ABSTRACT

The Influence of Environmental Factors and External Control on the Diversification Strategy and Performances of Big Manufacturing Industry Sub Sector in East Java

The objectives of the study are intended to test: 1. The influence of Internal Environmental factor, External Environmental factor and External Control on the Diversification Strategy; 2. The influence of the Diversification Strategy on the companies' performances; 3. The influence of Internal Environment, External Environment, and External Control on the Companies' Performances.

The samples of this study are the big manufacturing industry companies which are located on in industrial centers in East Java. The choice of the samples is done through *Proportional Area Random Sampling* method. Applying the method in this study, 105 companies spread out in 7 (seven) industrial centers in East Java have been gathered as the samples of this study.

The result of the study shows that: 1. Internal and External Environments have significant influence on the Diversification Strategy, while External Control's influence on the Diversification Strategy is insignificant; 2. Diversification Strategy has significant influence on the Companies' Performances; 3. Internal and External Environments, in direct and indirect ways, influence significantly on Companies' Performances. The study also reveals that: 1. In an unstable economic condition, a strong internal environment becomes important factor in maintaining the company's existence. 2 The finding of the insignificant influence of External Control on the Diversification Strategy rejects the Agency Theory that is proposed by Berle and Means (1932) and is developed by Jensen and Meckling (1976) and the following researchers; 3. Although the economic condition is less conducive, the Diversification Strategy which is developed by the researched companies still diversified, but the diversification belongs to the Concentric Diversification which applies technologic correlation between a product with the others; 4. Although the share concentration is on the owner side, but the resulted performance is lower. This result is contrary to the result of the previous study which states that the higher the level of share concentration, the bigger the profitability that a company has. This result also proves that the business climate has not been conducive yet.

Keywords: environment, external control, diversification strategy and performance.