

ABSTRACT

There are many companies which did diversification strategy, related or unrelated, and this is very interesting to be an object research. A company which did unrelated diversification strategy called conglomerate firm. That firm indicates did internal capital market mechanism. Internal capital market is a mechanism in firm funding by cross subsidies in their own segment. Segment in internal capital market divided into four segment, efficient subsidy segment (EFS), inefficient subsidy segment (IFS), efficient transfer segment (ETS), and inefficient transfer segment (ITS). The aim of this research is to find the empirical evidence regarding correlation between four internal capital market components toward firm performance by its excess value.

Sample in this research are conglomerate firm and single segment firm listed in Indonesian Stock Exchange in 2008 to 2012. The research samples are 19 conglomerate firm and 47 single segment firm. The analysis data uses panel data regression fixed effect model (FEM). The sampling method is using a purposive sampling method.

The results of this research shows that there is positive relationship between efficient subsidy segment (EFS) toward excess value and shows negative relationship between inefficient subsidy segment (IFS) and inefficient transfer segment (ITS) toward excess value. But efficient transfer segment (ETS) has no relationship toward excess value. This research also add size, leverage, liquidity, and profitability as control variable. This research show that in conglomerate firm in Indonesia also did internal capital market mechanism and there are an effect to firm performance.

Keywords : diversification, conglomerate firm, internal capital market, excess value, firm performance, fixed effect model regression.