The Effect of Capital Structure, Institutional Ownership, Liquidity, and Diversification Strategy on Financial Performance

Astria Kurniawati¹, Sri Wahyuni²*, Azmi Fitriati³, Nur Isna Inayati⁴
University of Muhammadiyah Purwokerto

**Corresponding Author:** Sri Wahyuni astriakurniawati@gmail.com

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**ABSTRACT**

Financial performance is a determination to measure the success of a profit making enterprise. This study aims to examine the influence of capital structure, institutional ownership, liquidity, and diversification strategies. The population in this study is industrial sector companies listed on the IDX for the 2019-2021 period. The sampling method is carried out by purposive sampling. So that 81 research samples were obtained. The data analysis method used is multiple linear regression analysis. The results of the partial analysis of capital structure, institutional ownership, and liquidity have a significant negative effect on financial performance, while diversification strategies have a significant positive effect on financial performance. The results of this study can contribute scientifically to further research on factors that affect financial performance.

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INTRODUCTION

Indonesia's economic condition after the Covid-19 pandemic, which is currently recovering, in 2020 the company sector declined, one of which is industry. Based on data from the Central Statistics Agency (2021), Indonesia's economy was worst in the second quarter of 2020 with a percentage of -5.32%, but in the following year in same quarter, namely the second quarter of 2021, the Indonesian economy increased very well to 7.07% (BPS 2021). However, in 2022 economic growth has begun to increase due to the Covid-19 pandemic being controlled and is in the process of recovery.

With the covid-19, the company made an effort to improve the best quality in competing. With the hope that the company will not suffer losses, which results in a bad impact on financial performance. A case of loss has occurred in the industrial sector of the company PT Asahimas Flat Glass Tbk which suffered losses due to the Covid-19 pandemic. In 2019 PT Asahimas recorded a decrease of 16.5% in net revenue and 8.9% in the cost of goods sold on an annual basis. As a result of the decline in revenue, PT Asahimas' gross profit in the third quarter of 2020 was only IDR 93.39 billion or -74% per year. On the other hand, the company also received financial expenses, so PT Ashiamas recorded a loss of Rp 653.16 billion, down from the net loss for the same period in 2019. From the sales of car rearview mirrors, the profit sharing decreased until the third quarter of 2020 by only 23%, in the same period in 2019 it reached 35%. Admittedly, it fell drastically with the portion of revenue until the third quarter of 2020 at only 23%, whereas in the same period in 2019 it reached 35%. In the future, the company said it will continue to expand the market and innovate products (quoted in content.co.id).

The development of the business world today is very fast and there is a lot of competition. So the business must have a goal so that the business continues to run for a long time. In general, starting a business is to increase profits, prosper shareholders, and increase business value (Maharani 2018 in Selvi pratiwi, 2021). In achieving this goal, the company must improve financial performance which can be influenced by several factors, namely capital structure, institutional ownership, liquidity, and diversification strategies to improve financial performance.

Titman (2018) stated that the capital structure is a combination of loans and own capital in companies in operational funding (Martino, 2021). This analysis is backgrounded by differences in the results of previous studies where in the first variable regarding capital structure, Selvi pratiwi (2021), Salimah et al., (2019), Romadhoni & Sunaryo (2017) stated that the capital structure had a positive and significant impact on the company's financial performance. In contrast to the research of Ritonga et al., (2021) and Kamal (2017) which stated that the capital structure did not have a significant effect on financial performance because the decline in company growth caused the financial performance to increase, but the decline affected the movement of financial performance.

Institutional ownership refers to ownership by an organization, in which case the company has established a company, not public shares as measured by
the percentage of shares in distress (Wahyuni et al., 2022). There was an earlier study conducted by Dewi et al., (2019), Putri (2018), and Hartati (2020) stated that institutional ownership has a positive impact on financial performance because more ownership will help companies when they need funding in the company. In contrast to the research of Huda et al., (2019) and Aprianingsih (2014) which state that institutional leadership does not affect the financial performance of companies.

Liquidity is key in efforts to support the business. Liquidity also means that businesses have enough money to pay bills as they come and reduce the need for unexpected cash flow (Yuliani, 2021). This explanation is supported by previous research conducted by Yuliani (2021), Diana & Osesoga (2020), and Utami & Pardanawati (2016) proving that liquidity has a positive and significant influence on the company’s financial performance. However, it differs from the research of Fajaryani & Suryani (2018) that liquidity has a significant negative effect on financial performance.

The diversification strategy is the result of cross-functional companies that have many business aspects (Wisnuwardhana & Diyanty, 2015). This explanation is to the results of research by Safitri (2021) and Putranto (2019) which stated that the diversification strategy have a significant positive impact on financial work. However, it differs from search results by Rahman (2019) and Glasius & Purwanto (2021) that the diversion strategy does not impact the company’s financial performance.

An explanation of the disclosure of financial performance supported by differences in diverse research results and the lack of research on the company financial performance, this research is important to do. The object of the study is an industrial sector company listed on the Indonesia Stock Exchange for the 2019-2021 period. This study aims to test the disclosure of financial performance, including capital structure, institutional ownership, liquidity, and diversification strategies.

THEORETICAL REVIEW

Agency Theory

Jensen and Meckling (1976) state agency theory is a theory based on the relationship between the agent and principal. Industrial dealing is defined as an agreement between one or more principals with the employer. the agent is expected to act on behalf of the principal. An agent is a person who has the power to manage and is entitled to make decisions about shareholders. The support and interests of management and shareholders must be included to achieve the objectives of the company. However, the supervisor acts for his interests at the expense of the owner's interests because the supervisor understands the situation of the company better than the owner. This can lead to agency problems so external supervision is needed (Nyoman. P.W, 2012).

Based on agency theory, financial management must be monitored to ensure that management is carried out by existing regulations. The relationship between agency theory and this analysis is that the manager moves as an agent...
of the company and has the responsibility of determining the strategy to provide good results for shareholders as the principal. The principal expects the best performance results from the agent. Getting a good performance result depends on the strategy implemented by the company. If the resulting performance is good, then the public will trust the company.

**Capital Structure**
According to Brigham & Houston (2016), the optimization of capital structure is personal financial balance capital with long-term loans, so the amount of personal capital and long-term debt used becomes optimal. With a balanced capital structure, the company has a good rate of return. So that not only companies benefit, but also shareholders (Ritonga et al., 2021).

**Institutional Ownership**
Institutional ownership is a shareholding in institutions and institutions. Supervision and monitoring by institutions can maximize the performance of managers in determining value and being able to manage agency costs so that expenses decrease and increase the value of the company which shows an increase in the prosperity of its shareholders (Bernandhi, 2013).

**Liquidity**
Liquidity is a way to measure the rapid time required for an asset to be realized in cash or for obligations to be paid (Dwi martani et, al,2016:139). Liquidity is needed in credit analysis or financial risk analysis. As Thaib & Dewantoro (2017) observed, the liquidity ratio is said to have a good financial position if it settles its obligations on time, maintains sufficient working capital to carry out normal operations, pays interest on dividends necessary, and maintains a good credit level.

**Diversification Strategy**
According to Eko hariyanto, et al (2020: 10), The diversification strategy is an investment principle in reducing risk by placing funds into several investment products. According to (Salindeho et al., 2018) Diversification strategy is a strategy for business expansion and market share, diversification strategy is one of the leading ways to compete and develop its business by providing products that are more attractive than other competitors.
The Effect of Structure Capital on Financial Performance

Kamal (2017) stated that the capital structure is used to determine the management's ability to manage the company's business in terms of cost-effectiveness. According to the theory, this shows that if the company uses a large capital structure, then there is liquidity that continuously has an impact on the profit received by the company. Romadhoni & Sunaryo (2017), Azlina (2009), and Komara et al. (2016) stated that capital structure has a significant positive effect on the financial performance of the company. Based on this explanation, it can be seen that the existence of a high capital structure can increase the company in funding. So the first hypothesis of this study is formulated as follows:

H1: Capital structure positively affects financial performance.

The Effect of Institutional Ownership on Financial Performance

In general, the proportion of institutional shareholder ownership is high in the company. The greater the level of institutional ownership can cause outside supervision to be large, then the management of the company must carry out the maximum possible performance. With high stocks, institutional investors will make an effective business, because they can carry out behavioral control that is carried out (Ardianingsih & Ardiyani (2010). Based on the theory of Jensen and Meckling said that agency problems can be solved by increasing shareholdings as the party overseeing the agent (Zabady et al., 2021). The research of Hermiyetti and Katlanis (2017), Monica and Dewi (2019), and Antony holly (2021) stated that ownership has a significant positive effect on financial performance. Depending on this explanation, it can be seen that the existence of institutional ownership can be a motivation for managers to achieve goals with other shareholders. So the first hypothesis of this study is formulated as follows:

H2: Institutional ownership have a positive effect on financial performance.
The Effect of Liquidity on Financial Performance

The amount of liquidity ratio means that the company's current assets are also large, so the company does not make loans to creditors and will attract investors. So that the company can finance its own needs. The company high ability to pay its obligations in the short term, the company gained the trust of creditors and made it easier for the company to get its long-term debt Hartono (2018). Based on the agency theory, managers manage financial performance by making decisions on the allocation of funding to creditors using internal funds, so that a small loan from creditors will be profitable for the company (Elisistiana. M, 2017). There are studies conducted by Utami & Pardanawati (2016), Diana & Osesoga (2020), and Wulandari (2020) stating that liquidity has a significant positive influence on financial performance. Normal immunity can affect the company's funding. So the first hypothesis of this study is formulated as follows:

H3: Liquality have a positive effect on the company's financial performance

The Effect of Diversification Strategies on Financial Performance

Agency theory in the company obliges managers to take the decisions that are best for shareholders. One of them makes decisions in the implementation of strategies to face competition with other companies that are very broad. The diversification strategy is used to increase net profit in the long term, the amount of profit obtained will affect the improvement of financial performance. Based on this explanation, it can be concluded that the company needs a diversification strategy to develop its business and can improve its financial performance. The results of research by Putu and Darmayanti (2018), Putranto (2019), Wisnuwardhana and Diyanty (2015) stated that the diversification strategy has a positive and significant effect on financial performance. So the first hypothesis of this study is formulated as follows:

H4: Diversification strategy have a positive effect on financial performance

METHODOLOGY
Population and Samples

According to Sugiyono (2016), the sample is part of the number and characteristics possessed by the population. The population used in this study is industrial sector companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The sampling method uses purpose sampling, provided that industrial sector companies listed on the Indonesia Stock Exchange in 2019-2021. The company will publish complete financial statements in the 2019-2021 period, the Company must have the data needed in research in 2019-2021. Based on the sample criteria, the sample obtained was 81 samples for the 2019-2021 period with secondary data in the form of financial statements of industrial sector company listed on the Indonesia Stock Exchange.
Table 1. Operational Definition and Measurement of Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Operational Definition</th>
<th>Measurement</th>
</tr>
</thead>
</table>
| Capital Structure      | According to Sudaryo and Pratiwi (2016), the formation of the company's capital structure is an important aspect of funding to meet the company's capital needs by providing debt or own capital issuance through share issuance. Both types of capital have different characteristics in terms of advantages and disadvantages. The company's capital structure is a combination of its capital with its debt (Salimah et al., 2019). | In this study, financial performance was considered through the Dept to Equity Ratio. Measured by the formula:  
\[ DER = \frac{\text{Total dept}}{\text{equity}} \]    |
| Institutional Ownership| According to Selvi pratiwi (2021), institutional ownership is a tool used to reduce problems in a business. The size of the ownership of companies such as foreign companies, governments, and corporations. | The following is the formula used (Wahyuni et al., 2022):  
\[ KI = \frac{\text{Number of shares of institutional parties}}{\text{Total shares outstanding}} \times 100\% \] |
| Liquidity              | According to Thaib & Dewantoro, (2017) Liquidity Ratio is seen from the high calculation of the current ratio | Here's the formula used to calculate the current ratio:  
\[ \text{Current Ratio} = \frac{\text{Current asset}}{\text{Current liabilities}} \] |
which shows the number of current assets owned by the company to meet obligations.

| Diversification Strategy | According to (Itung & Lasdi, 2018) the diversification strategy can be measured by the Herfindahl Index which takes into account the quadratic result of income on operations divided by the square of the company's total income. If the resulting index is near the number 1, it is said that the company is focused on one product, while the index result is close to the number 0, the company applies product diversification.

The formula used to measure the diversification strategy (Iskandar et al., 2017) is the Herfindahl Index as follows:

\[
HHI = \frac{\sum_i^n sales_i^2}{\sum_i^n sales^2} = 1 \cdot (sales)^2
\]

Information:
Segsale: sales of each segment of the company
Sales: the total sales of the company.

| Financial Performance | According to Fahmi (2012), Financial performance is a picture of the company's success with efforts made for financial performance. Research is measured by Return On assets. The formula is used to measure the overall ability of a company to make a profit and the total number of

Here's the formula for calculating the value of profitability:

\[
ROA = \frac{Net \ profit \ after \ tax}{Total \ asset} \times 100\%
\]
assets available in that company (Huda et al., 2019).

Data Analysis Techniques

This study used descriptive statistical data analysis, and classical assumption tests consisting of normality, multicollinearity, heteroskedasticity, and autocorrelation, besides that this study also used multiple regression analysis, coefficient of determination test, and test (Zabady et al., 2021). The Multiple Linear Regression Model is expressed in the following equation:

\[ \gamma = \beta_1 \text{DER}_1 + \beta_2 \text{KI}_2 + \beta_3 \text{CR}_3 + \beta_4 \text{HHI}_4 + \epsilon \]

Information:
\[ \gamma \] : Financial Performance
\[ \alpha \] : Constants
\[ \beta_1, \beta_2, \beta_3, \beta_4 \] : Regression Coefficient
\[ \text{X}_1 \] : Capital Structure
\[ \text{X}_2 \] : Institutional Ownership
\[ \text{X}_3 \] : Liquidity
\[ \text{X}_4 \] : Diversification Strategy
\[ \epsilon \] : Error

RESULTS
Descriptive Statistical Analysis

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Sd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Der</td>
<td>0.1186</td>
<td>6.9586</td>
<td>1,177558</td>
<td>1.1612855</td>
</tr>
<tr>
<td>Ki</td>
<td>0.0599</td>
<td>2.1855</td>
<td>0.731170</td>
<td>0.2762834</td>
</tr>
<tr>
<td>Cr</td>
<td>0.1473</td>
<td>8.3004</td>
<td>1.930773</td>
<td>1.3386873</td>
</tr>
<tr>
<td>HHI</td>
<td>0.4873</td>
<td>4.9427</td>
<td>1.318491</td>
<td>0.8213527</td>
</tr>
<tr>
<td>Roa</td>
<td>-0.4014</td>
<td>3.8519</td>
<td>0.139336</td>
<td>0.6299005</td>
</tr>
</tbody>
</table>

The capital structure (DER) has the highest value of 6.9586 with an average value of 1.177558 and the lowest value of 0.1186, while Institutional Ownership (KI) has the highest value of 2.1855 with an average value of 0.731170 and the lowest value of 0.599, Liquidity (CR) has the highest value of 8.3004 with an average of 1.930773 and the lowest value of 0.1493, the Diversification Strategy (HHI) has the highest value of 4.9427 with an average of 1.318491 and the lowest value of 0.4873, and Financial Performance (ROA) has the highest value of 3.8519 with an average of 0.139336 and the lowest value of -0.4014.
Test of Classical Assumptions

a. Normality Test

Table 3. Klorogorov-Smirnov Normality Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Significant</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unstandardized</td>
<td>0.200</td>
<td>Normally Distributed</td>
</tr>
<tr>
<td>Residual</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the table above, shows that the value of Klorogorov Smirnov is 0.200, so if the value is greater than 0.05 then it can be concluded that the data is declared normal.

b. Multicollinearity Test

Table 4. Multicollinearity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Tolerance</th>
<th>VIF</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Der</td>
<td>0.1186</td>
<td>6.9586</td>
<td>Multicollinearity-Free</td>
</tr>
<tr>
<td>Ki</td>
<td>0.0599</td>
<td>2.1855</td>
<td>Multicollinearity-Free</td>
</tr>
<tr>
<td>Cr</td>
<td>0.1473</td>
<td>8.3004</td>
<td>Multicollinearity-Free</td>
</tr>
<tr>
<td>HHI</td>
<td>0.4873</td>
<td>4.9427</td>
<td>Multicollinearity-Free</td>
</tr>
<tr>
<td>Roa</td>
<td>-0.4014</td>
<td>3.8519</td>
<td>Multicollinearity-Free</td>
</tr>
</tbody>
</table>

The results of the multicollinearity test obtained each free variable has a tolerance value smaller than 0.10 and a VIF greater than 0.10. From the table above, it can be concluded that the regression model used is free from symptoms of multicollinearity.

c. Heteroskedasticity Test

Table 5. Heteroskedasticity Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T</th>
<th>Significant</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Der</td>
<td>0.000</td>
<td>-0.035</td>
<td>0.972</td>
<td>Heteroskedasticity-Free</td>
</tr>
<tr>
<td>Ki</td>
<td>-0.013</td>
<td>-1.222</td>
<td>0.227</td>
<td>Heteroskedasticity-Free</td>
</tr>
<tr>
<td>Cr</td>
<td>0.000</td>
<td>-0.138</td>
<td>0.891</td>
<td>Heteroskedasticity-Free</td>
</tr>
<tr>
<td>HHI</td>
<td>0.004</td>
<td>0.981</td>
<td>0.330</td>
<td>Heteroskedasticity-Free</td>
</tr>
</tbody>
</table>

Based on the analysis of the significant value of each variable greater than or above the significant level of 0.05. So this study shows that the data is free of symptoms of heteroskedasticity.

d. Autocorrelation Test

To find the autocorrelation can use the Durbin-Waston test (D-W).

According to Santoso (2012) cited by Wisudaningsi et al., (2019), Decision making can be adjusted to the following criteria:

- If D-W is below -2 it means that there is a positive autocorrelation
- If D-W is between -2 to +2 it means that there is no correlation
- If D-W is above +2 it means that there is a negative autocorrelation

Table 6. Autocorrelation Test Results

<table>
<thead>
<tr>
<th>Durbin-Watson</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.557</td>
<td>Between -2 to +2 (no autocorrelation occurs)</td>
</tr>
</tbody>
</table>
Based on the results of the analysis, shows a Durbin-Watson value of 1.557 in this case the value is between -2 to +2, so it is concluded that there is no autocorrelation in the study.

**Multiple Linear Regression Analysis**

Table 7. Multiple Linear Regression Analysis Results

<table>
<thead>
<tr>
<th>Type</th>
<th>Regression coefficient</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1(Constant)</td>
<td>0.82</td>
<td>4.293</td>
<td>0.000</td>
</tr>
<tr>
<td>Der</td>
<td>-0.014</td>
<td>-2.077</td>
<td>0.042</td>
</tr>
<tr>
<td>Ki</td>
<td>-0.050</td>
<td>-2.904</td>
<td>0.005</td>
</tr>
<tr>
<td>Cr</td>
<td>-0.007</td>
<td>-1.803</td>
<td>0.076</td>
</tr>
<tr>
<td>HHI</td>
<td>0.12</td>
<td>1.947</td>
<td>0.056</td>
</tr>
</tbody>
</table>

Based on the formula of this study, the multiple linear regression equation is as follows:

\[
K_I = 0.82 - 0.014 \text{DER} - 0.050 \text{KI} - 0.007 \text{CR} + 0.12 \text{HHI} + e
\]  

(1)

**Coefficient of Determination**

Table 8. Coefficient of Determination Test Results

<table>
<thead>
<tr>
<th>Type</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.533a</td>
<td>0.285</td>
<td>0.237</td>
<td>0.0401996</td>
</tr>
</tbody>
</table>

Based on the hypothesis test, the coefficient of determination obtained an adjusted R-Square value of 0.237 or 23.7%, which indicates that capital structure, institutional ownership, liquidity, and diversification strategies can affect financial performance up to 23.7%. Then the remaining 76.3% is explained by other variables outside the study.

**Model Due Diligence (Statistical F)**

Table 9. Statistical Test Results F

<table>
<thead>
<tr>
<th>Type</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Squares</th>
<th>F</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>0.039</td>
<td>4</td>
<td>5.966</td>
<td>0.000</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>0.097</td>
<td>60</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>0.136</td>
<td>64</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

It concluded that the value of Fount was 5.966, and Ftabel was 2.52. Thus the final result of the calculation is greater than the fable of 5.966 > 2.52 and the significant value of 0.000 which is below the significant level of 0.05. These calculations show that capital structure, institutional ownership, liquidity, and diversification strategies together influence the company's financial performance. So that it can proceed to the t-test.
### Statistical Test Results

<table>
<thead>
<tr>
<th>Type</th>
<th>Regression coefficient</th>
<th>T</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1(C)</td>
<td>0.82</td>
<td>4.293</td>
<td>0.000</td>
<td>Influential</td>
</tr>
<tr>
<td>Der</td>
<td>-0.014</td>
<td>-2.077</td>
<td>0.042**</td>
<td>Influential</td>
</tr>
<tr>
<td>Ki</td>
<td>-0.050</td>
<td>-2.904</td>
<td>0.005***</td>
<td>Influential</td>
</tr>
<tr>
<td>Cr</td>
<td>-0.007</td>
<td>-1.803</td>
<td>0.076*</td>
<td>Influential</td>
</tr>
<tr>
<td>HHI</td>
<td>0.12</td>
<td>1.947</td>
<td>0.056*</td>
<td>Influential</td>
</tr>
</tbody>
</table>

**Description:**
- *** Significant 1%
- ** Significant 5%
- * Significant 10%

The first hypothesis on the Capital structure (DER) has a DER regression coefficient of -0.014 at a significant rate of 5%. The calculated value of -2.077 is greater than the t-table value of 2.000. With a significance value of 0.042 less than 0.05. Then H0 is rejected and H1 is accepted which indicates DER have a significant negative impact on financial performance.

The second hypothesis on Institutional Ownership (KI) has a KI regression coefficient of -0.050 at a significant rate of 1%. With a calculated value of -2.904 greater than the t-table value of 2.309. With a significant value of 0.005 smaller than 0.01. So that H0 is rejected and H2 is accepted which indicates institutional ownership have a significant negative impact on financial performance.

The third hypothesis of liquidity analysis (CR) has a CR regression confidence of -0.007 at a significant rate of 10%. CR has a calculated value of -1.803 greater than the table value of 1.670. With a significant value of 0.076 smaller than 0.10. So that H0 is rejected and H3 is accepted which shows liquidity have a significant negative impact on financial performance.

The fourth hypothesis regarding diversification strategy (HHI) has an HHI regression confidence value of 0.012 with a significant rate of 10%. HHI has a calculated value of 1.947 greater than the stable value of 1.670. With a significance value of 0.056 less than 0.10. So that H0 is rejected and H4 is accepted which shows that the diversification strategy have a positive and significant impact on financial performance.

### DISCUSSION

#### The Effect of Capital Structure on Financial Performance

From this statement, if the debt held by the company is high, the company's financial performance will decrease and the interest expense borne will be higher. This can lead to a reduction profit which affects the company's performance (Selvi pratiwi, 2021). The results of this study are supported by Taqwa (2016), Martino (2021), and Selvi pratiwi (2021) who stated that the capital structure has a significant negative effect on financial performance because the company has a higher funding balance compared to other sectors.
This analysis consistent with agency theory, the higher agent fee, the higher the interest cost, and has an impact on the low performance of the company for shareholders or debt issuers (Komara et al., 2016). Therefore, it is very necessary for the role of managers to optimize financial performance so as not to endanger the sustainability of the company. However, this research is not in line with (Romadhoni & Sunaryo, 2017) because the capital structure have a positive impact on financial performance due to the increase in a good capital structure.

The Effect of Institutional Ownership on Financial Performance

From the results of the analysis, it is concluded that institutional ownership has a negative and significant effect on financial performance. Then high institutional ownership can reduce financial performance. Actually, in agency theory, the existence of institutional ownership can increase the professionalism of the work. However, if the results of the analysis have a negative effect, then they do not provide a role in advancing the company. They only rely on management in managing the company without providing direction or input to make the best decisions for the company (Andika & Wijayanti, 2015). The results of this analysis are supported by Aprianingsih (2014), Fadillah (2017), Elisetia wati and Artinah (2016) who determined that financial performance had a significant negative impact on financial performance. This analysis shows that institutional ownership is a Corporate Governance mechanism that can affect financial performance. With a negative influence, the higher the institution's share ownership, the lower the performance in the financial statements (Elisetia wati & Artinah, 2016). This research is in accordance with research (Huda et al., 2019) which reveals institutional ownership does not affect financial performance.

The Effect of Liquidity on Financial Performance

From the analysis, it is concluded that liquidity has a significant negative influence on financial performance. Based on descriptive tests on Standard Deviation (data dissemination) the largest value is experienced by the Current Ratio variable of 1.3386873 which means that the high level of risk will change compared to other variables. High liquidity will have an impact on declining the company's financial performance. This research is does not match the company's opinion with agency theory because of agency costs. In this study, liquidity was higher, causing agency costs to arise. Sawir (2005) states that a high current ratio can reduce a company's profit because a lot of money is abandoned. If there are uncollectible receivables and unsold inventory, it can result from a high Current Ratio. So that the company is in a liquid state (Nyoman. P.W, 2012). This research is also supported by Hartono (2018), Indra (2019), and Antara et al, (2014) who determined that liquidity has a significant negative impact on financial performance because its operating income does not cover the increasingly bloated costs. And this research is contrary to (Diana &
Ososoga, 2020) which shows that liquidity has a positive impact on financial performance.

The Effect of Diversification Strategies on Financial Performance

From the research analysis, it can be concluded that the diversification strategy has a positive and significant effect on financial performance. Companies that implement a diversification strategy will have a variety of businesses that can improve the company's financial performance. Hitt et al. (2001) cited by Sulastri (2015) that many companies are implementing diversification strategies only to increase strategic competition from other companies. When a diversification strategy increases competitiveness, then the total performance of the company increases and can dominate the market more broadly than competitors. This research is in line with Putu and Darmayanti (2018), Wisnuwardhana and Diyanty (2015), and Iskandar et al. (2017) who revealed that diversification strategies have a positive and significant impact on financial performance. This research is in accordance with agency theory because through this strategy, companies often produce a variety of products and services that differ significantly from the company's capabilities. Managers choose a diversification strategy to accelerate business development, improve the company's ability to generate revenue and accelerate company growth and improve financial performance (Wisnuwardhana & Diyanty, 2015). However, this research departs from (Glasius & Purwanto, 2021), and Harto (2005) who prove that the diversification strategy has no impact on financial performance and not produced an optimal strategy for the company.

CONCLUSIONS AND RECOMMENDATIONS

This study analyzes the influence of capital structure, institutional ownership, liquidity, and diversification strategies on the financial performance of Industrial sector companies listed on the Indonesia Stock Exchange for the 2019-2021 period. The conclusion from the test results is that capital structure, institutional ownership, and liquidity, have a significant negative effect on financial performance, as well as diversification strategies, have a positive and significant effect on financial performance.

FURTHER STUDY

The limitation of this study is that the companies sampled are limited because the companies only represent part of other industrial sectors. The results of this study use only variables of capital structure, institutional ownership, liquidity, and diversification strategies. Based on the results of the R test, there are 76.3% of variables outside the study can affect financial performance. The next suggestion for researchers is to add several other variables that can affect financial performance to clarify the influence of each variable on overall financial performance and use a long research period.
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