THE EFFECT OF CORPORATE DIVERSIFICATION ON COMPANY PERFORMANCE USING MANAGERIAL OWNERSHIP AS A MODERATING VARIABLE

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Abstract

This research conducted to analyze the effect of corporate diversification on company performance. Using product and geographic diversification as the form of corporate diversification in the manufacturing company that listed on Indonesia Stock Exchange for the period 2016-2019, this study examines effect of managerial ownership as the moderating variable between corporate diversification and company performance. The empirical results indicate that product and geographic diversification show insignificant and positive effect on company performance. Furthermore, managerial ownership shows significant and negative effect between product diversification and company performance. However, managerial ownership shows positive significant effect between geographic diversification and company performance.

Kata kunci: *Product Diversification, Geographic Diversification, Corporate Diversification, Company Performance, Managerial Ownership*

1. Introduction

A company is established for a variety of purposes. The objective of the company is to increase company performance by maximizing the profit and minimizing the risk. However, to achieve this goal, there must be the right strategies. The company can use many kinds of management strategies. One of these strategies is corporate diversification. This strategy can be used to increase company performance by making different segments to expand the market scope.

There are various types of corporate diversification which are generally divided into two types, first based on the scope (IFRS No.8 Operating Segments) such as product (the differences of product), geographic (regional and international), services, and major customers; and second based on the form (Hutzschenreuter and Sonntag 1998) such as concentric, relational, and conglomerate.

Manufacturing companies are companies with high level of diversification. Based on purchasing managers index (PMI) of the manufacturing sector from www.tradingeconomics.com, the sector of Indonesia Manufacturing PMI is higher than Singapore Manufacturing PMI from July 2018 until March 2020, which means that the Indonesian manufacturing company performance is better than Singapore.

Some studies show the inconsistencies in the corporate diversification effects on the company performance. Hsu and Liu (2008) stated that the product diversification and customer diversification are positive significant effects on the company performance. Gegore and Rezaul (2015) and Krivokapic et. al (2017) stated that the corporate diversification improves the company performance. Therefore, corporate diversification is a positive effect company performance.

According to Lang and Rene (1994), the corporate diversification strategy was not positively significant effect on the company performance. Meanwhile, Geraldo (2019) stated that the corporate diversification was significantly negative effect on the company performance. Iqbal et. al (2012) also stated that the corporate diversification strategy gives no significant effect on the company performance. Furthermore, Mehmood et. al (2019) and Espinosa-Méndez (2020) stated that the corporate diversification strategy was significantly affect the company performance.

Based on the inconsistencies in the results of previous research about the corporate diversification effect on the company performance, then it can be concluded that other factors influence both variables. In this case managerial ownership can be a moderating variable between corporate diversification and company performance. Managerial ownership is the total shares owned of the manager in the company which is measured with the percentage. A higher level of managerial ownership can motivate managers to generate maximum profits for the company. The existence of managerial ownership can be strengthened or weaken the corporate diversification effect on company performance.

Based on the background that has been described above, the objectives of this research are to test and analyze the effect of the corporate diversification with category of product and geographic diversification on the company performance, and to recognize the effect of managerial ownership in the relationships between corporate diversification and company performance.

2. Literature Review and Hypothesis Development

a. Agency Theory

According to Godfrey (2010), agency theory is a theory that explains and predicts the action of agents (managers) and the action of principals (shareholders or owners). The theory assumes that the interest both of the agent and the principal has inconsistent. Besides, there is no reason to believe that the agent will consistently support the principal's interest. Because the principal goal (owner) is entrusted by an agent (manager), the theory concentrates on the relationship between agent and principal. Atkinson and Feltham in Godfrey (2010) stated that agency theory considers the management demand on information and decision making.

b. Entrenchment Managerial Theory

The entrenchment theory explains if the managers have a higher proportion of shares, they will prioritize their interest rather than the shareholder's interest. With the higher of the controls managers, the managers have a significant portion of capital in the company equity and their actions will contrary to the company goals (Baratiyan, 2013). The managerial entrenchment gives an impact to the company because the risk and cost occur from the manager activity. The company basic goal is to increase the shareholder wealth. However, it is not true in the real world; it is likely the managers prefer to increase their goals first such as increasing their wages, reward, power, position, and so on (Baratiyan, 2013).

c. Corporate Diversification

There are various types of corporate diversification which are generally divided into two types, first based on the scope (IFRS No.8 Operating Segments) such as product (the differences of product), geographic (regional and international), services, and major customers; and second based on the form (Hutzschenreuter and Sonntag 1998) such as concentric, relational, and conglomerate. Corporate diversification in this study is using proxy product diversification and geographic diversification.

Product Diversification

Product diversification is measured by taking 1 minus the sum square of sales percentage per each product in year t, in order to evaluate the manufacturer's product diversification (Hsu and Liu, 2008). A high product diversity level reflects a high-level product diversification in the company. The formula for Product diversification (Pd) is:

$$\mathbf{Sp} = \frac{\textit{Sales per segment product}}{\textit{total sales}}$$

$$\mathbf{PD} = 1 - \sum_{t=1}^{n} \left(\mathbf{Sp}^{\,2}\right)$$

Geographic Diversification

According to Hsu and Liu (2008), geographic diversification is calculated by taking 1 minus the sum square of sales percentage per each external sales region or country and included into equation, in order to evaluate the manufacturer's geographic diversification. The higher level of geographic diversity reflects the higher level of geographic diversification in the market.

The formula of Geographic diversification (Gd) is:

$$\mathbf{Sg} = \frac{\textit{Sales pergeographic segment}}{\textit{total sales}}$$

$$\mathbf{GD} = 1 - \sum_{t=1}^{n} \left(\mathbf{Sg}^{\,2}\right)$$

d. Managerial Ownership

Managerial ownership is an entity of good corporate governance mechanism due to the existence of managerial ownership in a company. It can minimize agency problems between the agent (manager) and the principal (shareholder). According to Ruan et. al (2011), managerial ownership is the ratio of shares owned by all board members (managers) that are divided by total outstanding shares of the company. So, those managers can have an equal position with the shareholders. Then, if the managers take innovation strategy such as increasing or adding their product (product diversification) and the process (Darma and Dewi, 2018), it gives benefits for the managers and also to the shareholders. The managerial ownership formula is:

$$MO = \frac{Total\ shares\ owned\ by\ managers}{Total\ Outstanding\ Shares}$$

e. Company Performance

As stated by Tangen, Stefan (2004) company performance is the ability of the company especially in efficiency, effectiveness, and adaptability in their activities which can be measured by two dimensions which are financial (e.g. cash flow, profitability) and non-financial (e.g. consumer satisfaction, productivity). According to Tandelilin (2010), Return on Equity is the one formula to know about profitability (Financial dimension) in the company which explains about how much the company gains for the shareholders. The higher ROE explains the higher performance in the company consistent with the higher gains for the shareholders.

$$\boldsymbol{ROE} = \frac{\textbf{\textit{Net Profit}}}{\textbf{\textit{Total Equity}}}\ \mathbf{X\ 100\%}$$

f. Company Leverage

The previous research by Hsu and Liu (2008) stated that company leverage is measured by total debt divided by total equity, this leverage is a good proxy for knowing the firm's financial structure. Based on that situation, firm leverage is an essential aspect to know the company performance.

The companies with high level of financial leverage indicate the higher size of the company's debt in their capital structure. Besides, the higher the corporate financial leverage level, the higher the corporate risk level will be rise. If the leverage percentage of the company is over 100%, it means the company has bad performance because the company debt is higher than the company equity. Thus, the lower leverage indicates the good company performance.

The company leverage formula is:

$$LEV = \frac{\text{Total Debt}}{Total\ Equity}$$

g. Company Size

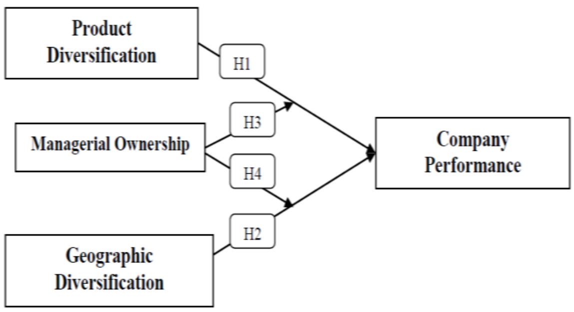
There are several proxies that can be used to measure the company size, namely Ln (total assets), Ln (sales), and total market capitalization. In a previous study by Hsu and Liu (2008), the company size can be measured as the natural logarithm of the total sales revenue of the sample firm. Meanwhile, in another previous research by Espinosa et. al (2020), the company size can be measured as the natural logarithm of the total assets. Then, the company size in this study is measured by Ln (total assets) because the asset value is more stable than the sales value or market capitalization.

The company size formula is:

$$\boldsymbol{SIZE = Ln\ (total\ asset)}$$

h. Research Framework

In this study, the company performance is used as dependent variable and the corporate diversification is used as independent variables. Then, the company size and the company leverage become control variables. The managerial ownership as moderating variable is described in agency theory. According to the agency theory, managerial ownership as one form of good corporate governance can be used to reduce the asymmetry information by the agent (managers) and principal (stakeholders).



i. Hypothesis

According to IFRS No. 8, product diversification is a company strategy to create a new product or a different product line. Mehmood et. al (2008) who researched in South Asian Countries found that corporate diversification was significantly affected company performance. According to Hsu and Liu (2008), product and customer diversification can improve company performance. It means the higher exploitation in the company will increase the higher competency. So, the higher customers and the types of the products sold by the company can increase the company sales which directly affect the company performance. Krivokapic et. al (2017) who researched the Serbian insurance industry shows that services diversification can improve company performance. The higher types of services are provided to the customers, those give customers the option to adjust the insurance type based on their needs and abilities. Based on the logical thinking and previous research, the higher level of the product diversification, the higher level of the company performance

H1: **Product diversification has a positive effect on company performance.**

According to IFRS No. 8, geographic diversification is an action to diversify the company by make another company location to sell the products or services. This diversification can be done by buying, establishing, joining mergers, or acquiring other companies. Geographic diversification provides an advantage for the company because the higher level of company location, the higher level of company facility to get a large market. The consumer can be easy to find the product and get the cheap price by reducing transportation costs (production costs) in the area where the company is built or sold. The company sales can increase because the sale of cheap and good quality products make customers prefer to buy more than the company without diversification. In addition, this diversification also makes companies are easy to acquire limited and rare resources.

Espinosa-Méndez et al (2020) who researched in Chile found that geographic diversification was significantly affected company performance. The company with geographic diversification has increased sales by buying and selling activities in the large market both regional and international. Geographic diversification can make the company reach a large market than the stagnant local market and improve the company internal conditions by increasing the human resources from the various regions.

According to Chena and Wai (2000), Rejie and Rezaul (2011), corporate diversification especially in geographic diversification was significantly positive affected company performance. The company has more than one area for selling the products. So, it can be the company's ability in facilitating the consumer to easily get their products and also the company to easily get their limited and rare resources. Furthermore, geographic diversification has an advantage for the company and can increase the company performance. Based on the logical thinking, the higher level of the geographic diversification, the higher level of the company performance

H2: **Geographic diversification has a positive effect on company performance.**

Investors and shareholders invest their capital in the company because they believe the managers can manage the company well and give benefits to the investors with high dividends. However, the problems arise because the manager only acts for their interest which is inconsistent with the owner, so that's why the manager's decisions cannot give benefit to the owner (Godfrey, 2010).

The different information between the managers and owners (asymmetry information) provides an advantage for the managers because the managers know more detail about the company's activities. The problem appears if the company has inconsistent goals or interests between managers and shareholders. Moreover, without good supervision can make managers take free action without accountability. It case can be minimized with increasing managerial ownership. Managerial ownership can harmonize the interest between managers and shareholders. It also makes the managers take action based on the shareholders. Managerial ownership is an excellent corporate governance mechanism as the way to reducing the agency problem that occurs because of the inconsistency interest between ownership and manager of the company (Rasyid et.al 2019).

If the company takes a big decision such as corporate diversification strategies, the existence of managerial ownership can support this corporate diversification to be the right decision because it has been considered from the perspective of the managers and shareholders. So, it not only gives benefits for the managers but also for the shareholders and the company and increasing the company performance.

According to Geraldo (2019), managerial ownership has a positive significant effect to moderate the relationship between corporate diversification and company performance. Based on the logical thinking and previous research, managerial ownership can moderate the relationship between corporate diversification and company performance.

H3: **Managerial ownership positively moderates the relationship between product diversification and company performance.**

H4: **Managerial ownership positively moderates the relationship between geographic diversification and company performance.**

3. Research Methods

The type of data used in this research is secondary data. The collected data in this study are the annual financial statements of manufacturing companies which taken from the official website of the Indonesia Stock Exchange and company website for the years from 2016 until 2019.

The population in this study is 193 manufacturing companies in Indonesia (invesnesia.com). The purposive sampling method is used to analyze the sample for this study. According to Sekaran and Roger (2016), the purposive sampling method is a method for determining specific research samples using certain criteria by the researcher in order that the obtained data can represent the population. In the below are the sampling criteria for this study:

a. Manufacturing industry companies listed in the Indonesian stock exchange.
b. Manufacturing industry companies in sub-sectors consumer goods industry.
c. Manufacturing industry companies that always publish their financial reports related to the research period; and
d. The company with completely data related to the variables in this study.

No.	Criteria	Total
1.	Manufacturing industry companies in Indonesia on October 25, 2020	193
2.	The company sub-sectors basic industry and chemicals industry	(78)
3.	The company sub-sectors in various industries	(50)
4.	The company that has incomplete annual financial reports during the period 2016 until 2019	(13)
5.	The company that bankrupts during the study period	(11)
6.	The company that has incomplete variable	(8)
7.	The sample companies	33
8.	**Total Samples**	**132**

The total sample is 33 companies. It is because 8 companies do not provide necessary information about the independent variables both of product and geographic diversification. Besides, 11 companies have been deactivated or liquidated during this study period. Finally, the total sample is 33 companies' sector of Consumers Good Industries listed in the Indonesia Stock Exchange (IDX) for the year 2016 until 2019.

4. Analysis and Discussion

a. Descriptive Statistics

4.1 Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Product Diversification	124	,00000	,99570	,4232589	,24329419
Geographic Diversification	124	,00000	,99680	,1981621	,22245986
Return on Equity	124	-,45700	1,5230	,1479621	,11289801
Managerial Ownership	124	,00000	,99800	,0849984	,20308206
Company Leverage	124	-6,59000	4,95000	,7197581	1,04262915
Company Size	124	20,82000	35,03000	28,330606	2,4071718
Product Diversification*Managerial Ownership	124	,00000	,62315	,0392476	,10927850
Geographic Diversification*Managerial Ownership	124	,00000	,19231	,0091913	,02976496
Valid N (listwise)	124				

Result of Classic Assumption Tests

a. Normality Test

Normality Test by using 132 research samples shows the value of Asymp.Sig (2-tailed) of 0%. It indicates that the data are not normally distributed because of the data outlier. The results from the first test in multiple linear regressions indicates that there are two manufacturing companies as a data outlier which are PT Unilever Tbk. with ROE more than positive 100% and PT Tri Bayan Tirta Tbk. with ROE more than negative 50%. Thus, the final total sample is 124 samples without data outlier. The results of the normality test from 124 samples without data outlier show the value of Monte Carlo Sig. (2-tailed) of 0.473 which is higher than 0.05. It means that the data has normally distributed. So, it can be concluded that the regression model fulfills the requirement for the normality assumption.

b. Multikoliniearity Test

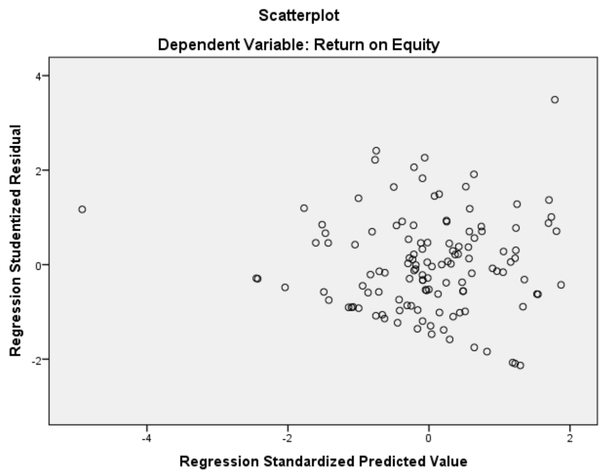
4.2 Multikoliniearity Test Results

Coeffisient			
		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Product Diversification	,910	1,099
	Geographic Diversification	,880	1,137
	Company Leverage	,988	1,013
	Company Size	,968	1,033
	Managerial Ownership	,936	1,068
a. Dependent Variable: Return on Equity			

From the Table 4.2 Multicollinearity test results show for each variable fulfills the multicollinearity criteria. So it can be concluded that there is no multicollinearity problem in the regression model.

c. Heteroscedasticity Test

4.3 Scatterplot Figure



From the Scatterplot Figure, the points spread around the zero point (0) on the Y-axis and not make a certain pattern which indicates there is no heteroscedasticity in the regression model.

d. Autocorrelation Test

4.4 Cochrane-Orcutt Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,449[a]	,201	,153	,09112	2,159
a. Predictors: (Constant), LAG_GDMP, LAG_LEV, LAG_PD, LAG_SIZE, LAG_GD, LAG_MO, LAG_PDMP					
b. Dependent Variable: LAG_ROE					

By using the value of dL is 1.5896 and dU is 1.8274. From the table above the Durbin-Watson value is 2.159. So, the value obtained from (4 - dU) or (4 - 1.8274) is 2.1726. The final result is dU < dW < (4 - dU) or 1.8274 < 2.159 < 2.1726, it means no autocorrelation.

e. Multiple Regression Analysis

4.5 Multiple Regression Analysis Results

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-,244	,124		-1,967	,052
	Product Diversification	,044	,042	,095	1,058	,292
	Geographic Diversification	,037	,047	,073	,785	,434
	Managerial Ownership	,513	,171	,923	2,998	,003
	Company Leverage	,030	,009	,279	3,470	,001
	Company Size	,012	,004	,225	2,665	,009
	Product Diversification*Managerial Ownership	-,904	,331	-,875	-2,734	,007
	Geographic Diversification*Managerial Ownership	,970	,366	,256	2,650	,009
a. Dependent Variable: Return on Equity						

Based on the results of the multiple regression analysis above, the following regression equation can be seen as follows:

$$ROE = -0.244+0.044xPD+0.037x\ GD+0.513xMO+0.030xLEV + 0.012xSIZE\ -0.904xPDMO+ 0.970xGDMO + \varepsilon$$

Information:

ROE = company performance (Return on Equity)
PD = product diversification
GD = geographic diversification
MO = managerial ownership
LEV = the level of corporate debt/ company leverage
SIZE = company size
PDMO = product diversification and managerial ownership
GDMO = geographic diversification and managerial ownership

The equation of regression has a constant value of -0.224. The coefficient of product diversification is 0.044, which means that each increase in product diversification is one (1) unit, it will increase return on equity by 0.044 units. The coefficient of geographic diversification is 0.037, which means that each increase in geographic diversification is one (1) unit, it will increase return on equity by 0.037 units. The coefficient of managerial ownership is 0.513, which means that each increase in managerial ownership variable is one (1) unit, it will increase return on equity by 0.513 units. The coefficient of company leverage is 0.030, which means that each increase in company leverage is one (1) unit, it will increase return on equity by 0.030 units. The coefficient of company size is 0.012, which means that each increase in company size is one (1) unit, it will increase return on equity by 0.012 units. The coefficient of managerial ownership on PDMO is -0.904, which means that each increase in the product diversification and the managerial ownership is one (1) unit, it will reduce the return on equity by 0.904 units. The coefficient of the managerial ownership on GDMO is 0.970, which means that each increase in the geographic diversification and the managerial ownership as a moderating variable is one (1) unit, it will increase the return on equity by 0.970 units.

f. Hypothesis Test

1. Significance Test (F Test)

4.6 Significance Test Results (F-Test) Results

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,415	7	,059	5,967	,000[b]
	Residual	1,153	116	,010		
	Total	1,568	123			
a. Dependent Variable: Return on Equity						
b. Predictors: (Constant), Geographic Diversification*Managerial Ownership, Company Leverage, Company Size, Product Diversification, Geographic Diversification, Managerial Ownership, Product Diversification*Managerial Ownership						

Based on the significance test results in Table 4.9 with F-count > F-table (5,967>2,177), it can be concluded that the independent variables in the H_1, H_2, H_3 H_4 are feasible to be used in the test, which mean the independent variables have a significant effect to the dependent variable.

2. Determination Coefficient Test (R2)

4.7 Determination Coefficient Test (R2) Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,515[a]	,265	,220	,09968350	1,190
a. Predictors: (Constant), Geographic Diversification*Managerial Ownership, Company Leverage, Company Size, Product Diversification, Geographic Diversification, Managerial Ownership, Product Diversification*Managerial Ownership					
b. Dependent Variable: Return on Equity					

The coefficient of determination results above show the adjusted R2 as much as 0.220, which means the independent variables explain the variability of the dependent variable around 22%. Return on equity as the dependent variable has an effect around 22% from the independent variables. So, 78% left is affected by another variable that is not involved in this study.

3. Individual Parameter Significance Test

Individual Parameter Significance Test Results

Hypothesis	Hypothesis Statement	T-count	T-table	Sig.	Conclusion
H_1	*Product diversification has a positive effect on company performance*	1,058	1,9804	0.292	Rejected
H_2	*Geographic diversification has a positive effect on company performance*	0,785	1,9804	0.434	Rejected
H_3	*Managerial ownership positively moderates the relationship between product diversification and company performance.*	-2,734	- 1,9804	0,007	Rejected
H_4	*Managerial ownership positively moderates the relationship between geographic diversification and company performance.*	2,650	1,9804	0,009	Accepted

Product diversification has t-count 1.058, sig. 0.292, and t-table 1.9804, it means t-count < t-table with sig. 0.292 > 0.05. Then, the hypothesis which stated that "Product diversification has a positive effect on company performance" is rejected. Geographic diversification has t-count 0,785, sig. 0.433, and t-table by 1.9804, it means that t-count < t-table with sig. 0.434>0.05. Then, the hypothesis which stated that "Geographic diversification has a positive effect on company performance" is rejected.

Managerial ownership and product diversification have t-count of -2.734 and sig. by 0.007. So, it means that managerial ownership moderating product diversification has a negative effect to return on equity. Then, the hypothesis which stated that "Managerial ownership positively moderates the relationship between product diversification and company performance" is rejected. It is because the effect of moderating variable between product diversification and company performance is negative. Managerial ownership and geographic diversification have t-count 2.605 and sig. 0.009. It means that the hypothesis which stated "Managerial ownership positively moderates the relationship between geographic diversification and company performance" is accepted.

DISCUSSION

Product Diversification on Company Performance

Product diversification has insignificant positively affected company performance. Insignificant effect may be caused by the company that still has the agency problem, where managers make diversification decision only for their personal benefits, such as to increase their power, compensation, and extra income (Rasyid et.al 2019). The effect of product diversification is positive because the company that takes product diversification will have a various product which are preferred by the consumers to choose rather than companies without product diversification. Product diversification in the company can increase the company's market share and the company's sales. So, the final results the product diversification can increase the company performance. According to previous research from Rejie and Rezaul (2011), corporate diversification has positively significant effected company performance. Product diversification can improve company performance, because many types of services provided to the customers. It can give customers the option to adjust the type of product based on their abilities and needs (Krivokapic et. al., 2017). In the condition in market share, diversify companies will have an advantage if a product has a decline in sales because they can still sell other products that are still favored by the market. Product diversification is a company strategy that provides a good exploitation of the company and creates better competencies compared to the companies without diversification (Hsu and Liu, 2008). It can be concluded that product diversification provides competitive advantage for the company.

Geographic Diversification on Company Performance
Increasing company number and facility to get a large market is the advantage of geographic diversification to the company. The consumer will be easy to find the product and get the cheaper price. Besides, it also reduces the transportation costs (production cost) in the area where the company is built and sold. Since the products are cheaper and easier, the customers prefer for buying more so the company's sales can increase. The geographic diversification strategy can be used to transfer capital from one company to others without causing additional transaction cost caused by this internal transaction which can reduce the company tax. Then, geographic diversification increases share prices and the company value (Rasyid et.al 2019). Geographic diversification also makes the company is easier to acquire limited and rare resources. Increasing in the company market share and the company sales make the company performance increases. It also supported by Espinosa-Méndez et al. (2020) who conducted research in Chile. It found that geographic diversification has significantly affected the company's performance. Geographic diversification has increased sales for buying and selling activities to a large market both regional and international. This diversification can make the company reach a large market than the stagnant local market and improve the company's internal conditions because of the increase in human resources from various regions. The company which has more than one area to sell the product has the ability to facilitate the consumer to get the product and also for the company to easy-access their resources (Rejie and Rezaul, 2011). So based on this, geographic diversification has an advantage for the company and increase the company performance.

The Effect of Managerial Ownership between Product Diversification and Company Performance
According to the test results, as a moderating variable between product diversification and company performance, managerial ownership shows a significant negative effect to return on equity. This result was supported by previous research by Rasyid et. al (2019), managerial ownership has a negative effect between corporate diversification and company performance. It is suggested by the Entrenchment hypothesis and agency theory. The entrenchment hypothesis explains if the managers have a higher proportion of shares, they will prioritize their interest rather than the shareholder's interest. Based on the agency theory, managers as the agents and the owners in one company will free act to maximize their profits in the company actually for their personal interests such as additional income, extra power, and also the possibility of being replaced by other managers (Rasyid et.al. 2019). For example, the decision strategy for company diversification by managers is used to increase the company value. However, because in Indonesia a company has no complex and weak controlling institution, managers only make decisions for their internal benefits (Heru, Shinta 2009). With the higher of the controls managers, the managers have a significant portion of capital in the company equity and their actions will contrary to the company goals (Baratiyan, 2013). The managerial entrenchment gives an effect on the company because the risk and cost occur from the manager activity. The basic goal of the company is to increase shareholders wealth. However, it is not true in real world; the managers prefer to increase their goals first such as increasing their wages, rewards, power, position, and so on (Baratiyan, 2013). Including in the investment activity, the managers will focus on the projects investments which have short-term benefits and do not pay attention to long-term projects. The managers also try to make themselves valuable to shareholders by using several contract investments (implicit and explicit) with the result that only can be evaluated by investor through financial report. For the explicit contract investment such as product diversification investment, the managers do that activity with the purpose first based on their interest. Because that is big investment, the managers can increase their power and negotiate their wages. This activity investment may be decreased the company performance because the investors only can be evaluated the results from financial report and also this activity based on the manager’s purpose. Therefore, product diversification strategy does not give benefit to the company.

The Effect of Managerial Ownership between Geographic Diversification and Company Performance
Based on the test results, managerial ownership as a moderating variable between geographic diversification and company performance shows significant positive effect to return on equity. This result was supported by previous research conducted by Geraldo (2019) and Evy and Vera (2019), which stated managerial ownership has

significant positive effect between geographic diversification and company performance. Geographic diversification provides a competitive advantage for the company by increase the company number and the company facility to get a large market. Geographic diversification strategy also can be used to transfer the capital from one company to others without causing additional transaction cost. From this internal transaction, the company tax can be reduced (Rasyid et.al 2019). Managerial ownership in the large companies indicates the internal market efficiency to manage the complex mechanism in the company without making agency problem. Because in the large companies must have consolidated financial report, every financial and investment activities were controlled. Therefore, managerial ownership has positive effect between geographic diversification and company performance.

V. CONCLUSION AND SUGGESTION

Conclusion

Product diversification, as the independent variable, has insignificant positive effect on company performance. The companies with corporate diversification have more a competitive advantage rather than the companies without diversification. Companies that diversify their products would have the variety of the products preferred by the consumers to choose based on their needs and abilities rather than companies without product diversification.

Geographic diversification provides an advantage for the company because increasing the company number will increase the company facility to get a large market. The consumers will be easy to find the product and get the cheaper price by reducing transportation costs (production cost) in the area where the company is built or sold the product. Because of the cheap products, it makes the customers buy more products rather than the other companies. Then, it can increase the company's sales. Geographic diversification easily makes company to acquire limited and rare resources. It also makes company can reduce tax by transfer capital from one company to other companies.

Managerial ownership with product diversification has negative effect because the managers as the agents and the owners will free act to maximizing their profits that is used for their personal interests such as additional income and extra power. So, it can be concluded that managerial ownership which has only product diversification gives negative effect to the company performance.

Managerial ownership in the large companies indicates internal market efficiency. It aims to manage the complex mechanism in the company without make agency problem. The reason is because in the large companies, they have consolidated financial report to control their financial and investment activities. Then, managerial ownership with geographic diversification gives positive effect to company performance.

Company Size and Company Leverage as the control variables have a positive significant effect to the company performance. Therefore, the higher size and leverage make the higher company performance.

Limitations of Research

The limitations in this study are as follows:

1. The adjusted R2 value is 0.220, which means that the independent variables have an effect of 22% on the dependent variable. Then, the independent variables in this research have small effect to the dependent variable.
2. This study is using the manufacturing industry companies. The total sample which fulfills the criteria is only 32 companies particularly in the consumer goods sector. Meanwhile, the total number of manufacturing companies in Indonesia is 193 (October 25, 2020).
3. Lack of information and other supporting data in hypothesis development because from four hypotheses only one hypothesis is accepted.

Suggestions

Based on the research results, some suggestions for the further research are as follows:

1. Using or adding other independent variables to get better results in this study. The corporate diversification is only able to explain the return on equity around 22%.
2. Expand or replace the population. The researcher suggests to adding some types of manufacturing companies listed on the Indonesia Stock Exchange such as service companies.
3. Change or expand the time period for the next study. It is used to know about the effect of variables in the long term or different period.

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