The Impact of Diversification Degree, Business Segmentation, and Investment Prospects on Company Performance

Risya Oktaviani Putri[1], Taty Sariwulan[2], Fanny Ayu Triana[3]
{risyaoktvp@gmail.com[1], tatysariwulan@unpas.ac.id[2], faniyya31@gmail.com[3]}

Faculty of Economics and Business
University of Pasundan

Abstract. In today's fiercely competitive business landscape, companies are compelled to continually enhance their value and quality to maintain their edge. Elevating company performance stands out as a pivotal strategy in steering the constant evolution of a company. Thus, selecting the most appropriate approach to boost company performance becomes an essential endeavor for company management. This research seeks to empirically assess the impact of diversification levels, business segmentation, and investment prospects on company performance. To achieve this, the study employs a purposive sampling method, drawing samples from service companies listed on the Indonesia Stock Exchange (IDX) during a three-year period from 2018 to 2020, encompassing a total of 296 companies. The research employs both descriptive and verification analyses. The findings indicate that diversification levels do not exert a positive influence on company performance. Conversely, business segmentation and investment opportunities significantly contribute to enhancing company performance. These insights underscore the importance of strategic choices in driving company growth and success in a competitive environment.

Keywords: Diversification Degree, Business Segmentation, Investment Prospects, Company Performance

1 Introduction

The dynamism of businesses continues to grow and evolve in line with the increasingly diverse desires and needs of consumers. The expanding competitive landscape in today's technological era compels companies to be capable of developing and expanding their business ventures. This situation forces companies to be able to analyze every aspect of market changes that align with market demands. Companies require the right strategies to ensure their sustainability and growth in the future. One crucial factor in formulating these strategies is to maintain and analyze the company's performance over time. Company performance is a reflection of the financial situation of a company analyzed through financial analysis tools, allowing the assessment of the company's financial condition, whether good or bad, which reflects its performance within a specific period Aprilia et al., 2015[1]; Salindeho et al., 2018[2]. Strategies that companies can employ include diversification of business, business segmentation, and investment opportunities.

Diversification is one of the strategies employed by companies to compete in the business world. A diversified company is one that has more than one business segment (multi-segment) or a conglomerate that can be classified into related-segments, which are segments related to

ICEBE 2023, September 13-14, Bandar Lampung, Indonesia

DOI 10.4108/eai.13-9-2023.2341217

existing businesses, and unrelated-segments, which are different types of segments from existing businesses Christiningrum, 2015[3]. Diversification facilitates the coordination of companies with multiple different divisions that can conduct internal transactions Harto, 2007[4]. According to PSAK No.5 Revision 2018, business segmentation is a distinguishable component of a company in producing products or services, both individual products or services and related groups of products or services that have different risks and rewards compared to other segments. Companies with more than one business segment tend to have lower performance than companies with only one business segment. This is due to internal conflicts within the company where many managers open new business segments primarily for short-term gains without considering the long-term impact generated Harto, 2007[4]; Hokiyani & Arfianti, 2020[5]; Setionoputri et al., 2009[6]; Sumendap et al., 2018[7]; Toad et al., 2016[8]. Investment opportunities as a decision involve a combination of owned assets and future investment options. Investment opportunities also provide broader guidance where the company's value depends on future company expenditures Myers,1977. Companies with a good level of investment indicate that the company's management has performed well in managing its assets. In other words, companies that generate high investment opportunities are more likely to have good company performance Chosiah et al., 2019[9]; Safitri & Wahyuati, 2015[10].

This research aims to analyze the influence of diversification level, business segmentation, and investment opportunities on the performance of service-oriented companies. This study is conducted due to the inconsistent findings regarding the impact of diversification level, business segmentation, and investment opportunities on company performance. Additionally, there is a scarcity of research on the specific object of study, which is service-oriented companies. The issues addressed in this research are the effects of diversification level, business segmentation, and investment opportunities on company performance (a study conducted on service-oriented companies listed on the Indonesia Stock Exchange from 2018 to 2020).

2 Literature Review

Diversification Degree

Diversification Degree represents the extent of a company's expansion, both in terms of the number of managed businesses and the level of business segments it possesses, with a minimum of two business segments per company Amyulianthy & Sari, 2013[11]. Daft 2015[12], explains that diversification aims to expand a company's operations by producing various high-quality new products and services. Hitt et al. 2017, state that diversification is used by companies as a corporate-level strategy aimed at enhancing the strategic competitiveness of all owned companies, achieving a larger market share than competitors through vertical integration Daft, 2015[12], and either having a neutral or increasing the company's costs while reducing its revenue.

Business Segmentation

According to PSAK Number 5 Revision 2018, business segmentation is a component of a company that can be distinguished in producing products or services, whether individual products or services or related groups of products or services, with different risks and rewards compared to other segments. The Financial Accounting Standards Board (FASB) No. 131 in 2008 defines business segmentation into three categories: entities engaged in activities to generate revenue and incur expenses, whose results are regularly reviewed by operational decision-makers to allocate resources based on segment performance evaluation, and for which separate financial information is available.

Investment Prospects

Investment opportunity is the value of a company that depends on the funds it allocates in the future for investment choices expected to yield high returns Safitri & Wahyuati, 2015[10]. Investment opportunities cannot be directly observed or monitored by external parties, and they are calculated using proxies. Investment opportunities are regarded as opportunities for enhancing a company's growth and are thus used as a basis for determining the classification of a company's future growth.

Company Performance

Company performance is the end result of a company's operational activities over a specific period, typically one year. Company performance is the outcome of an evaluation of the implementation of corporate policies As'ari, 2017[13]. Company performance is the end result of a company's operational activities over a specific period, typically one year. Company performance results from an assessment of the implementation of corporate policies Retnawan et al., 2016 [14]. Company performance is a representation of a company's financial condition analyzed using financial analysis tools, allowing us to determine the state of a company's finances, reflecting its performance over a specific period, whether it is good or bad.

3 Methodology

The population in this study consists of all service-oriented companies listed on the Indonesia Stock Exchange from 2018 to 2020. The sampling technique employed in this research is purposive sampling. The sample criteria used for the population are as follows:

Table 1. Sampling research

No	Criteria	Total
1	Service-oriented companies listed on the Indonesia Stock Exchange from 2018 to 2020	453
2	New listing service-oriented companies during 2018-2020	(103)
3	Service-oriented companies with no revenue during 2018-2020	(7)
Service-oriented companies used as samples for 1 year		343
Service-oriented companies used as samples for 3 years		1029

In this study, the variables consist of two types: dependent variables (company performance) and independent variables (level of diversification, business segmentation, and investment opportunities). Company performance is measured using the excess value of the firm. The excess value of the firm is the division of market capitalization by imputed value, which generally represents the difference between the performance of companies that engage in diversification and those that do not Berger & Ofek, 1995 [15]. The level of diversification is measured using the Hirschman-Herfindahl index. The Hirschman-Herfindahl index compares the total sales generated by the company with the total sales generated by each segment of the company Berger & Ofek, 1995 [15]. Business segmentation is measured using a dummy variable, where multi-segment companies are assigned a value of 1 and single-segment companies are assigned a value of 0 Hokiyani & Arfianti, 2020 [5]. Investment opportunities are measured using the market value to book value of assets. The market value to book value of assets is the subtraction of total assets and total equity, summed with the market value of stocks, compared to the total assets of the company Chosiah et al., 2019 [9].

All hypotheses in this study were analyzed using multiple linear regression analysis Ghozali, 2018 , with the regression form as follows:

$$\mathbf{EXVAL = \beta_0 + \beta_1 DIVER + \beta_2 DUMSEG + \beta_3 MVBVA + \varepsilon}$$

EXVAL represents company performance, β0 is the constant, β1 - β3 are regression coefficients, DIVER stands for the level of diversification, DUMSEG represents business segmentation, MVBVA stands for investment opportunities, and ε represents the error.

4 Results And Discussion

Table 2. Descriptive Statistics

	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Diversification Level	888	0.21	1.00	0.74	0.24
Business Segmentation	888	0	1		
Investment Opportunities	888	693.65%	11.33%	125.77%	80.23%
Company Performance	888	4.19	-3.31	-0.10	1.21
Valid N	888				

The average value of the dependent variable (company performance) is -0.10 within the range of -3.31 to 4.19. This indicates that the performance of service-oriented companies is rated as moderate during the period of 2018-2020. Descriptive results for the independent variables show that the average value of diversification level falls between 0.21 and 1.00, with a mean of 0.74. Additionally, the average value of investment opportunities ranges from 693.65% to 11.33%, with a mean of 125.77%.

Table 3. Descriptive Statistics of Dummy Variable

Variable	Dummy 0 *Single-Segment*			Dummy 1 *Multi-Segment*			Observation
	Total	Mean	Std. Deviation	Total	Mean	Std. Deviation	Total
Business Segmentation	222	0.3101	0.0809	666	-0.2305	0.0465	888

Table 3 shows that out of the total 888 service-oriented companies used as samples, 666 companies are multi-segment companies and 222 companies are single-segment companies. The average value for single-segment companies is 0.3101, while the average value for multi-segment companies is -0.2305. This difference indicates that the average value for companies implementing business segmentation is lower compared to companies that do not implement business segmentation.

Table 4. Classical Assumption Tests

Variabel Dependen	Variabel Independen	Uji Normalitas	Uji Multikolinearitas		Uji Heteroskedastisitas	Uji Autokorelasi
		Sig.	Tolerance	VIF	Scatterplot	D-W
Company Performance	Diversification Level	0.200	0.611	1.636	Random and Evenly Distributed	1.971
	Business Segmentation		0.610	1.638		
	Investment Opportunities		0.972	1.029		

The results of the normality test (Kolmogorov-Smirnov) in Table 4 show a value of 0.200 (sig. value > 0.05), indicating that the data is normally distributed. The results of the multicollinearity test for the variables diversification level, business segmentation, and investment opportunities show tolerance values > 0.10 and VIF values < 20. This indicates that there is no multicollinearity among the independent variables. The heteroscedasticity test using a scatterplot graph shows that the data points are randomly spread and evenly distributed both above and below the 0 mark on the Y-axis. The autocorrelation test using the Durbin-Watson Test, as shown in Table 4, reveals a D-W Test value of 1.971, which falls between the values of du (1.894) and 4-du (2.106). This means that there is no autocorrelation present in the regression model.

Table 5. Multiple Linear Regression Analysis

Variabel Dependen	Variabel Independen	B Unstandardized	t	Sig	Result
Company Performance	Diversification Level	0.233	1.100	0.271	Rejected
	Business Segmentation	-0.423	-3.561	0.000	Rejected
	Investment Opportunities	0.001	2.529	0.012	Accepted
F count	13.975			0.000	
Adj. R square	0.042				

5 Discussion

The research findings indicate that diversification level does not have a positive impact on company performance. This means that higher levels of diversification in service-oriented companies listed on the Indonesia Stock Exchange from 2018 to 2020 result in a negative effect or value loss on company performance. The hypothesis stating that diversification level positively affects company performance is not supported by the data processed in this study. This is attributed to the unevenness of sales in the diversification strategy, leading to a gap or discrepancy in the evaluation benchmark used. Additionally, the research findings align with Jensen's theory (1993) stated that high levels of diversification result in value loss for companies due to excessive cross-subsidization in assisting a business segment facing losses or cash flow difficulties. This aligns with the findings of Amyulianthy & Sari, 2013[11]; Harto, 2007[4]; Hokiyani & Arfianti, 2020[5]; Satoto, 2009[16]; Setionoputri et al., 2009[6], which indicate that diversification level does not have a positive impact on company performance.

The business segmentation variable does not have a positive impact on company performance. The performance of service-oriented companies listed on the Indonesia Stock Exchange from 2018 to 2020 is divided into two groups: companies that implement business segmentation (multi-segment) and companies that do not implement business segmentation (single-segment). The initial hypothesis stating that business segmentation positively affects company performance is not supported by the processed data in this study. Based on the available data, it is concluded that the performance of multi-segment companies is lower compared to single-segment companies. This is attributed to factors such as having multiple business segments, which leads to a lack of focus on achievement targets. Additionally, managing multiple business segments requires appropriate and effective strategies, as well as incurring higher costs for management in terms of monitoring and controlling Hokiyani & Arfianti, 2020[5]. This theory is consistent with the research of Berger & Ofek, 1995[15]; Harto, 2007[4]; Setionoputri et al., 2009; Sumendap et al., 2018[7] Toad et al., 2016[8], which state that companies with a greater number of business segments tend to have lower company performance compared to companies that focus solely on one business segment.

Investment opportunities have a positive impact on company performance. The investment opportunities of service-oriented companies listed on the Indonesia Stock Exchange from 2018 to 2020 are perceived to enhance company performance. The initial hypothesis stating that investment opportunities positively affect company performance is supported by the processed data in this study. Investment opportunities are measured using the market value to book value of assets, with the measurement focusing on the assets owned by the company. This aligns with Baker's theory (1993), which states that investment opportunities are positively related to company performance. The company's ability to identify opportunities for generating high profits and the size of the company's assets are evidence that the company has growth potential. This theory is consistent with Chosiah et al., 2019[9]; Pratama et al., 2020[17]; Safitri & Wahyuati, 2015[10], where an increase in investment opportunities leads to an improvement in company performance.

6 Conclusion

The research results on 296 service-oriented companies listed on the Indonesia Stock Exchange during 2018-2020 indicate that diversification level and business segmentation do not have a positive impact on company performance, while investment opportunities have a positive influence on company performance. Theoretically, this research is expected to be used for developing insights into the performance of service-oriented companies and as a reference for further research. However, this study also has limitations, such as (1) the low contribution to existing frameworks or concepts the independent variables (diversification level, business segmentation, and investment opportunities) have an impact on the dependent variable (company performance); (2) Practically, service-oriented companies are still less studied due to the limited research focusing on them. Therefore, for future research, it is recommended to (1) Use different indicators or approaches to explain the relationship between independent and dependent variables; (2) Use units of analysis other than service-oriented companies so that the data studied can be generalized and applicable not only to service-oriented companies but also to companies in other industry sectors.

7 Acknowledgements

I would like to express my heartfelt gratitude to all those who contributed to the completion of this research project during my time at Faculty of Economics and Business of Pasundan University. I extend my sincere appreciation to my academic advisors, Taty Sariwulan, for their invaluable guidance, unwavering support, and insightful feedback throughout this journey, and also for providing a conducive research environment and access to valuable resources that greatly facilitated my research efforts.

References

[1] W. Aprilia, Rodhiyah, and Widiartanto, "ANALISIS PENGARUH KINERJA KEUANGAN PERUSAHAAN TERHADAP RETURN SAHAM PERUSAHAAN SEKTOR JASA TRANSPORTASI YANG TERDAFTAR DI BURSA EFEK INDONESIA Winindya Aprilia Jurusan Administrasi Bisnis , Universitas Diponegoro Semarang Jl . Prof . H Sudharto , SH . Tem," *Administrasi Bisnis, Universitas Diponegoro Semarang*, 2015.

[2] A. O. Salindeho, I. S. Saerang, and J. B. Maramis, "PENGARUH DIVERSIFIKASI USAHA TERHADAP KINERJA KEUANGAN DAN RETURN SAHAM STUDY KASUS PADA PERUSAHAAN MANUFAKTUR AUTOMOTIVE AND COMPONENT YANG TERDAFTAR DI BEI EFFECT OF BUSINESS DIVERSIFICATION OF FINANCIAL PERFORMANCE AND RETURN STOCK CASE STOCK IN AUTOMOTIVE AND COMPONENT MANUFACTURING COMPANY LISTED IN BEI," *Pengaruh Diversifikasi…… 1078 Jurnal EMBA*, vol. 6, no. 3, pp. 1078–1087, 2018.

[3] M. Christiningrum, "Effect of Diversification Strategy, Leverage and IOS on Multi Segment Corporate Performance in Indonesia," *Mediterr J Soc Sci*, Oct. 2015, doi: 10.5901/mjss.2015.v6n5s5p157.

[4] P. Harto, "Pengaruh Diversifikasi Korporat Terhadap Kinerja Perusahaan," *Jurnal Akuntansi dan Keuangan*, vol. 1, no. 3, 2007.

[5] Felicia and R. I. Arfianti, "PENGARUH LEVEL DIVERSIFIKASI, JUMLAH SEGMEN, DAN JENIS SEKTOR INDUSTRI TERHADAP KINERJA PERUSAHAAN PADA PERUSAHAAN MANUFAKTUR YANG TERDAFTAR DI BURSA EFEK INDONESIA TAHUN 2016-2018," *Jurnal Akuntansi*, vol. 9, no. 2, 2020, doi: 10.46806/ja.v9i2.762.

[6] A. Setionoputri, C. Meiden, and D. Siagian, "Bidang Akuntansi Private : 1. Akuntansi Keuangan dan Pasar Modal (AKPM)."

[7] R. Sumendap, P. Tommy, and J. B. Maramis, "ANALISIS PERBANDINGAN KINERJA KEUANGAN BERDASARKAN DIVERSIFIKASI SEGMEN BISNIS PADA INDUSTRI MANUFAKTUR YANG GO PUBLIC COMPARATIVE

ANALYSIS OF FINANCIAL PERFORMANCE BASED ON DIVERSIFICATION OF BUSINESS SEGMENTS IN MANUFACTURING INDUSTRY THAT GO PUBLIC," *Analisis Perbandingan…… 2198 Jurnal EMBA*, vol. 6, no. 4, pp. 2198–2207, 2018.

[8] M. Toad, M. Mangantar, B. Maramis, J. Manajemen, F. Ekonomi, and D. Bisnis, "ANALISIS KINERJA KEUANGAN BERBASIS DIVERSIFIKASI USAHA DI DI BURSA EFEK INDONESIA FINANCIAL PERFORMANCE ANALYSIS BASED ON DIVERSIFICATION AT INDONESIA STOCK EXCHANGE."

[9] C. Chosiah, B. Purwanto, and W. J. Ermawati, "Dividend policy, investment opportunity set, free cash flow, and company performance: Indonesian's agricultural sector," *Jurnal Keuangan dan Perbankan*, vol. 23, no. 3, Jul. 2019, doi: 10.26905/jkdp.v23i3.2517.

[10] N. Safitri and A. Wahyuati, "PENGARUH STRUKTUR MODAL DAN KEPUTUSAN INVESTASI TERHADAP PROFITABILITAS DAN NILAI PERUSAHAAN."

[11] R. Amyulianthy and N. Sari, "Pengaruh Diversifikasi terhadap …… (Rafrini Amyulianthy; Nuraini Sari) PENGARUH DIVERSIFIKASI TERHADAP KINERJA PERUSAHAAN."

[12] R. L. Daft, A. Brazil, J. Korea, and M. Singapore, "Management TwelfTh ediTion," 2016. [Online]. Available: www.cengage.com/highered

[13] As'ari Hasim, "ANALISIS PENGARUH STRUKTUR AKTIVA DAN PROFITABILITAS TERHADAP STRUKTUR MODAL DAN KINERJA PERUSAHAAN," *JRAMB*, vol. 3, 2017.

[14] "ANALISA KINERJA PERUSAHAAN DENGAN MENGGUNAKAN PENDEKATAN BALANCE SCORECARD (STUDI KASUS PADA PT UNITED TRACKTOR, TBK)," *Retnawan, W., Kindangen, P., & Sepang, J. L.* , pp. 219–229, 2016.

[15] P. G. Berger and E. Ofekb, "Diversification's effect on firm value," 1995.

[16] K. Keuangan, K. Keuangan Keuangan 280, J. Keuangan, and D. Perbankan, "STRATEGI DIVERSIFIKASI TERHADAP KINERJA PERUSAHAAN," 2009.

[17] J. Manajemen, G. Pratama, R. Iskandar, F. Defung, and F. Ekonomi dan Bisnis Universitas Mulawarman, "Pengaruh set kesempatan investasi dan corporate governance serta makroekonomi terhadap struktur modal dan kinerja perusahaan pada industri pertambangan yang terdaftar di bursa efek indonesia," *JURNAL MANAJEMEN*, vol. 12, no. 1, pp. 166–177, [Online]. Available: http://journal.feb.unmul.ac.id/index.php/JURNALMANAJEMEN