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ROLE OF OWNERSHIP STRUCTURE IN THE EFFECT OF DIVERSIFICATION STRATEGY ON CAPITAL STRUCTURE AND FINANCIAL PERFORMANCE OF COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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Abstract

This study aimed to examine the effect of the diversification strategy decisions on capital structure and financial performance and to examine the role of the ownership structure (institutional ownership and managerial ownership) on the effect of the diversification strategy on capital structure and company's financial performance. Type of this research is quantitative research. The sample used is a non-financial company in accordance with the criteria and is registered as a public company in Indonesia Stock Exchange 2009-2014 period. This study classifies into four variables, are independent variables (exogeneous variable): related diversification strategy (X_1) and unrelated diversification strategies (X_2), moderating variables: institutional ownership (Z_1) and managerial ownership (Z_2), intervening variables: capital structure (Y_1), and the dependent variable (endogeneous variable): the company's *financial performance (Y_2). Technical analysis was done using path analysis and moderated regression analysis (MRA). The results indicate that related diversification strategies shows positive influence and significant impact on the structure of capital, unrelated diversification strategy to negative and significant impact on capital structure. Related diversification strategies to positive and significant impact on the company's financial performance. Unrelated diversification strategy shows negative effect and significant impact on the company's financial performance. Capital structure as measured by DER was also negative effect and significant impact to any changes in company's financial performance as measured by ROE. Institutional ownership role of strengthening the influence of related diversification strategies and unrelated diversification strategies to capital structure. Managerial ownership strengthen the role of influence related diversification strategy also unrelated diversification strategy to capital structure. Institutional ownership and managerial ownership does not contribute to the effects of capital structure on a company's financial performance because it is an independent variable that directly affect to the capital structure and company's financial performance.*

Keywords: Institutional Ownership, Managerial Ownership, Diversification Strategies, Capital Structure, Financial Performance, Path Analysis, Moderated Regression Analysis

INTRODUCTION

The company's financial performance is one of information that could investor reaction trigger, that can result in stock prices fluctuations due to asymmetric information between sellers – buyers and investors' expectations of the benefits (Kristianto, 2008). Corporate profits is one of the company's financial performance benchmarks. The company's financial performance can be known from the financial statements published so that investors and prospective investors can make an assessment of the company. The better company's financial performance, the greater of effect on the stock price increases. Conversely, the decline in the company's financial performance, it will be reacted by investors with more likely fall in the price of shares issued and traded (Arifin, 2002: 116).

Cready and Mynatt (1991) in Lako (2006: 28-29) examine and interpret responses securities markets around the date of publication of the report of annual earnings for all securities listed on the NYSE during the January 1, 1981 until December 31, 1984. They interpret that the notices for dates, annual earnings reports more informative for investors to make investment decisions. Annual earnings reports may provide social benefits to investors in case of were no different price conditions. While Hanafi (1997) and Lako (2002), which test the market reaction to the financial statements publication to the same conclusion with empirical studies abroad: the financial statements publication bring information to the stock market and has information content.

The strategy undertaken by the company will also become the attention of investors because of the strategies will impact on the achievement of company performance. One of the strategies used in the achievement of the performance is the diversification strategy, which is a form of business development by expanding the number of business and geographical segments, expand market share existing or developing a diverse range of products.

Selection of the diversification strategy is still being debated due to the decision making process for the selection of a diversification strategy involving a variety of purposes and are confronted with a variety of interests (conflict of interest), for example, between management interests and owner interests, or interests of the business lines, or it can also involve conformity among external factors (macro) and internal (micro). However, Johnson (1999) concluded that success is not dependent on the particular environment, but depending of the organization capabilities to integrate its strategic assets.

Characteristics of the companies in Indonesia and has become the public company, most are part of a business group that built from the family company. They are expanded into a business that even totally different from the core business by relying on internal capital and external capital (Sugiarto, 2009: 26). The company in charge of the various subsidiaries scattered in various business segments, so it is a diversified company in the different business segments with its core business (unrelated diversification).

The phenomenon of the domestic public companies that are still the family basis, for business development, the shareholders (there are ties in one family) prefer funding companies financed with debt because with the debt, their rights to the company will not be reduced. But the manager did not like the fund because it contains a high risk. Managers have different interests with shareholders. The shareholders willing to obtain high returns, while managers worried that provide sustainable high dividend and should make the long-term funding decisions will impact shortage of money in the company's operations. Decision of the increase in debt is usually done by the owner's to long-term funding will have an impact on financial performance.

While the more interesting phenomena of domestic public companies is the ownership composition. Most of the domestic public company shares are owned by parties who still have family ties so that the decisions that are strategic (expansion, funding, distribution of dividends, etc.) decided with family base. On the domestic public companies usually put investment is too large for a line of business with low investment opportunity due to factors maintain or enhance the reputation of exclusive owner of the company. While the company manager (who still has family ties with the owner) has a free cash flow is large, tend to take an investment that decreases the value and the project has a net present value is negative when allocating on a segment of their business, so the investment company's is not optimal that will provide cross-subsidies to underperforming business segments by using resources derived from a profitable business segment performance. Eventually, the company will have an internal market mechanism that will tend to degrade the company's performance, or simply will be financial cross-subsidies between business segments are performing to the business segment with poor performance.

The business practices of the domestic pubic company has been investigated by Suwarni and Pakaryaningsih (2007) which concluded that the company's diversification strategy aims to reduce the risk and still provide enough potential profit level. By applying corporate diversification strategy, if one business segment suffered a loss, then the benefits of the other business segments can cover such losses, so the strategy of diversification may also be referred to as asset allocation strategies.

But from some studies showed inconsistency on the influence of corporate diversification on the company's performance so there are research gaps. Khanna and Palepu (2000) stated that the company's diversification strategy is more precise than the focusing strategy on the developing countries (with emerging markets). Because the developing countries have weak institutions in the case of product markets, capital markets, labor markets, government regulations, and implementation of the contract. While Satoto (2009) states that in the countries with developing economic conditions, the level of uncertainty or risk facing the company is relatively high, so it will affect the performance and success of the company to diversify. Gunarsih (2004) in his research concluded that the diversification strategy has positive influence on the performance of public companies listed on the Jakarta Stock Exchange. Jandik and Makhija (2005) also concluded that diversification can improve the companies 'performance in the electrical industry in the United State.

Different research results obtained by Lang and Stulz (1999) who found empirically that the diversified company has a negative relationship between Tobin's Q ratio by diversification sizes. Similarly Satoto (2009) results showed a diversification strategy has negatively affect to the company's performance. Research from Harto (2007) and Setionoputri et al. (2009) stated that the diversification it has no significant effect on the company's performance. Kahloul and Hallara (2010) also concluded that there is no influence between diversification and corporate performance. The inconsistency of the results of studies examining the influence of corporate diversification on corporate performance and risk, indicating other factors that affect the relationship diversified company to the company's performance and risk.

According to Pearce and Robinson (2009: 331-336), a diversification strategy as an alternative to corporate strategy are classified into two types: concentric diversification and diversified conglomerate. Both types of diversification are included in a group of strategic alternatives in Grand Strategy building, which will provide the direction and foundation for coordination and achievement efforts of long term goals. Meanwhile, David (2009: 260-267), mentions that diversification can be divided into two types: related diversification and unrelated diversification. Linkage refers to the relationship with its main business being involved in, or some businesses that make up the value chain within a business group. In this research was conducted by evaluating the diversification strategy in the domestic public companies listed on the Indonesia Stock Exchange, according to David (2009: 260-267), with related diversification and unrelated diversification. The reasons for selecting the type of diversification strategy because the strategy requires the consequences of big resource needs and generate the most expensive key strategies so will require a strong capital structure and good performance.

Research from Roy and Li (2000) and Chen (2004) states that employers prefer to create debt at a certain level to raise the value of the company rather than to expand in diversified forms. While research from Martin and Sayrak (2003) and Mackey (2006) which concluded that the company’s diversification can reduce the company’s value and unrelated diversification can be more benefits than related diversification due to the tight competition.

The study examined relationship between capital structure and corporate performance has been carried by Deesomseek et al. (2004), Chen (2004), Delcoure (2006), and Huang and Song (2006) with the findings that the negative effect on the profitability of capital structure. Meanwhile, according to Bringham and Houston (2004: 486), the use of financial leverage may also cause certain losses, namely: makes load of fix interest that can lead to a debt ratio higher so companies increasingly risky and can lead to bankruptcy if at any time the company is in a position of financial distress and operating income is insufficient to cover the interest expense.

In this study also incorporates elements of the shareholding structure as moderating variable. Stock ownership structure is divided into institutional ownership and managerial ownership. Mod'd et al. (1998) and Husnan (2001) states that the ownership structure moderating influence between corporate diversification strategy to capital structure and company performance. Jensen and Meckling (1976) states that institutional ownership has a very important role in minimizing the agency conflict that occurs between managers and shareholders. The existence of institutional investors are considered capable of being an effective monitoring mechanism in any decision taken by the manager. This opinion is supported by empirical evidence found by Barclay and Holderness (2000), who found a significant positive effect-level of institutional ownership in large enough quantities to the value of the company.

Managerial ownership is stock ownership by company managers or professionals who run the company so as to align the interests of management with shareholders (Jensen and Meckling, 1976). Their managerial ownership, managers are expected to act in accordance with the wishes of the shareholders because the manager will also benefit directly on any decisions taken and also losses incurred if the decision is wrong.

Based on the above explanation and some previous studies, this research in detail aims to test and prove the related diversification strategies effect on capital structure, test and prove the unrelated diversification strategy effect on capital structure, test and prove the related diversification strategies impact on financial performance, test and prove the unrelated diversification strategy effect on financial performance, test and prove the capital structure affect the financial performance, test and prove the institutional ownership role of strengthening the influence of related diversification strategies to the company's capital structure, to test and prove institutional ownership role of strengthening the influence of the unrelated diversification strategy to the capital structure, test and prove the managerial ownership role of strengthening the influence of the related diversification strategy to capital structure, test and prove the managerial ownership role of strengthening the influence of the unrelated diversification strategy to the company's capital structure, to test and prove institutional ownership role of strengthening the influence of capital structure on financial performance, test and prove the managerial ownership role of strengthening the influence of capital structure on the financial performance of companies listed on the Indonesia Stock Exchange.

Hopefully this research can be contribute ideas and reference materials that can be used by management in companies that have been or will be diversified both concentric diversification and diversified conglomerate and can be taken into consideration for the investors or potential investors who have been or will invest their funds in companies diversified. In addition it is expected to be additional empirical evidence role of institutional and managerial ownership for influence on the diversification strategy of the capital structure and the company's performance, and can be contribute to development of financial management and management strategy science.

LITERATURE REVIEW

Effect of related and unrelated diversification strategies to the capital structure

Diversification is the company's strategy to expand business by opening a business unit or a new subsidiary either in the same line of business with existing and in business units is not the same as the company's core business. The size of widely used to identify diversification level of the company is a number of the company's business segments (Harto, 2007).

The main discussion of capital structure is a mix of debt and equity for the company's financing. Mix efficient capital structure can reduce the cost of capital, which could increase net economic returns and enhance company's value. The capital structure is an important issue for companies because they either poor capital structure will have a direct effect on the financial position of the company which will ultimately affect the performance of the company. Researchers previous strategic financial management as Hamel and Prahalad (1990, 1991), Montgomery (1994.1998), Mintzberg (1994), Kotha and Vadlamani (1995), Pandya and Rao (1998), and others are directly or not immediately make efforts to find a theory, either partially or simultaneously on the relationship between development strategy, ownership structure and capital structure to the company's performance. These efforts have led to additional development of the strategic financial management literature that emphasizes the relationship between the variables mentioned above.

The latest study that simultaneously examined the relationship between strategy development, ownership structure and capital structure to the company's performance made by Chathoth (2002), which tested the restaurants located in the United States. Colpan and Hikino (2005), examined the 10 largest textile company in Japan by taking data from 1997 to 2002. Recent research conducted by Kahloul and Hallara (2010) by testing against 69 non-financial companies in France. Chen and Yu (2012) tested the 98 companies listed on the Taiwan Stock Exchange (TSE). Saedy and Kazemipur (2011) by testing against 22 pharmaceutical company in Iran. Park and Jang (2012), which examines 308 restaurants in the United States from 1980 to 2008. Shen et al. (2012) examined 200 randomly selected companies from China Stock Market Accounting Database (CSMAR) is a collection of data and information from the companies whose shares are traded on the Shanghai or Shenzhen Stock Exchange. Mabashar et al. (2012) conducted tests on 158 non-financial sector companies listed on the Karachi Stock Exchange, Pakistan with data from the period 1998 to 2009.

Effect of related diversification strategy, unrelated diversification, and capital structure on company's performance

Diversification strategy is a corporate level strategy which focuses on measures to gain a competitive advantage by selecting and managing groups of different businesses in several industries and markets. Diversification strategy is widely used by large companies by adding new businesses are either related or unrelated to the core business of the company to increase revenue (Hitt et al., 2007: 183; David, 2009: 260-262). Based on the purpose of the diversification strategy, shows that by implementing a diversification strategy is expected to be an increase in the company's performance through an increase in resources for operational activities, improved efficiency, and increased strength in the face of competition (Habernerg et al., 2003: 347).

The influence of diversification strategy on the company's performance scrutinized by Colpan and Hikino (2005), Kahloul and Hillara (2010). They revealed that the diversification strategy significantly influence the company's performance. While the influence of the company's capital structure to the company performance scrutinized by Mubashar et al. (2012) showed that the capital structure significantly influence the company's performance. Chen and Yu (2012) research showed empirical evidence that managerial ownership structure has a significant influence on the company's performance. This study also proves that the capital structure and ownership structure influence simultaneously on company performance.

Research on the influence diversification strategy, capital structure with the ownership structure as a moderating variable has not grown widely in Indonesia. Therefore, this study was conducted to obtain empirical evidence about these variables in Indonesia. Several strategic financial management research that has been done in Indonesia with regard to the relationship between development strategy, ownership structure and capital structure to the company's performance has done much either partially or simulatan. Research conducted Aisjah and Subroto (2011) taking a sample of 43 companies listed in Indonesia Stock Exchange with the observation period starting from 2002 to 2007. Anwar (2009) conducted a study of 8 (eight) food and beverage companies listed on the Jakarta Stock Exchange from 2003 to 2007. Other studies related to the above variables was also conducted among others by: Chandra (2007), Harto (2007), Sudjoko (2007), Suharyono (2008), Kusumawati (2008), Sulastri (2008), Setionoputri et al. (2009), Mas'ud (2009), Satoto (2009), Aisjah (2010), and Sari et al. (2011).

Research hypothesis

Diversification will generally affect the funding decision as to develop the business by implementing a diversification strategy requires financing. In choosing a financing alternative, the company will face agency conflicts between management and shareholders or between shareholders with debt holders. The company will choose the most appropriate financing alternatives in order to minimize agency problems. Based on the above argument then raises the first and second hypothesis, namely:

H_1: Related diversification strategy (X1) effect on the capital structure (Y1)

H_2: Unrelated diversification Strategy (X2) effect on the capital structure (Y1)

Diversification strategy is widely used by large companies by adding new businesses are either related or unrelated to the core business of the company to increase revenue. By doing applying these strategies, management is required to produce optimal financial performance in order to create the maximum profit. Reason implementation of the diversification strategy in addition is expected to realize the objectives of the company, is also expected to neutralize the power of competitors and expand companies portfolio (Hitt et al, 2007: 187).

These reasons indicate that by pursuing a diversification strategy, the company will be able to generate an increase in the company's financial performance (Datta et al, 1991). Chakrabarti et al. (2007) in his research found that companies in six Asian countries: Singapore, Japan, Korea, Malaysia, Thailand, and Indonesia, which experienced a stable situation then crisis causing turmoil unstable economy, but a diversification strategy positively affects the financial performance of their companies. Applying of diversification strategy may indicate an increase in financial performance through increased resources for operational activities, improved efficiency, and increased strength in the face competition. Therefore the third and fourth hypothesis will be verifiable in this study are:

H_3: Related diversification strategy (X1) affect the company's financial performance (Y2)

H_4: Unrelated diversification strategy (X2) have an effect on the company's financial performance (Y2)

Capital structure policy according to Brigham and Houston (2004: 6) involve risks and return. The addition of debt will increase the risk of the company, but will increase the expected return. Risks are higher due to the amount of debt tend to lower stock prices, but the increase in the expected return which is expected to boost the share price as well. From this came of optimal capital structure concept, the capital structure which optimizes the balance between risk and return that maximizes stock price.

Debts will have consequences an interest expenses. The profit reduction will result in reduced cash that can be issued by the company because the management must have sufficient cash reserves to be maintained liquidity and fund operations and investments. So that if the company can manage with both external sources of funding and is able to pay its obligations, it can be said the company has good financial performance. Therefore, based on the above arguments, gave rise to the fifth hypothesis, namely:

H_5: Capital structure (Y1) affect the company's financial performance (Y2)

The implementation of the diversification strategy requires financing. The funds for the implementation of these strategies can be derived from debt or equity. The decision to choose the sources of financing is a financial sector decision which very important for the company. The ratio of debt to equity describes the capital structure of the company and will determine the amount of financial leverage used by the company. Husnan (2000: 275) argues that the capital structure is a comparison between a source of long-term loans and equity. The use of different types of financing have different effect on the profits from the company. The use of foreign capital will reduce profits because the company has to pay interest and that interest as a tax deduction to be borne by the company. While the compensation of their own capital in form of dividend payments taken from the profit after tax, so it does not reduce tax payments.

Mod'd et al. (1998) research found that the ownership structure to moderate the effect of the use of debt as a result of their business development strategy so that the ownership structure significantly contribute strongly affect the company's success in the use of debt. Husnan (2001) stated that the ownership structure is predicted to moderate the effect of determining the capital structure to the company's value. The more concentrated the company's shares will likely reduce debt despite significant funding required to conduct business development.

Management will be more cautious in borrowing, because the amount of debt is too high will cause the risk of financial distress so that the company's value will decline. Therefore, the ownership structure significantly contribute to the determination of capital structure as a result of business development policies that will ultimately affect the company’s value. Based on above the studies and arguments was composed of several hypotheses:

H_6: Institutional Ownership (Z1) strengthening the influence of related diversification strategy (X1) in the capital structure (Y1).

H_7: Institutional Ownership (Z1) strengthening the influence of unrelated diversification strategy (X2) in the capital structure (Y1).

H_8: Managerial ownership (Z1) strengthening the influence of related diversification strategy (X1) in the capital structure (Y1).

H_9: Managerial ownership (Z1) strengthening the influence of unrelated diversification strategy (X2) in the capital structure (Y1).

At the time of the implementation of diversification strategy, financial performance in the diversified company are not necessarily good, so it can lead to agency conflict because not good financial performance can have an impact on the return that will be given to the owner. Agency conflicts between owner and managerial agent can be solved through managerial ownership. With the managerial ownership, managers are expected to take action that not only meets the interests of managers but also meet the interests of the owner of the company (Jensen and Meckling, 1976).

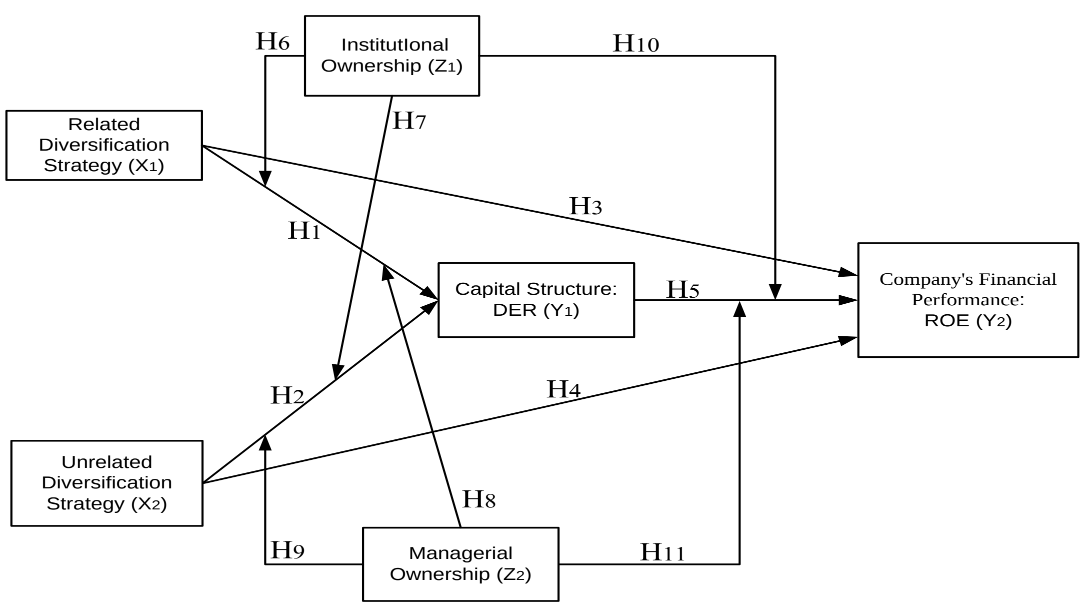
The mechanism of the use of debt in the capital structure is one attempt by shareholders to solve agency problems because of the separation between management and ownership of the company. Bathala et al. (1994) stated that managerial ownership is very strong and significant moderating debt management companies that would affect the achievement of the company's performance.

Also in the ownership structure of the company are institutional ownership which the company's shares owned by the institutions. Institutional ownership has significant importance in monitoring the management due to the existence of institutional ownership will encourage more optimal supervision. Monitoring course will ensure prosperity for shareholders. Sujoko dan Soebiyantoro (2007) research partially shows that institutional ownership variable has a negative and significant impact on leverage. Increasing institutional ownership is expected to increasingly strong control over the management. If the high cost of monitoring, the company will use a third party that creditors to help conduct surveillance. Increasing institutional ownership capable to reducing of debt level. Agency theory also mentions the usual mechanism to oversee the agency conflict is through increased institutional ownership (Jensen and Meckling, 1976). So that institutional ownership is predicted to have a significant role in the management of debt levels that would affect the company's performance. The role of the ownership structure in managing the capital structure will affect its financial performance based on the studies above raises two hypotheses:

H_{10}: Institutional Ownership (Z1) strengthen the effect of capital structure (Y1) on the company's financial performance (Y2).

H_{11}: Managerial ownership (Z2) strengthen the effect of capital structure (Y1) on the company's financial performance (Y2).

Figure 1.Conceptual Framework and Research Hypotheses



RESEARCH METHODOLOGY

The population in this study is a non-financial companies listed on the Indonesia Stock Exchange, which by the end of 2014 some 403 companies. Meanwhile, non-financial companies that the research sample will be reviewed based on the following criteria:

a. Publicize the company's financial statements during the observation period 2009 - 2014 and have the necessary financial data in this study.
b. The Company has a share ownership structure information and the company's shares owned by management (commissioners or directors) of the company.
c. An enterprise with foreign ownership maximum of 30% of outstanding shares.
d. Implement a diversification strategy by developing related and unrelated business to the core business.
e. During the observation period (2009 - 2014), the company did not suffer losses.

Based on the review criteria of the study sample above, of the 403 non-financial companies, as many as 134 companies met the criteria as domestic public company (DC) but as many as 52 new companies started as a public company in 2010. 35 companies during the observation period (2009-2014) experienced losses and 22 companies only focus on their core business without doing business development. So that only 25 companies that match the criteria and will be entirely sampled with consideration of the information necessary to analyze these companies have been acquired completely, as well as researchers want to reduce errors that can make generalizations with a small error rate.

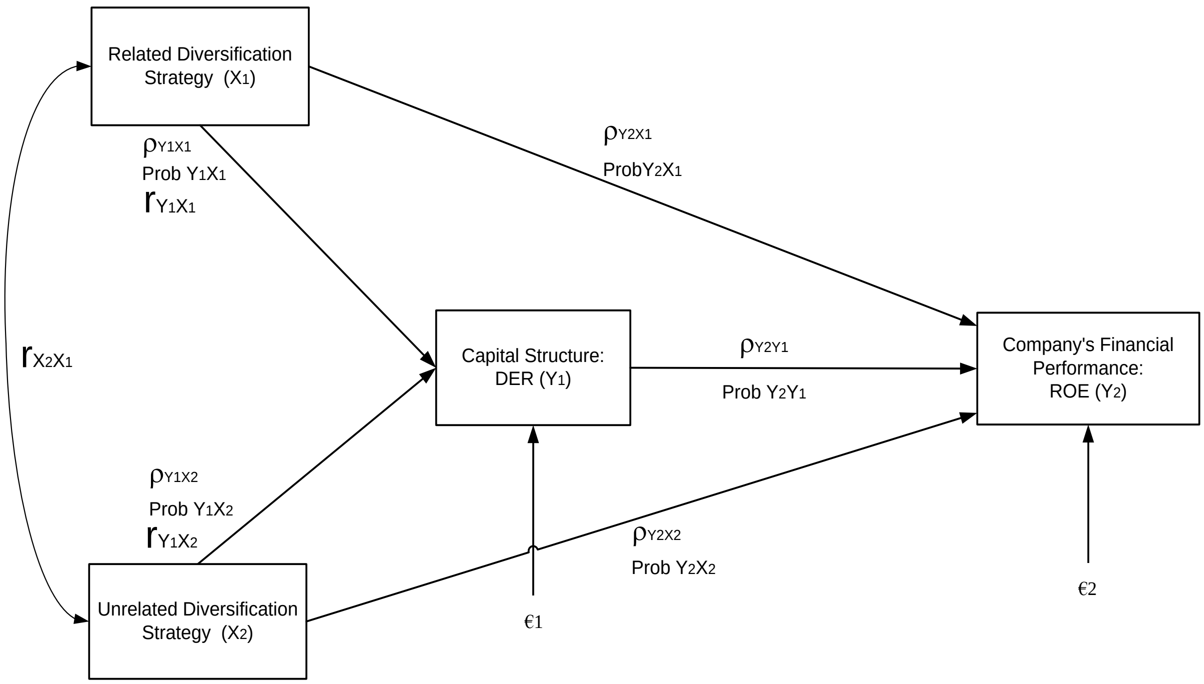
This study uses historical data taken over of 6 years from 2009 to 2014. Data were obtained from published reports that the company's annual reports or the complete financial statement during 2009-2014 of listed companies in the Indonesia Stock Exchange in accordance with the criteria of eligible companies.

This study classifies 4 (four) variables: independent variable (exogeneous variable): related diversification strategy (X_1) and unrelated diversification strategies (X_2), moderating variables: institutional ownership (Z_1) and managerial ownership (Z_2), the intervening variables: capital structure (Y_1), and the dependent variable (endogeneous variable): the company's financial performance (Y_2). While technical analysis using path analysis techniques and moderated regression analysis (MRA).

Path analysis

Path analysis is used to test the first hypotheses until the fifth hypothesis, with a model based in the figure 2.

Figure 2.Path analysis model diagrams



There are two structural equation, where$X_1$and X_2as independent variables while $Y_1$and Y_2as the dependent variable, so the structural equation is as follows:

$Y_1 = \rho_{Y_1X_1}X_1 + \rho_{Y_1X_2}X_2 + \epsilon_1$...................................... structural 1

$Y_2 = \rho_{Y_2X_1}X_1 + \rho_{Y_2X_2}X_2 + \rho_{Y_2Y_1}Y_1 + \epsilon_2$....................... structural 2

where: X_1 : related diversification strategy

X_2 : unrelated diversification strategy

Y_1 : capital structure – DER

Y_2 : company's financial performance - ROE

The first test was conducted feasibility analysis model (simultaneous test) through two phases, namely: the simultaneous effect of testing model, to determine the percentage contribution of independent variables simultaneously influence the dependent variable and the simultaneous effect of significance testing model, to determine whether the independent variables collectively equally significant effect on the dependent variable. The second test is multicolinierity test, to test whether there is a correlation between the independent or exogenous variables (Ghozali, 2013: 105). Testing is the third or final analysis of the path coefficients (partial testing) as well as hypothesis testing, to determine whether in the model, the independent variables partially have a significant effect on the dependent variable. If the test results prove the independent variable significant effect partially (individual) on the dependent variable, then H_1throughH_5will be accepted.

Moderated regression analysis (MRA)

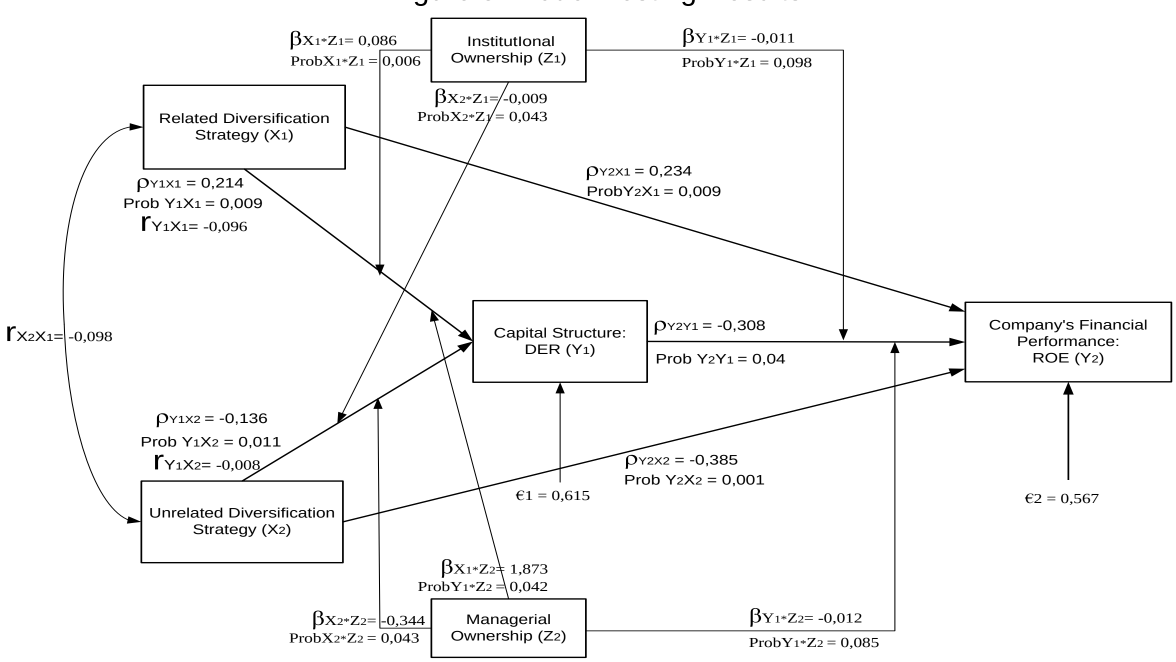
Moderated regression analysis (MRA) is used to test the sixth hypotheses until the eleventh hypotheses, by entering the third variable (interaction variable) in the form of multiplication between independent with moderating variables. In this analysis, there are two moderator variables, namely: institutional ownership (Z_1) and managerial ownership (Z_2).

Model of moderated regression equation is as follows: Y_i= α + $\beta_1 X_i + \beta_2 Z_i$ + $\beta_3 X_i$*Z_i+ε, where, X_i*Z_i an interaction variables. The first stage in this analysis is calculating the moderation regression by the interaction method. The second stages of testing are normality and autocorrelation. Normality test aims to test whether the regression model, confounding variables or residuals have a normal distribution (Ghozali, 2013:160), while testing the autocorrelation aims to determine whether there is a correlation between a series of observational data by time (time series) (Suliyanto 2011 :125). The third phase feasibility analysis model (simultaneous test). The fourth stage partial coefficient analysis (individual tests) as well as hypothesis testing. If the $Z_i$variable is proveas a moderator variable (quasi moderator or pure moderator) and also prove a role strengthening the influence of the independent variable on the dependent variable,H_6until H_{11}will be accepted.

EMPIRICAL RESULTS AND DISUSSION

Based on test results of path analysis and moderated regression analysis (MRA), a complete research model depicted in the figure below:

Figure 3. Model Testing Results



The effect of related and unrelated diversification strategies to the capital structure

The first hypothesis that evaluated the effects of related diversification strategy to capital structure shows a positive and significant influence, the influence by 21.4%, so the first hypothesis is accepted. Increasingly the segment results of related diversification strategy will be followed by the greater amount of debt used by the company to finance its operations for business development. This means that the sample companies are implementing related diversification strategies tend to utilize funding from third parties in the form of debt to fund their business development activities.

The results are consistent with results of previous studies by different researchers. One study that the results are consistent with the results of this research is conducted by Apostu (2010) who states that there is a positive relationship between the diversification strategy associated with leverage and significant relationship level. But other researchers, Aisjah (2010) revealed that a significant effect between the diversification strategy to the capital structure, but the effect is negative because the company is doing related diversification is likely to decrease its debt requirements by utilizing internal financial resources. Aisjah (2010) research has tended to support the statement of Jensen and Meckling (1976) and Safielddine and Titman (1999) which states that companies with high leverage levels are likely trying to take advantage of internal financial resources to finance the investment, so that changes in investment spending negatively affect to leverage changes.

Another researcher, Rose (1977) in Sugiarto (2009: 90) states that companies with optimistic towards future productivity would normally tend to increase leverage can be measured by the ratio of total debt to total assets or total equity. The statement was supported by Chatterjee and Wenerfelt (1998) in Sugiarto (2009: 76) which says that the more flexible financial assets to be used as a related diversification purposes compared with other assets. While Duchin(2007) also suggests that companies that diversify are still something to do with the main segment of the company's products will utilize debt to reduce risks and cope with low cash them.

Tests on the second hypothesis also showed similar results with the results of testing the first hypothesis. This is evident in the test results that show the value of the effect of -13.6% and significantly so that the second hypothesis is accepted. This result proves that the unrelated diversification strategy have significant negative effect on the capital structure. The test results showed that the sample companies may finance the businesses development have unrelate with the main segments / products by utilizing the external company's main source funding although results will be obtained from unrelated diversification have not been as a result of related diversification.

These test results concur with of Chathoth (2002) research which also reveals that there is a negative influence between unrelated diversification strategy with the capital structure. Aisjah (2010) also revealed in her research that unrelated diversified company better utilize internal financial resources although unrelated diversification strategy significant effect on the capital structure.

The effect of related and unrelated diversification strategies, and the capital structure to the company's financial performance

The magnitude of the effect of related diversification strategies to the company’s financial performance in this study are positive and significant at 23.4%. It shows that the result progress of related diversification meaningful effects to the company’s financial performance, so that the third hypothesis is accepted.

The third hypothesis proving results support several previous studies such 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 the sample companies related diversification have significantly higher levels of the firm profitability as measured by ROE and ROA. While Colpan and Hikino (2005) found that in a textile company at Japan with observations from 1980 to 1990, related diversification strategy has a significant positive effect on the financial performance of companies as measured by ROS and ROA. Chen and Yu (2012), which conducts research on Taiwanese companies listed on Taiwan Stock Exchange, concluded that the related diversification strategy show a significant positive relationship with the company's financial performance as measured by ROA. Similarly, research conducted Park and Jang (2012) that takes a sample of companies in the restaurant industry in Korea, concluded that the company's financial performance as measured by ROA and ROS to increase the company's success in maximizing the related diversification strategy by the company and the increase is significant.

Some previous researchers found the opposite of this study. Harto (2007) found that variables related diversification rate as measured by business segment, the number of subsidiaries, and the Herfindahl index did not significantly affect the company's financial performance. Sulastri (2008) in her research concluded that there is no difference implications of the diversification strategy both related and unrelated (all negative and not significant) on the company’s financial performance. Kusumawati (2008), Suharyono (2008), Satoto (2009), Shen et al. (2012), and Sari et al. (2011) in their research concluded that the company implemented a diversification strategy to increase the number of business segments to related main business segment will make the company's financial performance is getting low so that related diversification strategy have not benefited worsened the company's financial performance decline and its significant. Previous researchers, Kahloul and Hallara (2010), which took samples at the go public company in France with observations from 2000 to 2005, found that related diversification strategies have a negative impact on the company’s financial performance but the effect is not significant.

The test results on the effect of the unrelated diversification strategy to the company's financial performance shows the effect of -38.5% and significantly so with the results of unrelated diversification strategy will reduce the company's financial performance. Therefore, the fourth hypothesis is accepted.

The results of this study are consistent with the results of Colpan and Hikino (2005) research which states that of the 10 textile companies the largest in Japan by taking data from 1997 to 2002 showed that the unrelated diversification strategy have a negative impact on the financial corporate performance. While Kahloul and Hallara (2010), which tested the 69 non-financial companies in France concluded that unrelated diversification strategy had a negative impact on the company's financial performance but not significantly.

Several other researchers have different results with the study. Chathoth (2002), which tested the 48 restaurants located in the United States with the observation period 1995 to 2000 concluded that there are significant positive but not significant between unrelated diversification strategy with the return on equity. The same thing also expressed by Mabashar et al. (2012) who conducted tests on 158 non-financial sector companies listed on the Karachi Stock Exchange Pakistan with data from the period 1998 to 2009, concluded that unrelated diversification strategy positive significant effect on firm performance.

Tests have shown that the capital structure and significant negative effect of -30.8% of the company's financial performance, making it the fifth hypothesis is accepted. This shows that the capital structure, as measured by the DER give meaningful effect to any change in the company's financial performance as measured by ROE.

The results support previous studies that found that the majority of the capital structure has a significant negative influence on the company’s financial performance o (Chathoth, 2002; Mas'ud, 2009; Saedy and Kazemipour 2011; Mubashar et al., 2012; Anwar, 2009). Companies that have a low level of debt in the capital structure, it will increase the company's financial performance or vice versa. Likewise, Sari et al. (2011) concluded that the measured variable capital structure with a leverage ratio: DER does not affect the company's financial performance. Research of Kesuma (2009) has a different conclusion that the debt ratio has a positive effect even though not significant to the company's financial performance with a total effect of 26.1%.

The phenomenon of capital structure on non-financial public companies on the Stock Exchange from 2000 to 2010, it shows the composition of the capital structure is dominated by debt, with the average leverage level> 60% (BEI Report 2000-2010). This phenomenon indicates that the source of funding of public non-financial companies in the long term depends on debt (high leverage). Such conditions when associated with economic conditions that have sharp competition, the public company has a leverage level above 60%, should try to increase the level of benefit that is greater than the load rate of interest to be paid. This is evident when viewed from the average of the company's capital structure sample reached 108% at the level of the company's financial performance in the form of return of equity average of 15.4%, as in table below:

Table 1. Average Capital Structure and Financial Performance

Year	Average	
	Capital_Structure	Finance_Perform
2009	108,71	13,70
2010	112,65	15,86
2011	107,82	18,87
2012	102,38	16,87
2013	106,17	14,82
2014	100,63	14,12

Source: Sample Company 25 - processed

The role of institutional ownership on the effect of related and unrelated diversification strategies to the capital structure

Based on the test results showed that the role of institutional ownership strengthening influence of the related diversification strategy to capital structure, so the sixth hypothesis is accepted. While the other test results show that institutional ownership also plays a role in strengthening the influence of the unrelated diversification strategy to capital structure so that the seventh hypothesis is also accepted.

This suggests that institutional ownership have a role in monitoring policy and business development strategic decisions taken by the management because it will affect the company's capital structure policy. Monitoring course will ensure prosperity for shareholders.

The results are consistent with the results of Sujoko dan Soebiyantoro (2007) research which states that increasing institutional ownership is expected to increasingly strong control over the management, including the capital structure policy. If the high monitoring cost, the company will use a third party that creditors to help conduct surveillance. Institutional ownership increased capable of reducing the level of debt. Agency theory also mentions the usual mechanism to oversee the agency conflict is through increased institutional ownership (Jensen and Meckling, 1976).

The role of managerial ownership on the effect of related and unrelated diversification strategies to the capital structure

Eighth hypothesis tested in this study received because of the role of managerial ownership strengthening influence of related diversification strategy to capital structure. As for the ninth hypothesis testing are also accepted cause the test results indicate a role managerial ownership strengthening influence of unrelated diversification strategy to capital structure.

Ownership management is one of the mechanisms to help control the agency conflict because it can align the interests of management with shareholders (Jensen and Meckling, 1976). This conflict occurs because of differences interest between owners and managers. Managerial ownership can influence the company's course that ultimately affect the company's financial performance. Managerial ownership is measured by the percentage of shares owned by management. The size of number of managerial ownership in the company will indicate similarities between the interests of management with shareholders or owners.

Influence between corporate diversification strategy with the capital structure will be reinforced by managerial ownership because of the greater proportion of managerial ownership in the company, the more managers have an important role, namely to control the company's financial policy to conform to the wishes of shareholders. So that managers at the same time as shareholders will be carefully in every decision, because every decision will directly affect to them.

The role of institutional ownership on the effect of capital structure to the company's financial performance

Tests have shown that institutional ownership does not moderate the effect of capital structure to the company's financial performance because of tests performed show that institutional ownership is independent or predictor variables, and thus the tenth hypothesis is rejected. If the views of institutional ownership data at sample companies, it appears that the majority of institutional ownership is an arm of the company samples founders are still largely tied up in the one family resulting of ownership concentration in the company's founding family. Therefore, the institutional ownership is not a moderator variables but as a variables that directly influence to all funding decisions that will ultimately affect the company's capital structure. Besides institutional ownership in the company sample will also directly affect the company's financial performance as a result of any strategic decisions must have directly influenced also by the shareholders at the institutional ownership because most owners in the company's institutional sample are executives/managers in that company.

The results of this study do not support Chaganti and Damanpour (1991) research which shows that institutional ownership moderate the influence of capital structure to the company's performance. The yield difference is caused by differences in the number of samples. Research of Chaganti and Damanpour (1991) uses the 80 companies data from 40 different industries in the USA. While this study only used 25 companies. The number of companies used in this study less because the companies have condition under the terms of this study is small. In addition to Chaganti and Damanpour (1991) research, also mentioned that institutional ownership is completely separate with managerial ownership and family ownership so there is no ownership concentration. Family ownership is the company founder only acts as an investor, do not act as companies managers/executives so that institutional ownership is really pure outside institutional investors.

Meanwhile, in another study, Pirzada et al. (2015) concluded that institutional ownership directly affect to the capital structure. Bhattacharya and Graham (2007) states that institutional ownership also directly affect to the company's performance. This suggests that institutional ownership is an independent variable that directly affect both to the capital structure and the company’s performance.

The role of managerial ownership on the effect of capital structure to the company's financial performance

Testing the role of managerial ownership on the influence of capital structure to the company's financial performance result that managerial ownership also does not moderate the effect of capital structure to the company's financial performance so that the eleventh hypothesis was also rejected. Managerial ownership in this study is also not a moderating variable but is an independent variable in relation to the effect of capital structure to the company's financial performance.

If further visits to the company that the research sample, data showed that the parties have a managerial stock are parties have a majority interest and as the main controller in the enterprise and therefore likely have a direct impact on every decision and company policy making both in defining the company's strategy and the level of leverage (debt) that will ultimately affect to company’s financial performance.

So that managerial ownership not as a moderator variable but a variable that directly affect to the capital structure and financial performance. In addition, it is possible the existence of other factors that affect the determination of the debt strategy for example investment opportunities, credit interest offering and term of credit that relative profitable to company, limited internal funds supply, and so forth.

The results of this study fully supports the theory that has been put forward by Jensen and Meckling (1976) that share ownership by management will directly affect the performance of the management in running the company's operations. Management who have a stock in the company will try to improve the company's performance, because by improving corporate profits, returns that will be received by the management will also rise.

While the results of this study do not support the idea of Husnan (2001) which states that the ownership structure is predicted to moderate the effect of determining the capital structure to the company value both in multinational and not multinational companies, so the more concentrated the company's shares will likely reduce the debt because the amount of high debt will cause of financial distress risk so that the company's value will decline.

The study also does not support the research of Mod'd et al. (1998), which states that the ownership structure to moderate the effect of use of debt as a result of their business development strategy so that the ownership structure significantly contribute strongly affect the company's success in use of debt. The ownership structure is very effective in controlling use of debt, so the role of the ownership structure significantly affect the success in raising the company's financial performance.

CONCLUTION

a. Related diversification strategy shows positive and significant impact on the capital structure. The greater results obtained from related diversification strategy will lead to greater the level of the company's capital structure, which means the level of debt the company will also be higher.
b. Unrelated diversification strategy tends negative and significant effect to capital structure. It shows that whatever the result of unrelated diversification strategy will be inversely proportional to the level of the company's capital structure.
c. Related diversification strategy have positive and significant impact to the company’s financial performance. So that the results of related diversification to higher will lead the company's financial performance is also higher.
d. Unrelated diversification strategy proved negative and significant effect to the company’s financial performance of the. Companies samples has invested in the implementation of

unrelated diversification strategy actually tends to net profit decrease so that effect of reducing to the company's financial performance.

e. Capital structure as measured by DER also negative and significant effect of any changes to the company's financial performance as measured by ROE. If the companies samples have lower capital structure, the company's financial performance will increase. It is associated with the policy of debt companies because most of the companies sampled utilizing third party long-term funds in financing their investments.
f. Institutional ownership role of strengthening the influence of related diversification strategy and also unrelated diversification strategy to capital structure. The existence of institutional ownership tends to play a role in influencing policy decisions related to the implementation of the diversification strategy (related and unrelated) as well as the company’s capital structure.
g. Managerial ownership role of strengthening the influence of related diversification strategy and also unrelated diversification strategy to capital structure. Implementation policy of diversification strategy (related and unrelated) in relation with the policies and decisions of the company's capital structure, management as well as the owners will certainly play a role influence policy and the decision because it will affect him as a manager and owner of the company.
h. Institutional and managerial ownership does not a role to the effects of capital structure on a company's financial performance. Therefore, institutional and managerial ownership is not a moderating variable but is an independent variable that directly affect to the capital structure and company’s financial performance.
i. The results of this study show little effect of independent variables in influencing the dependent variable, so it needs to be re-examined to look for other independent variables were predicted to have a greater influence on the dependent variable. Other independent variables that may influence the larger the dependent variable can be seen from two sides, the internal variables and external variables. Internal variables that can be further researched: strategy of business expansion, firm size, assets structure, firm growth opportunity, business risk, investment opportunities, and other internal factors. While the external variables can be further researched: the behavior of investors, government policy, interest rates, exchange rate, and other relevant macro-economic conditions.

IMPLICATIONS

Theoretical implications

The results of this study fully support agency theory proposed by Jensen and Meckling (1976). The ownership structure does a role to weaken or strengthen the effect of capital structure on the company's financial performance but directly affect the ownership structure or the capital structure of the company's financial performance that this study does not support the results of research Mod'd et al. (1998), Husnan (2001), and Chaganti and Damanpour (1991). In addition, there are several other factors that influence policy over the use of debt on the company sample needs to be done further study.

Practical implications

The ownership structure is a role at the time of the corporate action plan in the form of target market expansion (related or unrelated to the core business) where the plan requires funding sources. It is seen that most of the corporate action financed by utilizing funds from the third party in the form of debt. Whereas, using of debt can actually increase the risk (Salim, 2011: 54). The less debt will further strengthen investor trust in the company. It is caused, there are three important things that will be considered by investors in the company's financial management: profitability (the ability to obtain profits), liquidity (the ability to pay debts maturing), and solvency (the ability of the company to pay all company's liabilities). So that needs caution in considering using of debt. This is factor which practically can strengthen investor trust.

It also expressed by an entrepreneur who has the largest family entertainment business in East Java. The businessman stated that trust is the most important thing in business today. Stakeholder trust will be able to make grow and develop in accordance with the expectations of society. Trust is that he was hold and always instilled partners and employees and disclosed to the print and electronic media. The results of these beliefs is the number of funders from both inside and outside country who are willing to finance projects whereas, initially the project is not trusted by the bank. Working capital is not obtained from the bank because the bank considers business parameters are unclear and no prospects, not like to build and set up factories. Therefore, at its inception, most of the funds obtained from his business partners trust, especially from Malaysia. However, all doubts disappeared when the largest family entertainment business in East Java was so popular in society today's, so many investors are willing to fund 11 projects destinations that will soon be made.

In addition, there are also other a businessman, entrepreneur 2nd generation which has several places of lodging (hotel) 3 and 4 star, restaurants, shopping centers, and several other companies that are members of a group of companies. The businessman trying to minimize using of funds from banks although some banks have put their faith in him, to better utilize existing internal funds and promote partnerships and trust factor in some of its business. Entrepreneurs who become partners to trust upon himself to manage the funds invested into the company. The sharing system is the way to do business to its business partners. In addition, for some of the top management is also enforced a system of partnerships with giving 1.5% - 2.5% of the shares so that they have a sense of responsibility and ownership of the company's sustainability.

A business built from trust and honesty actually been pioneered in the 7th century by Muhammad SAW (Antonio, 2007: 82). Holds *Al Amin* (the trustworthy person) given to Muhammad from Quraish nation, is a title that has not been given to anyone. There are two main principles which always applied by the Prophet Muhammad SAW in any business trip (Antonio, 2007: 96). First, Money is not number one in business capital, the number one capital is trust. Second, competence and technical expertise related to the business. Universal values that uphold honesty, respect on the rule of law, trustworthy, common sense, and respect for human rights, is now getting stronger among investors. Humans want to get out of the tradition of sly and mischievous, because the losers are all parties.

LIMITATIONS

This research was conducted by having limitations on some aspects. The results of this study is limited to relatively short observation is for 6 years with a sample of eligible companies is very limited (25 companies). Besides, using variable as a basis to examine only a limited at six variables, namely: related and unrelated diversification strategies, capital structure, financial performance, institutional ownership, and managerial ownership.

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