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The Effect of Diversification and Funding Decisions on Company Performance and Corporate Value with Good Corporate Governance (GCG) as Moderated Variable (Study on Manufacturing Companies Listed on The Indonesia Stock Exchange from 2013 to 2017)

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ABSTRACT: *This study aims to analyze the effects of diversification and funding decisions on company performance and the value of companies with Good Corporate Governance (GCG) as a moderating variable in an industrial manufacturing company listed on the Stock Exchange (IDX) in 2013-2017. Sampling method using purposive sampling techniques and accounting 41 manufacturing industry companies. Samples were analyzed by using PLS. The results of this study indicated that diversification has no significant effect on firm value. Funding decisions have a substantial effect on the value of the company. The company's performance significantly influences the company's value. The funding decision and diversification have a significant influence on the company's value indirectly through GCG. GCG has no significant effect on firm value.*

Keywords: *Diversification, Financial Decision, Financial Performance, Firm Value, Good Corporate Governance.*

INTRODUCTION

Nowadays, the manufacturing sector is still a mainstay in boosting Indonesia's economic growth. The Ministry of Industry stated that the manufacturing industry will still be a prominent supporter of national economic growth. According to the Ministry of Industry Data, the seven leading contributing sectors were basic metals, food-beverages, transportation equipment, machinery and equipment, chemicals, pharmaceuticals, and electronics. Meanwhile, the Indonesia Stock Exchange recorded one sector that grew the most during 2017, namely in the basic industrial and chemical sectors. Based on the IDX report, the industrial sector rose to 21.17% year to date. Until the first quarter of 2017, the Manufacturing Sector tended to decline, although in 2016 its contribution to Gross Domestic Product was still the highest. This decline has resulted in the reduced role of the Industrial Sector. Manufacturing in the Gross Domestic Product (GDP), which is feared, will reduce employment in this sector. The continuing reduction in the manufacturing industry's GDP role has reduced the sector's impetus to overall economic growth. Based on the above phenomenon, it can be concluded that many factors can affect a company's performance and value. The success or failure of a company's business strategy will be reflected in its performance and value. One way for companies to increase company value is by diversification. Diversification is a way for

companies to dominate the market and minimize risk. However, if the diversification is done incorrectly, it will cause losses for the company and certainly reduce its value.

Internal and external factors can influence company value. Internal factors include funding decisions, dividend policy, and asset growth. At the same time, external factors that can affect the company's value are inflation and interest rates. According to Indriyani's research (2017), profitability is directly proportional to its value, i.e., the higher its profitability, the higher its profitability. The success of a company does not depend on the number of business lines occupied. Still, it is vital to pay attention to a company's financial statements to see what a good funding decision should be and see how best to manage the sources of funds and existing resources. Funding decisions also affect the value of the company,

Moreover, in the end, it will affect the company's financial performance, funding decisions, and company value. This study deals with the master research problems that examine Diversification, Funding Decisions, Corporate Social Responsibility, and Performance and Firm Value with GCG as Moderation. Based on the above background, the authors intend to conduct a study entitled The Effect of Diversification and Funding Decisions on Company Performance and Corporate Value with Good Corporate Governance (GCG) as a Moderation Variable (Study of Manufacturing Sector Companies Listed on the Indonesia Stock Exchange from 2013 to 2017).

Based on the analyzed data, it was found that diversification does not significantly affect company value, but funding decisions and company performance significantly influence company value.

Company decision intermediates the effect of Funding decisions and significantly influences firm value through indirect company performance. Diversification has a significant influence on firm value through indirect company performance. GCG has a significant effect on moderating the effect of diversification on firm value.

Furthermore, the explanation in this article will be divided into three parts. The first is a literature review that will explain what theories are used in this study and previous research that references researchers. The second part is the results and discussion that will explain the study results and a discussion of the results that have been found. The third part is a conclusion that outlines in more concise the results of the research under study.

LITERATURE REVIEW AND RESEARCH HYPOTHESES Agency Theory

Agency theory emerged and was discovered by Jensen and Meckling (1976), stating that the company owner had to surrender its management to an agent where the agent would be tasked with running the company following its wishes and its performance to be compensated. **Pecking Order Theory**

According to Myers (2001), companies prefer funding from internal capital, namely cash flow, retained earnings, and depreciation. Pecking order theory explains why companies that have high levels of profit have more minor debt levels.

Capital Structure Theory with Traditional Approaches

The traditional approach argues for an optimal capital structure. This result means that capital structure influences firm value, where the capital structure can change so that optimal company value can be obtained (Hanafi, 2012).

Theory trade-off

This theory was expressed by Myers (2001) that the company will owe to a certain level of debt, where the tax savings (tax shields) from additional debt equals the cost of financial distress. The trade-off theory states that the higher its debt, the higher the probability that the company will go bankrupt (Hanafi, 2012).

Signaling Theory

A sign or signal is an action taken by company management that provides instructions for investors about how the company's prospects (Brigham and Ehrhart, 2005).

Resource Theory

Penrose (1959) developed a theory with the name The Growth of The Firm Theory. This theory explains that there are limitations for companies to make choices about productive company resources, so that the company needs to optimize its resources.

Market Theory

Montgomery (1994) explains that the market approach assumes, companies diversify companies that aim to prevent business competition from occurring in the same market segment with company segments by preventing new companies from entering the company's business segments.

Asymmetric Theory of Information

The asymmetry theory says that the company's parties do not have the same information about the company's prospects and risks because information asymmetry between managers and investors will later lead to conflict (Hanafi, 2012).

The effect of diversification directly on Company Value

Following the market theory, companies diversify to reduce competition with other businesses with the same segment, namely by controlling the market by building a competitive advantage. Simultaneously, the resource approach is to make optimal use of resources to increase company value. This description relates to the signaling theory, which says that good company performance will cause its value. It is a positive signal for investors, indicating its ability to manage its funding and operations very well.

Influence Funding Decision directly to Company Value

Based on the trade-off theory, companies base their funding decisions on an optimal capital structure, following the asymmetric information theory and signaling that the company's parties do not have the same information about the prospects' risks. Therefore, asymmetric information will cause conflict, giving a bad signal to the market to decrease its value. Pecking orders describe a hierarchy in the search for company funds. The company prefers internal funds first to pay dividends and investments and then implements them as growth opportunities if possible. If external funds are needed, the company prefers debt over other external funds (Myers, 2001).

Influence of company performance directly on Company Value

Signaling theory has a close relationship with the company's financial statements. The theory of good performance signaling will give an excellent signal to the market and make investors feel confident to invest in the company. According to Ferial (2016), financial performance reflects its ability to allocate the sources of funds it has.

The Effect of Diversification to Company Value through Indirect Company Performance

Following market theory and resource theory, companies' aim to diversify is to reduce competition with other businesses with the same market segment. Penrose (1959) developed a theory with the name The Growth of The Firm Theory. This theory explains that there are limitations for companies to make choices about productive company resources, so that the company needs to optimize its resources. If a company diversifies, it will indicate that the company can utilize existing resources effectively and efficiently to minimize costs. This

effectiveness will then give an excellent signal to market participants and signify an increase in its value.

Influence Funding Decisions on Company Value through Indirect Company Performance

Based on the trade-off theory, companies base their funding decisions on an optimal capital structure. Tito et al. (2016) state that funding decisions significantly affect firm value because funding decisions are related to determining the source of funds to invest.

Influence Good Corporate Governance (GCG) in moderating the influence of Funding Decisions on Company Value

Gitman (2006) argues that capital structure does not affect firm value. Nevertheless, after adding the tax, they concluded that the company with debt would have a higher company value due to tax savings from debt. Following the agency theory that conflicts occur because of different interests and differences in the information received, one way to reduce conflict is by issuing signals in the form of information to market participants to find the same information with internal company parties. GCG, as the company's operational supervisory board, aims to reduce stakeholder information asymmetries.

Influence Good Corporate Governance (GCG) in moderating the effect of Diversification on Company Value

According to Jensen and Meckling (1976), agency theory states that agency relationships occur when one party (principals) delegates their work to another party (agent) who carries out the work. This theory states that shareholders believe that agents will make optimal decisions only if given the right incentives and only monitored (Tito et al., 2014). Agency theory deals with solving problems that arise in agency relationships, for example, when a conflict of interest arises between an agent and a company owner. However, if there is a conflict of interest between the owner and agent, both parties must remain committed to the agreed contract.

METHODOLOGY

The type of data in this study is quantitative data. The data used in this study are secondary data from the Indonesia Stock Exchange (IDX), i.e. www.idx.co.id. The data used are annual reports of manufacturing industry companies listed on the IDX and factbook idx for 2013-2017.

The population used in this study were all manufacturing industry companies that were consistently listed on the Indonesia Stock Exchange in the 2013-2017 period, totaling 129 companies.

The sampling technique in this research is purposive sampling, which is the population that meets specific criteria desired by the researcher. The criteria chosen by the researchers are:

1. Registered on the Indonesia Stock Exchange continuously throughout the year (2013-2017) means that it has never been delisted in the study period. Manufacturing companies used foreign currencies other than the rupiah in annual reports from 2013 to 2017 amount to 41 companies.
2. Having a complete financial report during the study period.

3. The company has no negative equity value.
4. The company did not move sectors during the study period.

Out of 129 manufacturing companies listed on the IDX, 41 companies have met the criteria for being sampled in this study.

Operational Definitions and Variable indicators

In this study, five variables were determined: diversification, funding decisions, company performance, corporate value, and GCG.

Diversification

Diversification is an effort to reduce risk in a business with the same segment and use resources optimally and efficiently to minimize costs. Measurement of diversification using the Herfindahl Index.

Funding Decision

A funding decision is a decision related to determining the source of funds to be used to finance investment, whether using internal or external funds. In this study, funding decisions will be proxied by DER, LTD, and LTE.

Company performance

The company's performance is a company's ability to meet short-term and long-term needs, as well as its ability to get profits. In this research, financial performance will be proxied by ROA, ROE, and NPM. **The value of the company**

Company value is the selling value of a company's shares. According to Harmono (2009), the company's value is the company's performance reflected by the share price formed by the demand and supply of the capital market that reflects the public's assessment of the company's performance. In this study, the company's value will be measured using PBV, PER, and Share Prices.

Data analysis method

Data collected based on research samples will then be processed using a data processing application, namely WarpPLS 6.0 for windows. Data analysis techniques used Structural Equation Modeling-Partial Least Square (SEM-PLS) analysis. The SEM method is a continuation of path analysis and multiple regression analysis. The SEM method is used to reach at the same time decipher and analyze every part of an equation model that is developed. The SEM method is expected to answer the previous method's weaknesses, namely, path analysis and multiple regression.

RESULTS AND DISCUSSION Descriptive statistics

Table 1 provides an overview of the average growth of each variable in this study.

**Table 1
Descriptive Analysis**

Var	Ind	Year					Score-Align
		2013	2014	2015	2016	2017	
Div	Hi	0.69	0.69	0.65	0.64	0.71	.67
Kpt. Pend	DER	1.33	1.25	1.24	1.16	1.17	1.23
	LTD	71.07	70.71	73.72	77.54	78.73	74.35
	Lte	200.8	192.57	168.64	169	176.94	181.59
KP	ROA	6	5.23	4	4.73	2.84	4,56
	ROE	10,19	8.93	5.74	8.36	4.15	7.47

	NPM	5.6	4.54	2.91	3.69	1.79	3.70
NP	PBV	.89	2.33	2.25	2.61	2.89	2.19
	PER	21.63	38.66	7.84	18.77	10.4	19.46
	SP	4,271	4,918	4,693	3,922	4,843	4,529
GCG	DK	4.95	5.29	5.05	4.93	5	5.04
	DD	6.05	6.05	6.15	6.19	6.07	6.10
	KA	3.22	3.12	3.10	3.02	3.07	3.10

Evaluation of Measurement Model (Outer Model) a.

Convergent Validity

Convergent validity occurs if scores obtained from two different instruments measuring the same construct have a high correlation. The rule of thumb used for converging is outer loading > 0.7, then communality > 0.5, and Average Variance Extracted (AVE) > 0.5 (Abdillah, 2015). Hair et al. (2006) suggest that the rule of thumb usually used for initial inspection is ± 30 , considered to have met the minimum level, for loading ± 40 is considered better. For loading > 50 is considered to be practically significant.

Table 2
Combine Loadings and Cross Loadings

	Diversified	Kpt_And	The performance	ValuePr	GCG	Type (a)	SE	P value
Diversified	1,000	0,000	0,000	-0,000	0,000	Reflect	0.058	<0.001
DER	-0,488	0.567	-0.247	0.049	-0.182	Reflect	0.063	<0.001
LTD	0.200	0.903	0.107	-0,021	0.025	Reflect	0.059	<0.001
Lte	0.099	0.975	0.044	-0.009	0.083	Reflect	0.058	<0.001
ROA	-0.014	-0,047	0.979	0.004	-0,024	Reflect	0.058	<0.001
ROE	-0,082	0.022	0.955	-0.002	-0,083	Reflect	0.058	<0.001
NPM	0.098	0.026	0.940	-0.002	0.109	Reflect	0.058	<0.001
PBV	-0,385	0.048	-0,037	0.768	-0,343	Reflect	0.060	<0.001
PER	-0.318	-0.123	0.027	0.128	-0.184	Reflect	0.068	0.031
STCKP	0.441	-0,028	0.033	0.764	0.376	Reflect	0.060	<0.001
DK	0.159	-0,145	-0,111	0.113	0.827	Reflect	0.060	<0.001
DD	0.046	0.055	0.237	-0.149	0.764	Reflect	0.060	<0.001
KA	-0,280	0.130	-0,150	0.034	0.594	Reflect	0.062	<0.001

Source: Researcher's Processed Data, 2019

b. Discriminant Validity

Table 3
Correlations among I.vs. with sq. rts. of AVEs

Correlations among I.vs. with sq. rts. of AVEs							

	Diversified	Kpt_And	The performance	Value Pr	GCG	GCG * Div	GCG * Kpt
Diversified	1,000	0.071	-0.014	-0,092	-0,248	-0.502	0.169
Kpt_And	0.071	0.834	-0,274	-0.172	-0.318	0.133	-0.375

The performance	-0.014	-0,274	0.958	0.318	0.250	-0.265	0.052
Value Pr	-0,092	-0.172	0.318	0.630	0.057	0.066	0.009
GCG	-0,248	-0.318	0.250	0.057	0.735	-0.156	-0.185
GCG * Div	-0.502	0.133	-0.265	0.066	-0.156	0.798	-0,031
GCG * Kpt	0.169	-0.375	0.052	0.009	-0.185	-0,031	0.624
Note: Square roots of average extracted variances (AVEs) are shown on diagonals.							

Source: Researcher's Processed Data, 2019

Discriminant validity is related to the principle that meters of different constructs should not be highly correlated. Discriminant validity test is assessed based on the value of crossloading measurements with the construct. Based on the table above, AVE's comparison in table 5.4 with AVE's value in table 5.5 is squared to see the discriminant validity. Based on the table above, all construct variables can explain more variants in measuring the indicators than comparing them with other construct variables. This result can be seen from the AVE square root value as more significant than the correlation between latent construct variables. These values can be said to have met the discriminant validity requirements.

Evaluation of Structural Model (Inner Model)

The structural model in PLS is evaluated using the dependent construct, path coefficient values, or t-values for each path to test the significance of the constructs in the structural model. Score R^2R^2 used to measure the degree of variation in the changes of independent variables to the dependent variable. The higher the value means, the better the proposed research model's prediction model (R^2). The path value or inner model shows significance in hypothesis testing. This study uses all four fit model sizes that have been processed in WarpPLS measured based on p-value must be ≤ 0.05 while AVIF is used to test the collinearity problem in the PLS model, and the recommended value is ≤ 3.3 (Meisthia, 2019). Based on the results of testing the value of productive relative using WarpPIs obtained values R^2 of 26.53 with values of 0.07 and 0.21, respectively. R^2 With the following calculation:

$$R^2 = 1 - (1 - R^{12})(1 - R^{22}) = 1 - (1 - 0,7)(1 - 0,21)$$

$$= 1 - (0,93)(0,79) = 1 - (0,7347) = 0,2653 = 26,53$$

Table 4 Model Fit

Model fit and quality indices

Average path coefficient (APC) = 0.184, P = 0.002
Average R-squared (ARS) = 0.138, P = 0.011
Average adjusted R-squared (AARS) = 0.122, P = 0.019
Average block VIF (AVIF) = 1,437, acceptable if ≤ 5 , ideally ≤ 3.3
Average full collinearity VIF (AFVIF) = 1,532, acceptable if ≤ 5 , ideally ≤ 3.3

Source: 2019 Processed Data

Based on the table above, it can be seen that the average path coefficient is 0.184, with a p-value of 0.002. While the average R-squared of 0.138 with a p-value of 0.011. At the same time, the average adjusted R-squared value is 0.122, with a p-value of 0.019. Therefore, the research model can be said to be good and has a good fit because the p-value is 0.05. Then from the table above can be seen AVIF value of 1,532, which means ≤ 3.3 . Therefore it can be said that there is no problem of multicollinearity between indicators and between variables.

Hypothesis testing

After conducting data processing and evaluation, then hypothesis testing is then performed. Hypothesis testing is used to explain the relationship between the independent variable and the dependent variable (Meisthia, 2019). The SEM technique simultaneously tests a complex structural model. Hypothesis testing has a criterion that the p-value must be < 0.05 to be said to affect. Meanwhile, to see the direction of its influence can be seen from the path coefficient. If the positive path coefficient value matches the hypothesis testing criteria, it can be said to affect. So it can be concluded that H_a was accepted and H_o was rejected. The correlation results between constructs can be seen from the value of the path coefficient and the significance level, which will then be compared with the research hypothesis.

Table 5 Hypothesis Testing Results in the Inner Model: Direct Effect

Relationship	Path coefficient	pvalue	Information
Diversification → Company Value	-0.11	0.06	Non Significant
Funding Decisions → Company Value	-0,13	0.03	Significant
Company Performance → Company Value	.36	<.01	Significant
KP * GCG → Company Value	-0.00	0.48	Non Significant
Diver * GCG → Company Value	0.23	<.01	Significant

Source: 2019 Processed Data

Table 6 Hypothesis Testing Results in the Inner Model: Indirect Effects

Indirect Influence	Coefficient of Direct Effect		Indirect Effect Coefficient
Diversification → Company Performance	Diversification → Company Performance	Company performance → Company Value	0.054

→ Company Value	(0.15) p-value 0.01	(0.36) p-value <.01	
Funding Decision	Funding Decision	Company performance	
→ Company Performance	→ Company Performance	→ Company Value	-0,108
→ Company Value	(-0.30) p-value <.01	(0.36) p-value <.01	

Source: Researcher's Processed Data, 2019

H.1 The effect of diversification directly on Company Value

Based on this study's results, the p-value of 0.06, which means more significant than the value of the p-value that should be <0.05, then stated that diversification had no significant effect on firm value. The path coefficient value is -0.11, which means the coefficient value is negative and does not fit the predetermined criteria. The company's value (PER) is very volatile in the descriptive analysis and tends to decrease. So it can be said that companies that diversify their business are considered less optimal in increasing their value. Therefore it can be concluded that H_a was rejected and H_o was accepted.

H.2 The Effect of Funding Decisions directly on Company Value

Based on this study's results, the p-value of 0.03 means that following the criteria for the p-value that should be <0.05, it is stated that the funding decision has a significant effect on firm value. Besides, the path coefficient value is 0.13, which means the coefficient value is positive and under predetermined criteria. Funding decisions affect the company's value because the higher the DER value, will show the composition of short-term and long-term debt greater than the own total capital. Also, the company's debt burden will reduce the number of profits received by the company. Therefore it can be concluded that H_o was rejected and H_a was accepted.

H.3 Effect of Company Performance directly on Company Value

Based on the study results, the p-value of <.01 is under the criteria for the p-value that should be <0.05, it is stated that company performance has a significant effect on firm value. Also, the path coefficient value of 0.36 means the coefficient value is positive and follows predetermined criteria. Based on the results of descriptive analysis, it can be seen that the decreased ROE value has an impact on the company's PER value. This result means that the company has a poor performance in managing its operations to decrease its profit receipts. Therefore it can be concluded that H_o was rejected and H_a was accepted.

H.4 Effect of Diversification on Company Value through Indirect Company Performance

The study results found that the coefficient of direct influence between diversification on company performance is 0.15, with a p-value of 0.01, which significantly influences diversification and company performance. Furthermore, the coefficient of direct influence between company performance on firm value is 0.36 with a p-value of <.01, which means there is also a significant influence between company performance and firm value. With the number of indirect effect coefficients of 0.054 and the two direct influences that shape it significantly, it can be said that diversification has a significant influence on firm value through indirect company performance. The ROA value reflected in the descriptive table tends to decrease from year to year, which indicates the company's declining performance in managing its assets.

While ROE shows a value of > 1 , it can be said that diversified manufacturing companies can use their equity efficiently to generate revenue for the company. Therefore it can be concluded that H_0 was rejected and H_a was accepted.

H.5 The Effect of Funding Decisions on Company Value through Indirect Company Performance

Based on the study results, the coefficient of direct influence between funding decisions on company performance is -0.30 with a p -value $< .01$ which means a significant influence between funding decisions and company performance. Furthermore, the coefficient of direct influence between company performance on firm value is 0.36 with a p -value of $< .01$, which means there is a significant influence between company performance and company value. With the number of indirect effect coefficients of -0.108 and the two direct influences that shape them have a significant effect, it can be said that funding decisions have a significant effect on firm value through indirect company performance. Therefore it can be concluded that H_0 was rejected and H_a was accepted.

H.6 The Effect of Good Corporate Governance (GCG) in moderating the influence of Funding Decisions on Company Value

Based on the study results, it can be seen that the funding decisions that are moderated by GCG on firm value have a negative path coefficient value of -0.00 which means that it does not significantly influence. While the p -value is 0.48 or > 0.05 . Therefore, GCG does not significantly influence the moderating influence of funding decisions on company value. Based on this explanation so it can be concluded that H_a was rejected and H_0 was accepted.

H.7 The Effect of Good Corporate Governance (GCG) in moderating the influence of Diversification on Company Value

Based on the study results, it can be seen that the diversification which GCG moderates have a positive path coefficient value of 0.23 which means that diversification which GCG moderates have a significant effect. Next p -value of $< .01$ means that according to the p value requirements, it must be ≤ 0.05 that it can be said to be significant. Therefore, it can be said that GCG has a significant effect on moderating the effect of diversification on firm value. Therefore it can be concluded that H_0 was rejected and H_a was accepted.

CONCLUSION

A good diversification will increase the value of the company. This study found that diversification tends to increase every year, but the increase does not benefit its value. The right funding decision will be good for the company. Financial performance is an essential component in seeing its ability because financial performance reflects its ability to allocate the source of funds it has. This research found that diversification tends to increase every year, but its value tends to decrease. This statement means that the diversification carried out by the company is not following the objectives and only becomes a cost burden due to the company's focus being divided.

On the other hand, its performance also tends to decline every year due to resource use. Corporate funding in diversification is considered not optimal and efficient, so that it only becomes a cost burden. Funding decisions in this study are based on the use and utilization of debt. The funding decision is said to affect the company's value. If seen in the DER ratio, the higher the DER value, it will show the composition of short-term and long-term debt, which is also greater than the own total capital. This study failed to prove that GCG can moderate

the influence of funding decisions on company value, but that does not mean that GCG cannot influence funding decisions and company value. Theoretically, GCG is applied to provide supervision to the company's management in managing the company to provide prosperity for its shareholders to maximize its value. Supposedly, the consistent application of GCG can increase investor confidence because the board or the authorities always oversee its operational management. This research found that diversification tends to increase, and manufacturing companies consistently release information about their GCG. Hence the impact on stock prices increases every year.

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