

Journal of Contemporary Accounting

Volume 6 | Issue 1

Are market competition, customer concentration and company diversification associated with firm value?

Amrie Firmansyah*

Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jakarta, Jakarta, Indonesia
amriefirmansyah@upnvj.ac.id

Irfan Fauzi

Directorate General of Budget Financing and Risk Management, The Ministry of Finance, Jakarta, Indonesia
irfanxfauzi@gmail.com

Muchamad Izaaz Hannun Bachtiar

Directorate General of Budget Financing and Risk Management, The Ministry of Finance, Jakarta, Indonesia
hannunbachtiar@gmail.com

Dani Kharismawan Prakosa

Directorate General of Taxes, The Ministry of Finance, Jakarta, Indonesia
dani.kharismawan1@gmail.com

Adhitya Jati Purwaka

Directorate General of Taxes, The Ministry of Finance, Jakarta, Indonesia
jati.adhitya@gmail.com

Follow this and additional works at: <https://journal.uui.ac.id/jca>

Copyright ©2024 Authors.

Are market competition, customer concentration and company diversification associated with firm value?

Amrie Firmansyah^{1*}, Irfan Fauzi², Muchamad Izaaz Hannun³, Dani Kharismawan Prakosa⁴, Adhitya Jati Purwaka⁵

¹Faculty of Economics and Business, Universitas Pembangunan Nasional Veteran Jakarta, Jakarta, Indonesia

^{2,3}Directorate General of Budget Financing and Risk Management, The Ministry of Finance, Jakarta, Indonesia

^{4,5}Directorate General of Taxes, The Ministry of Finance, Jakarta, Indonesia

Article History:

Received : 2024-01-10

Revised : 2024-01-29

Accepted : 2024-02-16

Published : 2024-02-26

JEL Classification:

D41, L25

Keywords:

Contracts, Herfindahl-Hirschman, market response, sales, segments

*Corresponding Author:

amriefirmansyah@upnvj.ac.id

DOI:

[10.20885/jca.vol6.iss1.art2](https://doi.org/10.20885/jca.vol6.iss1.art2)

Copyright ©2024



This is an open access under
CC-BY-SA LICENSE

Abstract

Investors can respond to company conditions through share price movements in the capital market. Investors will respond positively if they have confidence in the company's sustainability in the future. The market response is usually related to firm value. This research examines the effect of market competition, customer concentration, and company diversification on firm value. It employs a quantitative approach with data from financial reports and stock prices of manufacturing companies listed on the IDX within the period of 2016 to 2020. Research data was obtained from www.idnfinancial.com and www.finance.yahoo.com. The research sample consisted of 645 observations (firm-year) based on purposive sampling. Multiple linear regression analysis for panel data was conducted to test the research hypothesis. This research concludes that market competition and customer concentration are negatively associated with firm value, while company diversification is positively associated with firm value. The research provides literature on firm value based on company strategy using numbers in financial statements.

Introduction

Share price information can be used as a reference for investors' investment decisions (Sapkota & Chalise, 2023). On the other hand, investors expect a rate of return in the form of dividends (Damayanti & Palinggi, 2023). They still expect profits from the difference in share prices when purchasing investments (Puspitaningtyas, 2017). External and internal factors can influence stock price information. External factors can be information related to macroeconomic conditions in a country or trends related to certain products (Bostan et al., 2023). Meanwhile, internal information can be influenced by the company's financial and non-financial information to the public (Monteiro et al., 2022).

Financial information is valuable in influencing investment decisions because it shows the fundamental condition of the company (Kareem et al., 2023). This information can describe the company's condition, including managers' policies and strategy in running the company's business. This can influence the company's condition in the capital market regarding the company's share price movement (Puspitaningtyas, 2017). The company's share price shows investors' response to their assessment regarding the company's condition (Gao et al., 2022). A company's condition is

information investors can observe through financial and non-financial information. Financial information can be obtained from financial statements, while non-financial information can be obtained from annual reports. Information not aligned with investors' interests can result in a negative response, reducing the company's share price (Suhadak et al., 2019).

The information investors can use in making investment decisions is company strategy (Vazirani et al., 2023). A company strategy which is considered good by investors can cause the company's share price to rise, while a company strategy not in line with their interests causes the share price to fall (Goedhart & Koller, 2020). A company's share price is a measure of the firm value because the share price manifests the company's net asset value, which is responded to in the capital market (Ahmad et al., 2022). The firm value indicates the company's success in fulfilling shareholder desires (Andes et al., 2020).

Firm value that does not meet shareholders' wishes can decrease. This condition can threaten the company's sustainability in the future. Investors' response to firm value can be caused by managers' policies or strategies that are not in line with the interests of shareholders (Suteja et al., 2023). The existence of differences in interests can result in managers having different motives from shareholders. As a result, shareholders do not always trust certain policies from managers (Scott, 2015). It has an impact on the response of shareholders in the capital market. If shareholders have confidence in the manager's policies and strategies, the shareholder response will be positive and vice versa (Ramdani & Witteloostuijn, 2012). Thus, reviewing firm value related to company strategy is important for testing.

This research examines the effect of market competition, customer concentration, and company diversification on firm value. These three components show the condition of a company and managers' strategy implemented to increase company growth. Market competition, customer concentration, and company diversification indicate the company's competitive conditions and strategies. In markets with high competition, agency problems will decrease because principals or shareholders can monitor and evaluate managers more accurately by comparing them with competitors (Sarwoko, 2016). However, high levels of competition put pressure on managers to beat competitors in the same industry. Testing market competition at the international level has been carried out in several previous studies. Liu et al. (2023) and Satt et al. (2022) concluded that market competition is positively associated with firm value. Anuja and Thenmozhi (2023), Chang and Jo (2019), and Thu and Minh (2023) suggested that market competition is negatively associated with firm value. Rakestraw (2022) and Sheikh (2021) found that market competition is not associated with firm value. However, employing Indonesia data, Orbaningsih et al. (2017) and Sidupa and Devie (2017) found that market competition is positively associated with firm value. The testing inconsistencies in previous research makes it necessary to re-test market competition on firm value.

When operating in an industry, companies will attempt to compete. One step that companies can take is to build long-term relationships with customers, with a concentrated number or a small portion of customers. Concentrated customers can improve company performance by benefiting from customer-specific investments, such as increased operational efficiency and reduced SG&A (selling, general, and administrative expenses) (Patatoukas, 2012). Although initially risky because the company will depend on these customers, long-term relationships with the customers reduce this risk, and the company gains operational efficiency (Irvine et al., 2016). Concentrated customers find it easier to obtain company information (Crawford et al., 2020). A company with concentrated customers intends to increase its revenues to maintain its relationships with existing customers, especially when customers account for a large portion of total sales. Testing customer concentration on firm value in previous research. Based on research mapping, Rehman et al. (2023) found that customer concentration is negatively associated with firm value. Thus, it is important to test customer concentration using Indonesian data.

Company managers should recognize their business environment to gain a competitive advantage. Companies are rarely in a monopoly market. So, each company competes to attract

buyers to buy their products or services. From a market perspective, companies in markets with high levels of competition will be slow to grow or not grow at all. In an environment like this, companies need a strategy to compete, one of which is company diversification. Corporate diversification is best implemented to increase sales in industries that are not growing, especially in high competition or unrelated diversification (David & David, 2017). Companies can survive in competition with unique advantages, such as product differentiation and diversification (Farida & Setiawan, 2022). When a company implements a diversification strategy, especially unrelated ones, the company structure will become increasingly complex, requiring competent managers with close supervision (David & David, 2017). According to agency theory, managers diversify the company for their benefit. These benefits include getting a higher salary, increasing future job prospects, and perceiving an increase in position because it is considered more prestigious (Aryotama & Firmansyah, 2020). Managers in diversified companies also lack supervision; so, they tend to make less than optimal decisions (Suhadak et al., 2019). Choe et al. (2014), Lien and Li (2013), Selçuk (2015), and Setianto (2020) concluded that corporate diversification is positively associated with firm value. However, Al-Maskati et al. (2015), Borah et al. (2018), Riswan and Suyono (2016), Ushijima (2016), and Volkov and Smith (2015) found that corporate diversification is negatively associated with firm value. Furthermore, Habiburrochman et al. (2019) found that corporate diversification is not associated with firm value. Differences in previous test results make it necessary to re-examine business strategies regarding firm value.

This research examines three variables: market competition, customer concentration, and company diversification on firm value in a research model rarely used in previous research. These three independent variables are related to interrelated company strategies. Meanwhile, previous research in Indonesia has tested firm value using market competition (Orbaningsih et al., 2017; Sidupa & Devie, 2017) and corporate strategy (Habiburrochman et al., 2019; Riswan & Suyono, 2016) while testing customer concentration on firm value is still rarely carried out using Indonesian data. This research provides empirical evidence related to firm value in the context of company strategies in Indonesia. It is also expected that this research will be useful for the Capital Markets Authority concerning monitoring the strategies of listed companies in Indonesia.

Literature Review

Agency theory states that asymmetric information between managers and principals leads to agency problems, especially when both parties intend to maximize their respective welfare (Godfrey et al., 2010). Companies with high market competition can easily be compared with their competitors, allowing principals to be more accurate in monitoring and evaluating managers (Adom et al., 2016). Market competition reduces agency problems (Nugroho & Stoffers, 2020). Managers who take over shareholder wealth will not survive in a competitive environment (Ahmad et al., 2022).

However, this condition becomes contradictory when the manager and principal have different interests. There is constant pressure on managers to meet profit targets and exceed competitors' profits in their industry. In addition, more information is presented to the principal in a competitive market, causing increased performance to impact the manager's career. So, the manager also experiences concerns about his career. Xing et al. (2018) added that managers in companies with a higher competitive position could increase asymmetric information by passing price volatility to customers to reduce cash flow volatility. Anuja and Thenmozhi (2023), Chang and Jo (2019), and Thu and Minh (2023) concluded that market competition is negatively associated with firm value. Companies in highly competitive markets face risks that prevent them from achieving their efforts.

Companies with high levels of competition generate additional risks due to uncertainty in the companies' income flow (Sulistiawan & Rudiawarni, 2019). This condition causes investors to respond negatively because companies with high market competition experience high uncertainty in the future.

H₁: market competition is negatively associated with firm value

Parties related to the company may not have the same information regarding the company's prospects and risks due to information asymmetry. Companies use various strategies, including forming concentrated customers for their competitive advantage. They attempt to build long-term relationships to fuel important growth in the business (Working, 2019). Companies also choose to have concentrated customers because of various benefits such as customer loyalty, reduced costs, and higher company performance with the risk of high customer bargaining power (Aryotama & Firmansyah, 2019).

Customer concentration measures the number of customers, especially the main customers, that a company has and is related to how total revenue is distributed within the customer base (Bachtiar & Firmansyah, 2023). Concentrated customers can be seen as one of the company's strategies for competing. They attempt to create deep relationships with major customers and get a small number of customers as an important growth trigger (Bachtiar & Firmansyah, 2023).

Rehman et al. (2023) found that customer concentration is negatively associated with firm value. Companies with concentrated customers have stronger relationships with customers (customer-supplier relationships). Managers may intend to have their policies because they are worried about losing key customers, especially when they account for a large part of their total sales. Limitations in presenting information to customers can occur due to information asymmetry. Managers who make profits may take actions that are completely unknown to customers. Concentrated customers trigger managers to act opportunistically because of customer pressure to provide information about the company's prospects for good performance. Company profit information is very important for customers to assess their potential partners.

H₂: customer concentration is negatively associated with firm value

Agency problems cause the decisions taken by the company to be not optimal, giving rise to agency costs. Demirkan et al. (2012) added that many agency problems arise from diversification. According to agency theory, managers diversify companies for benefits such as higher salaries, future job prospects, and being considered more prestigious (Aryotama & Firmansyah, 2020).

Managers in diversified companies are also less supervised, so they tend to make less optimal decisions which incur greater discretionary costs (Farooqi et al., 2014). The horizon problem explains that managers will act as far as they are in the company. One of the implications of this problem is that managers in diversified companies tend to withhold profit information on segments/divisions that have poor performance due to agency cost motives (Franco, 2016), which obscures the increase in the organization's long-term value.

The complex nature of diversification accentuates information asymmetry problems compared to focused firms (Bachtiar & Firmansyah, 2023). Diversification creates complexity in the company, leading to information asymmetry between shareholders, investors and creditors. In line with this, Lim et al. (2008) also stated that accounting information in diversified companies is more diverse, increasing the possibility of asymmetric information (Fauzi & Firmansyah, 2023). Managers can observe information such as cash flow, but outsiders cannot know it. As a result, diversified companies also give rise to many agency problems, thereby increasing asymmetric information.

Kurniawati (2020) explained that diversified companies focus on research and development costs (R&D costs) in developing new segments/divisions. In this case, investment increases information asymmetry and agency costs because these tend to be used as managers' discretionary costs, so management is more aggressive in reporting its financial reports. A high level of information asymmetry between the agent and the principal causes agency problems, increasing asymmetric information (Scott, 2015).

Companies diversify their businesses to increase competitive advantage through product or

geographic area diversification. However, diversification leads to diverse information and more complex structures and focuses on research and development costs that increase information asymmetry. Asymmetric information will increase management's opportunity to manage asymmetric information so that investor response will decrease.

H₃: company diversification is negatively associated with firm value

Research Method

This research uses a quantitative approach with secondary data from financial and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (BEI) from 2016 to 2020. The company sample criteria are by subtracting companies that conducted an IPO after December 31, 2015, companies that do not have during 2016 up to 2020 financial statements, companies with a fiscal year-end other than December 31, companies with total sales value equal to zero, and companies that have not yet listed their shares on BEI. The total number of companies that can be used in this research is 195. So, the total sample used is 645 firm-years.

The dependent variable in this research is firm value. The proxy used in this research is Tobin's ratio as in Firmansyah and Purnama (2020) and Permatasari et al. (2021).

$$\text{Tobins Q} = \frac{(\text{Market Capitalization} + \text{Total Liabilities})}{\text{Total Assets}}$$

Meanwhile, the independent variables in this research consist of market competition, customer concentration and company diversification. This research employs the Herfindahl-Hirschman Index as a proxy for market competition. This proxy is also employed by Bachtiar and Firmansyah (2023) and Xing et al. (2018). Herfindahl-Hirschman Index is calculated using the formula:

$$\text{COMP}_t = \sum_{i=1}^n (S_i/S)^2$$

Where n is the number of companies listed on the IDX in each manufacturing sector, S_i is the company revenue in each manufacturing sector, and S is the total company revenue in each manufacturing sector. This research measures HHI in 3 manufacturing sectors: basic and chemical, miscellaneous, and consumer goods. The HHI for each sector is calculated using the formula to obtain three values per year for the HHI, which are then entered into the regression equation. When HHI approaches 0, the company is in high market competition. Conversely, when the HHI approaches 1, only a few firms are in the industry.

Customer concentration in this study uses the Herfindahl-Hirschman Index (HHI) as Huang et al. (2016). This proxy for HHI application includes two elements of diversification: the main customers who interact with the company and the relative importance of each main customer in the company's annual revenue (Patatoukas, 2012). This proxy was also used by several previous studies, such as Abbasi and Tamoradi (2020), Bachtiar and Firmansyah (2023) and Crawford et al. (2020). Customer concentration (CC) is measured using:

$$\text{CC}_{it} = \sum_{j=1}^J \left(\frac{\text{Sales}_{ijt}}{\text{Sales}_{it}} \right)^2$$

Sales_{ijt} is the company i's sales to customer j in year t, and Sales_{it} is the total sales in year t. Each share of sales per the main customer is squared and added up to obtain a value of CC_{it} per company. In PSAK 5, regarding operating segments in the entity level disclosure section, it is implicitly stated that the main customer or major customer is a company that purchases 10% or more of the company's total sales from the company. The CC value ranges from 0 to 1. A value closer to 1 indicates a higher customer concentration.

Company diversification in this study was measured using the entropy index proxy. The reason for choosing this proxy is that the entropy index not only contains information about the number of segments but also reflects the relative importance of each segment, especially when the number of segments for two companies is the same (Gu et al., 2018). The entropy index is measured using the formula:

$$DIVERSE_{it} = \sum_{i=0}^n P_i \ln\left(\frac{1}{P_i}\right)$$

Where P_i is the percentage of revenue from segment i , n is the number of segments. Each business segment calculates its percentage of revenue towards the company's total revenue. This figure is processed using the formula above to add the number of segments to get the entropy index figure for one company. The greater the entropy index, the more diversified the company.

This research uses firm size (SIZE), leverage (LEV), and profitability (ROA) as control variables. Companies with high profitability can use their funds to finance all funding needs so that the quality of profits is higher (Purnamasari & Fachrurrozie, 2020). ROA is included as a control variable because company performance can cause the amount of profit to change each year. Profitability is measured using return on assets (ROA), namely net income divided by total assets as in Bachtiar and Firmansyah (2023).

$$ROA = \frac{\text{Net Income}}{\text{Total assets}}$$

Large companies have an efficient internal control system that helps control the presentation and disclosure of inaccurate financial information (Arisandi et al., 2022). Firm size is measured using the company's total assets' natural logarithm (\ln) as in Bachtiar and Firmansyah (2023).

$$SIZE = \text{Logaritma natural } (\ln) \text{ of total assets}$$

High leverage will encourage managers to improve their performance to pay off the company's debt and ultimately gain the trust of creditors and investors (Arhinful & Radmehr, 2023). On the other hand, high leverage results in companies manipulating financial reports not to violate credit agreements, resulting in low-profit quality (Purnamasari & Fachrurrozie, 2020). This leverage is measured using total debt divided by total assets as in Bachtiar and Firmansyah (2023).

$$LEV = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Hypothesis testing in this research uses multiple linear regression analysis. The research model is as follows:

$$TOBINS Q'_{it} = \beta_1 + \beta_2 COMP_{it} + \beta_3 CC_{it} + \beta_4 DIVERS_{it} + \beta_5 SIZE_{it} + \beta_6 LEV_{it} + \beta_7 ROA_{it} + \epsilon_{it}$$

Results and Discussions

Descriptive statistics of the variables used in this research can be seen in Table 1.

Table 1. Descriptive statistics

Var	Mean	Med	Std. Dev.	Min.	Max.	Obs
COMP	0.172	0.121	0.136	0.067	0.413	645
CC	0.101	0.009	0.182	0.000	1	645
DIVERS	0.527	0.515	0.422	0.000	1.895	645
TOBINS Q	1.917	1.075	2.947	0.304	35.400	645
SIZE	28.628	28.456	1.586	25.216	33.494	645
LEV	0.559	0.486	0.585	0.065	6.549	645
ROA	0.039	0.031	0.119	-1.050	0.921	645

Source: Processed

Furthermore, based on the results of the Chow test, Hausman test and Lagrange Multiplier test, the best model is the fixed effect method. Table 2 is the summary of the results of the hypothesis test.

Table 2. Hypothesis Examination Results

Variable	Coeff	t-Stat.	Prob.	
C	18.622	22.062	0.000	***
COMP	-1.972	-2.501	0.006	***
CC	-0.099	-3.183	0.001	***
DIVERSE	0.177	3.818	0.000	***
LEV	1.006	89.851	0.000	***
ROA	0.330	5.158	0.000	***
SIZE	-0.594	-20.985	0.000	***
R ²	0.988			
Adj. R ²	0.985			
F-stat.	314.023			
Prob(F-stat.)	0.000			

Notes: (***) significance level at 1%, (***) significance level at 5%, * significance level at 10%

The Association Between Market Competition and Firm Value

The result of hypothesis testing suggests that market competition is negatively associated with firm value. This result is in line with Anuja and Thenmozhi (2023), Chang and Jo (2019), and Thu and Minh (2023). According to agency theory, an agency relationship is a contract between an agent and a principal in which both parties work for their interests (Jensen & Meckling, 1976). It predicts the influence of market competition on firm value because high competition threatens the company's going concern in the future, so principals ask managers to fulfill their demands, such as achieving specified profit targets. Meanwhile, managers act for themselves because of their career concerns in an environment of high uncertainty.

Companies in markets with intense competition face risks that prevent them from achieving their efforts. There are three risks related to firm value at high levels of market competition: uncertainty in income streams, ownership of high-quality earnings, and takeover risk (Guo et al., 2015). The first risk causes company profits to fluctuate, making manager performance unstable. According to agency theory, managers will attempt to meet the principal's expectations by showing good company performance. Achieving profit targets is one way of demonstrating this performance so that they appear to act for the principal's welfare (Godfrey et al., 2010).

The second risk relates to competitors in the industry. Companies that have high-quality profits will show good company performance and operational efficiency. In industries with many competitors, competitors can probably view company information as it becomes a relevant benchmark so they can easily adjust their strategies. This condition causes the company's competitiveness to increase in asymmetric information (Guo et al., 2015).

The third risk states that high earnings quality indicates good company operations so that they can offer a price acceptable to shareholders of the company to be acquired (Guo et al., 2015). These conditions should be an effective mechanism to require managers to work efficiently (Jensen & Meckling, 1976). However, the risk-aversion problem shows managers like less risk than shareholders (Godfrey et al., 2010). A manager who prefers low risk in investment selection cases (Godfrey et al., 2010). In this case, managers do not intend to appear weak to competitors so that they are easily acquired, making their career experience look bad. Managers cannot diversify their risks as shareholders do, but they have the authority to report company profits. Therefore, they can obscure company performance so that the information obtained by competitors is not completely accurate.

Another reason is that the manufacturing industry has complex business processes, from production to sales. To maintain its existence, managers must be responsive to competing companies regarding products and cost determination (Wahyuni & Putra, 2020). Measuring manufacturing companies' performance in Indonesia is seen not only from financial factors but also from other factors related to production, such as manufacturing competitive priorities, internal processes, and resource availability (Simangunsong, 2023; Verico, 2021).

Most manufacturing companies in Indonesia have carried out strategic planning when facing a competitive environment (Wahyuni & Putra, 2020). There is a high possibility of asymmetric information being categorized as a strategic decision. According to the problem horizon, managers may do this to balance their policy choices so the company can maintain business continuity. In addition, they also realize that their interests can only be met if the company still exists (Jensen & Meckling, 1976). Market competition is pressure from outside the company that forces the company to do something so that the company can survive. The manufacturing industry has complex manager characteristics at strategic, tactical, and operational levels (Hwang et al., 2020). Strategic levels, such as the board of directors and other chief executives, control and oversee all organizational goals. Agency problems in complex companies arise in the management decision process because corporate decision-makers do not act on the merits of their choices (Fama, 1980). Large differences between management levels indicate a large strategic gap. Thus, there is disagreement between management levels regarding company strategy (Hwang et al., 2020). The decisions made by the company have been discussed with various considerations by inter-level management so that when asymmetric information is interpreted as business decisions, it can be considered detrimental to the company in the future.

The Association Between Customer Concentration and Firm Value

The test result suggests that customer concentration is negatively associated with firm value. This result is in line with Rehman et al. (2023). Customer concentration describes the size of the number of customers, especially key customers that a company has and is related to how total revenue is distributed within that customer base (Bachtiar & Firmansyah, 2023). In PSAK 5 concerning Operating Segments, customers with a sales contribution to the company of more than 10% can be called main customers. Customer concentration is a strategy carried out by companies to trigger important growth in business (Working, 2019) by increasing profitability and making supply chains more efficient (Campello & Gao, 2017). However, high customer concentration has several risks, such as bankruptcy and stock price risk (Abbasi & Tamoradi, 2020), cash flow risk (Aryotama & Firmansyah, 2019), and credit risk (Campello & Gao, 2017).

The relationship between customer concentration and firm value can be explained in agency theory regarding asymmetric information. With concentrated customers, it will be easier for managers to meet company needs because there are reduced costs and higher company performance (Aryotama & Firmansyah, 2019). However, managers who make profits may take actions not entirely known to customers. Managers will employ policies to run their motives because customers do not intend to make long-term agreements with the company if its prospects are uncertain (Huang et al., 2016). The existence of customer concentration does not encourage companies to manipulate profits through real company activities. This condition can be caused by allegedly occurring. With concentrated customers, most company activities will relate to only a few customers. Managers in manufacturing companies may not engage in massive asymmetric information when the company has many concentrated customers. As explained previously, customer concentration is a strategy with high risks.

In manufacturing companies, certain investments need to be made, focusing on key customers to be able to maintain the unique production capacity of those customers. Companies will engage in specific operations that require adjustments in business operations, including the assets employed (Abbasi & Tamoradi, 2020). Companies should meet these customers' demands

and avoid corporate failures to maintain relationships with them. If cooperation with a major customer is suddenly terminated, the company will be forced to lay off employees in large numbers to compensate for their losses. They also need to improve the welfare of their employees because there are concerns that work strikes will create uncertainty in their business operations. Thus, companies can focus on the company production cycle. However, such actions increase team member risks because they will reduce the number of employees (Cen et al., 2017). In line with the risk-aversion problem, managers in manufacturing companies are expected to understand the risks and negative consequences of asymmetric information to avoid additional risks from activities likely to be detected by customers. They do not consider their motives when a customer concentration strategy is carried out, but the strategy is carried out to create value for the company through non-manipulative means.

The Association Between Corporate Diversification and Firm Value

Based on the result of hypothesis testing, corporate diversification is positively associated with firm value. This result is in line with Choe et al. (2014), Lien and Li (2013), Selçuk (2015), and Setianto (2020). Corporate diversification is a strategy carried out by a company by expanding business operations in many businesses to achieve the company's long-term goals internally and externally (Hariandja, 2018). These objectives include creating an internal capital market. It is when a division with high cash flow but limited investment opportunities can finance divisions with low cash flow but have better investment opportunities, creating tax advantages, and providing advantages regarding business integration (Kurniawati, 2020).

The effect of corporate diversification on asymmetric information is predicted in agency theory. Separation of ownership in large organizations causes reduced monitoring by principals so that managers can use business property to maximize their welfare (Panda & Leepsa, 2017). Managers diversify their interests, such as higher salaries, increased job prospects in the future, and the perception of a higher position (Aryotama & Firmansyah, 2019). The complexity of diversified companies also increases asymmetric information so that greater opportunities are available for managers to exploit, which increases the possibility of increasing asymmetric information.

Large differences resulting from the complexity of management structures in manufacturing companies can cause strategic gaps at the management level, resulting in reduced productivity (Hwang et al., 2020). To reduce this gap, interested parties between management levels will discuss this and reconcile the strategic approaches between management levels. Management may realize they cannot improve their welfare later when the company is no longer operating. When gaps can be reduced, decision-making will be easier.

The company will also determine a strategy to get out of financial difficulties. In manufacturing companies in Indonesia, one strategy to escape the high level of market competition is to diversify the company because it is believed to make its performance more sustainable in the long term (Widuri & Sutanto, 2019). In contrast to ordinary real activities, corporate diversification is a strategy that requires large resources, investment, and a long time. As a result, the decision to carry out a diversification strategy can reduce individual interests because there is an agreement between manager levels. In line with the results of this research, managers do not carry out their motives when a diversification strategy is implemented.

Another reason is that company diversification occurs when the company has a strong management team and distribution network, which can be used to market new products to consumers (David & David, 2017). The diversification strategy of companies in developing countries, including Indonesia, shows premium diversification or increases in the value of their companies, in contrast to most developed countries (Selçuk, 2015). This condition occurs because, in developing countries, the benefits of diversification created through internal capital markets are greater than the costs. So, the company's diversification strategy is considered more effective in developing countries (Selçuk, 2015).

In manufacturing companies in Indonesia, the initial stage of a diversification strategy has growth opportunities with costs greater than the benefits. However, after that, diversification will provide high growth opportunities and become premium diversification for the company (Setianto, 2020). So, diversification takes time to provide benefits according to the company's goals. Corporate diversification in Indonesia is carried out to get a positive response from investors through stock returns. Managers may have understood the risks of asymmetric information contrary to the company's diversification objectives. Managers in manufacturing companies in Indonesia may be more logical in implementing their motives so that not all opportunities are utilized by managers due to the information asymmetry that arises in the company's strategic choices. Diversification in the manufacturing sector in Indonesia is not used to carry out opportunistic motives. Thus, increasingly diversified companies align with investors' interests.

Additional Results

The results of testing control variables show that leverage and profitability positively affect company value, while company size negatively affects company value. In this research, leverage and profitability are related to the manager's performance in the company, while company size is related to asymmetric information between managers and shareholders. The results of this research indicate that the greater use of debt by managers is not related to asymmetric information, but the use of debt by managers is thought to be aimed at increasing production capacity or supporting increased company production. The use of debt by managers in manufacturing companies is considered cheaper and easier than funding sources from equity. In addition, managers will have more optimal performance if the company bears greater debt because the potential for financial difficulties in the future will result in managers trying their best to ensure the company's sustainability. This aligns with the company's high operating performance so that investor response is positive. However, investors do not respond positively to large manufacturing companies, considering that manufacturing companies generally have large assets. Smaller companies attract more attention from investors because they are considered to have lower asymmetric information than large companies. The skills of managers in large companies are considered to be able to utilize asymmetric information compared to smaller companies.

Conclusions

This research concludes that market competition and customer concentration are negatively associated with firm value. Investors consider that companies with large market competition have high corporate risks, so conditions impact potential problems with the company's going concerns in the future. Although concentrated customers will assist managers more easily in meeting the company's needs, managers who gain profits may take actions that are not fully known to customers. This condition results in customers not intending to make long-term agreements with the company because companies with high customer concentration are considered uncertain in their prospects in the future. However, corporate diversification is positively associated with firm value. Managers in Indonesian manufacturing companies may be more logical in achieving their goals, resulting in managers not taking advantage of all chances due to knowledge asymmetry in the company's strategic decisions.

This research has limitations related to the criteria used in sampling, reducing the number of samples. In addition, this research only uses financial reports from manufacturing companies, so the results of this test cannot be generalized to all industries in Indonesia. Future research can use non-financial companies to obtain more data and comprehensive research results. This research also suggests that the Capital Market Supervisory Authority in Indonesia should improve the policies concerning the company's strategies to minimize asymmetric information between managers and investors. Also, the Authority should monitor strategies that are not in line with investors' interests.

References

- Abbasi, E., & Tamoradi, A. (2020). The effect of customers concentration on company risks. *Iranian Journal of Finance*, 4(2), 19–39. <https://doi.org/10.22034/ijf.2020.227184.1118>
- Adom, A. Y., Nyarko, I. K., & Som, G. N. K. (2016). Competitor analysis in strategic management: is it a worthwhile managerial practice in contemporary times? *Journal of Resources Development and Management*, 24, 116–127. www.iiste.org
- Ahmad, H., Muslim, M., & Syahrah, N. (2022). Several factors affecting firm value manufacturing in Indonesia. *Jurnal Akuntansi*, 26(1), 127. <https://doi.org/10.24912/ja.v26i1.821>
- Al-Maskati, N., Bate, A. J., & Bhabra, G. S. (2015). Diversification, corporate governance and firm value in small markets: evidence from New Zealand. *Accounting and Finance*, 55, 627–657. <https://doi.org/10.1111/acfi.12069>
- Andes, S. L., Nuzula, N. F., & Worokinasih, S. (2020). Competitive advantage as mediating factor for creating firm value: a literature review. *Bisnis & Birokrasi: Jurnal Ilmu Administrasi Dan Organisasi*, 27(1), 44–57. <https://doi.org/10.20476/jbb.v27i1.11760>
- Anuja, S., & Thenmozhi, M. (2023). Does product market competition moderate the impact of promoter ownership on firm value? *Managerial Finance*, 49(2), 378–397. <https://doi.org/10.1108/MF-05-2020-0244>
- Arhinful, R., & Radmehr, M. (2023). The impact of financial leverage on the financial performance of the firms listed on the Tokyo Stock Exchange. *SAGE Open*, 13(4), 1–22. <https://doi.org/10.1177/21582440231204099>
- Arisandi, A., Islami, H. A., & Soeprajitno, R. R. W. N. (2022). Internal control disclosure and financial reporting quality: evidence from banking sector in Indonesia. *E-Jurnal Akuntansi*, 32(2), 3797. <https://doi.org/10.24843/eja.2022.v32.i02.p15>
- Aryotama, P., & Firmansyah, A. (2019). The effect of corporate diversification, customer concentration on tax avoidance in Indonesia. *Jurnal Akuntansi Dan Bisnis*, 19(2), 117–125. <https://doi.org/10.20961/jab.v19i2.475>
- Aryotama, P., & Firmansyah, A. (2020). The effect of business strategy on tax avoidance in Indonesia's consumer goods industry. In *Public Sector Accountants and Quantum Leap: How Far We Can Survive in Industrial Revolution 4.0?* (pp. 235–239). Routledge. <https://doi.org/10.1201/9780367822965>
- Bachtiar, M. I. H., & Firmansyah, A. (2023). Market competition, customer concentration, company diversification, and earnings quality: does integrated reporting matter in an emerging market? *Journal of Accounting Research, Organization and Economics*, 5(3), 249–266. <https://doi.org/10.24815/jaroe.v5i3.30652>
- Borah, N., Pan, L., Park, J. C., & Shao, N. (2018). Does corporate diversification reduce value in high technology firms? *Review of Quantitative Finance and Accounting*, 51(3), 683–718. <https://doi.org/10.1007/s11156-017-0685-2>
- Bostan, I., Toma, C., Aevoae, G., Robu, I. B., Mardiros, D. N., & Topliceanu, Ștefan C. (2023). Effects of internal and external factors on economic growth in emerging economies: evidence from CEE Countries. *Eastern European Economics*, 61(1), 66–85. <https://doi.org/10.1080/00128775.2022.2109489>
- Campello, M., & Gao, J. (2017). Customer concentration and loan contract terms. *Journal of Financial Economics*, 123(1), 108–136. <https://doi.org/10.1016/j.jfineco.2016.03.010>

- Cen, L., Maydew, E. L., Zhang, L., & Zuo, L. (2017). Customer–supplier relationships and corporate tax avoidance. *Journal of Financial Economics*, 123(2), 377–394. <https://doi.org/10.1016/j.jfineco.2016.09.009>
- Chang, S., & Jo, H. (2019). Employee-friendly practices, product market competition and firm value. *Journal of Business Finance and Accounting*, 46(1–2), 200–224. <https://doi.org/10.1111/jbfa.12353>
- Choe, C., Dey, T., & Mishra, V. (2014). Corporate diversification, executive compensation and firm value: Evidence from Australia. *Australian Journal of Management*, 39(3), 395–414. <https://doi.org/10.1177/0312896213499027>
- Crawford, S., Huang, Y., Li, N., & Yang, Z. (2020). Customer concentration and public disclosure: evidence from management earnings and sales forecasts. *Contemporary Accounting Research*, 37(1), 131–159. <https://doi.org/10.1111/1911-3846.12526>
- Damayanti, C. R., & Palinggi, Y. A. (2023). Factors affecting dividend policy: an evidence from Indonesian financial companies. *Management Analysis Journal*, 12(1), 1–16. <https://doi.org/10.15294/maj.v12i1.57970>
- David, F. R., & David, F. R. (2017). *Strategic management* (16th ed.). Pearson Education Limited.
- Demirkan, S., Radhakrishnan, S., & Urcan, O. (2012). Discretionary accruals quality, cost of capital, and diversification. *Journal of Accounting, Auditing and Finance*, 27(4), 496–526. <https://doi.org/10.1177/0148558X11409162>
- Fama, E. F. (1980). Agency problems and the theory of the firm. *Journal of Political Economy*, 88(2), 288–307. <https://doi.org/10.1017/CBO9780511817410.022>
- Farida, I., & Setiawan, D. (2022). Business strategies and competitive advantage: the role of performance and innovation. *Journal of Open Innovation: Technology, Market, and Complexity*, 8(3), 1–16. <https://doi.org/10.3390/joitmc8030163>
- Farooqi, J., Harris, O., & Ngo, T. (2014). Corporate diversification, real activities manipulation, and firm value. *Journal of Multinational Financial Management*, 27, 130–151. <https://doi.org/10.1016/j.mulfin.2014.06.010>
- Fauzi, I., & Firmansyah, A. (2023). Corporate social responsibility disclosure, intellectual capital disclosure, risk disclosure, cost of capital: moderating role of earnings management. *Accounting Analysis Journal*, 12(1), 50–70. <https://doi.org/10.15294/aa.v12i1.66185>
- Firmansyah, A., & Purnama, E. B. D. (2020). Do derivatives instruments ownership decrease firm value in Indonesia? *Riset Akuntansi Dan Keuangan Indonesia*, 5(1), 1–9. <https://doi.org/10.23917/reaksi.v5i1.9817>
- Franco, F. (2016). Corporate diversification and the cost of debt: The role of segment disclosures. *Accounting Review*, 91(4), 1139–1165. <https://doi.org/10.2308/accr-51325>
- Gao, Y., Zhao, C., Sun, B., & Zhao, W. (2022). Effects of investor sentiment on stock volatility: new evidences from multi-source data in China’s green stock markets. *Financial Innovation*, 8(1). <https://doi.org/10.1186/s40854-022-00381-2>
- Godfrey, J., Hodgson, A., Tarca, A., Hamilton, J., & Holmes, S. (2010). *Accounting theory*. John Wiley & Sons Australia.
- Goedhart, M., & Koller, T. (2020). *Long-term value creation can—and should—take into account the interests of all stakeholders*. <https://www.mckinsey.com/capabilities/strategy-and-corporate->

- finance/our-insights/the-value-of-value-creation#/
- Gu, L., Wang, Y., Yao, W., & Zhang, Y. (2018). Stock liquidity and corporate diversification: Evidence from China's split share structure reform. *Journal of Empirical Finance*, 49, 57–80. <https://doi.org/10.1016/j.jempfin.2018.09.002>
- Guo, Y., Jung, B., & Yang, Y. S. (2015). Product market competition and earnings quality: a nonlinear relationship. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2564777>
- Habiburrochman, H., Fadilah, W. I., & Zulaikha, S. (2019). Does diversification and executive compensation affect corporate values in family firm: case of Indonesia. *KnE Social Sciences*, 3(13), 1277–1293. <https://doi.org/10.18502/kss.v3i13.4284>
- Hariandja, E. S. (2018). Performance evaluation and organization of new product in Indonesia manufacturing firms. *Proceedings of the International Conference on Industrial Engineering and Operations Management, 2018-March*(March), 139.
- Huang, H. H., Lobo, G. J., Wang, C., & Xie, H. (2016). Customer concentration and corporate tax avoidance. *Journal of Banking and Finance*, 72, 184–200. <https://doi.org/10.1016/j.jbankfin.2016.07.018>
- Hwang, G., Han, J. H., & Chang, T. W. (2020). An integrated key performance measurement for manufacturing operations management. *Sustainability (Switzerland)*, 12(13), 1–15. <https://doi.org/10.3390/su12135260>
- Irvine, P. J., Park, S. S., & Yildizhan, C. (2016). Customer-base concentration, profitability, and the relationship life cycle. *Accounting Review*, 91(3), 883–906. <https://doi.org/10.2308/accr-51246>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Kareem, A. A. A., Fayed, Z. T., Rady, S., El-Regaily, S. A., & Nema, B. M. (2023). Factors influencing investment decisions in financial investment companies. *System*, 11, 1–28. <https://doi.org/10.3390/systems11030146>
- Kurniawati, S. (2020). Analysis of influence of managerial skills, company diversification policy, audit committee, and external audit and their impact on the financial reporting aggressiveness (study in public listed manufacturing companies). *East African Scholars Journal of Economics, Business and Management*, 3(11), 855–872. <https://doi.org/10.36349/easjebm.2020.v03i11.002>
- Lien, Y. C., & Li, S. (2013). Does diversification add firm value in emerging economies? Effect of corporate governance. *Journal of Business Research*, 66(12), 2425–2430. <https://doi.org/10.1016/j.jbusres.2013.05.030>
- Liu, C., Li, Q., & Lin, Y. E. (2023). Corporate transparency and firm value: Does market competition play an external governance role? *Journal of Contemporary Accounting and Economics*, 19(1). <https://doi.org/10.1016/j.jcae.2022.100334>
- Monteiro, A. P., Vale, J., Leite, E., Lis, M., & Kurowska-Pysz, J. (2022). The impact of information systems and non-financial information on company success. *International Journal of Accounting Information Systems*, 45(April 2021), 100557. <https://doi.org/10.1016/j.accinf.2022.100557>
- Nugroho, A. C., & Stoffers, J. (2020). Market competition and agency problem: a study in Indonesian manufacturing companies. *Jurnal Dinamika Manajemen*, 11(1), 65–77.

<https://doi.org/10.15294/jdm.v11i1.21684>

- Orbaningsih, D., Subroto, B., Subekti, I., & Saraswati, E. (2017). Corporate social responsibility disclosure, firm value, and product market competition (evidence from Indonesia). *International Journal of Applied Business and Economic Research*, 15(21), 471–482. https://www.researchgate.net/publication/329773621_Corporate_Social_Responsibility_Disclosure_Firm_Value_and_Product_Market_Competition_Evidence_from_Indonesia
- Panda, B., & Leepsa, N. M. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian Journal of Corporate Governance*, 10(1), 74–95. <https://doi.org/10.1177/0974686217701467>
- Patatoukas, P. N. (2012). Customer-base concentration: Implications for firm performance and capital markets. *Accounting Review*, 87(2), 363–392. <https://doi.org/10.2308/accr-10198>
- Permatasari, M., Melyawati, M., Firmansyah, A., & Trisnawati, E. (2021). Peran konsentrasi kepemilikan : respon investor, penghindaran pajak, manajemen laba. *Studi Akuntansi Dan Keuangan Indonesia*, 4(1), 17–29. <https://doi.org/10.21632/saki.4.1.17-29>
- Purnamasari, E., & Fachrurrozie. (2020). The effect of profitability, leverage, and firm size on earnings quality with independent commissioners as moderating variable. *Accounting Analysis Journal*, 9(3), 173–178. <https://doi.org/10.15294/aa.v9i3.42067>
- Puspitaningtyas, Z. (2017). *Is financial performance reflected in stock prices?* <https://doi.org/10.2991/icame-17.2017.2>
- Rakestraw, J. R. (2022). Investor protection and the substitution effect of corporate governance and product market competition on firm value. *Journal of Accounting, Auditing and Finance*, 37(3), 678–699. <https://doi.org/10.1177/0148558X20936792>
- Ramdani, D., & Witteloostuijn, A. van. (2012). The shareholder—manager relationship and its impact on the likelihood of firm bribery. *Journal of Business Ethic*, 108(4), 495–507. <https://doi.org/10.1007/s10551-011-1105-5>
- Rehman, O. U., Liu, X., Wu, K., & Li, J. (2023). Customer concentration, leverage adjustments, and firm value. *Accounting and Finance*, 63(2), 2035–2079. <https://doi.org/10.1111/acfi.12947>
- Riswan, R., & Suyono, E. (2016). Corporate diversification: Destroying or increasing firm value? an empirical evidence from indonesia. *Corporate Ownership and Control*, 14(1), 692–700. <https://doi.org/10.22495/cocv14i1c4art16>
- Sapkota, M. P., & Chalise, D. R. (2023). Investors’ behavior and equity investment decision: an evidence from Nepal. *Binus Business Review*, 14(2), 209–221. <https://doi.org/10.21512/bbr.v14i2.9575>
- Sarwoko, H. (2016). Agency theory perspective in implementation of corporate governance. *The 2nd International Multidisciplinary Conference*, 68–84. <https://jurnal.umj.ac.id/index.php/IMC/article/view/1167>
- Satt, H., Chetioui, Y., Ouahidi, O., Bodolica, V., & Lamiri, D. (2022). Capital expenditure and firm value in the MENA region: the role of market competition and information asymmetry. *Macroeconomics and Finance in Emerging Market Economies*, 00(00), 1–20. <https://doi.org/10.1080/17520843.2022.2163564>
- Scott, W. R. (2015). *Financial accounting theory, seventh edition*. (7th ed.). Pearson Canada.

- Selçuk, E. A. (2015). *Corporate diversification and firm value: evidence from emerging markets*. <https://doi.org/10.1108/IJoEM-12-2012-0180>
- Setianto, R. H. (2020). Corporate diversification and firms' value in emerging economy: the role of growth opportunity. *Journal of Asian Business and Economic Studies*, 27(2), 195–207. <https://doi.org/10.1108/jabes-08-2019-0075>
- Sheikh, S. (2021). CEO inside debt, market structure and payout policy. *International Review of Financial Analysis*, 76(April), 101755. <https://doi.org/10.1016/j.irfa.2021.101755>
- Sidupa, G. P., & Devie, D. (2017). Pengaruh product market competition terhadap firm value melalui executive incentive sebagai variabel intervening pada perusahaan manufaktur nonmigas yang terdaftar pada bursa efek Indonesia. *Business Accounting Review*, 5(2), 37–48. <https://publication.petra.ac.id/index.php/akuntansi-bisnis/article/view/6535>
- Simangunsong, F. N. (2023). Competitive strategy analysis of manufacturing companies (a case study on PT Valeo Indonesia-AC Batam). *Rivayat: Educational Journal of History and ...*, 6(3), 2193–2209. <https://doi.org/10.24815/jr.v6i3.34428>
- Suhadak, Kurniaty, Handayani, S. R., & Rahayu, S. M. (2019). Stock return and financial performance as moderation variable in influence of good corporate governance towards corporate value. *Asian Journal of Accounting Research*, 4(1), 18–34. <https://doi.org/10.1108/AJAR-07-2018-0021>
- Sulistiawan, D., & Rudiawarni, F. A. (2019). Industrial competition and earnings quality in Indonesia. *International Journal of Economic Policy in Emerging Economies*, 12(2), 121–129. <https://doi.org/10.1504/IJEPEE.2019.099727>
- Suteja, J., Gunardi, A., Alghifari, E. S., Susiadi, A. A., Yulianti, A. S., & Lestari, A. (2023). Investment decision and firm value: moderating effects of corporate social responsibility and profitability of non-financial sector companies on the Indonesia stock exchange. *Journal of Risk and Financial Management*, 16(1), 1–13. <https://doi.org/10.3390/jrfm16010040>
- Thu, P. A., & Minh, M. T. H. (2023). The moderating role of state ownership in between product market competition and firm value: findings from GMM and fsQCA. *Business Strategy and Development*, 6(1), 3–12. <https://doi.org/10.1002/bsd2.218>
- Ushijima, T. (2016). Diversification, organization, and value of the firm. *Financial Management*, 45(2), 467–499. <https://doi.org/10.1111/fima.12108>
- Vazirani, A., Sarkar, S., Bhattacharjee, T., Dwivedi, Y. K., & Jack, S. (2023). Information signals and bias in investment decisions: A meta-analytic comparison of prediction and actual performance of new ventures. *Journal of Business Research*, 155(PB), 113424. <https://doi.org/10.1016/j.jbusres.2022.113424>
- Verico, K. (2021). *What has been happening to Indonesia's Manufacturing Industry?* <https://www.lpem.org/id/what-has-been-happening-to-indonesia's-manufacturing-industry/>
- Volkov, N. I., & Smith, G. C. (2015). Corporate diversification and firm value during economic downturns. *Quarterly Review of Economics and Finance*, 55, 160–175. <https://doi.org/10.1016/j.qref.2014.08.002>
- Wahyuni, N., & Putra, Y. H. S. (2020). Towards understanding changes in management accounting in the manufacturing industry in Indonesia. *Accounting*, 6(7), 1245–1252. <https://doi.org/10.5267/j.ac.2020.9.002>

- Widuri, R., & Sutanto, J. E. (2019). Differentiation strategy and market competition as determinants of earnings management. *3rd International Conference on Tourism, Economics, Accounting, Management, and Social Science*, 69, 171–176. <https://doi.org/10.2991/teams-18.2019.30>
- Working, D. (2019). *Customer concentration: the real risks and potential benefits*. <https://www.zacharyscott.com/blog/blog/corporate-finance/customer-concentration-the-real-risks-and-potential-benefits>
- Xing, L., Chen, H., & Zhou, H. (2018). Product market competition and earnings quality. *The Routledge Companion to Accounting in China*, 82–103. <https://doi.org/10.4324/9781315558899-7>