ANALYSIS OF CORPORATE STRATEGY, BUSINESS RISK, AND MANAGERIAL OWNERSHIP ON COMPANY PERFORMANCE WITH CAPITAL STRUCTURE AS A MEDIATING VARIABLE IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE (IDX)

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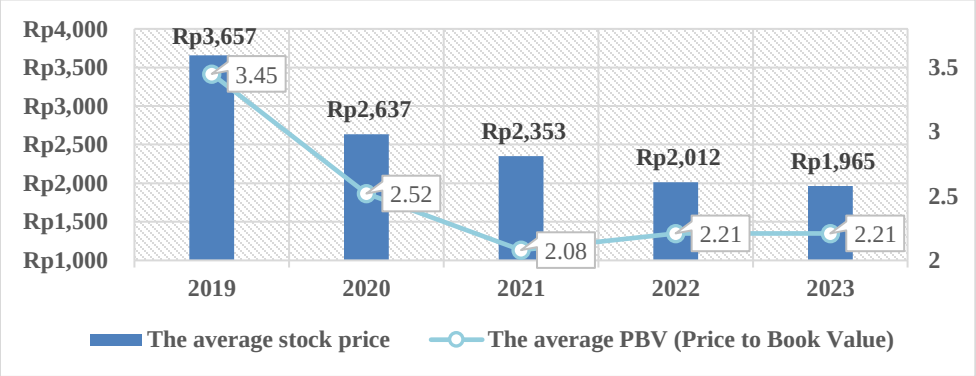
Abstract

This research aims to Analysis of Corporate Strategy, Business Risk, and Managerial Ownership on Firm Performance with Capital Structure as a mediation variable in Manufacturing Companies on the IDX. The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023 that conduct export transactions and have managerial ownership, totalling 51 companies. Due to the small sample size, the full sampling technique was used, resulting in a total of 255 observations. Data analysis was performed using the panel data regression method processed with EViews version 12. The research result are as follows: (1) Vertical integration strategy does not affect company performance, (2) Diversification strategy affects company performance, (3) Internationalization strategy affects company performance, (4) Business risk does not affect company performance, (5) Managerial ownership affects company performance, (7) Capital structure is not proven as a mediating variable because it cannot mediate the influence of vertical integration strategy, diversification strategy, internationalization strategy, business risk, and managerial ownership on the performance of manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2023 research period.

Keywords: Vertical Integration Strategy, Diversification Strategy, Internationalization Strategy, Business Risk, Managerial Ownership, Capital Structure, Firm Performance

INTRODUCTION

Despite global disruptions in 2023, including financial volatility and geopolitical fragmentation, Indonesia maintained relatively strong economic growth. Although growth slowed slightly in Q3 2023, it remained positive and outperformed other Asian countries such as China, Malaysia, and Singapore, highlighting Indonesia's resilience amidst uncertainty. The manufacturing sector played a crucial role in this achievement, contributing 41.2% of total national investment (SAKERNAS BPS, 2023) and recording a 5.20% growth year-on-year (YoY), surpassing the national economic growth of 4.94%. This underscores the sector's significant impact on the national economy, even in challenging times, demonstrating its adaptability and resilience. However, despite its substantial contribution, the average stock prices of manufacturing companies declined from 2019 to 2023, reflecting a drop in the average Price to Book Value (PBV) and indicating that overall, the sector has yet to achieve optimal performance.

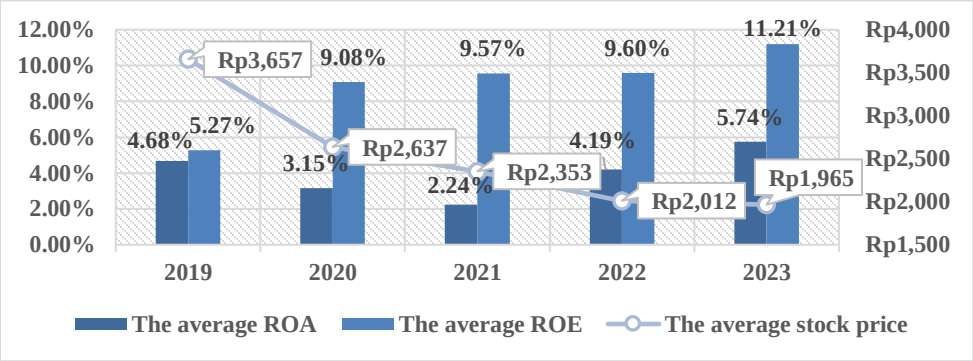


Source: Processed by the researcher (2024)

Figure 1.
Stock Price Trends and Average PBV of the Manufacturing Industry

Based on Figure 1, the decline in the average stock price of the manufacturing sector is accompanied by a decrease in PBV from 2019 to 2023. The average stock price of the sector fell by 46.2%, while the PBV decreased from 3.45 in 2019 to 2.21 in 2023. This decline indicates that investors are assigning a lower valuation to the companies' equity, reflecting uncertainty and doubts about the sector's performance prospects. According to signaling theory, a decline in stock prices may result from unhealthy financial conditions, where companies send signals to investors to guide their decision-making. However, when

observing the profitability of manufacturing companies from 2019 to 2023, the trend does not align with the predictions of signalling theory.



Source: Processed by the researcher (2024)

Figure 2.

Average Performance Growth of the Manufacturing Industry

Summary of Stock Price Decline and Financial Performance of the Manufacturing Sector

Figure 2 shows that the decline in stock prices coincides with fluctuating financial performance, as indicated by Return on Assets (ROA) and Return on Equity (ROE). From 2019 to 2021, ROA declined significantly, while ROE consistently increased. In 2022-2023, manufacturing firms began improving performance, reflected in a significant rise in ROA. However, this improvement did not translate into higher stock prices during the same period. This discrepancy contradicts classical financial theory, which suggests that a company's stock price should reflect its intrinsic value, based on financial performance and future prospects (Brigham & Houston, 2019). While increased profitability typically attracts investors and drives stock prices up (Tahir et al., 2021), the manufacturing sector has experienced a continuous decline in both stock prices and PBV despite rising profitability.

Potential Causes and Implications

This abnormal phenomenon may be attributed to global economic uncertainty, declining investor confidence, and unstable market conditions. If this trend continues, it could lead to a loss of investor trust, causing under-reaction to stock price movements and missed investment opportunities. To address this, companies need sustainable growth strategies and sufficient capital to maintain operations. Effective funding decisions, reflected in an optimal

capital structure, can help minimize the overall cost of capital and maximize firm value (Hasanah et al., 2023).

Strategic Alignment for Competitive Advantage

To achieve sustainable growth, companies must implement appropriate strategies that align with competitive demands. According to the hierarchy of strategies theory (Thompson et al., 2020), corporate, business, and functional strategies must align. Three key strategies include:

1. **Vertical Integration:** Enhances performance by adding value along the supply chain, reducing production costs, and increasing profits (Clinton-Etim & Manishimwe, 2021).
2. **Diversification:** While it can enhance performance by spreading risk and improving profitability, excessive diversification with low market focus (low HHI) may negatively impact performance (Sarwendhi, 2023).
3. **Internationalization:** This strategy may have a negative short-term impact on performance but can lead to long-term benefits (Yovita & Marciano, 2021).

By aligning these strategies, manufacturing firms can improve performance and enhance their competitive edge in a volatile market environment.

Corporate Strategies, Business Risk, and Managerial Ownership in Enhancing Firm Performance

When implementing strategic initiatives, companies must carefully consider potential business risks. Research by Toyibah & Ruhiyat (2023) suggests that higher business risks can lead to increased profitability and firm value. Investors often view high-risk companies as opportunities for higher returns ("high risk, high return"), leading to a positive perception and increased valuation despite the elevated risks. In addition to strategic decisions and business risks, managerial ownership plays a significant role in improving firm performance. Managers with substantial ownership stakes tend to act with greater autonomy and may prioritize personal interests over shareholder concerns, but their decision-making flexibility can positively influence company performance (Itung & Lasdi, 2019). This study focuses on top-level corporate strategies—vertical integration, diversification, and internationalization—and their impact on firm performance. It examines whether corporate strategies, business risk, and managerial ownership influence company performance, with

capital structure acting as an intervening variable that may strengthen or weaken these relationships.

REVIEW OF LITERATURE

Key Financial Theories and Their Impact on Firm Performance

Signaling Theory

Signaling theory suggests that companies take specific actions to signal their future prospects to investors (Brigham & Houston, 2019). Accurate financial reporting serves as a critical signal, helping investors make informed decisions. Reliable reports enhance investor confidence by reducing uncertainty about the company's future performance (Indriani, 2020; Putra et al., 2021).

Agency Theory

Agency theory highlights the relationship between shareholders (principals) and managers (agents) who manage the company on behalf of the owners. Jensen & Meckling (2019) argue that conflicts arise due to information asymmetry, where managers possess more knowledge about the company than external stakeholders. This asymmetry can lead to agency problems, affecting company performance (Karajian & Ullah, 2022).

Pecking Order Theory

According to Myers (1984), companies prefer internal financing (retained earnings) over external debt and equity. If internal funds are insufficient, debt is preferred over equity due to lower costs and dilution of ownership. This theory assumes companies operate in a simple financial environment with limited funding options (Nawir et al., 2023).

Trade-Off Theory

The trade-off theory suggests that an optimal capital structure balances the benefits of debt (e.g., tax shields) against its costs, such as interest expenses, financial distress, and agency costs (Berk & DeMarzo, 2019). The optimal structure minimizes the Weighted Average Cost of Capital (WACC) while maximizing firm value (Nawir et al., 2023).

Firm Performance

Firm performance reflects management's decision-making and is often linked to stock prices. A higher stock price indicates better performance, instilling market confidence in the

company's prospects. The Price to Book Value (PBV) ratio is a key indicator used by investors to assess how effectively a company generates value from its invested capital. A PBV greater than 1 indicates that the market value exceeds the book value, signaling strong performance (Chiu et al., 2021; Bahrun et al., 2020).

Capital Structure

Capital structure is the mix of equity, preferred stock, and debt used to finance a company's assets. Its primary goal is to minimize WACC and maximize the intrinsic value of the firm's stock (Brigham & Houston, 2019). According to Modigliani & Miller (1958), in a world without taxes, capital structure does not affect firm value. However, their revised model shows that debt can increase firm value by providing tax benefits through deductible interest expenses, reducing the overall tax burden and enhancing firm value (Berk & DeMarzo, 2019).

Corporate Strategy and Its Dimensions

Corporate strategy is the alignment of a company's business and operational decisions with its long-term goals. Ineffective strategies can negatively impact the organization, making strategic decision-making crucial. Factors such as available capital and competition must be considered when formulating strategies, along with continuous monitoring to adapt to changing circumstances (Helmold, 2020; Nuralfiani, 2020).

Corporate strategies can be categorized into three dimensions:

1. **Vertical Integration** – Expanding operations within the supply chain to increase value at each stage.
2. **Diversification** – Expanding business activities across various sectors to reduce risk.
3. **Internationalization** – Entering foreign markets to boost growth and profitability (Cappa et al., 2020).

Vertical Integration

Vertical integration involves incorporating different stages of the supply chain into the company's operations. This strategy reduces transaction costs (Williamson, 1998) and enhances profitability, technological capability, and competitive positioning. However, it requires significant investment and entails higher operational risks (Alfira, 2023).

Diversification

Diversification allows companies to operate across multiple industries or product lines, reducing operational risks and enhancing economies of scale (Cappa et al., 2020). It can be:

- **Related Diversification** – Expanding within the same industry.
- **Unrelated Diversification** – Expanding into different industries. According to the Coinsurance Effect (Lewellen, 1971), diversification reduces operational risks by balancing cash flows from different business segments. However, it can also increase debt levels due to the capital required for expansion (Sarwendhi, 2023).

Internationalization

Internationalization involves expanding into foreign markets to increase market share and profits. According to Dunning's Eclectic Paradigm, companies expand internationally in stages, starting with exports, then partnerships, and eventually establishing subsidiaries (Curcija, 2024).

Key performance metrics include Foreign Sales to Total Sales (FSTS), which indicates the proportion of revenue generated from international markets (Yovita & Marciano, 2021). Companies with higher FSTS tend to achieve better performance through increased knowledge and technological innovation (Wei & Nguyen, 2020).

Business Risk

Business risk refers to the uncertainty in predicting a company's future operational profit or loss, which can impact its ability to continue operations, especially in terms of debt repayment. High business risk companies are less reliant on debt due to concerns about future repayment failures (Oktafiani et al., 2019). According to Pecking Order Theory, high income fluctuations make it difficult for investors to predict future earnings, raising the cost of debt. Trade-off Theory suggests that higher bankruptcy risk leads to lower debt levels, as lenders are reluctant to lend to companies with high earnings volatility and demand higher premiums. Therefore, companies with high business risk tend to prefer equity issuance over debt (Ramli et al., 2019).

Managerial Ownership

Managerial ownership refers to the shares owned by managers, who also act as shareholders. Managerial ownership aligns the interests of managers with shareholders,

enabling managers to make decisions that reflect shareholder preferences (Aprilia & Riharjo, 2022). Higher managerial ownership can benefit managers, as they directly profit from company's success (Setyawan & Darmawan, 2017).

Hypothesis Development

The Impact of Vertical Integration Strategy on Company Performance

Vertical integration is crucial for improving operational efficiency and adding value through the consolidation of production and distribution stages. Studies show that vertical integration can enhance operational efficiency and reduce production costs, leading to better financial performance (Clinton-Etim & Manishimwe, 2021). This strategy can optimize resource allocation, improve market demand responsiveness, and boost innovation, all of which contribute to improved financial performance, such as an increased Price-to-Book Value (PBV) ratio. Companies effectively implementing vertical integration can lower operational costs, increase profit margins, and stabilize cash flows, boosting investor confidence and market value.

H1: Vertical integration positively impacts company performance.

The Impact of Diversification Strategy on Company Performance

Diversification helps companies reach broader markets, maximize productivity, reduce risks, and improve performance through economies of scale. Research shows that product diversification has a significant impact on company performance, where a low HHI indicates that the company is becoming more diversified, which ultimately leads to improved company performance (Arif, 2023; Sarwendhi, 2023).

H2: Diversification negatively impacts company performance.

The Impact of Internationalization Strategy on Company Performance

Internationalization refers to a company's effort to expand into foreign markets to increase profits. Dunning's Eclectic Paradigm and Porter's Diamond Theory explain that companies enter international markets when they possess competitive advantages. However, international transactions also bring significant business risks, including exchange rate fluctuations, economic and legal risks, and political and cultural differences. Studies suggest that while internationalization can improve company performance and technological

innovation, it also introduces risks that can negatively affect performance (Melgarejo Duran & Stephen, 2020; Wang et al., 2020).

H3: Internationalization has a positive impact on company performance.

The Impact of Business Risk on Company Performance

Business risk refers to the uncertainty in predicting a company's future profits or losses, impacting its ability to operate effectively, especially in debt repayment. Research indicates that high business risk can positively affect company performance by leveraging financial risk for higher returns. Companies often prefer debt over internal funding for investments, using leverage to generate higher returns that can cover high-interest costs. Studies (Sesa, 2021; Toyibah & Ruhiyat, 2023) suggest that high business risk leads to higher profitability and company value, as investors adopt a "high risk, high return" mindset.

H4: Business risk positively affects company performance.

The Impact of Managerial Ownership on Company Performance

Managerial ownership refers to the percentage of company shares held by managers, aligning their interests with those of shareholders. This ownership incentivizes managers to make decisions that benefit the long-term performance of the company. Studies (Altania & Tanno, 2023; Effendi & Prima, 2023) show that managerial ownership significantly influences company performance by motivating management to work harder. With proper incentives, managers focus on long-term goals, creating value for the company and increasing shareholder wealth.

H5: Managerial ownership positively affects company performance.

The Indirect Impact of Vertical Integration Strategy on Company Performance via Capital Structure

Vertical integration increases the value added at each stage of production, enhancing technology, competitive position, and profitability. However, it also involves risks and high costs. Research (Hamdaoui & Bouayad, 2019) shows that vertical integration can optimize supply chains and reduce production costs, leading to improved company performance. Additionally, studies (Cappa et al., 2020) indicate that vertical integration negatively correlates with debt ratios, suggesting that higher vertical integration leads to lower debt

levels. A lower debt ratio can lead to a more conservative capital structure, reducing financial risks and benefiting long-term performance.

H6: Vertical integration indirectly impacts company performance through capital structure.

The Indirect Impact of Diversification Strategy on Company Performance via Capital Structure

Diversification helps companies expand their market reach, improve productivity, reduce portfolio risk, and enhance performance. Studies (Fernández-Vidal et al., 2023) show that diversification positively influences company performance, while (Cappa et al., 2020) find a positive correlation between diversification and debt ratios. Diversification spreads risk across various markets, making company revenue more stable and attractive to investors. By using debt to finance diversification, companies can increase assets and revenue, improving value. This optimal capital structure contributes indirectly to better performance.

H7: Diversification indirectly impacts company performance through capital structure.

The Indirect Impact of Internationalization Strategy on Company Performance via Capital Structure

Internationalization positively affects a company's capital structure. Studies (Mardiansyah et al., 2023; Wang et al., 2020) show that internationalization impacts performance by influencing capital structure, especially in terms of funding through internal or external sources. Research (Cappa et al., 2020) suggests that internationalization is associated with lower debt ratios, indicating a healthier capital structure and reduced financial risk. Successful international expansion often involves external financing (debt), which can lead to improved performance through an optimal capital structure.

H8: Internationalization indirectly impacts company performance through capital structure.

The Indirect Impact of Business Risk on Company Performance via Capital Structure

Business risk affects financial decisions, particularly capital structure. High business risk leads to less reliance on external debt due to the associated financial instability. Conversely, low business risk may lead to higher debt as companies are trusted by lenders. Studies (Utami et al., 2023) show that business risk positively correlates with higher returns, impacting investment decisions and company valuations. A balanced capital structure can

help companies manage business risks and improve performance by ensuring access to both internal and external funds.

H9: Business risk indirectly impacts company performance through capital structure.

The Indirect Impact of Managerial Ownership on Company Performance via Capital Structure

Managerial ownership positively affects company performance by motivating managers to drive growth and profitability. Studies (Effendi & Prima, 2023) show that managerial participation in ownership improves company performance. Capital structure mediates the relationship between managerial ownership and company performance (Itan, 2021). With optimal capital structure, managers can implement strategies to improve performance, using company resources more effectively. A balanced capital structure reduces financial risk, contributing to better performance.

H10: Managerial ownership indirectly affects company performance through capital structure.

RESEARCH METHOD

Operational Variable Matrix of the Research

This study examines variables influencing the performance of manufacturing companies with managerial ownership, involved in export transactions, and listed on the Indonesia Stock Exchange from 2019 to 2023. It analyzes the relationship between corporate strategies (vertical integration, diversification, and internationalization) and company performance, while also considering the impact of business risk and managerial ownership. The study tests whether capital structure mediates these relationships, providing insights into how corporate strategies, business risk, and managerial ownership affect performance through capital structure.

Table 1.
Operational Variable Matrix of the Research

Operational Variables	Variable	Size	Measurement Formula	Source
Dependent Variable (Y)	Company Performance	PBV	$\frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$	(Andreas et al., 2022).
Operational Variables	**Variable**	**Size**	**Measurement Formula**	**Source**

Independent Variable (X)	Vertical Integration	INTEG	$\frac{\text{Value Added (Sales} - \text{cost of goods sold)}}{\text{Total Sales}}$	(Cappa et al., 2020)
	Diversification	HHI	$1\text{-}\Sigma_i^n(\frac{\text{Sales i}}{\text{Sales total}})^2$	(Sarwendhi, 2023)
	Internationalization	INTERN	$\frac{\text{Foreign Sales}}{\text{Total Sales}}$	(Mardiansyah et al., 2023)
	Business Risk	DOL	$\frac{\text{Total EBIT}}{\text{Total Sales}}$	(Mala &Yudiantoro, 2023)
	Managerial Ownership	OM	$\frac{\text{(Managerial shares)}}{\text{((Total shares)}}$ x 100%	(Mardiansyah et al., 2023).
Variable Intervening (Z)	Capital Structure	DAR	(Total Liabilities)/(Total Assets)	(Kasmir, 2019)

Population and Sample

The population in this study consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023 that engaged in export transactions and have managerial ownership, totaling 51 companies. Due to the small sample size, the sampling technique used is saturated sampling or full sampling.

RESULTS AND DISCUSSION

This study uses a series of testing steps to obtain the best model approach and results according to the data obtained. The following are the testing steps, starting with selecting the appropriate panel data regression model for testing the dependent, independent, and intervening variables. Next, a panel data regression model is chosen for testing the intervening variable.

Table 2.
Chow Test (Sub-Structural Stage 1)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	119.174935	(50,199)	0.0000
Cross-section Chi-square	875.201151	50	0.0000

Based on Table 2, it can be explained that the Probability Cross Section F value in this study is 0.0000 < 0.05. From this test, it can be concluded the best model approach that can be used in this study is the Fixed Effect Model (FEM). Based on this result, the testing will continue with the Hausman test.

Table 3.
Hausman Test (Sub-Structural Stage 1)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	392.458909	5	0.0000

Based on Table 3, it can be explained that the probability value of the cross-section random in this study is 0.0000 < 0.05. From this test, it can be concluded the best approach model to be used in this study is the Fixed Effect Model (FEM). In accordance with the criteria for determining the best model in the Chow test and Hausman test, the fixed effect model (FEM) is used in this study. The results of the testing with this approach model are as follows:

Table 4.
Results of the t-Test Sub-Structural (Stage 1)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.429886	0.119228	3.605564	0.0004
INTEG	-0.925979	0.126611	-7.313585	0.0000
HHI	0.387051	0.159857	2.421229	0.0164
INTERN	0.195829	0.085704	2.284948	0.0234
DOL	-0.032994	0.011717	-2.815796	0.0054
OM	0.076962	0.262367	0.293339	0.7696

Based on Table 4, it can be explained that the results of the t-test show that the constant, diversification (HHI), and internationalization (INTERN) have a significantly positive effect on company performance, while vertical integration (INTEG) and operational risk (DOL) have a significantly negative effect. Meanwhile, managerial ownership (OM) does not have a significant effect.

Table 5.
Result of the F-Test and R^2 Sub-Structural (Stage 1)

R-squared	0.976742
Adjusted R-squared	0.970314
F-statistic	151.9493
Prob(F-statistic)	0.000000

Based on Table 5, the calculated F value is 151.9493 > F table 2.4078 and the probability value is 0.000000 < 0.05, so H_0 is rejected and H_a is accepted. This indicates that the vertical integration strategy, diversification strategy, internationalization strategy, business risk, managerial ownership, and capital structure together influence capital structure. The R^2 value of 0.970314 shows that 97.03% of the variability in capital structure is explained by the independent variables in Stage 1, while the remaining 2.97% is explained by other factors.

Table 6.
Chow Test (Sub-Structural Stage 2)

Effects Test	Statistic	d.f.	Prob.
Cross-section F	5.868358	(50,198)	0.0000
Cross-section Chi-square	231.802100	50	0.0000

Based on Table 6, it can be explained that the Probability Cross Section F value in this study is 0.0000 < 0.05. From this test, it can be concluded the best model approach in this study is the Fixed Effect Model (FEM). Based on this output result, the test continues with the Hausman test.

Table 7.
Hausman Test (Sub-Structural Stage 2)

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	26.238905	6	0.0002

Based on Table 7, it can be explained that the probability value of the Cross-section random in this study is 0.0002 < 0.05. From this test, it can be concluded the best approach model that can be used in this study is the Fixed Effect Model (FEM). In accordance with the requirements for determining the best model in the Chow and Hausman tests, the fixed effect model (FEM) is used in this study. The results of the FEM model testing are as follows:

Table 8.
Results of t-test Sub-Structural (Stage 2)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	25.07076	6.419615	3.905336	0.0001

INTEG	-6.384342	7.439655	-0.858150	0.3918
HHI	-18.59833	8.461055	-2.198111	0.0291
INTERN	-12.72902	4.529113	-2.810488	0.0054
DOL	0.055440	0.623310	0.088945	0.9292
OM	-43.40276	13.68959	-3.170493	0.0018
DAR	-3.423851	3.697953	-0.925877	0.3556

Based on Table 8, the t-test results show that the constant, diversification (HHI), internationalization (INTERN), and managerial ownership (OM) have a significant effect on the dependent variables (HHI, INTERN, and OM have a negative effect), while vertical integration (INTEG), operational risk (DOL), and capital structure (DAR) do not have a significant effect.

Table 9.
Result of the F-Test and R2 Sub-Structural (Stage 2)

R-squared	0.640593
Adjusted R-squared	0.538943
F-statistic	6.301921
Prob(F-statistic)	0.000000

Based on Table 9, the F-value is 6.301921 > 2.4078 and the probability value is 0.000000 < 0.05, indicating that the null hypothesis (H_0) is rejected and the alternative hypothesis (H_a) is accepted. This shows that vertical integration, diversification, internationalization, business risk, managerial ownership, and capital structure collectively influence capital structure. The adjusted R-squared of 0.538943 indicates that 53.90% of the variation in capital structure is explained by the independent variables, with the remaining 46.10% explained by other factors.

The Sobel Test

The Sobel test was not conducted because the results of the measurement and hypothesis testing above indicate that capital structure is not proven to be an intervening variable, so there is no need to calculate the indirect effect of the independent variables on the dependent variable.

Hypothesis Testing and Discussion

Impact of Vertical Integration Strategy on Company Performance

Based on Table 8, the vertical integration strategy has a coefficient of -6.384342 and a probability value above 0.05, indicating it is not effective in improving company performance, and the first hypothesis is rejected. Vertical integration increases management complexity and overhead costs. Diana et al. (2018) found that companies with high integration often experience performance declines due to increased complexity. When involved in various value chain stages, management loses focus on core competencies. This aligns with Transaction Cost Economics (Williamson, 1998), which suggests vertical integration must consider transaction costs and efficiency. Hamdaoui & Bouayad (2019) also found that vertical integration can negatively impact performance due to bureaucracy and incentive changes.

Impact of Diversification Strategy on Company Performance

According to Table 8, the diversification strategy has a coefficient of -18.59833 and a probability value below 0.05, indicating that diversification negatively impacts company performance from 2019 to 2023, supporting the second hypothesis. A broader diversification (low HHI) boosts Price to Book Value (PBV), as the market values diversified companies with better risk management. Lewellen (1971) highlights the coinsurance effect, where companies with poor cash flows are supported by those with better flows. Diversified companies often perform better, as they mitigate risks across business segments. Signaling theory suggests that high diversification signals strong management capabilities, enhancing investor confidence. This aligns with studies by Arif (2023), Sarwendhi (2023), Yulandani (2022), and Wildan & Yulianti (2021), showing that low HHI diversification helps avoid performance declines during business cycles.

Impact of Internationalization Strategy on Company Performance

According to Table 8, the internationalization strategy has a coefficient of -12.72902 and a probability value below 0.05, indicating a negative impact on company performance from 2019 to 2023, supporting the third hypothesis. This suggests that increased internationalization correlates with a decline in company value. Agency theory explains this negative relationship through conflicts of interest and managers' handling of free cash flow,

leading to unprofitable international projects for personal gain. Companies with high debt and easy access to free cash flow are more vulnerable. Additionally, currency depreciation, such as the rupiah's drop against the US dollar in October 2023, negatively affects companies with high foreign sales, lowering revenue and increasing import costs. This aligns with studies by Yovita & Marciano (2021) and Salim et al. (2019), which show the risks of internationalization, including sunk costs and exchange rate volatility. Despite short-term performance impacts, Likitwongkajo & Vithessonthi (2024) suggest long-term benefits may follow

Impact of Business Risk on Company Performance

According to Table 8, business risk with a coefficient of 0.055440 and a probability value above 0.05, does not impact company performance from 2019 to 2023, rejecting the fourth hypothesis. This lack of impact arises from the difficulty of accurately measuring business risk. In this study, business risk is proxied by DOL (Degree of Operating Leverage), but its actual effects are more complex, influenced by factors like cost structure, pricing strategy, and market conditions. This contradicts portfolio theory, which suggests business risk affects company performance (Hali & Yuliati, 2020), and signaling theory, which links high risk to negative signals for investors. Risk-return theory also implies a positive correlation between higher risk and expected returns. However, while debt can boost profits initially, long-term debt increases interest rates and risks, ultimately lowering stock prices. The impact of business risk is not always linear, as factors like operational efficiency, managerial strategy, and market conditions play a significant role. Companies that manage risk effectively can mitigate its negative effects and sustain performance. Similar studies by Mala & Yudiantoro (2023), Andreas & Wirjawan (2022), and Luciana et al. (2022) found no significant impact of business risk on company performance.

Impact of Managerial Ownership on Company Performance

According to Table 8, managerial ownership has a coefficient of -43.40276 and a probability value below the significance level of 0.05, indicating that managerial ownership negatively affects company performance in the manufacturing sector from 2019 to 2023, thus supporting the fifth hypothesis. Sudarno et al. (2022) define managerial ownership as the percentage of shares owned by management involved in decision-making. High managerial

ownership can lead to overconfidence or "entrenchment," where managers become less responsive to external pressures and less motivated to improve performance. Overconfidence can result in suboptimal decisions, while entrenchment makes it harder to replace underperforming managers. The negative effect occurs because the dual status of managers as both owners and managers allows them to make decisions that benefit their own interests, reducing institutional ownership and weakening oversight. This can ultimately lead to poor performance or even losses for the company. This finding aligns with research by Yusmir & Mulyani (2024) and Yopie & Desiani (2021), which states that excessively high managerial ownership can harm the company, as external shareholders struggle to control management actions. Excessive managerial ownership can lead to opportunistic behavior, where managers exploit opportunities for personal gain, negatively impacting the company.

Impact of Capital Structure on Company Performance

Based on Table 8, the capital structure has a coefficient of -3.423851 and a probability value above the significance level of 0.05, indicating that capital structure does not affect company performance in the manufacturing sector from 2019 to 2023. This suggests that companies prefer using debt to finance their operations, which ultimately affects profitability. As a result, investor returns may decrease, reducing investor confidence and impacting stock price volatility. According to agency theory, external monitoring via debt can reduce equity usage and agency costs. However, excessive debt can create agency conflicts between shareholders and creditors, leading to debt agency costs without changing the company's value. Companies are required to repay loans and interest regularly. During the study period, the Debt to Asset Ratio was not a primary factor for investors in the manufacturing sector. Empirical evidence in this sector contradicts signaling theory, which states that companies with higher leverage often have a higher PBV, reflecting investor confidence in the company's future prospects. For example, Impack Pratama Industri Tbk (IMPC) had a Debt to Asset Ratio of 0.352 in 2022, decreasing to 0.308 in 2023, but its PBV increased from 7.81 in 2022 to 8.46 in 2023. In contrast, Chandra Asri Petrochemical showed that higher leverage increased PBV, with a Debt to Asset Ratio of 0.430 in 2022 rising to 0.466 in 2023, and PBV growing from 5.32 to 9.94. This indicates variability in how capital structure affects PBV in the manufacturing sector.

According to the pecking order theory, a company's capital structure (debt-equity ratio) does not directly affect PBV, as companies prefer internal financing. They only resort to debt or equity when necessary, with market perception of company performance and prospects being the primary driver of PBV, influenced by other fundamental factors. This study aligns with findings from Irawan & Kusuma (2019), Barokah et al. (2023), and Fahlevi & Nazar (2023), where capital structure does not significantly impact company performance, whether the company's value increases or decreases. This reflects that companies find external debt more effective and easier to obtain, indicating that companies able to secure external loans are trusted to have the capacity for repayment.

Impact of Vertical Integration Strategy on Capital Structure

Based on Table 4, the vertical integration strategy has a coefficient of -0.925979 and a probability value below the significance level of 0.05. The results indicate that vertical integration strategy negatively affects the capital structure of companies in the manufacturing sector from 2019 to 2023. This means that the higher the level of vertical integration, a reduction in the debt level within the company's capital structure. This finding aligns with research by Cappa et al. (2020) and Hamdaoui & Bouayad (2019), which shows that vertical integration strategy negatively affects company performance. According to Adelman (1955), fully integrated companies have sales that directly reach consumers. Value-added, the difference between the value of goods and the cost of materials used in production, measures the cost of processing raw materials into finished goods. Companies use the ratio of Value Added to Sales to assess the degree of integration, helping them understand how much value is added to the goods they sell.

In this context, a company cannot operate independently in processing goods, necessitating integration. In the integration process, companies decide to internalize activities from upstream to downstream (Cappa et al., 2020). To manage this strategy effectively, companies tend to use internal funds for financing decisions, as integrated companies have higher productivity, including larger raw material needs, distribution costs, and greater control over production activities, all of which increase operational financial costs. Therefore, companies rely more on internal funds from cash and profits to finance internal

activities rather than external debt (Myers & Majluf, 1984), which leads to a decrease in the use of debt as an external funding source.

Impact of Diversification Strategy on Capital Structure

Based on Table 4, the diversification strategy has a coefficient of 0.387051 and a probability value below the significance level of 0.05. The results of this study indicate that the diversification strategy has a positive impact on the capital structure of companies in the manufacturing sector from 2019 to 2023. Diversification is a strategy that allows a company to enter the same or different business segments from its current operations and operate in several economic markets. The findings of this study show that diversification positively affects the level of debt, meaning that companies employing a diversification strategy tend to have higher levels of debt. This result aligns with research by Cappa et al. (2020) and Elly Ochieng et al. (2018), which explains that diversified companies take efficient actions, allowing them to avoid the risk of default. It also reduces the issue of underinvestment, where diversification leads to a positive net present value (NPV) of investments, rather than creating separate or non-diversified segments (Buigut & Soi, 2018).

According to agency theory, the use of debt for financing a company serves as a form of control over managers and the management of cash flows to prevent them from being used for personal interests (Jensen and Meckling, 1976). Diversification can reduce the company's systematic risk, which includes market risks or external risks such as inflation, economic crises, and interest rate fluctuations. At the same time, companies can reduce operational risk because the diversification strategy can be exchanged with an increased use of leverage to benefit from tax advantages. Additionally, based on the coinsurance effect theory, diversification can reduce the volatility of a company's income and profits. As a result, the cash flow relationship between segments of a diversified company allows it to bear more debt.

Impact of Internationalization Strategy on Capital Structure

Based on Table 4, the internationalization strategy has a coefficient of 0.195829 and a probability value below the significance level of 0.05. The results of this study indicate that the internationalization strategy positively impacts the capital structure of companies in the manufacturing sector from 2019 to 2023. These findings align with studies by Mardiansyah

et al. (2023), Mahendra & Asri (2020), Nguyen & Almodóvar (2018), and Maes et al. (2019), which explain that internationalization positively affects capital structure. High foreign sales reflect an increase in company revenue, leading the company to use debt as a financing source to protect against income taxes (tax shield effect). Furthermore, companies with good prospects for maintaining shareholder investment value tend to use debt rather than issuing new shares.

The positive impact of internationalization on capital structure is attributed to the relationship between a company's export activities and its debt level. Export activities represent a geographical diversification strategy, which can influence financing decisions. Geographically diversified companies generally have lower overall business risks and, therefore, higher debt ratios. This is because such companies can take on more debt to expand operations due to the lower risk they face. Moreover, Indonesia's active involvement in international organizations like the ASEAN Economic Community (AEC) and the ASEAN Free Trade Agreement (AFTA) has encouraged local companies to increase international business activities through exports and imports, enabling them to compete in the global market. This increase in international business activities leads to higher operational costs, requiring new funding sources, such as debt and new equity issuance. As a result, enhanced international business activity indirectly affects a company's optimal capital structure. In conclusion, the internationalization strategy positively impacts the capital structure due to the connection between export activities and debt levels, as well as the influence of external factors like Indonesia's participation in international organizations promoting global business activities.

The Impact of Business Risk on Capital Structure

Based on Table 4, business risk has a coefficient of -0.032994 and a probability value below the significance level of 0.05. The results of this study show that business risk negatively impacts the capital structure of companies in the manufacturing sector from 2019 to 2023. This is consistent with the Pecking Order Theory, which suggests that companies with high business risk tend to avoid debt financing compared to those with lower business risk. High business risk generally prioritizes the use of internal funds over debt or equity issuance. According to Brigham & Houston (2019), business risk refers to the level of a

company's assets when the company does not use debt. Business risk is directly correlated with current profits and future earnings. This study's findings align with research by Lianto et al. (2020) and Khoiriyah & Rasyid (2020), which shows a negative impact of business risk on capital structure. As business risk increases, the capital structure tends to decrease. When a company faces significant business risks, it is considered inappropriate to use high levels of debt to finance operations. Investors may hesitate to invest heavily in such companies due to concerns about debt repayment. Therefore, companies must consider their business risks, as these risks can threaten their survival. High-risk companies face difficulties in setting profit targets, as profits tend to be more volatile. The lower use of debt in response to high risk increases income uncertainty, which impacts the company's ability to repay debts. Creditors may also be reluctant to lend due to this uncertainty. According to Brigham & Houston (2019), excessive debt consumption in a business can increase business risk and lead to bankruptcy. Large-scale debt use raises the risk, which is ultimately borne by the shareholders. This supports the Trade-off Theory, which balances the benefits and obligations of debt use. It states that companies with high business risks will use less debt than companies with lower business risks.

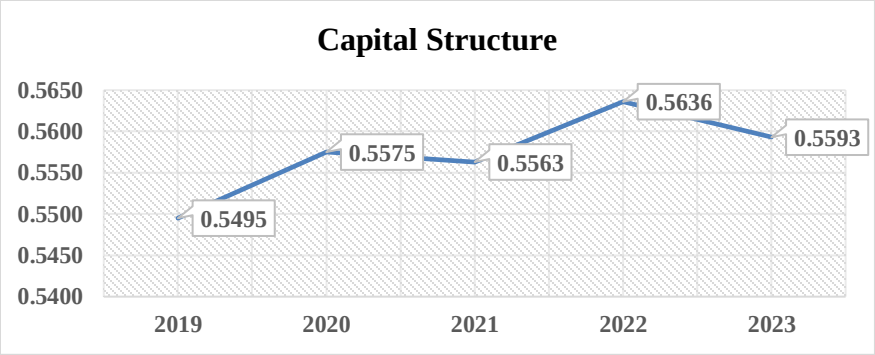
The Impact of Managerial Ownership on Capital Structure

Based on Table 4, managerial ownership has a coefficient of 0.076962 and a probability value above the 0.05 significance level. The results show that managerial ownership does not affect the capital structure of companies in the manufacturing sector from 2019 to 2023. Managerial ownership is measured by the proportion of shares held by directors, commissioners, and managers relative to the total outstanding shares. There is no significant effect because the managerial ownership in the sample companies is relatively low. The average ownership of shares by managers falls within the range of intermediate levels (5%-25%), indicating that managerial ownership is quite low. According to agency theory, although managers may own shares, they may still engage in suboptimal risk-taking or make decisions that benefit them in the short term but harm the company in the long term. This happens because managers typically have better information about the company (adverse selection), leading them to feel protected from negative consequences (moral hazard). The findings align with studies by Patiung et al. (2024) and Umdiana & Hapsari (2023). When

managerial ownership increases, monitoring activities become more effective, leading to better control over managers' use of funds. Debt financing is often seen as advantageous because it is easier to obtain and more profitable. As managerial ownership rises, the monitoring by investors strengthens, encouraging directors to use debt financing rather than relying on their own capital for operational funding.

Capital Structure Drives the Influence of Vertical Integration, Diversification, Internationalization, Business Risk, and Managerial Ownership on Firm Performance

In this study, capital structure does not drive the influence of vertical integration, diversification, internationalization, business risk, and managerial ownership on the performance of manufacturing sector companies. This is evidenced by the insignificant effect of capital structure on firm performance, where the capital structure variable yields a probability value of 0.3556 > 0.05, with a coefficient of -3.423851 and a t-statistic value of -1.969384. According to the trade-off theory, companies balance the benefits and costs of debt. An optimal capital structure can support corporate strategies, such as vertical integration, diversification, and internationalization, by utilizing the debt tax shield without significantly increasing the risk of bankruptcy. The results contradict the theory that the value of capital structure can be a driving factor for other variables, as the company's basis for maximizing its performance. Therefore, a theoretical novelty can be concluded from this study conducted in the manufacturing sector during the 2019-2023 period, namely that capital structure does not play a role in driving the maximization of company performance. Capital structure does not influence firm performance. This indicates that changes in capital structure, in terms of financing the company's capital, do not affect the company's performance (PBV), which remains stable. According to the trade-off theory, the optimal use of debt should improve company performance, but in this study, the actual capital structure is not optimal. This explains that the use of debt in a company has not demonstrated the company's ability to optimize its usage to enhance performance.



Source: Processed Data 2024

Figure 3.
Capital Structure of the Manufacturing Industry Sector for the Period 2019-2023

Based on the analysis in Figure 4.1, the average Debt-to-Asset Ratio (DAR) for the manufacturing companies in this study is between 55%-56%. This high leverage indicates that these companies have a significant proportion of debt in their capital structure. While high leverage can increase potential returns, it also brings greater financial risk. The study shows that the capital structure does not effectively mediate the impact of strategies such as vertical integration, diversification, internationalization, business risk, and managerial ownership on company performance. This high leverage may contribute to this issue. An optimal capital structure is necessary to enable companies to leverage these strategies effectively, which in turn could improve performance. Therefore, companies need to reassess their capital structure to ensure an optimal mix of debt and equity, reducing financial risks and enhancing decision-making flexibility, ultimately boosting performance and company value.

Despite vertical integration creating cost efficiencies and greater control, a suboptimal capital structure with high debt can hinder the company's ability to fully benefit from such strategies, making it appear riskier to investors. Similarly, diversification, measured by the Herfindahl-Hirschman Index (HHI), has a negative effect on performance. While diversification spreads risk, high debt limits flexibility in pursuing diversification opportunities. As a result, despite attempts to diversify, significant debt remains a major barrier to maximizing company value. Investors tend to avoid companies with high debt, diminishing the positive effects of diversification. Internationalization, which could expand markets and increase revenue, fails to enhance company performance under a suboptimal

capital structure. High debt limits the company's ability to manage the risks and challenges of international expansion, preventing potential benefits. In terms of business risk, a suboptimal capital structure makes the company appear riskier to investors, even if risk management strategies are in place. Furthermore, low managerial ownership (5%-25%) combined with an inefficient capital structure reduces management's motivation to optimize performance, as they lack full control over capital structure decisions. Overall, an inadequate capital structure impedes the effectiveness of company strategies to increase value due to high financial risk and limited flexibility in adapting to market dynamics.

CONCLUSION

The purpose of this study is to investigate whether variables such as integration strategy, diversification strategy, internationalization strategy, business risk, and managerial ownership have an effect on company performance and whether the capital structure can act as a mediator for the influence of these factors on the performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023, particularly those involved in export activities and with managerial ownership. Based on the research findings, it was concluded that vertical integration strategy, measured by Value Added to Sales, does not affect the performance of manufacturing companies listed on the IDX during the period from 2019 to 2023. The diversification strategy, measured by the Herfindahl-Hirschman Index (HHI), has a negative impact on the performance of these companies. Similarly, the internationalization strategy, measured by Foreign Sales to Total Sales (FSTS), also negatively affects company performance. Business risk, as measured by the Degree of Operating Leverage (DOL), does not have a negative effect on the performance of these companies. Managerial ownership, measured by managerial shares to total shares, has a negative impact on the performance of manufacturing companies listed on the IDX. Capital structure, measured by Debt to Asset Ratio (DAR), does not affect company performance. Additionally, the vertical integration strategy negatively affects the capital structure, while the diversification strategy (HHI) and internationalization strategy (FSTS) have a positive impact on the capital structure. Business risk (DOL) does not negatively affect the capital structure, and managerial ownership does not affect either performance or capital structure.

Finally, the study found that capital structure, as an intervening variable, does not mediate the relationship between the strategies and business risk and the performance of manufacturing companies listed on the IDX from 2019 to 2023.

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