

Diversification, Intellectual Capital and Business Risk on Company Value (For Companies Registered in LQ 45)

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Abstract

This study aims to determine the effect of Diversification, Intellectual Capital and Business Risk on Firm Value. This research is a causal study with a quantitative descriptive approach with the object of research on companies - companies included in LQ 45 that are on the Indonesia Stock Exchange in Jakarta. The research data is secondary data obtained from looking at the financial statements of existing companies included in LQ 45. The variables of this study consist of independent variables consisting of three variables namely Diversification, Intellectual Capital and Business Risk. And one dependent variable is Corporate Value. The results of this study indicate that Business Diversification and Risk has an effect on company value. While Intellectual Capital has no effect.

Keywords: Diversification, Intellectual Capital, Business Risk, Corporate Value.

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INTRODUCTION

BACKGROUND

The aim of the company is to optimize the value of the company. To maximize the value of the company is not only seen from its equity value but also the profit, condition of the company, product quality, management, financial statements produced and many more because of many companies see the value of the company in various ways. According to Choiriah [1], the company's main goal of a competitive economic condition is to obtain maximum profits with the company's growth in the long term and also to maintain the survival of the company itself. While the value of the company is an achievement of the company as an indicator of shareholder trust in the company since the founding of the company to date. But no less important is the application of good corporate governance to build a strong and sustainable company. According to Nengzih [2], Company value is a comparison between market value and company book value per share, and in this study, it is defined as the market value of the company because it can provide prosperity for investors/shareholders if the stock price increases [3]. This is needed to provide information to investors in assessing the company's prospects in the future in generating profits. Corporate value is also interpreted as "The value of the firm is the price for which the firm can be sold, which equals the present value of future profits" [4]. Company value is the price that prospective buyers are willing to pay. The existence of corporate

values in the midst of the community environment can have a positive and negative impact.

Handayani [5] states that diversification with different industries can reduce risk. Handayani [5] states that companies with a wide diversity of products and markets can create economies of scale, namely the savings in technology costs compared to companies that do not have a wide variety of products and markets that are not broad, namely where. grow only by utilizing the excess cash flow. Then it can also be done growing by implementing alliances strategy, joint ventures, or even carrying out mergers and acquisitions with other companies that are completely different in their business objectives, scope, and location. Companies in their development will always try to maintain their business excellence in increasing the value of the company. The experience and knowledge that has been owned and developed by the company should be used as a capital for doing business diversification to generate additional income for the company. can be seen from the economy and surrounding development that are getting better. At the time the company was developing, negative impacts such as social inequality and environmental damage caused by the company's activities began to appear. Therefore the value of the company can also be influenced by the size of the profitability produced by the company. Profitability is the level of net profit that the company can achieve when carrying out its operations. The advantage that is worth sharing with shareholders is the profit for the

value of the company. To diversify in the long term, the company can do business development and reduce the scale of business economics. The diversification strategy is carried out as one way to expand the business and expand the market. This can be done by opening new business lines, expanding existing product lines, expanding product marketing areas, opening branch offices, conducting mergers and acquisitions to increase economies of scale and other means.

The positive impact of Intellectual (defines knowledge, information, wealth and experience) that can be used to create wealth. Intellectual capital gets significant to the organization in providing a competitive advantage. The value of a company can be mirrored by the price paid by investors for shares in the market. the book value of assets owned by the company, where Intellectual capital, innovation, and value added (VA) are the objects of special attention for managers, investors, economic institutions, and the government; such as being a number of objects produced in academics and practitioners [6].

According to Brigham and Houston [7], business risk is uncertainty regarding the projected return on assets in the future. The value of a company that has a high business risk because of the funding decisions it chooses, will drop in the eyes of investors when there is a risk of bankruptcy. Consequently, most of the company's assets will be sold to pay off debts that are large in number compared to returning the value of shares invested by investors. There are inconsistent research results regarding the relationship between business risk with company value. But according to research Yuliani *et al.*, [8] and Sari and Yanti [9], show that business risk has a positive influence on firm value. On the other hand, the results of Efni [10] and Pagach and Warr [11] show that business risk has a negative influence on firm value. The research conducted by Wiagustini and Pertamawati [12] the effect of business risk and firm size on firm value with the results of the study showed that the company's business risk had a positive and significant effect.

THEORETICAL STUDY

Stakeholder Theory

This theory shows the existence of relationships with stakeholders that cover all forms of relationships between companies and corporate stakeholders consisting of workers, customers, suppliers, business partners, government and society.

The term Stakeholders according to Freeman and Evan [13] as "any identifiable group or individual who can affect the achievement of organizational objectives, or is affected by the achievement of organizations' objectives". Thus it means that company management must carry out an activity that is considered important by the Stakeholders and they

report back to the Stakeholder activity [14]. In addition, this theory also states that stakeholders have the right to receive information about how company activities affect them, even when they choose not to use the information or even when they cannot directly play a constructive role in the survival of the company [15].

Agency Theory

Agency theory explains the pattern of relationships between company owners and company managers [16]. This study sees that a company is a series of contracts (nexus of contracts) between the owners of companies that delegate their authority to company managers. With this delegation, the owner of the company hopes that the management carried out by the manager can give the owner additional benefits and welfare. However, the separation can potentially lead to conflict between company owners and company managers. This is what is meant by Agency Conflict. In this agency conflict, the owner of the company seeks to make a profit in the form of profits or dividends that are maximized on their investment in the Company. On the other hand, managers try to maximize their personal profits by maximizing the compensation they get, although perhaps the methods used to harm the interests of the owner of the company are used to harm the interests of the owner of the company. This conflict will, in turn, lead to agency costs.

Diversification

According to Tjiptono [17], diversification is an effort to find and develop new products or markets or both in order to pursue sales growth and profitability. Diversification is a strategy focused on actions to gain competitive advantage by choosing and managing different business groups in several industries and markets [18]. Diversification strategies used by companies are generally divided into three types, namely concentric diversification, horizontal diversification, and conglomerate diversification. Based on these definitions, it is concluded that companies that do business diversification are companies that have several business units or subsidiaries and business diversification is carried out to increase the added value of company owners.

In Research [5] Simple reasons for diversification are explained in two major titles, namely 'performance' based arguments and 'management discretion' arguments. In Roger's [19] argument, many arguments based on performance which emerged from the transaction cost work theory. Roger also explained that the transaction cost theory focuses on several transactions that may be expensive to get to the market. Therefore, companies can make mergers or additions to cover these costs. In essence, the existence of transaction costs causes companies to diversify to take advantage of certain synergies that are utilized through the market mechanism to be too expensive. In his research also explained another reason for the existence

of diversification, namely if two companies compete on the market more than one allows to influence the nature of competition between the two companies. Companies that compete in more than one market will be able to "learn" a faster strategy that can increase profitability. It can be said that diversification can be associated with higher profitability and is a basic reason for diversifying in accordance with the presence of multi-market competitors.

Intellectual Capital

Intellectual Capital is information and knowledge that is applied in work to create value. Intellectual Capital is also interpreted as a knowledge-based asset in a company which is the basis of the company's core competition that can affect the development of the company's durability and excellence. Pulic [20] states that Intellectual Capital is a collection of employees, organizations, and their ability to create added value. Dan stated that "IC includes all processes and assets which are not normally shown on balance sheets and all intangible assets (trademarks, patents, and brands) which modern accounting methods consider .. ". Some researchers have expressed their opinions about Intellectual Capital, but all of them have no provision for the elements contained in Intellectual Capital.

One of the definitions of Intellectual Capital that is widely used is from the Organization for Economic Co-operation and Development [21] which explains that the economic value of intangible assets is organizational (structural) capital; and human capital. According to OECD, the term Intellectual Capital is treated as intangible assets and structural capital such as software systems, distribution networks, supply chains, and human capital covering human resources within the organization, both of which include intangible assets.

Based on the OECD [22] develop the opinions of researchers and identify three main constructs of Intellectual Capital, namely: human capital (HC), structural capital (SC) and customer capital (CC). According to Bontis *et al.*, [22], human capital simply represents individual knowledge stocks, namely employees and is a combination of genetic inheritance; education; experience and attitude about life in business.

Whereas structural capital includes all non-human storehouses of knowledge in organizations, such as databases, organizational charts, process manuals, strategies, routines and others that can make greater value than the value of the material. While the concept of customer capital (CC) is the knowledge that is inherent in marketing channels and customer relationships where a company develops it through the course of business.

But broadly speaking intellectual capital can be interpreted as an intangible asset that is a resource containing knowledge, which can affect the performance of a company both in making decisions for now and future benefits. Based on this and from the results of previous studies, a conclusion can be drawn from the three intellectual capital constructs as follows: Human Capital (HC) includes the expertise and competencies possessed by an employee in producing or producing goods and services and his intelligence in dealing with people other. This is due to education, experience, skills, creativity, and attitude that is owned by someone. Human capital is a suggestion for the creation of innovation and intellectual development. According to Ulum [14], human capital is a combination of genetic inheritance; education; experience and attitude about life and business. Structural Capital (SC) covers all non-human storehouses of knowledge in organizations [14]. Included in structural capital are databases, organizational charts, process manuals, strategies, routines and all things that make the value of the company greater than the value of the material. Customer Capital (CC) / Relations Capital is the knowledge that is inherent in marketing channels and customer relationships where an organization develops it through the course of business [22].

Business Risk

Business risk is a fluctuation that occurs due to uncertainty. There are various ways that can be used to reduce business risk. One way that is widely used to reduce risk is insurance. When a company buys insurance, the business risk is transferred to the insurance company by paying a premium. Insurance has several weaknesses that need to be considered. But in managing the business we also have to think about the risks that must be faced even though there are some weaknesses of insurance that must be considered. Therefore we also have to have insurance for our business. As a good entrepreneur before entrepreneurship must think about the risks faced and of course think of ways to overcome these risks. Business risks vary in shape. It is important to know the different types of business risks so that we can anticipate well. Creating a threat identification list can help companies assess business risk. If you want to assess the company's internal environment, consider financial, marketing, financial, labor and strategic risks. External risks can include changes in economic conditions, natural disasters, and new competitors. Risk assessment serves as a strategic deterrent that helps business entities always ahead of bad conditions. Risk assessment is designed to provide information about the steps needed in the face of risk. The risk score system can help businesses identify mild or moderate risks of the most severe by developing risk "weighting" processes. Generally the risk score system is based on the impact of financial losses if the condition occurs. Or

how long does it take the company to return to normal after the risk occurs.

Company Value

According to Noerirawan [23], the value of the Company is a condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, that is, since the company was established until now. According to Sartono [24], Company value is the selling value of a company as a business that is operating. The excess selling value above the value of liquidation is the value of the management organization that runs the company. The company aims to increase the value of the company through increasing the prosperity of the owner or shareholders. The value of the company is basically measured from several aspects, one of which is the market price of the company's stock.

There are five types of company values based on the calculation method used, namely [25]: Nominal Value. Nominal value is a formally stated value in the articles of association of the company, explicitly stated in the company's balance sheet, and also written clearly in a collective share letter. Market value. Market value often called the exchange rate is the price that occurs from the process of bargaining on the stock market. This value can only be determined if the company's shares are sold on the stock market. Intrinsic Value. Intrinsic value is the most abstract concept, because it refers to the estimated real value of a company. The value of the company in the concept of intrinsic value is not just the price of a set of assets, but the value of the company as a business entity that has the ability to generate profits in the future. Book value. Book value is a company value that is calculated on the basis of an accounting concept. Simply calculated by dividing the difference between total assets and total debt with the number of shares outstanding. Liquidation Value. The value of liquidation is the selling value of all company assets after deducting all obligations that must be fulfilled. Liquidation value for Liquidation Value. The value of liquidation is the selling value of all company assets after deducting all obligations that must be fulfilled

Previous Research Results

Many previous studies regarding Diversification, intellectual Capital and business risk towards corporate value, including the research of Siregar [26] which states that what is obtained shows that company value is influenced by company characteristics and diversification. Independent variables such as diversification have a significant influence on firm value. While the Manyuru [27] study states that the impact of corporate diversification on the value of companies is listed on the Nairobi Securities Exchange (NSE). Panel regression techniques are used as estimation methods. The overall findings of this

study were slightly mixed. This study found that industrial diversification reduced the value of the company, but geographical diversification did not have a significant impact on firm value. When examining each industry individually, research establishes that industrial diversification increases firm value in the agricultural industry but does not significantly affect the value of companies in other industries.

Whereas Research on Business Risk in Turkey by Ozturk [28] states that when comparisons were made with samples of logistics companies in Turkey with companies from other BRICS-T countries in the logistics industry, similarities were found with companies from China and India. While business risks have an impact on Company values in countries such as Turkey, China, and India, it is found that financial risk affects the value of companies in Russia, Brazil, and South Africa.

Effects of Diversification on Corporate Values

According to Govindarajan and Anthony [29], there are 4 objectives of the company to diversify namely: the first is Profitability, in the business the capacity to generate profits is usually the most important goal. Profitability refers to profit in the long run, not quarterly profit or current year. the second is Maximizing shareholder value, the goal that should be done by the company to get a profit is to maximize shareholder value. This refers more to the market price of the company's stock. The third risk, the effort of a company organization to increase profitability is greatly influenced by the willingness of the management to take risks. Business diversification is a strategy for companies to do business in several different types of businesses. Diversification is carried out in several ways, including by utilizing the internal growth environment, which is to grow only by utilizing the excess cash flow.

Whereas according to Tjiptono [17], diversification is an effort to find and develop new products or markets or both in order to pursue sales growth and profitability.

H1: Diversification has a positive effect on company value

Effect of Intellectual Capital on Corporate Values

Mohsen *et al.*, [30] stated that Intellectual Capital has become an important part of the company. There are several studies that investigate the relationship between Intellectual capital and company value. Rehman *et al.*, [31] define intellectual capital as one of the most important strategic assets in economic-based knowledge. While Zeghal & Maaloul [6] states that currently there are several companies that invest in the form of employee training, research, and development, relationships between customers, as well as computer systems and administration. Investment, in

this case, is often referred to as intellectual capital which can grow and compete with investments in physical and financial capital.

Randa & Solon [32] examined the effect of intellectual capital on firm value. The result, states that intellectual capital has a positive effect on firm value. Businesses carried out by a company in creating a value need to have utilization of resources owned by a company. This potential consists of human capital, customer capital, and structural capital. The added value generated from the process of creating value within the company will create a competitive advantage for the company, this competitive advantage shows that market perceptions of company value will increase because it can be believed that companies that have a competitive advantage will be able.

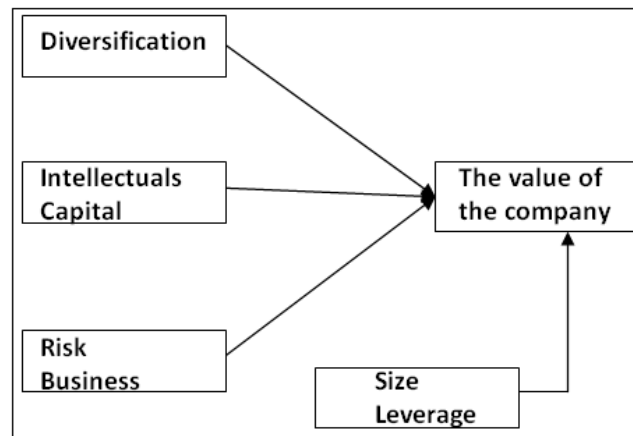
H3: Business Risk has a negative effect on Company Value

H2: Intellectual Capital has a positive effect on value companies

Business Risk Effects on Company Values

Business risk is uncertainty regarding the projected return on assets in the future. The value of a company that has a high business risk because of the funding decisions it chooses, will drop in the eyes of investors when there is a risk of bankruptcy [7]. While the research of Joni and Lina [33], revealed that business risk is one of the risks faced by the company when carrying out its operations, which shows the possibility of the company's inability to fund its operational activities. Based on the theory, the hypothesis can be formulated as follows:

Table-1:



Research Methods

The form of this research is causal. Causal research aims to test hypotheses about the influence of one or several variables (independent variables) on other variables (dependent variable). Namely by analyzing the seta explain the effect of independent variables on the dependent variable. This study examines the effect of Diversification, Intellectual Capital and Business Risk on Firm Value. The independent variables in this study are Diversification, Intellectual Capital and Business Risk, and the dependent variable is Corporate Value, where the variables have an influence on each other. Population and Samples

The population is the whole object that fulfills certain conditions related to the problem under study. The population that will be observed in this study are all companies listed on the Indonesia Stock Exchange which are listed in the 2015-2017 LQ45 Index. The sample of this study is a small part or representative of the population. The sampling method used in this study is the purposive sampling method. The purposive

sampling method is the selection of samples based on certain criteria.

Types and Data Sources

The type of data used in this study is quantitative data, namely nominal data types and ratios. The source of data in this study is secondary data obtained from data sources from audited financial statements and annual reports from companies included in LQ 45 companies and listed on the Stock Exchange from the period 2015-2017. Finance and annual company report obtained from the site www.idx.co.id.

RESEARCH VARIABLE

Independent Variable

Independent variable or independent variable is explanatory. These variables are usually considered as predictor variables or causes because or cause dependent variables [34]. This research has the following variables: Diversification, Intellectual Capital and Business Risk

Dependent Variable

Dependent variables are variables that are influenced by variables Independent or independent variable [35]. In this study using dependent variables, namely: Company Value.

Data analysis in this study was carried out with descriptive statistics, multiple regression and two mean different tests for hypothesis testing. The calculation is done using the help of the SPSS release 24 program.

Operational Definition of Variables

The variables contained in this study consisted of one dependent variable and three independent variables. The dependent variable used was Corporate Value. While the independent variables of this study consisted of Diversification, Business Risk and Capital Structure. The operational definitions of these variables are as follows for the independent variables:

Diversification

The proxy used to measure diversification is the Herfindahl Index, which is calculated based on the sales distribution of each business segment of a company. The Herfindahl Index (HERF). Where $HERF_{it}$ is a revenue-based Herfindahl Index for companies (i) in the year (t); $SSale_{it}$ is sales from each company segment; Sales is the total sales of all company segments (i) in the year (t). The HERF index value will be equal to 1 for single segment companies and less than 1 for companies with more than one business segment. So, the smaller the value of the index, the higher the value of diversification.

Intellectual Capital

Intellectual Capital (IC) uses the method in Pulic [36] research, which consists of human capital, structural capital and customer capital. Value-added generated by companies is calculated as follows: $VA = OUT - IN$. The formula is total sales and other income divided by expenses (other than employee expenses).

Business Risk

In the company business risk will increase if you use high debt. This will also increase the possibility of bankruptcy. Companies with high risk should use less debt to avoid the possibility of bankruptcy. (return on assets) for 6 consecutive years. Based on the method of measuring business risk above, the ratio can be measured by Return on Equity (ROE). This ratio is used as an indicator to assess management effectiveness in using equity financing to fund operations and grow the company. According to Atmaja [37] states that the measurement of business risk can be done using the coefficient of variation from profit or profit. In this study, the measurement of business risk uses the variance value of ROE.

Dependent Variable

The dependent variable in this study is that Corporate Values are measured using Price to Book

Value (PBV) is an investment valuation ratio that is often used by investors to compare the market value of company shares with their book value. This PBV ratio shows how many shareholders finance net assets company. Price to Book Value (PBV), which is a comparison between stock prices and stock book value.

Control Variables

The control variables that will be used in this study are as many as two variables. The control variables are Leverage and Company Size:

Leverage is a ratio that shows the level of use of debt to fund company assets. Financial Leverage is proxied as the ratio between total debt to the total assets of the company. The higher the financial leverage, the greater the cost of debt that must be paid by the company and the higher the risk of the company related to its ability to pay off debt. Therefore, creditors will provide higher debt costs to companies that have high financial leverage. Various studies have proven the positive relationship between financial leverage and the level of diversification of the company [38, 39]. Financial leverage has a formula for Total Debt divided by Total Asset.

The size of the company is measured using logarithms of the total assets of the company. Some studies have found that there is a positive relationship between company size and the level of company diversification [40-42]. The research study states that the greater the size of a company, the tendency of the company to add a larger business segment. In addition, Anderson and de Palma [42] see that company size is directly proportional to diversification in the company's product line.

RESULTS AND DISCUSSION

Hypothesis testing

Testing for Determination

Testing for Determination or Correlation Analysis and the coefficient of determination is one of the hypothesis tests. Based on the analysis carried out, the price of the multiple correlation coefficient or R is obtained which must be proven its significance. We must test whether the price of the multiple correlation coefficient or R is significant or not. The level of accuracy of a regression line can be seen from the size of the coefficient of determination or R^2 . The coefficient of determination in regression analysis can be used as a measure to express the compatibility of the regression lines obtained. The greater the value of R^2 , the stronger the ability of the regression model obtained to explain the actual conditions. The magnitude of the price of the correlation coefficient and the coefficient of determination that will be proven can be found in the results of processing the SPSS 24 data with the form presented in the table below:

Table-2: Correlation and Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.485 ^a	.235	.210	1,49970

The number R can be referred to as a correlation that is 0.235 which means it is greater than 0, thus it can be stated that there is an influential relationship between variables X1, X2, X3, to Y. The ability of the independent variables X1, X2, X3, to explain variations in the dependent variable referred to as the coefficient of determination is 23.5%. But for the number of independent variables > 2, it is better to use adjusted R (Adjust R square) which is equal to 0.210. This means that 21.0% of the company's value is

influenced by Diversification, Business Risk and Intellectual Capital. While the rest (100% -21.5% = 78.5%) is explained by other factors that cannot be explained in the regression model obtained. The standard error of estimate (S €) 1,49970, smaller S € will make the regression model more precise in predicting the dependent variable.

Individual Significance Test Results

Table-3: Overall Coefficient Test Results

VARIABEL	+ / -	β	t	Sig
Diversifikasi	+	0,115	2,232	.028 **
Intellectual Capital	+	1,576	1,800	.075
Resiko Bisnis	+	6,799	2,131	.036 **
Leverage	+	-	1,529	0.222
Size	+	-	0,474	0.494

FINDINGS AND DISCUSSIONS

From the results of data processing, it can be concluded that Testing Hypotheses 1 and 3 is accepted, because the positive significant value is supported by the hypothesis area.

Hypothesis 1 with a significant value of 0.028 and a Beta value of 0.115 Which means rejecting HO and accepting H1. This is in line with the research In Roger's [19] study, it was explained that another reason for the existence of diversification was explained, that is, if two companies competed in the market more than one would influence the nature of competition between the two companies. Companies that compete in more than one market will be able to "learn" a faster strategy that can increase profitability. It can be said that diversification can be associated with higher profitability, whereas according to Tjioptono [17], diversification is an effort to find and develop new products or markets or both in order to pursue sales growth and profitability

Hypothesis 2 with a significant value of 0.075 and a Beta value of 1.576, which means that rejecting Hypothesis 2, Intellectual Capital does not affect the value of the company. This is in line with the research of Mehralian *et al.*, [43] which states that Intellectual Capital has become an important part of companies but not all intellectual capital has an effect on all sectors. In terms of productivity and market valuation, Intellectual Capital has no positive effect. Intellectual Capital does not have much influence on studies in developing countries because of the lack of training for these employees.

Hypothesis 3 is accepted with a significant value of 0.036 and a Beta value of 6.799. which means that Hypothesis 3 is accepted, namely Business Risk has a negative effect on Firm Value. This is in line with the research of Joni and Liana [33] who say that business risk is one of the risks faced by the company when carrying out its operations, which indicates the possibility of the company's inability to fund its operational activities.

Control variables are Size and Leverage where each significant value is 0.494 and 0.222, meaning that Size and Leverage do not affect the Firm Value.

CONCLUSION

Based on the results of the study and discussion of the effect of diversification, Intellectual Capital and business risk on the value of the company in the company listed on the LQ45 index for the 2015-2017 study period. So, it can be concluded that:

The first hypothesis which states that the influence of Diversification on the value of the company is accepted. Diversification influences the value of the company because of the diversification of adding profits to the seller distribution company by each segment in a company affecting the stock price and the value of the company itself.

The second hypothesis states that the effect of Intellectual Capital on firm value is rejected. This can be interpreted that states that Intel Capital has become an important part of the company but not all intellectual

capital has an effect on all sectors. In terms of productivity and market valuation, Intellectual Capital has no positive effect.

The third hypothesis states that business risk has a negative effect on the value of the company received. This shows that business risk has a negative effect on firm value. One of the business risks is the inability of the company to run its business. Whereas Brigham and Houston [7] stated that in every business activity there is the potential for bankruptcy which will cause a decrease in company performance in the eyes of investors.

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