



The 13th Malaysia-Indonesia International Conference on Economics Management and Accounting (MIICEMA) 2012

“ASIA EMERGING ECONOMY TOWARD GLOBAL ECONOMIC INTEGRATION”

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Greetings from Dean of Faculty of Economics, Sriwijaya University

Dear participants of the Miicema 13th - 2012 Conference,

On behalf of the Faculty of Economics, Sriwijaya University, we would like to welcome you to Palembang, Indonesia for the Miicema 13th Conference, 18th-20th October 2012.

We are excited organize our thirteenth Miicema conference in Palembang at Sriwijaya University. Sriwijaya University is States University in South Sumatera, has 10 faculties and 2 campuses. One is located at Bukit Besar in Palembang and another campus is located on 712 ha area of Indralaya, Ogan Ilir. This conference is really support us to be a “world class university”.

The conference bring together scholars and practitioners who interested to present theirs papers in area of economics, management and accounting. Participants found an excellent opportunity for presenting new research, exchanging information and discussing current issues. We believe that this conferences will improve further the development of knowledge in our fields. This opportunity could be used as a way to broadening their international networks.

We regret that we were unable to accept more paper than we have. In this conference, 163 papers were presented. In addition, based on the contribution of the paper to the field, the Miicema Committee has selected three papers for the best paper award.

Finally, I would like to thank our sponsors for their generous financial support and valuable collaboration. I would also thank all of the presenters, participant, board members, and keynote speakers.

I hope you enjoy the conference and wish a pleasant and memorable stay in Palembang.

Best Regards,
Dean of Economic Faculty,
Sriwijaya University

Prof. Syamsurijal AK, Ph.D

MESSAGE FROM CONFERENCE CHAIR

Welcome to The 13th Malaysia-Indonesia International Conference on Economics, Management and Accounting (MIICEMA) 2012

The Malaysia-Indonesia International Conference on Economics, Management and Accounting (MIICEMA) aims to stimulate interest in economics, management and accounting research and to encourage discussion on those related issues with special reference to ASEAN countries. The conference has been held for 13 times in this year. As time goes on, the number of MIICEMA members increase and it also tries to broaden the scope of collaboration to include academic matters amongst others.

The 13th MIICEMA 2012 is hosted by Faculty of Economics, Sriwijaya University in collaboration with UKM, IPB, UNPAD, UNSYIAH, UNIB, UMS, UNJ, UNILA, UPI (YAI) AND STIE (YAI). of MIICEMA and. The association aims to play supportive role in promoting Palembang as an international city.

MIICEMA has been successfully organizing annual conferences in collaboration with those higher learning institutions mentioned. The support from academicians, researchers and business practitioners is clearly evident from the increasing number of papers received by organizers this year. This year a total of more than 220 abstract and 163 full papers were received and most of them will be presented.

I would like to thank and congratulate the Rector of Sriwijaya University, Dean of Faculty of Economics for their support, Ministry of Finance of Republic of Indonesia for their support financially, South Sumatera Government, Palembang City Municipal and other sponsors i.e PT. BUKIT ASAM, PT. SEMEN BATURAJA, PT. PUSRI, BANK MANDIRI, BANK SUMSELBABEL, BANK BNI, MITRA ADIGUNA, AJB BUMIPUTERA, for their finance support. Last but not least I would like to thank to paper writers, participants and organizing committee for your support.

Isnurhadi, Ph.D
Conference Chair
October, 2012

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DIVERSIFICATION, PERFORMANCE, AND FIRM VALUE

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ABSTRACT

The objective of this study is to examine the difference about performance and value of firm with diversified strategy and firm with focused strategy. The firm performance was measured on the following attributes: liquidity ratio (current ratio), activity ratio (total asset turnover), profitability ratio (ROA, ROE, profit margin), and solvency ratio (debt ratio). The firm value was measured by the Tobin's Q ratio. Sample was taken based on purposive sampling method from manufactured companies listed in Indonesia Stock Exchange in the year of 2006 to 2010. The final samples consisted of 56 companies which were 35 firms with diversified strategy and 21 firms with focused strategy. This study used the independent sample t-test method for testing the hypothesis.

This study found that there was not difference firm performance at activity ratio (total asset turnover) between firm with diversified strategy and firm with focused strategy, but liquidity ratio (current ratio), then profitability ratio that proxy with ROA, ROE, and profit margin, and solvency ratio (debt ratio) evidenced that there were differences firm performance between the firm with diversified strategy and firm with focused strategy. Firm with diversified strategy were more profitable than firms with focused strategy. As for the firms value test resulted that there was no difference between firms with diversified strategy and firms with focused strategy. It meant that diversified strategy was not significantly effect the firms performance and value.

Key words : *Diversification, Current Ratio, Total Asset Turnover, ROA, ROE, Profit Margin, Debt ratio, Tobin's Q.*

INTRODUCTION

Diversification is a strategic option that many managers use to improve their firms' performance. The previous research showed that most firms in Indonesia (especially those which go public on the Indonesia Stock Exchange) were part of a business group or a form of business conglomerate that was built from a family company (Harto 2007, Satoto 2009, Setionoputri 2009). The firm is usually headed by a holding company, overseeing the various subsidiary companies which are scattered in various business segments. In other words, these companies generally a diversified firm. Conglomerate indicate a high level of diversification.

Corporate diversification has been the subject of debate, whether the performance of the diversified firms better than the performance of nondiversified firms. Researches about diversification and firm performance has not been proved and obtained the same conclusion whether or negative impact of diversification on the performance of the company, or in other words whether the diversified firms has lower performance or higher. That conclusion based on the excess value, the performance of diversified firms which was lower than the nondiversified firms evidenced by Harto (2007). However, based on the results of these analyzes indicated that the level of diversification had no significant effect on excess value. Setionoputri et al (2009) proved that the level of diversification had not significant negative effect on excess value. Satoto (2009) proved that the diversification strategy had a significant negative effect on the firm performance with proxy return on assets (ROA). Similarly, David et al (2009), explained that diversified firms had lower performance than single-segment firms. Sujoko (2009) proved that there was a significant positive effect of diversification strategies on firm value. However, Sari et al (2009) proved that there was no performance difference between the diversified firm with single segment firm (not diversified). Based on the results of these studies showed that had not consistent results obtained related to the comparison of firms performance and value between the diversified firms and nondiversified firms by using a variety of performance measurement.

Management use diversification strategic to improve the firm's performance. Increased liquidity, activity, profitability, and solvency to the positive information in analyzing the firm's performance will further enhance firm's value. This is in accordance with the concept that the first step is through the assessment of the company financial information (financial statement analysis). Analysis of the market (the company) is required as the basis of an assessment of the completeness of the publicly traded companies that can be used by investors or prospective investors, owners and other interested parties against the company in making business decisions. Thus, interesting to do research related to diversification, performance, and firm value.

LITERATURE REVIEW

1. AGENCY THEORY

Agency theory discusses the relationship between owner (principal) and management (agent) of a firm. Agency theory describes the principal to delegate responsibility and authority over decision making to the management in accordance with the agreement contract. Employment contract is a set of rules governing the sharing mechanism, either in the form of profits, returns and risks are approved by the principal and the agent (Scott, 1997 in Arifin, 2005).

Eisenhard (1989) in Arifin (2005) explained that the agency theory assumptions are based on three assumptions about human nature, assumptions about the organization, and assumptions about information. Assumptions about human nature emphasizes that people have to be self interest, have bounded rationality, and do not like the risk (risk aversion). The assumption is the existence of organizational conflicts among members of the organization, efficiency as a criterion of productivity, as well as the presence of asymmetric information (AI) between principals and agents. While the assumption about information is seen as a

commodity item that can be traded. In the concept of agency theory, management as an appropriate agent on behalf of the best interest of the shareholders. However, it was likely only purpose management in managing the firm's own interests.

Diversification as a corporate policy lead to differences in risk and return is accepted by management and owners with regards to the agency. Diversification may be one way to avoid the risk of placing an investment company with more than one business segment. Furthermore, the diversified firm means the size of the companies was larger, the compensation received by managers was higher (Sari et al, 2011). Manager who will direct the diversification diversified according to the interests to reach the reward (compensation) and avoiding risk. Diversification into effective strategies to improve the firm's turnover, although investment is not always the net present value is beneficial to cause a reduction in performance and value. The phenomenon is known as the diversification discount (Harto, 2007). Conclusions of agency problems on corporate diversification policy that managers diversify to reduce risk and increase profits, while investors expect the optimal profit through increased firm value.

2. DIVERSIFICATION

Diversification is a form of enterprise development by expanding the number of business or geographical segments as well as expand existing market share or develop a range of diverse products. Diversification can be done by opening new business lines, expanding existing product lines, expand the area of product marketing, opening branch offices, mergers and acquisitions to increase economies of scale and other means (Harto, 2007). The underlying motive to diversify the firm's management, among others, as described by Montgomery (1994) in Harto (2007), the market power view, resources-based view, and the perspective of agency. View of market power see diversification as a tool to foster an competitive effect on strength conglomerate sourced. When the company grew into the large market share will be greater, resulting in reduced competition due to the dominance of the business market. Power of large conglomerates have many different companies, so it has the power in a variety of different market shares. Diversification within this approach will have a positive effect on performance and firm value.

The second motive is based on consideration of the resources owned by the firm. Diversification made to utilize the excess capacity of the resources. Resources and production capacity owned by the firm is still not optimally utilized to operate only on a single line of business. Efficient allocation of resources enables the firm to grow and develop. Nevertheless, the optimal level of diversification differs across firms depending on the characteristics of available resources. In the perspective of the agency's decision to consider strategic aspects of the agency conflict between owners and management as described in agency theory (agency theory).

Size that can be used to view the diversified firm is the number one business unit or company-owned business segment. Such information may be obtained from the notes to the financial statements of the company. Segment reporting in Indonesia still include something new. Reporting is required in 2001 by the Dewan Standar Akuntansi Keuangan (DSAK) issued Pernyataan Standar Akuntansi Keuangan (PSAK) No. 05 revised 2000 regarding segment reporting (Harto, 2007). Ikatan Akuntan Indonesia (2009) has renewed PSAK No. 5 revised 2000 to PSAK No. 05 revised 2009. PSAK No. 5 revised 2009 went into effect on January 1, 2011. The PSAK requires any company that has a variety of business and geographical segments, each segment has met the criteria of sales, assets and profits of certain businesses to disclose such business segments in the financial statements are issued.

3. FIRM PERFORMANCE

Firm performance is the result of management efforts in managing the company during the specified period. Performance (performance) is used to indicate financial performance (financial performance) and market performance (market performance). Financial performance can be assessed through financial measures to the analysis of financial ratios. In general, an analysis of the ratios is the first step in financial analysis to assess the performance and financial condition of a company. This is consistent with the objectives of financial statements to provide information about the firm's achievements during the period of time to help determine the expectations of external parties (expectation) of the company's achievements in the future (Hanafi and Halim, 2003).

Hanafi and Halim (2003) Financial ratios grouped into five categories, with liquidity, profitability, activity, solvency, and market. Liquidity ratios indicate the company's ability to meet short-term obligations. Liquidity ratios are the focus of this study were current ratio (CR). Activity ratios measure the extent of the effectiveness of the use of an asset by looking at the activity level of assets. The ratio of activity in this study were measured using the total assets turnover ratio, because the total assets turnover notify the relative efficiency of use total assets of the firm to generate sales for a certain period. Profitability ratios indicate the firm's ability to generate profits. Profitability analysis used in this study is the ratio of ROA, ROE, and profit margin. Solvency ratio measures the extent to which a firm's ability to meet its long-term debt. In this study the firm's solvency is measured by using the ratio of debt to assets (debt ratio). And the ratio of the market that are used to measure the development of the firm's value relative to book value.

4. FIRM VALUE

Value of the company or firm value in this study is defined as market value. This is in accordance with the firm's main objectives to increase firm value. Firm value can deliver maximum shareholder wealth when stock prices rise. Firm value will be reflected in stock market prices (Fama, 1978). Company information is available on the market is the basis of assessment of investors against companies that are reflected in the firm's stock price. Market value, the later will give an indication for the management of investors' assessment of firm performance in the past and its prospects in the future. To measure the firm value can use the ratio of Tobin's Q.

Tobin's Q ratio is a measure of the level of corporate investment opportunities, measured by comparing the market value of equity plus the book value of total debt divided by book value of total assets (Harto, 2007). The ratio of Tobin's Q can explain various phenomena in the firm's activities, such as the differences in investment decision-making and diversification, the relationship between share ownership of management and firm's value, the relationship between performance management and benefits to the acquisition, and the policy of financing, dividend, and compensation. The greater the value of Tobin's Q ratio indicates that the company has good growth prospects and have greater intangible assets. In other words, the higher Tobin's Q means that the firm has a level of better investment opportunities (Setionoputri et al, 2009).

HYPOTHESIS

Diversification decision other than as an attempt to maximize the size and diversity of the firm, also can improve firm performance. Improved firm performance is shown through increased resources for the operations, efficiency, and strength in the face of competitors. Theoretically, if the diversification strategy to work effectively and efficiently the whole process of the firm's activities will run well, can further improve the performance and firm value. But with the advent of agency problem, diversification tends to be done by the

managers of the firm in achieving the interests that are sometimes not in line with the interests of owners that diversification may result in performance degradation and the enterprise value (Harto, 2007).

The expansion of the business unit through diversification undertaken by the firm provide different effects for the firm's performance is caused by many conditions. Unstable economic environment can be a risk that is less supportive of the optimal diversification strategy, in addition to a lack of managerial capacity to support causes the efficiency and effectiveness is not achieved. Another issue is the source of funds, and conditions beyond the control of management that affect the performance and firm value changes very quickly (Satoto, 2009).

Management will try to maintain business excellence to improve the performance and value. Experience and knowledge that has been owned and developed by the firm management are appropriately used as a basis for strategic decisions. firms can make policy and the expansion of economies of scale reduction efforts as efforts to achieve the expected target. The basic policy choices made by the evaluation of performance outcomes between diversification policy and the policy focused on a single segment (Sari et al., 2009). Diversification is a strategy formulated by the firm to achieve the target firmperformance and increase firm value, so that clearly shows the difference in performance and value due to the implementation of a diversification strategy. Thus, the hypothesis presented in this study are as follows:

H1: There is difference liquidity ratio between the diversified firm with nondiversified firm.

H2: There is difference activity ratio between diversified firm with nondiversified firm.

H3: There is difference profitability ratio between the diversified firm with nondiversified firm.

H4: There is difference solvency ratio between the diversified firm with nondiversified firm.

H5: The value of diversified firm that is different from nondiversified firm.

RESEARCH METHODS

1. POPULATION AND SAMPLE

The population of this study was a manufacturing firms listed on the Indonesia Stock Exchange (Bursa Efek Indonesia-BEI) 2006-2010. Sampling method in this study is the purposive sampling technique, the sample to be used in the study was chosen with certain criteria. Criteria for selection of the sample in this study; 1) The firm has been listed on the BEI and doesn't delisting experience during the period 2006-2010. 2) The firm has annual financial statements have been audited, disclose the report segments and have a complete stock price data during the observation period. 3) The firm does not make strategic changes, diversified strategy or nondiversified strategy during the observation period. 4) The financial statements use a unit of currency (Rp). Furthermore, to avoid biased results due to the difference in amount between the two groups of samples, then conducted by issuing a control sample of firms that have a total asset value is too high.

This study uses secondary data, the research data obtained indirectly through its medium (obtained and recorded by the other party). The main data in this study were obtained from the financial statements IDX website (www.idx.com) and the manufacturing company's stock price that is included in the sample criteria in the year 2006-2010 derived from the investment world website (www.duniainvestasi.com).

2. OPERATIONAL DEFINITION AND MEASUREMENT OF VARIABLES

This study examined differences in the performance of diversified firms and nondiversified firms. This is a categorical variable (non-metric), with category number 1 for the diversified firms and 0 for nondiversified firms. Level of diversification in this study is measured by the

Herfindahl index (H). firms identified into a diversified group if index $H < 95\%$, if the value of the index $H \geq 95\%$ of the firms are grouped into the category of nondiversified firms. Measurement Herfindahl index (H) by the following formula:

$$H = \frac{\sum_{i=1}^n Segsales^2}{(\sum_{i=1}^n Sales)^2}$$

Description:

Segsales : the sale of each segment

Sales : total sales

- Current ratio (CR), is a measure of the firm's ability to meet short-term liabilities using current assets. The formula to measure is $currentratio = \frac{currentassets}{currentliabilities}$
- Total Assets Turnover (TAT), demonstrate the ability and efficiency in utilizing firm owned total assets. Measurement of total asset turnover using the formula is $Totalassetturnover = \frac{Sales}{Total Assets}$
- Return on Assets (ROA), is a measure of corporate profitability by comparing net income after tax to total assets. The formula to measure the ROA; $ROA = \frac{net income}{Total Assets}$
- Return on Equity (ROE), measured the ability of companies to make profits based on capital stock. The formula to measure the ROE, $ROE = \frac{net income}{Total Equity}$
- Profit margin, measured the ability of firms to make profits at certain sales levels. The formula to measure the profit margin is: $PM = \frac{net income}{Sales}$
- Total Debt to Total Assets (Debt Ratio), measures the ability of companies to meet short term liabilities using current assets owned by the company. The formula to measure the debt ratio is: $DR = \frac{Total debt}{Total assets}$
- Tobin's Q, a measure of the level of corporate investment opportunities, measured by comparing the market value of equity plus the book value of total debt divided by book value of total assets (Harto, 2007). Tobin's Q ratio is calculated by the formula $Q = \frac{MVS + Debt}{Total assets}$

Description:

MVS : the market value of equity, which is obtained by multiplying the number of stock outstanding by the closing share price

D : total book value of debt (debt)

TA : book value of total assets

Analyses were performed using statistical tests of different test independent sample t-test, to see the difference in performance and value of the diversified firms and nondiversified firm.

RESULTS AND DISCUSSION

DESCRIPTIVE STATISTICS

Descriptive statistics for the whole sample as well as that of diversified and nondiversified strategy groups were presented. Based on the selection of a purposive sampling method, the sample obtained were 73 firms which were 51 diversified firms and 22 nondiversified firm. To avoid biased results due to the difference in amounts high enough between the two groups of samples, it was done by issuing a control sample of firms that had a total asset value was too high. So this reseach used 35 samples of diversified firm and 21 samples of nondiversified firm. Before the analysis was done, first presented descriptive statistics as shown in the table in the appendix. The average value of current ratio sample of diversified firm Rp 2.35, that mean each Rp 1,00 current liabilities secured by Rp 2.35 in current assets. While the sample

of diversified firm the average has current ratio higher that is equal to Rp 5.76, meaning that each Rp 1.00 current liabilities secured by Rp 5.76 in current assets. Thus, indicating current ratio is diversified firm is lower than the nondiversified firm. Sample of firms that have the ability to diversify their average total asset turnover as much as 1.3022 times a year. While the sample of firms that do not have the ability to diversify the average turnover of assets as much as 1.1824 times a year. Descriptive results of the study sample indicates that the effectiveness of total assets of the diversified firm higher than nondiversified firm.

The average value of the variable ROA sample of the diversified firms higher than nondiversified firms. The diversified firms have average ROA 0.0617, while the sample of nondiversified firms have an average ROA of 0.0331. Based on the description of the samples showed that the average profitability ratio of the diversified firms higher than nondiversified firms seen from the return on assets ratio. The average value of ROE sample diversified firms 0.1303, while the sample of nondiversified firms have an average ROE of 0.0087. This indicates that the average return on equity of the diversified firms higher than nondiversified firms. The average profit margin of the sample diversified firms 0.0582, while the nondiversified firms have average profit margin of -0.0921. The average profit margin of the sample nondiversified firms is negative because a lot of samples that have a negative net income. This indicates the profitability ratio of the diversified firms higher than nondiversified firms seen from the profit margin ratio. Minimum value of the profitability ratios indicate that some firms have negative profitabilities which is negative due to net earnings.

NORMALITY TEST DATA

Based on the test results as seen in the table in the annex to the normality test data, all the variables the study had a normal distribution because it has Asymp.Sig not less than 5%. One way to address data that is not normal is to transform the data into logarithmic form. However, the way it can not be used in this study because there are data with values and negative (-). When the way is not to be used and parametric analysis requires a normal distribution of data, the researchers assumed that data were normally distributed based on central limit theory, ie if a sample of more than 30 ($n \geq 30$) then the data will still be considered normal. This study uses a sample of 56 firms with 280 observations.

HYPOTHESIS TESTING RESULTS

1. FIRST HYPOTHESIS TESTING RESULTS

The test results were independent sample t-test between the diversified firm and nondiversified firms as found in the appendix, examination of current ratio variables the t-value showed a negative count of -2.939 and a significance level of 0.023. T-value negative means diversified firms have liquidity is lower than the nondiversified firms. Significance (probability) of 0.023 is smaller than 0.05 ($0.023 < 0.05$). Based on these results we can conclude there are significant differences between the liquidity of the diversified firm and nondiversified firm.

The average value of current ratio diversified firm 2.3505, while the sample of nondiversified firms has average current ratio 5.7604. This indicates that the diversified firm that has component of a current asset value is lower. This condition occurs because diversified firms tend to invest in a wider segment of the business to achieve higher productivity. Thus, the utilization of current assets to firms that perform higher diversification and liquidity remained good firm. Average liquidity to diversify the firm shows that firms still able to provide sufficient collateral against debt, which is any Rp 1.00 current liabilities secured by Rp 2.35 current assets.

2. SECOND HYPOTHESIS TESTING RESULTS

Testing of the variable total asset turnover showed a positive t-value is calculated for a significance level of 1.239 and 0.217. T-value positive means activity of the diversified firm higher than nondiversified firm. In accordance with the descriptive statistics, the average total asset turnover ratio diversified firm higher chance to reach a certain level of sales by using its assets. This happens when a firm allocates investment in some business segments, each segment will seek to optimize the sale of assets owned by them.

The significance level (probability) of the test results 0.217 greater than 0.05 ($0.217 > 0.05$). Based on these results it can be concluded that there was no significant difference activity ratio between diversified firm and nondiversified firm. Effectiveness of the utilization of assets in generating sales among diversified firms that do not difference with nondiversified firms may be caused by the unstable economic conditions. So that diversification should be able to improve the firm performance will not optimally (Satoto, 2009).

3. THIRD HYPOTHESIS TESTING RESULTS

Tests on the variable ROA showed positive t-value 1.967 and calculated for a significance level 0.050. T-positive count value means that the ROA diversified firm higher than nondiversified firm. Judging from the level of significance (probability) of 0.050. The test results are independent sample t-test on the ROE ratio showed a positive value of t-count of 3.001 with a significance level of 0.003. T-count positive direction means that the diversified firm's ROE higher than nondiversified firm. Judging from the level of significance (probability) of 0.003 is smaller than 0.05 ($0.003 < 0.05$). Furthermore, the results of testing the profit margin ratio indicates a positive value of t-count of 2.089 with a significance level of 0.036. Based on test results concluded that the profitability of the diversified firm difference significantly with nondiversified firm. T value is calculated ROA, ROE, and profit margins are positive suggests that diversified firms have the ability to generate higher profits than nondiversified firm.

Diversification will facilitate the coordination of the firm that has many segments can conduct transactions internally, so the more efficient allocation of resources can be created by decreasing transaction costs (Berger and Ofek, 1995). Increased productivity will be higher on the diversified firm, with the benefit of the internal transaction cost can be suppressed so that the resulting return would be higher. With an emphasis costs through internal transactions, the firm's ability to achieve higher profits on certain sales will also increase. The use of assets for optimal investment in more than one business segment provides an opportunity for companies to obtain the optimal return, but it will also reduce the risk of bankruptcy that may occur due to spread the business segments (Higgins and Schall, 1975 in Satoto, 2009). Consistent with the results of testing against the current ratio, a firm that invests in several business segments and no excess of current assets that are unemployed will have the ability of productivity, as well as the chances of achieving a higher return.

The results of this study do not support the findings of David et al. (2009) which proves that the firms in Malaysia on a single segment firms have higher performance than diversified firm based on measurements of ROA and market-adjusted return. Satoto (2009) also proved that the negative effect of diversification on firm performance as measured by ROA ratio.

4. FOURTH HYPOTHESIS TESTING RESULTS

Tests on the debt ratio variable showed a negative value of t-count of -2.230 with a significance level of 0.027. The significance level (probability) test results for 0.027 less than 0.05 ($0.027 < 0.05$). Based on these results we can conclude that there is a difference in performance between diversified firm and nondiversified firm from the solvency is measured by the debt ratio.

Debt ratio indicates the availability of resources and limitations of each firm in funding (Hanafi and Halim, 2003). T-count negative direction indicates that the diversified firm's debt ratio is less than nondiversified firm. Diversified firm are more likely to use their own funding and have the availability of resources is higher. This is in accordance with the phenomenon that the majority of firms in Indonesia is a conglomeration of business groups and businesses are built from a family company, so that compliance resources are supported by cross-subsidy mechanism between business units through internal transactions.

5. FIFTH HYPOTHESIS TESTING RESULTS

Tests on Tobin's Q ratio indicated a negative value of t-count of -0.676 with a significance level of 0.500. T-count negative direction indicated that the value of diversified firm is lower than the nondiversified firm. Tobin's Q ratio indicated the level of investment opportunities that are owned by the firm (Setionoputri et al., 2009). Thus meant that the firm has diversified have a lower chance to re-invest.

The significance level (probability) of the test results greater than 0.05 ($0.500 > 0.05$). Based on these results we can conclude that the fifth hypothesis is rejected in this study. This means that the value of the diversified firm and nondiversified firm that did not differ significantly. The results of this study support the findings of David et al. (2009), which proves there is no difference market performance or firm value between the the a single segment firm and diversified firm. Sari et al. (2011) also show that no significant difference between the diversified firms and nondiversified firm seen of the excess value. The results of this study do not support research Sujoko (2010) who proved that a significant negative effect of diversification strategies on firm value, which means the value of diversified firms is lower than the single-segment firms.

CONCLUSIONS AND IMPLICATIONS

Based on the results of research and analysis had been conducted, researchers drew several conclusions, that there were significant performance differences between diversified firm and nondiversified firm from the ability to diversify liquidity, profitability, and solvency of the company. On the average performance of the diversified firms were higher than nondiversified. There were no significant differences in performance between the diversified firms and nondiversified firms viewing from corporate activity, and there was no difference between the value of diversified firms and nondiversified firms.

Based on the analysis in this study, then the manager should consider all aspects of corporate finance in the selection of company policy. Policy of diversification in some segments of the business was the right choice to enhance the activity and profitability for manufacturing firms, but management might also consider the option of the business segments that would be the investment objectives so as not to negatively impact the firm value. For further research, should be able to identify the application of the diversification strategy was different because it will impact on the performance and firm value due to the implementation timeframe of diversification are not the same. In addition, testing should be done with a larger sample more representative so that the research results to generalize the conclusions of analysis.

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APPENDIXS

Sample

Criteria	Amount	Percentage
The company has been listed on the Stock Exchange and the delisting did not experience during the period 2006-2010	156	100 %
Companies that do not have complete data for the year of observation	(65)	42 %
Corporate diversification strategy changes	(11)	7 %
Financial statements in a currency other than dollars	(7)	4 %
Total Sample	73	47 %
Sample of diversified firms	51	33%
Samples that have a total value of assets is too high	16	10%
Final Sample	35	14%
Sample of nondiversified firms	22	14%
Samples that have a total value of assets is too high	1	1%
Final Sample	21	13%

Descriptive Statistics

Sample of diversified firms (N=175)						Sample of nondiversified firms (N=105)					
	N	Minimum	Maximum	Mean	Std. Deviation		N	Minimum	Maximum	Mean	Std. Deviation
CR_D	175	.11	17.61	2.3505	2.17907	CR_ND	105	.16	113.71	5.7604	15.10511
TAT_D	175	.26	4.70	1.3022	.81584	TAT_ND	105	.03	3.68	1.1824	.72605
ROA_D	175	-.12	1.48	.0617	.13199	ROA_ND	105	-.20	.30	.0331	.08901
ROE_D	175	-.81	2.48	.1303	.30086	ROE_ND	105	-2.06	1.56	.0087	.36940
PM_D	175	-.27	.86	.0582	.12919	PM_ND	105	-5.83	.19	-.0921	.73051
DR_D	175	.02	3.37	.5242	.38865	DR_ND	105	.04	3.21	.6928	.71369
Q_D	175	.10	6.93	1.2223	.98691	Q_ND	105	.18	6.35	1.3044	.98149

Hypothesis Testing Results

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	T	Df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
CR	Equal variances assumed	23.609	.000	-2.939	278	.004	-3.40982	1.16015	-5.69362	-1.12601
	Equal variances not assumed			-2.299	106.603	.023	-3.40982	1.48328	-6.35038	-.46926
TAT	Equal variances assumed	.000	.993	1.239	278	.217	.11980	.09671	-.07059	.31018
	Equal variances not assumed			1.275	239.209	.203	.11980	.09394	-.06525	.30484
RO A	Equal variances assumed	.070	.792	1.967	278	.050	.02859	.01454	-.00002	.05721
	Equal variances not assumed			2.161	274.191	.032	.02859	.01323	.00255	.05463
RO E	Equal variances assumed	1.765	.185	3.001	278	.003	.12159	.04051	.04184	.20133
	Equal variances not assumed			2.852	185.677	.005	.12159	.04262	.03750	.20568
PM	Equal variances assumed	9.069	.003	2.656	278	.008	.15029	.05658	.03891	.26167
	Equal variances not assumed			2.089	107.917	.039	.15029	.07196	.00766	.29292
DR	Equal variances assumed	14.547	.000	-2.557	278	.011	-.16855	.06591	-.29830	-.03880
	Equal variances not assumed			-2.230	141.622	.027	-.16855	.07559	-.31799	-.01912
Q	Equal variances assumed	.756	.385	-.676	278	.500	-.08215	.12158	-.32148	.15718
	Equal variances not assumed			-.677	220.051	.499	-.08215	.12141	-.32142	.15713