

ABSTRACT

The diversification strategy is one of corporate level strategies available for managers to achieve managements' goal: maximizing shareholders' value through distribution of dividends and potential capital gains from stock market. Despite having several benefits for companies theoretically, contradictory results from many researchers in the past raise a question whether the diversification strategy is truly a main factor affecting companies' performance or not. The objectives of this research are to find out which one among three available corporate level strategies is the most beneficial strategy for shareholders' wealth maximization, and to find out other factors that may affect companies' performance more than those strategies.

About 340 companies listed in Indonesian stock market was made as this research's samples. Descriptive analysis served as a tool to fulfill the first research's objective and used the companies' data of five financial indicators namely stock's rate of return, growth of EPS, ROE, ROA, and NPM in their average annual form. Meanwhile, panel regression analysis served as a tool to accomplish the second research's objective and added the data of companies' type of ownership, size, leverage, type of industry, and adopted corporate level strategy as independent variables for those five financial indicators. Test of significance was conducted by using 5% level of significance for both descriptive analysis and panel regression analysis.

There were few evidences to show that a corporate level strategy was better than the others significantly. Firms' size influenced four financial indicators significantly. Firms' leverage and type of ownership influenced three financial indicators significantly, and firms' type of industry influenced two financial indicators significantly. Meanwhile, the related diversification strategy positively influenced a stock's rate of return significantly, and the unrelated diversification strategy negatively influences a company's NPM significantly.

Keywords: company performance, diversification strategy, earning per share, firm size, firm leverage, net profit margin, return on assets, return on equity, stock return, shareholder wealth maximization, type of industry, type of ownership.