

ABSTRACT

This study examine the influence of managerial ownership toward the relation among corporate diversification which is measured by the Herfindahl index and the Entropy index and the firm performance which is measured by Tobin's Q and ROA and risk which is measured with total risk, systematic risk and unsystematic risk. The aim of this research is to find empirical evidence regarding (a) the effect of corporate diversification on firm performance, (b) the influence of managerial ownership toward the relationship between corporate diversification and firm performance, (c) the effect of corporate diversification of risk, (d) the effect of managerial ownership toward the relationship between corporate diversification and risk.

The sample in this research are manufacturing companies listed in Indonesia Stock Exchange in 2007 until 2009. The research sample are 33 firm with 99 observations. The analysis of data uses multiple linear regressions by Moderated Regression Analysis (MRA) test. The sampling method uses a purposive sampling method.

The results of the research shows that there is no significant relationship between corporate diversification and firm performance and risk. Managerial ownership as a moderated variable is also unable to moderate the relationship between corporate diversification and firm performance, systematic risk and unsystematic risk. However, managerial ownership as moderated variables is capable to moderate the relationship between corporate diversification and total risk.

This research shows that corporate diversification strategy executed in Indonesia has not produced optimal result toward firm performance. However, with the existence of supervision mechanisms in the form of managerial ownership is proven that it can encourage a manager to make decisions which are able to decrease the total risk of the diversified firm.

Keywords: *corporate diversification, firm performance, risk, managerial ownership.*