance, as well as the implementation of corporate social responsibility on the value of the diversified company. This study was conducted for over a five-year study period. The tests were carried out on a sample of 172 companies that meet certain criteria. The method of data analysis is multiple linear regression.

This study found that diversification lowers firm value although in not significant level. This may due to the economic crisis that hit the United States and Europe during the period. Companies that diversified during the economic crisis tended to use debt for their financing and avoided internal funding as they did prior to the crisis due to intersegments loss they have experienced as the result of the economic crisis. In addition, it should emphasize the possibility of indirect relationship between diversification and firm value.

Furthermore, the study found that good corporate governance is likely to affect the value of the company. This contradicts Cleassen et al. (2001) who revealed that corporate governance in Indonesia is still weak. One of the reason is the kinship between the shareholders and the company's directors, not to mention the intricate structure of the company's business. The results of this study, which is derived from each sub hypothesis, indicate that institutional ownership and audit committee enhance firm's value. This suggests that institutional ownership and audit committee has run well in diversified enterprises. However, independent commissioner and managerial ownership have no effect on firm's value. One of the reasons is that independent commissioners are only appointed to meet the regulation of Bapepam-LK, so the role of independent directors is still based on the needs of the majority shareholder but not the needs of the minority shareholders. Furthermore, the managerial ownership is not popular in Indonesia, so most companies do not have managerial ownership.

This study found that corporate social responsibility can increase the value of firms. It is caused by a business strategy that makes companies tend to disclose its social responsibility to improve transparency and accountability in the perspective of stakeholders and markets. That will affect the firm's value in the long run.

The limitations of this research are (1) This study did not distinguish the characteristics of the various companies, so it weakens the ability to explain the influence of the independent variable on the dependent variable, which scores 4.4 %. Lack of determination to explain the dependent variable may be due to a number of outlier data. The outlier data have occurred because of different types of data. Thus, further research needs to distinguish the characteristics of the company.

(2) This study only examines the direct relationship of independent variables on firm value. However, it does not find the effect of diversification on firm value. It may be caused by the fact that the relation between a diversified company and firm value is an indirect relation. Thus, it is necessary to consider other variables that may mediate the relation between the value of the company and diversification, such as corporate governance and corporate social responsibility

(3) This study does not differentiate the quality of corporate governance and corporate social responsibility disclosure carried out by the company. In this study, the researcher, for example, assumes that there are two audit committee meetings in a year if the company did not disclose the meeting. Therefore, further research is expected to distinguish the quality of corporate governance and corporate social responsibility disclosure, for example between complete and incomplete disclosure

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