The Role of Managerial Ownership on Impact of Corporate Diversification Strategies and Capital Structure to Corporate Performance Domestic Companies (DC's) at the Indonesia Stock Exchange

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Abstract
This study aimed to examine the effect of decisions of corporate diversification strategy and capital structure on firm performance by managerial ownership variable as a moderating variable. Type of this research is quantitative research and using purposive sampling to conduct sampling is based on judgment sampling. Technical analysis used in this study is Partial Least Square (PLS) analysis through several stages: calculating the value of the indicator variable as a proxy variable interactions moderation, perform outer model testing, perform inner model testing, goodness of fit (GoF) index testing, and tests of significance to accept or reject the hypothesis through bootstrapping procedure.

The results of this study indicate that: diversification strategy the company adopted has a positive and significant effect on firm performance, diversification strategy also has a positive and significant effect on the company's capital structure, capital structure has a positive and significant effect of any changes in the company's performance, and results of this research does not support previous research that most of the finding of the capital structure has a negative and significant effect on firm performance, managerial ownership has a negative and significant effect on the company performance so that when high levels of managerial ownership will actually reduce the level of company performance and vice versa. Directly, managerial ownership as a moderating variable that is a proxy in the interaction variables has no significant effect on firm performance, managerial ownership has a moderating variable is not a significant role for the impact on diversification strategy and capital structure are applied to get the company performance.

Keywords: Managerial Ownership, Corporate Diversification Strategies, Capital Structure, Corporate Performance, Partial Least Square (PLS).

INTRODUCTION
Diversification strategy implemented as a way to expand the business and expand the market. Diversification is a form of business development by expanding the number of both business and geographical segments, expanding existing market share or developing a variety of diverse products. Alternatives to choosing a diversification strategy are still debated, if the decision-making process has involved various objectives and is faced with various interests (conflicts of interest) such as between management and owners, or between existing business lines, or can also involve compatibility between external (macro) and internal (micro). Technical diversification strategy can be done by opening new lines of business, expand existing product lines, expanding the area of product marketing, to open branches, mergers, and acquisitions to increase economies of scale.

In recent years, there has been a debate that diversification strategies can bring benefits to the company or have a negative impact on competitive advantage in the long run. Some view diversification as having positive benefits by stating that diversification can facilitate coordination in companies that have many different divisions, which can conduct transactions internally (Chatterjee and Wernerfelt, 1991 in Setionoputri et al., 2009). Transactions internally are referred to as internal capital markets. In addition to these benefits, allocation of resources can be more efficient because of reduced transaction costs. Another benefit that is felt is tax reduction due to the mechanism of transactions internally (Berger and Ofek, 1995 in Setionoputri et al., 2009).

Some others see a diversification strategy may have a negative impact. Multi-segment companies are thought to place too much investment in business lines with low investment opportunities, while company managers who have large free cash flow tend to take value decreasing investments and projects that have a negative net present value when allocating in their business segments (Jensen, 1986 in Setionoputri et al., 2009). Multi-segment companies invested non-optimal way of providing subsidies to business segments underperforming use of resources coming from the business segment performance is favorable so that in the end...
the company has a mechanism internal market which lowers the value of the company, or briefly occur cross-subsidy finances between segments good performance to business segments with poor performance.

Jandik and Makhija (2005) concluded that diversification could improve the company's performance in the electrical industry in the United States. While the results of different studies obtained by Lang and Stulz (1994) who examined the effect of corporate diversification on company performance, where the results of his research found empirically that diversified companies have a negative relationship with company performance. Satoto (2009), who examined the effect of diversification strategies proxied by the Entropy Index on company performance which is proxied by ROA in manufacturing companies on the Jakarta Stock Exchange in 2004-2005. The results of his research show that diversification strategies have a negative effect on company performance. Harto (2005) and Setionoputri et al. (2009) also examined the effect of diversification on company performance. The results of their research actually showed that diversification had no significant effect on company performance. Hallara (2010) in his study concluded that there was no influence between diversification and company performance. The inconsistency of the results of research that examines the effect of corporate diversification on company performance shows that there are other factors that influence the company's diversified relationship with company performance.

Based on the characteristics of companies in Indonesia, many companies that have become publicly listed companies are part of a business group. The form of a conglomerate business that is built from a family company is a characteristic of medium and large companies in Indonesia, and many expand into businesses that are even totally different from the core business. The company is usually led by a holding company that oversees various subsidiaries spread across various business segments so that it can be indicated that companies in Indonesia are generally diversified companies in different business segments with diversification unrelated.

This research was conducted by developing and evaluating corporate diversification strategy decisions on domestic companies listed on the Indonesia Stock Exchange by exploring diversification decisions according to Pearce and Robinson (2007) and diversification according to Rumelt (1974), namely: concentric diversification divided into focused business diversification or dominant and diversification of related businesses and diversification of conglomerates or unrelated business diversification. The reason for choosing this type of diversification strategy is because the strategy requires the consequences of large resource requirements and produces the most expensive main strategies so that it will require a strong capital structure and good corporate performance.

Companies that apply different diversification strategies will be reacted differently according to the choice of capital structure, and financial perspective categories are the results of research from Barton & Gordon (1998), while Kochhar and Hitt (1988) examine the relationship between corporate strategy and capital structure, especially diversification and strategy. corporate financing by developing research from Modigliani and Miller (1958). Singh et al (2003) took the category of diversification in diversified and focused business categories and geographical diversification by dividing the two sample companies namely multinational type (MNC) and Domestic (DC).

Studies that examine the performance of the company with the diversification strategy undertaken by Comment and Jarrell (1994) concluded that there is a negative correlation between abnormal stock returns with some measure of diversification. Berger and Ofek (1995) examined the effect of diversification on firm value and concluded that the value of a diversified company was smaller compared to companies operating in a single segment. Whereas Li and Wong (2003) who examined the relationship of diversification strategy with performance in large companies in China concluded that the diversification strategy was not only seen from the financial aspect but needed to consider the contingent environmental factors that could influence the company's strategy.

Research on the relationship between capital structure and company performance has also been done. Capital structure is often proxy in three measures of leverage, namely the ratio of total debt to total assets, long-term debt to total assets, and short-term debt to total assets. The use of these measures has been carried out in the study of Deesomseek et all (2004), Chen (2004), Delcoure (2006) and Huang and Song (2006) with the results of research that profitability has a negative effect on capital structure. According to Bringham and Joel
(1998), the use of financial leverage also causes certain losses, namely: the emergence of fixed expenses in the form of interest which can lead to higher debt ratio so that the company is more risk and can cause bankruptcy if at any time the company is in a position of financial difficulties and operating income insufficient to cover interest expenses. In addition, Van Horne (2002) also stated another negative thing that could bring about agency problems.

Regarding company value, Stulz (1990) states that debt can have a positive or negative effect on firm value, although it does not include corporate tax elements and bankruptcy costs, assuming that managers do not have shares in the company (no managerial ownership in the company). This is in line with the research of Barton and Gordon (1987 and 1988), where they stated that in order to get answers to the influence of inconsistent capital structure on company values which are sometimes positive and sometimes negative, they cannot rely solely on financial theory but must pay attention other factors that influence are managerial behavior.

In addition to referring to Pearce and Robinson (2007) and Rumelt (1974) to determine the category of diversification, this study also includes elements of managerial ownership as a moderating variable. Managerial ownership is expected to moderate the influence between corporate diversification strategies and capital structure on company performance.

Managerial ownership is the ownership of the company by managers or professionals who run the company so that it can align management interests with shareholders (Jensen and Meckling, 1976). The concept of managerial ownership is a way to reduce conflicts that arise due to differences in interests between owners and managers (agency conflict) and can minimize agency costs. The existence of managerial ownership, it is expected that managers will act in accordance with the wishes of shareholders because the manager will also feel the benefits directly for each decision taken and also the losses that arise if the decision taken is wrong.

Based on the explanation above and several previous studies, this study in detail aims to examine the effect of corporate diversification strategies on corporate performance, examine the effect of corporate diversification strategies on capital structure, examine the effect of capital structure on company performance, examine the effect of managerial ownership on company performance, and examine the role of managerial ownership as a moderating variable on its influence on corporate diversification and capital structure strategies on the performance of domestic companies (DCs) listed on the Indonesia Stock Exchange in 2008-2012. It is expected that this research can be a contribution of ideas and reference materials that can be used by management for companies that have or will diversify business both concentric diversification and conglomerate diversification and can be considered for investors or prospective investors who have or will invest their funds in diversified companies in domestic companies (DCs).

LITERATURE REVIEW

Company Strategy

The term "strategy" comes from the Greek "strategos" (stratos = military and ag = lead) which means "generalship" or something done by war generals in making plans to win the war. This concept is relevant to the situation in the past which is often colored by war, where generals are needed to lead an army always to win the war. In the 1960s - 1970s, strategies were adopted in the business world, and all concepts were used in strategic management; such as Mission (Mission), goals (Goal), SWOT Analysis, objectives (Objective) and Strategy. The concept of military strategy that is often adapted and applied in the business world, for example, the concept of Sun Tzu. In the military world, strategies are used to defeat the enemy and win the war, while in the business world, strategy management is used to win the competition. Judging from its objectives, both in the military and business world are not prone to conflicts / battles, but they aim to get territory and market share.

C. Hax and S Majluf (1996) states that strategy is a response to external opportunities and threats, as well as responses to internal strengths and weaknesses to achieve a competitive advantage that has long-lasting durability. Each strategy used by the company focuses on the desired results and how the strategy is obtained in integrating the external and internal focus, the strategy reflects the company's theory of how they compete. Hamel and Prahalad in Rangkuti (2003: 4) describe the definition of a strategy that is more specific to the company is an incremental action (constantly increasing) continuously and is done based on the point of view of
what is expected by customers in the future. Thus, strategy planning almost always starts from 'what can happen,' not starting from 'what happens.' The occurrence of the speed of new market innovations and changes in consumer patterns requires core competition (core competencies). Companies need to look for core competition in their business.

Porter (1996), said that strategy is a set of different actions or activities to deliver unique values while Thompson and Strickland (2001) say the strategy consists of competitiveness activities and business approaches to achieve satisfactory performance (according to target).

Jauch and Glueck (1995: 12) state that a strategy is a unified, comprehensive and integrated plan that links the advantages of company strategies to environmental challenges and is designed to ensure that the company's main goals can be achieved through proper implementation by the company. The strategy is not just a plan, but it is a synergy of all plans in a company and binds all parts of the company into one. Anthony and Govindarajan (2005: 59) state that strategies are plans to achieve company goals. There is a general agreement that the strategy describes the general direction that a company will aim to achieve its goals. David (2009: 18) states that strategy is a means to achieve long-term goals to be achieved. Business strategies include geographical expansion, diversification, acquisition, product development, market penetration, tightening, divestment, liquidation, and joint ventures.

Based on the understanding of the strategy above, it can be concluded that the strategy is a suggestion used to achieve the ultimate goal (target) of the company. The company's strategy is related to decisions on where the business will be carried out (in and out of the industry environment), and how the company allocates resources between the different businesses it enters. Business strategies related to the methods used by companies can create competitive advantage in each of its main businesses.

Companies have many alternative strategic choices in developing and expanding their market share. The diversification strategy is one of the alternatives chosen by many companies, especially those that are in the stage of going to the prime / golden age. Diversification is seen by business people as the company's strategy to achieve market targets outside the market they have been practicing.

Bettis and Mahaja (1985) suggest that business diversification is the diversity of business types both related (related business) and mutually unrelated (unrelated business). Coulter (2002: 260) states that the diversification strategy is a growth strategy for companies where companies expand their operations by entering different industries. Rumelt (1986: 11) states that the diversification strategy as "the firm's commitment to diversify per see; together with strengths, activities that are related to old activities."

Jauch and Glueck (1995: 262) mention that diversification refers to a group of different forms of strategy. Can refer to changes in products, markets, or functions; this can be done internally and externally, horizontally or vertically; and diversification can include related and unrelated changes.

Based on some of the above-diversified meanings, it can be concluded that diversification is a company's strategy in business development by opening a new business unit or subsidiary both in the same business lines as existing ones or in business units that are not the same as the company's core business. If the company does not open a new business unit or a new subsidiary, the diversification strategy is usually carried out by conducting acquisitions.

The measure used to identify the level of company diversification’ is the number of business segments owned by the company (Harto, 2007). Starting in 2001, reporting on the number of business segments owned by the company must be reported as part of the financial statements issued in accordance with PSAK No. 5 revisions in 2009 concerning segment reporting (IAI, 2009). In accordance with PSAK No. 5, companies that have a business and geographical segment must disclose it in financial statements. Business segments report products and services on different lines of business with different risks and rewards while the geographical segment presents products and services in certain economic areas that have risks and rewards in different geographical regions.

In this study, the size of the diversification strategy is proxied with the number of business segments owned by the company by dividing three: focused/dominant business segments, related business segments, and unrelated business segments. Research on the influence of diversification strategies on
performance conducted by Datta et al. (1991), these influences are categorized in 3 (three) parts, namely: degree of diversification, type of diversification, and mode of diversification. The degree of diversification refers to the extent or degree at which companies diversify themselves into business units, various products, or enter different markets. Rumelt (1982) divides the level of diversification strategy based on the relevance of the business segments of the company to its core business. Diversification levels are divided into three categories, namely: low, moderate, and high. Anthony and Govindarajan (2005: 67) and David (2009: 260), divide the diversification strategy into two, namely: related (related) diversification and unrelated (unrelated) diversification. A company is said to have a diversification related / related when a relationship exists between its business units. The tighter the relationship between business units, the more diversified it will be, which means the lower the level of diversification (Rumelt, 1982). Whereas Coulter (2002: 261), states that the diversification strategy is unrelated / related is a form of growth strategy where companies enter into an industry that does not have any relationship at all with the existing strategy.

**Capital Structure**

Capital is classified into two types, namely: debt and equity (own capital). The debt and equity mix for corporate funding is the main discussion of capital structure decisions. Companies that only use equity are called "unlevered firms," while those that use the equity mix and various types of debt are called "levered firms." The choice of alternative capital from creditors (debt) is generally based on considerations: **cheap.** It is said to be cheap because the interest costs that must be borne are smaller than the profits obtained from the utilization of the debt.

The tendency of companies to use more debt, without realizing it gradually, will lead to increasingly heavy obligations for the company when it must pay off (repay) the debt. It is not uncommon for companies that ultimately are unable to fulfill these obligations, and even go bankrupt. Until now there is no precise mathematical formula to determine the optimal amount of debt and equity in the capital structure (Seitz, 1984: 301).

Franco Modigliani and Merton Miller (MM) are the fathers of capital structure theory (Groth and Anderson, 1997). In 1958, in the American Economic Review 48 (1958, June) entitled The Cost of Capital, Corporate Finance, and the Theory of Investment, they put forward a theory of capital structure with various assumptions that were impossible, but very helpful in understanding how the company determines the funding mix that comes from debt and equity correctly (Siaw, 1999).

In general, capital structure theories are grouped into two categories: trade-off theories and theories based on management behavior. Capital structure theories based on management behavior include signaling effects theory, pecking order theory, and market timing equity.

**Company performance**

Assessment of performance is basically an assessment of human behavior in carrying out the role it plays to achieve the goals of the organization or company. Performance can also be a benchmark of whether a company has achieved the set goals or not. Company performance is the ability of a company to manage resources so that it can provide added value to the company. By knowing how much the company's performance, it will be able to measure the level of efficiency and productivity of the company. In addition, the results of the company's performance evaluation are useful to determine the extent of the company's development.

Helfert (1996: 67) states that company performance is the result of many individual decisions that are made continuously by management. The assessment of the company's financial performance caused as a result of the management decision-making process will concern the value and security of various guidelines that arise from the company from third parties. Performance assessment is very important to identify the existence of waste or irregularities can be overcome. In addition, performance appraisal is also useful to build consensus to change behavior toward achieving goals (Supriyono, 1999).

According to Mulyadi (1997: 419) performance is a periodic determination of the operational effectiveness of an organization, its organizational parts and employees based on previously set targets,

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standards and criteria. Because organizations are basically run by humans, performance appraisal is actually an assessment of human behavior in carrying out roles they play in organizations. While the notion of financial performance is the determination of certain measures that can measure the success of a company in generating profits.)

Financial statements are the most common data available for that purpose, although often they do not represent economic results and conditions. Financial statements are referred to as periodic "scorecards" that contain the results of operating investment and company financing, so the focus will be on relationships and financial indicators that allow analysis of past performance assessments and projections of future results which will emphasize the benefits and limitations contained in them.

Many company performance evaluations based on financial statements are carried out by using financial ratios, namely using book values on financial statements, for example, return on assets (ROA) and return on equity (ROE), which are performance evaluations most often used by investors and potential investors. The main advantage of these measurements is the ease of calculation as long as historical data is available. While the main disadvantage is that the method cannot accurately measure company performance, this is because the data used are accounting data that cannot be separated from the interpretation / estimation that can lead to various kinds of distortions so that the company's financial performance is not measured accurately and accurately. To overcome a variety of problems that arise in measuring financial performance based on accounting data then arises the idea of measuring financial performance based on value (value based), which was popularized for the first time by the consulting firm Stern Stewart with indicators namely Economic Value Added (EVA).

Managerial Ownership

Managerial ownership is the percentage of share ownership held by management. In accordance with agency theory, conflicts between shareholders and management arise because of the separation of authority between the owner and manager (management). The management tends to want a small dividend distribution because they want the excess cash flow to finance the company's investment, while the shareholders want a large dividend distribution so as to increase their prosperity. The excess cash is used to finance investments - profitable investments will not be a problem, but often managers tend to use these funds to enrich themselves and finance investments are not profitable.

Company share ownership by management is closely related to control and monitoring of management behavior, as a consequence of agency conflict. Managerial ownership can help to align management interests with shareholders. Managers will be careful in every decision making because every decision taken will directly affect it. A low level of managerial ownership means that management has limited influence and level of voting power. Foreign investors as majority shareholders have the power to monitor and limit the manager's opportunistic behavior, so as to reduce agency conflict.

Conflict of interest can arise between shareholders when shareholders have greater control than they should. If a shareholder has too much control, he will tend to have an incentive to gain personal benefits. Consequently, the company's performance will decline. This trend increases when controlling shareholder ownership decreases. In companies with divided shares, the largest shareholders will control the company. In companies owned by conglomerates through institutional ownership, the controlling shareholders will control the company with little interest.

Managerial ownership in relation to debt policy has an important role, namely controlling the company's financial policies to be in accordance with the wishes of shareholders. The higher the level of debt, the financial risk will also be higher. Managerial ownership will make management more careful in making debt decisions. Shareholders will strive to equalize the interests between management and shareholders by binding management's personal wealth to the company's assets. Based on this, it can be stated that managerial ownership has a negative effect on debt policy.

Previous Research

Some strategic financial management researchers such as Dill (1958), Chandler (1962), Lawrence and Lorsch (1967), Jurkovich (1974), Miles and Snow (1978), Porter (1980,855), Bourgeois (1980,81), Hambrick

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While several strategic financial management studies that have been conducted in Indonesia relate to the relationship between business development strategies, ownership structures, and capital structure to the company's performance, it has also been carried out both parts and simulated. Research conducted by Aisjah and Subroto (2011) took a sample of 43 companies listed on the Indonesia Stock Exchange with an observation period from 2002 to 2007. Anwar (2009) conducted a study of 8 (eight) food and beverage companies listed on the Stock Exchange Jakarta from 2003 to 2007. Other studies related to the above variables have also been carried out, among others by: Chandra (2007), Harto (2007), Sujoko (2007), Suharyono (2008), Kusumawati (2008), Sulastri (2008), Setionoputri et al (2009), Mas'ud (2009), Satoto (2009), Aisjah (2010), and Sari et al (2011).

The variables involved in this study include managerial ownership, corporate diversification strategies, capital structure, and company performance. The corporate diversification strategy is the first exogenous or independent variable \( (X_1) \). This research was conducted by developing and evaluating corporate diversification strategy decisions on domestic companies listed on the Indonesia Stock Exchange by exploring diversification decisions according to Pearce and Robinson, namely: concentric diversification and conglomerate diversification, which is measured using a type of diversification according to Rumelt (1974), namely: a business focused \( (X_{1,1}) \), business related \( X_{1,2} \), and business unrelated \( X_{1,3} \) as has been researched and developed by Thompson (1984), Montgomery and Singh (1984), Barton (1988), Markides (1995), Pandya and Rao (1998), Colpan and Hikino (2005), Sujoko (2007), Candra (2007), Harto (2007), Sulastri (2008), Kusumawati (2008), Satoto (2009), Meiden and Siagian (2009), Kahloul and Hallara (2010), Aisjah and Subroto (2011), Chen and Yu (2012), and Park and Jang (2012).

The capital structure as the second exogenous or independent variable \( (X_2) \) is measured based on Debt to Equity Ratio (DER) as \( X_{2,1} \) and Debt to Total Assets Ratio (DAR) as \( X_{2,2} \). Some researchers who have used capital structure as a research variable and are associated with corporate strategy and company performance have been developed by Chathoth (2002), Chandra (2007), Mas'ud (2009), Kesuma (2009), Satoto (2009), Anwar (2009), Kahloul and Hallara (2010), Aisjah and Subroto (2011), Saeidy and Kazemipour (2011), Mubashar et al (2012), Chen and Yu (2012), and Park and Jang (2012). In this study involving the moderating variable as the third independent variable, namely the ownership structure: managerial ownership \( (X_3) \). Ownership structure research as one of the variable indicators has been carried out by Sujoko (2007), Kusumawati (2008), Kurniasari (2011), and Chen and Yu (2012).

Company performance \( (Y_1) \) in this study as an endogenous variable or dependent variable. Company performance is measured by the concepts of ROA \( (Y_{1,1}) \) and ROE \( (Y_{1,2}) \), as has been done by Markides (1995), Pandya and Rao (1998), Chathoth (2002), Colpan and Hikino (2005), Sujoko (2007), Candra (2007), Harto
Research Hypothesis

The research hypothesis is a temporary answer to the research that will be conducted so that it can guide researchers in carrying out research in the field both as an object of testing and in data collection (Bungin, 2005: 75). Because only a temporary answer to that is suspected of variable relationships to be studied, then the hypothesis needs to be tested empirically (Indriantoro and Supomo, 1999: 73.).


Anthony and Govindarajan (2005: 63), revealed that the application of the right corporate strategy is expected to achieve the goals of the organization or company that have been set. Likewise, the diversification strategy that has been decided by the company is expected to realize the company's goals, which are shown to be better Diversification is an attractive choice for companies when companies face intense competition and rapid market growth. Based on efficient capital market arguments, diversification can create corporate value (George and Kabit, 2005).

The diversification strategy is a corporate level strategy that focuses on actions to gain a competitive advantage by choosing and managing different business groups in several industries and markets. Diversification strategies are widely used by large companies by adding new businesses both related and unrelated to the company's core business to increase revenue. By implementing the strategy, management is required to be able to produce an optimal performance so that it can create maximum profit. The reason for implementing the diversification strategy besides being expected to realize the company's goals is also expected to be able to neutralize the strength of competitors and expand the company's portfolio to reduce the risk of managerial work (Hitt et al, 1999: 187).

The reason shows that by implementing a diversification strategy, the company will be able to produce an increase in company performance (Derek et al, 1997). Chakrabarti and Mahmood (2007) found in their research that companies in six Asian countries: Singapore, Japan, Korea, Malaysia, Thailand, and Indonesia, which experienced changes in the institutional environment from a stable environment were then hit by a crisis and caused economic turmoil so that the institutional environment unstable, diversification strategy has a positive effect on company performance. Implementation of diversification strategies shows that improving performance through increasing resources for operational activities, increasing efficiency, and increasing
strength in the face of competitors can improve company performance. Therefore, the first hypothesis to be tested for validity in this study is:

**H₁: Diversification strategies have a significant positive effect on company performance.**

Meanwhile, Kochhart and Hitt (1998) in a study of the relationship between diversification strategies and corporate funding classifies them in two types, namely types of financing (debt or equity) and funding sources (public or private). The study emphasizes the difference between implementing a diversification strategy by utilizing some financial resources that are controlled by the company. The study also states that companies that have speculative products, poor credit reputation, and a high proportion of intangible assets, tend to use private funding sources because the costs are lower than using public funds.

Research that studies the relationship between corporate diversification strategies and capital structure policies has been previously carried out. The role of diversification strategies as one of the determinants of capital structure is directly explained mainly through the co-insurance effect by Lewellen (1971), Kim and McConnell (1977), Bromiley (1990), Bergh (1997) and transaction cost theory by Williamson (1988), and Balakrish and Fox (1993), Kochhart and Hitt (1998). This relationship is also indirectly related to the application of agency theory in view of financing policy as a consequence of diversification strategy decisions.

The co-insurance effect approach refers to efforts to reduce operational risks that occur when a company carries out various businesses, where the cash flow of each business is unrelated to one another. In implementing a diversification strategy, the approach is seen as a strategy to reduce risk so that the company will develop the business by implementing an unrelated diversification strategy. While Williamson (1988) and La Rocca (2006) mention that the transaction cost approach refers to the contractual relationship between the two parties, in order to reduce transaction costs, the company will develop its business by implementing a related diversification strategy. Hertzel and Smith (1993) and Kochart (1998) show that equity financing will be chosen in a related diversification strategy while unrelated diversification will prefer debt financing. In addition, this study also found that companies acquired through acquisitions prefer to use public funding sources whereas companies that focus on internal development prefer to use private funding sources.

La Rocca (2006) studied the role of diversification strategies on the company's capital structure. The results of the study concluded that companies that implement a related diversification strategy have lower debt ratios compared to companies that implement an unrelated diversification strategy because the company chooses to use a higher amount of debt.)

Diversification will generally influence funding decisions because to develop a business by implementing a diversification strategy requires financing. In choosing alternative financing, companies will face agency conflicts between management and shareholders (shareholders) or between shareholders and debt holders. The company will choose the most appropriate financing alternative in order to minimize agency problems. Based on the above arguments, the second hypothesis emerges, namely:

**H₂: The diversification strategy has a significant positive effect on the company's capital structure.**

The policy regarding capital structure according to Brigham and Houston (2001: 6) involves between the risk and return. Addition of debt will increase the risk of the company but will increase the expected return. Risks that are increasingly high due to the size of debt tend to reduce stock prices, but increase the expected return so that it is expected to increase stock prices as well. From here comes the concept of optimal capital structure, namely the capital structure that optimizes the balance between risk and returns so as to maximize stock prices.

Companies that have an optimal level of capital structure will produce optimal returns so that not only the company gets profits, but shareholders also benefit. An optimal capital structure will lead to large capital costs. If the debt used is too large, it will cause a large debt fee.)

**Capital structure measured by the size of leverage shows the ratio that describes the relationship between corporate debt and capital** (Harahap, 2001: 306). High leverage shows that many companies get funds from debt. This debt will reduce the excessive consumption of management of company money (free
cash flow) so that the company’s performance will increase. This thinking is supported by the results of research from Harto (2007), Kesuma (2009), and Setionoputri et al. (2009) which show that the capital structure has a significant effect on company performance.

Whereas Ross et all (2000) explained that an increase in debt would reduce free cash flow and define free cash flow as a cash company that could be distributed to creditors or shareholders who were not needed for working capital or investment in fixed assets because most of the free cash flow for pay off debt, so that there is no free cash flow in the company that can be utilized by management to take actions in the interest of management that harm the shareholders. If there is enough cash flow in the company, then ineffective supervision from shareholders will create management actions to use cash flow for its own sake.

Modigliani and Miller (1958) state that in the assumption of a perfect capital market, the capital structure does not affect the stock value of a business entity. That study was continued by Modigliani and Miller (1963) by including tax elements in its calculations; the results showed that debt utilization is more profitable because debts are smaller than stock costs and there are tax benefits from using debt. However, the use of debt in large amounts will encourage an increase in interest expense and credit installments, so that it will have an impact on the increased risk of the inability of cash flows to cover these obligations. This is known as the Trade-off theory which states that debt utilization will result in tax savings, but will cause financial distress.

The debt will have the consequence of interest costs which will reduce taxable income. The reduction in profits will result in a decrease in cash that can be spent by the company because management must have sufficient cash reserves so that liquidity is maintained and can finance operational activities and investments. Thus leverage can provide an overview of the status and condition of the company in fulfilling its obligations. So that if the company can manage well the source of funds from outside and is able to pay its obligations, it can be said the company has a good performance. Therefore, based on several arguments above, the third hypothesis emerges, namely:

**H₃:** The company’s capital structure has a positive significant effect on company performance.

### B. Diversification strategies, capital structure, managerial ownership, and company performance.

The authority given by the owner to the manager in managing the company is sometimes misused by the manager who acts as he pleases for his own interests (individual) and is not in accordance with the principal's desire to increase the welfare of the owner which leads to the emergence of agency conflict. Conflicts that can arise from differences in interests between management and owners (shareholders) who often bring up a conflict can be explained in an agency theory. According to Sartono (2010: 10), the occurrence of agency conflicts within the company can occur where the manager has shares of less than one hundred percent. While Jensen and Meckling in Sujoko and Ugi (2007), agency conflict occurs because of the separation of ownership and control. Agency conflict causes a decrease in company performance so that ownership structure becomes important in agency theory because most conflict arguments are caused by the separation of ownership and management. Agency conflict does not occur with companies with a hundred percent ownership by management.

The mechanism for dealing with agency conflicts includes increasing insider ownership so that it can align the interests of owners and managers. The increasing share owned by managers through managerial ownership will motivate management performance because they feel they have a stake in the company both in decision making and responsible for decisions taken because they participate as company shareholders so that management performance gets better and has an effect on improving company performance because with improve company performance, then his wealth as a shareholder will increase as well. Consistent with the research conducted by Sri and Pancawati (2011) found that managerial ownership variables proved to influence company performance. By paying attention to the above description, it can be formulated the fourth hypothesis, namely:

**H₄:** Managerial ownership has a positive and significant effect on company performance.
While implementing the diversification strategy requires financing. Funds to finance the implementation of these strategies can come from debt or equity. The decision to choose the source of financing is a financial decision that is very important for the company. Long-term debt to equity ratio describes the company's capital structure and the ratio of debt to capital will determine the amount of financial leverage used by the company. Husnan (2000: 275) argues that the capital structure is a comparison between long-term sources that are lending and own capital whereas Riyanto (2001: 296) argues that capital structure is a balance or comparison between long-term debt with its own capital. The use of different types of financing has different effects on the profits obtained by the company. The use of foreign capital will reduce the profits of the company because they have to pay interest and interest as a tax deduction that must be borne by the company. While the self-capital compensation in the form of dividend payments is taken from profit after tax, so it does not reduce tax payments.

According to the agency theory approach, capital structure is structured to reduce conflict between various interest groups. The conflict between shareholders and managers is the concept of free cash flow (Jensen, 1986). Free cash flow in this context is defined as the cash flow that is available as well as all investment proposals with a positive NPV are funded. Tendency managers want to retain resources (including free cash flow) so that they have control over these resources. Debt can be considered as a way to reduce agency conflict in free cash flow. If the company uses debt, the manager will be forced to issue cash from the company (to pay interest). The argument is supported by the statement that with increasing debt, the smaller portion of shares to be sold by the company. In addition, the larger of company's debt, the smaller of idle funds the company can use for less necessary expenses.

Whereas when implementing a diversification strategy, a performance that is not necessarily good for diversified companies can lead to agency conflicts because poor performance can have an impact on the return that can be given to the owner. Agency conflict between owners and managerial agents can be solved through managerial ownership. With managerial ownership, managers are expected to take actions that not only meet managers interest’ but also meet company owners interest’ (Jensen and Meckling, 1976: 305 - 360).

Jensen and Meckling (1976: 305 - 360) also concluded that fulfilling manager's ambitions as one of the objectives of the diversification strategy would encourage managers to enlarge and multiple businesses without considering fulfilling owner's needs, this would lead to agency conflicts. Therefore agency conflict can be eliminated by considering the reward that will be received by the manager both direct and indirect rewards. Reward given to managers indirectly can also improve performance because of the high motivation to get high rewards makes managers will strive to maximize the benefits achieved. (Habernerg and Alison, 2003: 347).

Fulfill the personal ambition of the senior manager shows that the diversification strategy will make the size of the company bigger and is expected to provide greater rewards. Because it is increasingly diversified, the complexity of the conflict that occurs will be even greater. The greater rewards will be fulfilled if the company achieves planned profitability so it will motivate managers to maximize the benefits achieved. Corporate ownership behavior or corporate insider (CI) shows that when corporate insiders have low share ownership, decisions taken are positively influential towards corporate risk taking, which is a deviation between the estimated income flow and the actual result. The results of the study illustrate that the conflict of interest between the manager and the owner will be erased if the company manager has involvement in share ownership (Peter et al, 1996: 441–463). Research that examines the relationship between ownership structure and company diversification shows that declining performance due to diversification occurs in companies with low managerial ownership. This is in accordance with agency theory that low manager ownership can lead to conflicts between principals and agents (between company owners and managers). Diversification strategies carried out by managers are likely to have different results than expected by the owner of the company due to differences in the interests of both. The role of managerial ownership in improving company performance when implementing diversification strategies and also managing the company's capital structure raises the fifth hypothesis, namely:
H5: Managerial ownership plays a positive and significant role in its influence on the strategy of diversification and capital structure on company performance.

C. RESEARCH METHODS

This research was designed as explanatory research, research to explain the subject of causality relationships between research variables through hypothesis testing. The relationship can be in the form of a correlational relationship or mutual relationship, contribution or contribution of one variable to another variable or causal relationship. While the type of research is a quantitative approach where the research process starts from the problem to the research report by following several stages of research (Bungin, 2010: 50).

The population in this study were all companies listed on the Indonesia Stock Exchange from the period 2008 to 2012 totaling 459 companies. While the sampling technique used was purposeful sampling which is part of a non-probability sampling method. The study used purposeful sampling to take samples based on certain considerations (judgment sampling). Indriantoro and Supomo (1999: 131) state that judgment sampling is a type of non-random sample selection whose information is obtained by using certain considerations from researchers and generally tailored to the purpose or problem of the study.

The research sample that will be used in this study are companies listed on the Indonesia Stock Exchange with the following criteria:

b. Is a non-financial company.
c. The company has information on share ownership structure.
d. Outstanding company shares owned by management (commissioners and directors) of the company.
e. Is a company with foreign ownership (foreign) not exceeding 40% of outstanding shares.
f. Deliver financial reports regularly during the period 2008 to 2012 and have the financial data needed in this study.
g. Business development with more than one sales segment.
h. During the observation period (2008-2012) the company did not experience losses and there was no capital divestment.

This study uses historical data taken over a period of 5 years from 2008 to 2012. Data is obtained from published company reports, namely: annual reports or financial reports (complete financial statement) during 2008 - 2012 from companies listed in Indonesia Stock Exchange according to the criteria of companies that meet the requirements to be sampled. Data is taken from the Indonesian Capital Market Directory and the internet with the site www.idx.co.id or from the site of the company concerned. Based on the data obtained, a systematic and objective discussion, calculation, analysis and discussion were carried out.

Based on the conceptual framework, this study classifies variables into 2 (two) groups, namely: exogenous variables and endogenous variables. Exogenous variables are variables whose value is determined outside the model as a policy variable in this study; there are three exogenous variables, namely: diversification strategy (X1), Capital Structure (X2), and Managerial Ownership (X3). While endogenous variables are variables whose values are determined in the model as a result of changes in variables, in this case, is the performance of the company (Y).)

Whereas to test the research instrument was conducted in two ways, namely: validity testing and reliability testing. Both tests will be tested together when evaluating the measurement model or the outer model in the SmartPLS program. The outer model will be evaluated through convergent and discriminant validity of the latent construct indicator and composite reability and cronbach alpha for the indicator block (Latan and Ghozali, 2012: 77).

The technical analysis used in this study is Partial Least Square (PLS) analysis. The reason for the use of PLS (partial least square) program is because the purpose of the PLS is in accordance with the purpose of this study, namely to test the predictive relationship between constructs by looking at whether there is a
relationship or influence between the constructs (Latan and Ghozali, 2012: 21). The stages used in carrying out the testing of this study are:

1. Calculate the indicator value of the interaction variable from the multiplication between the indicators of exogenous variables and the moderator variable. Then the values are entered into the model with the name of the interaction variable.

2. Testing the measurement model or the outer model. The purpose of the evaluation of the results of the measurement model or outer model is to test the validity and reliability that reflects each construct. The outer model defines how each indicator block is related to its latent variables (Ghozali, 2008). There are three criteria to assess the outer model, namely convergent validity, discriminant validity, and composite reliability. The three things that will be evaluated are found in table 1 below.)

<table>
<thead>
<tr>
<th>No</th>
<th>Validity dan Reliability</th>
<th>Parameter</th>
<th>Rule of Tumb</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Convergent Validity</td>
<td>Loading Factor</td>
<td>&gt; 0,70</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Average Variance Extracted (AVE)</td>
<td>&gt; 0,50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cummunality</td>
<td>&gt; 0,50</td>
</tr>
<tr>
<td>2</td>
<td>Diskriminant Validity</td>
<td>Cross Loading</td>
<td>&gt; 0,70 for each variable</td>
</tr>
<tr>
<td>3</td>
<td>Reliability</td>
<td>Cronbach's Alpha</td>
<td>&gt; 0,70</td>
</tr>
</tbody>
</table>

Source: Latan and Ghozali, 2012: 81

3. Test the structural model or inner model. Evaluation of the results of the structural model or inner model begins by looking at the R-square value for the dependent construct as the predictive power of the structural model (Latan and Ghozali, 2012: 82), Stone-Geisser Q² test for predictive relevance and t-test and significance of structural path parameter coefficients obtained through bootstrapping procedures (Ghozali, 2008). Changes to the R-Square value are used to explain the influence of certain exogenous latent variables on whether endogenous variables have substantive effects. If the value of R-Square is 0.75; 0.50; and 0.25 it can be concluded that the model has a strong, moderate, and weak influence.

Q² predictive relevance to measuring how well the observation value is generated by the model and also its parameter estimation, which in the Smart-PLS program is shown in the Redundancy table (Ghozali, 2008). The value of Q² > 0 indicates that the model has predictive relevance, while the value of Q² <0 indicates that the model lacks predictive relevance. The size of the q² predictive relevance value has a value with a range of 0<q²<1, where the closer to 1 the better the model is. The value of q² can be obtained through the formula: q² = 1 − (1 − R₁²) (1 − R₂²) ... (1 − Rₚ²).

A summary of general rules for evaluating structural models is given in table 2.
### Table 2.
**Guidelines for Testing Structural Model Results**

<table>
<thead>
<tr>
<th>No</th>
<th>Criterial</th>
<th>Rule of Thumb</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>R-Square</td>
<td>0.67 ; 0.33 ; dan 0.19 shows the model is strong, moderate, and weak (Chin, 1998)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.75 ; 0.50 ; dan 0.25 shows the model is strong, moderate, and weak (Hair et all, 2011)</td>
</tr>
<tr>
<td>2</td>
<td>Effect size (f²)</td>
<td>0.02 ; 0.15 ; dan 0.35 (small, medium and large)</td>
</tr>
<tr>
<td>3</td>
<td>Q² Predictive relevance</td>
<td>Q² &gt; 0 shows the model has predictive relevance but if Q²&lt;0 shows that the model lacks predictive relevance</td>
</tr>
<tr>
<td>4</td>
<td>q² Predictive relevance</td>
<td>0.02 ; 0.15 ; dan 0.35 (weak, medium and strong)</td>
</tr>
<tr>
<td>5</td>
<td>Significance (two-tailed)</td>
<td>t-value 1.65 (significance level = 10%), 1.96 (significance level = 5%), dan 2.58 (significance level = 1%)</td>
</tr>
</tbody>
</table>

Source: Latan dan Ghozali, 2012:85

In addition to the above, testing of the goodness of fit (GoF) index also needs to be done to see the suitability of the model. The criteria used to calculate the GoF Index value use criteria developed by Tenenhaus et all (2004) (Latam and Ghozali, 2012: 87), which are calculated from the square root of the average communality index and average R-square values formulated with:

\[ \text{GoF} = \sqrt{\text{Com} \times \text{R}^2} \]

Because the value of communality recommended is 0.50 (Fornel and Lacker, 1981) and the small R-square value is 0.02, medium 0.13, and large is 0.26 (Cohen, 1988), then:

- GoF small = \( \sqrt{0.5 \times 0.02} = 0.10 \)
- GoF medium = \( \sqrt{0.5 \times 0.13} = 0.25 \)
- GoF large = \( \sqrt{0.5 \times 0.26} = 0.36 \)

(Latan dan Ghozali, 2012:88)

4. Perform testing of significance to accept or reject hypotheses from structural equations obtained through bootstraping procedures (Ghozali, 2008). Based on the procedure, testing of the t count counts on the path coefficient test results.

5. Conceptually PLS model to include elements such as the interaction of variables shown in the figure 2 below.
Figure 2.
PLS Model Effect of Diversification Strategy (X1) and Capital Structure (X2) on Company Performance (Y) with Managerial Ownership (X3) As Moderating Variables

D. ANALYSIS RESULTS AND DISCUSSION

Object Research

During 2008 to 2012 selected non-financial companies that had management ownership in the capital structure were 94 companies. Whereas those who meet the criteria as a domestic company (DC's) with foreign capital ownership do not exceed 40%, never delist and submit financial reports regularly and have the financial data needed in this study as many as 46 companies. Of the 46 domestic companies (DC's) there are 4 companies that do not conduct business development so that they only have one sales segment.

A Total of 42 companies fulfilled the criteria as a sample of 210 data collected in 5 years (2008 - 2012). But after further analysis it turns out that there are several companies which during the observation period suffered losses and also occurred capital divestment so that the data on the year of occurrence of the company was excluded from the research data.

In this study, there are latent variables or construct variables of 4 (four) and 8 (eight) manifest variables or indicators. Latent variables or construct variables are 4 (four) variables consisting of diversification, capital structure, managerial ownership, and company performance. While the manifest variables or indicators are 8 (eight) variables consisting of:
1. Focused diversification
2. Related diversification
3. Diversification is unrelated
4. Debt to equity ratio / DER
5. Debt to assets ratio / DAR
6. Managerial ownership
7. Return on assets / ROA
8. Return on equity / ROE

Based on the analysis of company data that meets the criteria as a study sample, 179 data were obtained which were divided into five years of observation from 2008 to 2012.

Evaluation Model: Measurement Model Results

An indicator is known to be a constructor (latent variable) tested by testing convergent validity of a measurement model with a reflexive indicator that is assessed based on the correlation between item scores and the construct score. Individual reflexive size is said to be valid if it has a correlation (loading factor) with the construct (latent variable) that want to measure> 0.70 or the t-statistical value must be> 1.960 (two-sided test, n = 179, α / 2) at the significance level α = 0.05. Based on the analysis using the PLS program, all loading factors (λ) show results> 0.70, which means all contracted indicators are declared
valid. Whereas in t-statistic testing, the value of the t-statistic calculation results for all latent variables > 1.960, so that the indicators used in the model have compatibility and conformity or unidimensionality to form a dimension or factor.

Figure 3 below shows the loading factors from the test results between the research indicators. While the outer loading for each variable tested, all show the value of t count > 1.960 which is found in table 3 below.

![Path Diagram model](image)

Table 3.

Outer Loadings (Mean, STDEV, t-values) are indicators of research variables

| Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | Standard Error (STERR) | T Statistics (|O/STERR|) |
|---------------------|-----------------|----------------------------|------------------------|-------------------------|
| Own_Manajr <- OWN_MANAGERIAL | 1.000000 | 1.000000 | 0.000000 | |
| Related <- DIVERSIFICATION | 0.750549 | 0.741925 | 0.149849 | 0.149849 | 2.339352 |
| DAR <- CAPITAL STRUCTURE | 0.963478 | 0.964178 | 0.008024 | 0.008024 | 120.071554 |
| DER <- CAPITAL STRUCTURE | 0.961918 | 0.963765 | 0.007246 | 0.007246 | 132.748300 |
| Focus <- DIVERSIFICATION | 0.926397 | 0.904209 | 0.099616 | 0.099616 | 9.299636 |
| Interaction <- INTERACTION | 1.000000 | 1.000000 | 0.000000 | |
| ROA <- COMPANY PERFORMANCE | 0.821966 | 0.780558 | 0.279756 | 0.279756 | 2.938151 |
| ROE <- COMPANY PERFORMANCE | 0.756250 | 0.788891 | 0.236239 | 0.236239 | 2.084707 |
| Unrelated <- DIVERSIFICATION | 0.877140 | 0.867852 | 0.076916 | 0.076916 | 11.403818 |

Source: Data Processed, 2014

The discriminant validity test is used to see whether an indicator of a particular latent variable is completely different from the indicators of other latent variables so that the indicator is really considered feasible to explain its latent variables. Testing discriminant validity is done by comparing the root of average variance extracted (AVE) with the correlation between fellow latent variables. An indicator is considered to meet convergent validity if the root of AVE is greater than the correlation among latent variables. To find out the results of the discriminant validity test in this study, it can be seen from the following table 4.
Based on Table 4, the AVE values and communality generated by all reflexive constructs are above 0.50 so that they meet the convergent validity requirements. Whereas the value of Cronbach’s Alpha Value and also the value of AVE roots in the table above also shows the number > 0.70, thus strengthening the research indicators of the third model evaluated to meet the validity and reliability tests.

Testing discriminant validity by looking at the cross loading value for each variable also produces a value > 0.70 so that all construct indicators also meet the discriminant validity test. Table 5 below lists the cross loading values for each variable.

Table 5.
The value of cross loading each variable

<table>
<thead>
<tr>
<th></th>
<th>DIVERSIFICATION</th>
<th>INTERACTION</th>
<th>OWN MANAGERIAL</th>
<th>COMPANY PERFORMANCE</th>
<th>CAPITAL STRUCTURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Manager</td>
<td>0.712069</td>
<td>0.847839</td>
<td>1.000000</td>
<td>0.798284</td>
<td>0.850293</td>
</tr>
<tr>
<td>Related</td>
<td>0.750549</td>
<td>0.767770</td>
<td>0.780853</td>
<td>0.832327</td>
<td>0.739367</td>
</tr>
<tr>
<td>DAR</td>
<td>0.885107</td>
<td>0.832011</td>
<td>0.775838</td>
<td>0.740443</td>
<td>0.963478</td>
</tr>
<tr>
<td>DER</td>
<td>0.860783</td>
<td>0.778622</td>
<td>0.712891</td>
<td>0.738845</td>
<td>0.961918</td>
</tr>
<tr>
<td>Focus</td>
<td>0.926397</td>
<td>0.798099</td>
<td>0.841988</td>
<td>0.705466</td>
<td>0.838620</td>
</tr>
<tr>
<td>Interaction</td>
<td>0.790204</td>
<td>1.000000</td>
<td>0.847839</td>
<td>0.889882</td>
<td>0.761085</td>
</tr>
<tr>
<td>ROA</td>
<td>0.805871</td>
<td>0.715042</td>
<td>0.771314</td>
<td>0.821966</td>
<td>0.845952</td>
</tr>
<tr>
<td>ROE</td>
<td>0.744027</td>
<td>0.848732</td>
<td>0.778827</td>
<td>0.756250</td>
<td>0.820925</td>
</tr>
<tr>
<td>Unrelated</td>
<td>0.877140</td>
<td>0.760585</td>
<td>0.828703</td>
<td>0.707847</td>
<td>0.879599</td>
</tr>
</tbody>
</table>

While the composite reliability value produced by all constructs is very good, more than 0.70 so it can be concluded that all contracted indicators are reliable or meet reliability testing. Table 6 below is data that contains composite reliability test results.

Table 6.
Value of Composite Reliability

<table>
<thead>
<tr>
<th></th>
<th>Composite Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVERSIFICATION</td>
<td>0.767729</td>
</tr>
<tr>
<td>INTERACTION</td>
<td>1.000000</td>
</tr>
<tr>
<td>OWN MANAGERIAL</td>
<td>1.000000</td>
</tr>
<tr>
<td>COMPANY PERFORMANCE</td>
<td>0.748014</td>
</tr>
<tr>
<td>CAPITAL STRUCTURE</td>
<td>0.962003</td>
</tr>
</tbody>
</table>

Source: Data Processed, 2014

Evaluation Model: Structural Model Results

Inner model testing or assessment of structural models is done to see the relationship between constructs, significance values, and R-square of the research model. The structural model was evaluated...
using R-square for the dependent construct, Stone-Geisser Q² test for predictive relevance and t test and the significance of the structural path coefficient parameters obtained through bootstrapping procedures (Ghozali, 2008). The results of the R-square value for the construct or dependent variable obtained from the processing of the PLS program are shown in Table 7 below.

Table 7.
R-Square Value

<table>
<thead>
<tr>
<th>Construct</th>
<th>R²</th>
<th>Redundancy</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIVERSIFICATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INTERACTION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OWN_MANAGERIAL</td>
<td>0.371787</td>
<td>0.501174</td>
</tr>
<tr>
<td>COMPANY PERFORMANCE</td>
<td>0.080456</td>
<td>0.574504</td>
</tr>
</tbody>
</table>

Source: Data Processed, 2014

Based on Table 7, it can be seen that the diversification strategy affects the company's capital structure by 8%, while the remaining 92% is influenced by other factors or variables that are not in the equation model. The influence is in the weak category. While the influence on company performance with the existence of interaction variables which are proxies of managerial ownership moderation variables shows the value of R² is 37.18%, this is due to the moderating variable having a total direct effect (total effect) of positive 32.41% on performance company.

From Table 8 below, diversification decisions have a total medium effect with an effect size (f²) of 28.36% on the company's capital structure, while diversification decisions also have a moderate influence on company performance with an effect size of 15.8%. The company's capital structure has an effect size of 70.11% on company performance, and that value is a big influence on the research equation model. While the total direct effect of managerial ownership on company performance in this research equation model is negative 24.9%.

Table 8.
Total Effect Value of the Research Equation Model

| Construct                      | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | Standard Error (STERR) | T Statistics (|O/STERR|) |
|--------------------------------|---------------------|-----------------|-----------------------------|------------------------|-----------------|
| DIVERSIFICATION -> COMPANY PERFORMANCE | 0.157699            | 0.150680        | 0.163712                    | 0.163712               | 1.986238        |
| DIVERSIFICATION -> CAPITAL STRUCTURE   | 0.283648            | 0.287003        | 0.057683                    | 0.057683               | 4.917398        |
| INTERACTION -> COMPANY PERFORMANCE    | 0.324059            | 0.297175        | 0.346777                    | 0.346777               | 1.794489        |
| OWN_MANAGERIAL -> COMPANY PERFORMANCE | -0.249106           | -0.120668       | 0.368569                    | 0.368569               | 2.099907        |
| CAPITAL STRUCTURE -> COMPANY PERFORMANCE | 0.701131           | 0.479939        | 0.518731                    | 0.518731               | 2.351628        |

Source: Data Processed, 2014

The equation model is also evaluated by looking at Q² predictive relevance to measuring how much the observation value is generated by the model and also its parameter estimation. The value of Q² > 0 indicates that the model has predictive relevance, whereas Q² < 0 indicates that the model lacks predictive relevance. The value of Q² predictive relevance in the PLS program is shown in the Redundancy table (Ghozali, 2006). Then, based on testing in Table 8, the study produced by the first model has predictive relevance because of the value of Q² > 0.

Whereas q² test to measure the predictive level of relevance of structural models is calculated using the formula:

\[ q² = 1 - (1 - R₁²) (1 - R₂²) \cdots (1 - R_p²). \]
Based on table 7, the $q^2$ value is:

$$q^2 = 1 - (1 - 0.371787) (1 - 0.080456) = 0.422330$$

The value of $q^2$ from the testing of the equation model results in a value of 0.4223, indicating that simultaneously the independent variable has an influence on the dependent variable of 42.23% and the effect shows that the latent model of company performance variables has strong predictive relevance, because it has values greater than 0.35, so that the second model is good and feasible to use in predictions.

In overall of fit, the structural model is evaluated using the criteria for goodness of fit (GoF) index which is calculated using the formula:

$$GoF = \sqrt{Com \times R^2}$$

and based on the results of the analysis the magnitude of the goodness of fit (GoF) index is:

$$GoF = \sqrt{0.81618 \times 0.226121} = \sqrt{0.184557} = 0.429601$$

The GoF Index value of 0.43 indicates that the third model has great suitability because it has a $GoF \geq 0.36$ so that the overall of the fit equation in the third model is a good and appropriate equation as a structural model.

**Hypothesis Testing**

Significance testing for accepting or rejecting hypotheses from structural equations is obtained through bootstrapping procedures (Ghozali, 2008). Based on the procedure, the t count is obtained, all of which are above t table, namely $>1.960$ from the path coefficient test for each relationship between variables. Table 9 shows the test.

Table 9.

(Path Coefficient Variable Research)

| Hypothesis Test           | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | Standard Error (STERR) | T Statistics (|O/STERR|) |
|---------------------------|---------------------|----------------|---------------------------|------------------------|---------------------|
| DIVERSIFICATION -> COMPANY PERFORMANCE | 0.157699           | 0.091874       | 0.061387                  | 0.061387               | 2.939927            |
| DIVERSIFICATION -> CAPITAL STRUCTURE      | 0.283648           | 0.287003       | 0.056082                  | 0.056082               | 5.057759            |
| INTERACTION -> COMPANY PERFORMANCE         | 0.324059           | 0.297175       | 0.184578                  | 0.184578               | 1.755672            |
| OWN_MANAGERIAL -> COMPANY PERFORMANCE     | -0.249106          | -0.35752       | 0.150278                  | 0.150278               | 3.188135            |
| CAPITAL STRUCTURE -> COMPANY PERFORMANCE  | 0.701131           | 0.479939       | 0.208588                  | 0.208588               | 3.361316            |

Source: Data Processed, 2014

Based on the significance testing through the bootstrapping procedure in the SmartPLS program, the results showed that from the path coefficient test each relationship between variables has a t value $>1.960$ except the relationship between the managerial ownership moderating variable that is proxied as an interaction variable which only has a t value count is 1.756 while the graph showing the results of processing through the bootstrapping procedure is shown in figure 4.
The first hypothesis is that the diversification strategy has a significant positive effect on company performance, as evidenced by the total positive effect of 15.8% and its significant effect. While the second hypothesis: the diversification strategy has a significant positive effect on the company's capital structure, it is also proven by the total level of positive influence of 28.36% and is significant. The third hypothesis is the company's capital structure has a significant positive effect on company performance as well as a significant and positive total effect of 70.11%.

The fourth hypothesis is managerial ownership has a positive and significant effect on company performance. Based on the path coefficient test, the relationship between managerial ownership and company performance shows that the t count is 3.1881 so that it is greater than t table 1.960, this indicates that the relationship between the two variables is significant. But the total influence generated by managerial ownership on company performance has a negative tendency with a value of -24.9% so that the fourth hypothesis is not proven because there are negative and significant effects on company performance.

The fifth hypothesis is that managerial ownership plays a positive and significant role in its influence on the strategy of diversification and capital structure on company performance. Based on the significance testing through the bootstrapping procedure in the SmartPLS program, the results showed that the path coefficient of each relationship between variables has a t value > 1.960 except the relationship between the moderating managerial ownership variables proxy as an interaction variable which only has a t value of 1.756, so managerial ownership does play a positive role in its influence on the strategy of diversification and capital structure on company performance, but its role is not significant. Therefore the fifth hypothesis in this study is not fully proven because the moderating variable plays a positive role, but its role is not meaningful. Table 10 shows a summary of the results of testing the equation model hypothesis.

Table 10. (Summary of Hypothesis Testing Model Equations)

|                           | Total Effect | R Square  | T Statistics (|O/STERR|) |
|---------------------------|--------------|-----------|--------------|
| DIVERSIFICATION -> COMPANY PERFORMANCE | 0.157699     |           | 2.939927     |
| DIVERSIFICATION -> CAPITAL STRUCTURE | 0.283648     | 0.080456  | 5.057759     |
| INTERACTION -> COMPANY PERFORMANCE | 0.324059     |           | 1,755672     |
| OWN_MANAGERIAL -> COMPANY PERFORMANCE | -0.249106   |           | 3,188135     |
| CAPITAL STRUCTURE -> COMPANY PERFORMANCE | 0.701131    |           | 3,361316     |
| DIVERSIFICATION - CAPITAL STRUCTURE - OWN_MANAGERIAL - INTERACTION -> COMPANY PERFORMANCE | 0.371787 | | |

Source: Data Processed, 2014
Effect of diversification strategy and capital structure to the company's performance

The diversification strategy is a corporate level strategy that focuses on actions to gain a competitive advantage by choosing and managing different business groups in several industries and markets. The diversification strategy is widely used by large companies by adding new businesses both related and unrelated to the company's core business to increase revenue (Hitt, Ireland, and Hiskisson, 2003: 183; David, 2009: 260-262). Based on the objectives of the diversification strategy, it shows that by implementing a diversification strategy it is expected that there will be an increase in company performance through increased resources for operational activities, increasing efficiency, and increasing strength in the face of competition (Habernerg, Adrian, and Alison, 2003: 347).

This is the basis of the first hypothesis that diversification strategies have a significant positive effect on company performance and based on the testing of significance that has been done, the first hypothesis is proven. So that companies have diversified business segments have a tendency to get better corporate performance. This is due to companies not only relying on one main business segment but developing into other business segments both related and unrelated so that the company's performance is maintained.

The magnitude effect of the diversification strategy on the company performance in this study is a positive 15.8% with a significant level of t count of 1.986. This shows that the effect of diversification is significant on company performance, although 84.2% is influenced by other variables. The results of the proof of the first hypothesis support several previous studies as has been done by Markides (1995), Colpan and Hikino (2005), Chen and Yu (2012) and Park and Jang (2012).

Markides (1995) states that more than 50% of samples of companies that diversify have a high level of significance for firm profitability as measured by ROE and ROA whereas Colpan and Hikino (2005) found that in textile companies in Japan with observations from 1980 to 1990, diversification strategies had a significant positive effect on company performance as measured by ROS and ROA. Chen and Yu (2012), who conducted a study of Taiwanese companies listed on the Taiwan Stock Exchange, concluded that the diversification strategy carried out showed a significant positive relationship with company performance as measured by ROA. Likewise, research conducted by Park and Jang (2012) which took samples of companies in the restaurant industry in Korea, concluded that the company's performance as measured by ROA and ROS would increase with the company's success in maximizing the diversification strategy of the company, and the increase is significant.

While some previous researchers found the opposite of this study. Harto (2007) found that the variable diversification level as measured by business segments, number of subsidiaries, and herfindahl index did not significantly influence the performance of the company. Sulastri (2008) in his study concluded that there were no differences in the implications of the choice of diversification strategies on company performance. Kusumawati (2008), Suharyono (2008), Satoto (2009), Sen et all (2011), and Adi Sari et all (2011) in their study concluded that the more companies implement diversification strategies by increasing the number of business segments based on products will make the company's performance increasingly low so that the diversification strategy does not provide benefits, actually decreases the company's performance and the decline is significant. Other previous researchers, Kahloul and Hallara (2010) who took samples of companies going public in France with years of observation from 2000 to 2005, found that diversification strategies had a negative impact on company performance, but these impacts were not significant.

The second hypothesis which examines the effect of diversification strategies on capital structure shows a positive and significant effect, with a total influence of 28.36% and a calculated t value of 4.917 so that the second hypothesis is proven. This shows the companies that implement a diversification strategy will tend to use sources of funds from third parties in the form of debt because the capital structure in this research is measured based on the level of debt to equity and also assets owned by the company. Rose (1977) states that companies that have optimistic towards future productivity will usually tend to increase leverage which can be measured by the ratio between total debt and total assets or
total equity. The statement was supported by Born and Mc Williams (1997), Chatterjee and Wenerfelt (1998), and Barney (2002). Born and Mc Williams (1997) stated that companies that have an indication of low free cash flow tend to have optimistic towards future value or expect NPV > 0 from investments made on unrelated diversification by utilizing debt for the purpose of reducing risk whereas Chatterjee and Wenerfelt (1998) say that financial assets are more flexible to be used as diversification goals compared to other assets. In line with the above researchers, Barney (2002) also suggested that diversifying companies would use debt to reduce risk and overcome their low cash. This is the basis of the second hypothesis and after testing the second hypothesis proved to have a positive and significant effect, even though 71.6% was influenced by other variables outside the variables carried out in this study.

This research is also in accordance with the results of research from several previous researchers namely: Chandra (2007) and Apostu (2010) which states that there is a positive relationship between diversification and leverage strategies, with a significant level of relationship. Whereas Aisjah (2010) revealed that there is significant influence between diversification strategies and capital structure, but the effect is negative because companies that carry out related diversification tend to reduce their debt requirements and companies that implement unrelated diversification are more likely to utilize internal financial resources. The Aisjah (2010) study tends to support the statements of Jensen and Meckling (1976) and Safieldine and Titman (1999) which state that companies that have a high degree of leverage will tend to try to utilize internal financial resources to finance their investments, so that changes in investment spending negatively affect change in leverage.

There is the influence of capital structure on company performance is the third hypothesis. The results of the tests that have been conducted show that there is a total effect of the capital structure of a positive 70.11% with a value of t count of 2.351 on company performance so that the third hypothesis is proven. This means that the effect of the capital structure as measured by DER and DAR is a positive and meaningful influence on each change in company performance as measured by ROE and ROA, although there are 29.89% of other variables that influence. The results of this study do not support several previous studies, most of which found that the capital structure has a significant negative effect on company performance (Chattoth, 2002; Masud, 2009, Saedy and Kazemipour, 2011, Mubashar, et al., 2012). Anwar (2009), in his study, concluded that capital structure has a negative and significant effect on company performance, companies that have a low debt level in their capital structure will increase the performance of their company or vice versa. But Kesuma's research (2009) states the opposite that the debt ratio has a positive but not significant effect on the performance of the company being proxied with the stock price with a total value of influence of 26.1%.

The phenomenon of capital structure in non-financial public companies on the IDX 2000 - 2010, shows the composition of capital structure which is dominated by debt, with an average level of leverage > 60% (IDX Report 200 - 2010). This phenomenon indicates that the source of funding for non financial public companies, in the long run, is highly dependent on debt (high leverage). Such conditions if it is associated with economic conditions that have sharp competition, then public companies that have a leverage level above 60%, must try to increase the level of profit greater than the burden of interest rates to be paid. This is evident when viewed from the average capital structure in the sample companies which reached 80.7% with the level of company performance in the form of an average rate of return of 12.5%.

**Effect of managerial ownership on company performance**

Jensen and Meckling (1976) state that the level of insider ownership that is quite high will facilitate supervision problems and also align the interests of managers and shareholders because the implementation of supervision and ownership structure of the company will have an influence on various company policies. High insider ownership will be able to reduce equity agency conflicts but will cause other conflicts related to debt problems, because managerial share ownership has an influence on the level of leverage, where increased managerial ownership will be followed by a decrease in the level of leverage (debt). Large managerial share ownership allows managers to take a leading position in the company to control leverage decisions.
The fourth hypothesis in this study is managerial ownership has a positive and significant effect on company performance in accordance with the theory proposed by Jensen and Meckling (1976). After testing, the results show that managerial ownership has a total influence with a negative value of 24.9\% and a calculated t value of 2.099. This shows that managerial ownership has a negative and significant effect on company performance so that the greater managerial ownership in the company will cause the company's performance to decline so that the fourth hypothesis is not proven. The results of this study do not support the theory proposed by Jensen and Meckling (1976). If seen further towards the company that is used as the research sample, obtained data that the parties who have managerial shares are parties that have the majority interest and are the main controller in the company so that it is very influential in making company decisions and policies both in determining the company's strategy and level of leverage (debt) which will ultimately affect the performance of the company.

This study supports previous research conducted by Sujoko (2007), and Chen and Yu (2012). While the research from Kusumawati (2008) and Soliha and Taswan (2002) who found a significant and positive relationship between managerial ownership and firm value.

The role of managerial ownership on its influence on diversification strategies, capital structure and on company performance

Managerial ownership is one mechanism to help control agency conflicts. This conflict occurs because of differences in interests between the owner and manager of the company. Managerial ownership is able to influence the course of the company which ultimately affects the company's performance to achieve company goals. Managerial ownership is measured by the percentage of shares held by management. The size of the number of managerial ownership in the company will indicate a similarity of interests between management and shareholders or owners. The relationship between corporate diversification and capital structure with company performance will be strengthened by managerial ownership because the greater the proportion of managerial ownership in the company, the manager tends to be more active for his interests as a shareholder or company owner, himself (Gray et al., 1998). So that managers who are also shareholders will be motivated to improve company performance in order to improve their welfare.

The fifth hypothesis tested is a temporary answer to the fifth problem, namely managerial ownership has a positive and significant role in its influence on the strategy of diversification and capital structure on company performance. Managerial ownership in this test is included as a moderating variable that is proxied as an interaction variable having a positive R^2 value of 37.18\%. But based on path coefficient testing, the results of t arithmetic are 1.756 so that the value of t count <1.960.

Therefore managerial ownership plays a positive role in its influence on the implementation of diversification strategies and management of capital structures towards the achievement of company performance even though it is not significant. This shows that management will try to integrate optimally between the implementation of diversification strategies and management of capital structure so that good corporate performance will be achieved because management is a manager and owner of a company that certainly has an interest in the success of achieving company performance.

Previous research conducted by Kurniasari (2011) and Putra and Wirawati (2013) also found almost the same thing as this study. Kurniasari (2011) concluded that managerial ownership as a moderating variable was able to moderate the relationship between diversification strategies and the total risks faced by the company. Whereas Putra and Wirawati (2013) found that the results of the t test showed that the company performance variable measured by ROA on managerial ownership had a coefficient of 0.004 with a significant level of 0.000 or a probability under \( \alpha = 5\% \) and a t count = 10,969 > t value table = 2.267, so the hypothesis is accepted, this means managerial ownership can influence the relationship between ROA and firm value. In this case, managerial ownership strengthens the relationship between ROA and company value because the coefficient value obtained is positive, so ROA has a positive effect on firm value when moderated by managerial ownership.
E. CONCLUSION

1. The diversification strategy applied by the company has a positive and significant influence on company performance.
2. The diversification strategy also has a positive and significant influence on the company's capital structure.
3. The capital structure as measured by DER and DAR has a positive and significant effect on each change in company performance as measured by ROA and ROE and the results of this study do not support previous research which most find that the capital structure has a negative and significant effect on company performance.
4. Managerial ownership has a negative and significant effect on company performance. So that if the level of managerial ownership is high, it will actually reduce the level of company performance and vice versa. Whereas directly, managerial ownership as a moderated moderating variable in the form of interaction variables has a non-significant effect on company performance.
5. Managerial ownership as a moderating variable has an insignificant positive role in its influence on the diversification strategy applied by the company accompanied by the management of capital structure towards achieving company performance.

REFERENCE


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