

**THE EFFECTS OF ENVIRONMENT RISK,
CAPITAL STRUCTURE,
AND CORPORATE STRATEGY ON ASSETS PRODUCTIVITY,
FINANCIAL PERFORMANCE AND CORPORATE VALUE:
A STUDY ON GO PUBLIC COMPANIES REGISTERED
AT JAKARTA STOCK EXCHANGE**

TEDDY CHANDRA

ABSTRACT

This study was aimed at: (1) examining the effects of *environment risk* consisted of *financial risk*, *business risk* and *market risk* on *corporate strategy*, capital structure, *asset productivity*, *financial performance* and corporate value. (2) examining the effects of *corporate strategy* consisted of *liquidity*, *sales growth*, *assets growth* and *growth potential* on capital structure, *assets productivity*, *financial performance* and corporate value. (3) examining capital on *assets productivity*, *financial performance* and corporate value. The research was an explanatory study. This study was an explanatory research. All companies registered in Jakarta Stock Exchange in 2000-2004 periods were used as samples. They were divided into main board category consisted of 71 emitters, development board 62 emitters, and total board 134 emitters. Structural Equation Model was used as analysis method. SPSS 11.5 and AMOS 5.0 were used for processing data and allowing hypothetical tests to be performed. The results indicated that: (1) investors expect main board companies to adopt free cash flow whereas development board companies were expected to be more conservative by adopting pecking order theory. Most Indonesian companies were expected to adopt the latter. And, in fact, most of main, development, and total board companies in Indonesia tend to adopt pecking order theory. (2) In general, the increase of company's value was influenced by the increase of corporate strategy and capital deduction, but the increase would be much more higher if accompanied by raising assets productivity. For development board companies in particular, the increase of company's value should be accompanied by company's financial performance. (3) Creditors do not consider company's financial risk in giving loans, this implies the increase of stacked credit. (4) Investors do not trust company's financial performance report. (5) Strategic management may provide help in explaining capital structure phenomena with significant influence of corporate strategy on both capital structure and company's value.

Key Words: Corporate Strategy, Environment Risk, Capital Structure, Assets Productivity, Financial Performance, Company's Value,

Vol. 17, No. 1/ Agustus 2009

© Centre for Indonesian Accounting and Management Research
Postgraduate Program, Brawijaya University

financial risk, business risk market risk, sales growth, assets growth, growth potential, liquidity, debt to equity ratio, debt to assets ratio, equity to Assets ratio, return to assets ratio, basic earning ratio, pecking order Theory, free cash flow theory.

INTRODUCTION

Small companies in Indonesia have a considerable tendency on conventional method in order to deduct their debt risk by using their own internal capital. Conversely, large companies tend to raise and multiply their debts. According to Hari

¹ Computer Science College Pelita Indonesia, Jl. A.Yani No.78-88 Pekanbaru 28127
Telp.0761-24418 Faks. 0761-35508 e-mail:teddy8886@yahoo.com

Purnomo (1999 : 7) there are several reasons for companies to make debts: (1) When there is tax, by making debts, companies may take benefits. Because, paying the interest costs will lower tax price they must pay and at the same time lever up their values. (2) Companies try to take advantage from "easy believe" and imprudent creditors. Banks do not often serve as prudent evaluator when qualifying credit provision. They are not used to carry out 5C's analysis (*Character, Collateral, Capital, Capacity, Condition*) as the basics for that provision, but adversely creating and growing the culture of corruption, collusion, and nepotism. (3) Raising debts doesn't mean owners' shares dilution. If the market is in a *bearish* condition, forcing a capital raise by selling shares will only lower its own market price and this will cause company's great loss.

However the first proposition has found its counter-argument. In year 1958, Modigliani and Miller, (in Brealey and Myers,1996 : 449 - 456), had proposed some evidences that with "no-tax assumption," corporate value would be independent. No matter whether it operates with debts or funded by their own internal capital, any capital structure change would not bring any effects on its value. But in year 1963, Modigliani and Miller (MM) turned to revise their argument regarding their capital structure theory with the assumption of *corporate income tax*. MM argued that *leverage* would raise corporate value since debt interest cost defined as a *tax deductible expense*. The second Modigliani -Miller theory supports company's tendency to raise their debts for funding company's investment. But, larger debt makes it more susceptible on bankruptcy, which is avoidable if it only uses their internal fund. This risk will bring certain impact on stock price as well as corporate value. With all of these risks, why shareholders let this to happen?

Share holders give an impression that they let the company to make debts for a reason known as the *agency problem*. According to this theory, share holders are suspicious on manager's vested interest: that they make decisions based on their own personal consideration, not for the sake of common benefits. If there are some opportunities to make an investment, share holders ask their manager to pick one of them, but which investment considered profitable, it is very hard to define. In theory, the larger the profit rate, the bigger the risks that appear (*high return, high risk*). That once a risky investment decision had been made and resulted in a great loss, it would be difficult for the share holders to claim their manager's responsibility.

Managers always want to make debts for the sake of "business expansion" to other types of business area. The main objective here is to deduct previous debts by diversifying the business itself. Eventhough this new business is very much different from the already established one (*core business*), confidence on how powerful this step could be, may win the inferior reasoning of higher risks if diversification is too far unsimilar from its core business. The fact that there is no robust regulation in investment makes large companies in Indonesia to make huge investment by making debts. Much of those debts taken in form of foreign currency which provide quite tempting difference on *cost of debt*.

In 1963, at the time "tax" became one of determining factor in Modigliani & Miller's new model, the impacts of tax and bankruptcy had already complicated the process to find the best format of an optimum capital structure. This study was aimed at carrying out an empiric examination: whether that optimum capital structure really exist in Indonesian stock market. Does the structure have significant influence on corporate value?

To provide answers regarding inconsistent capital structure which influence corporate value, we can not rely on financial theories only. There is another factor involved, namely: managerial behavior. (Barton & Gordon, 1987 & 1988). Previous studies found the influence of *corporate strategy* on capital structure (Barton & Gordon, 1987 & 1988; Lowe, *et al.* 1994; Chathoth, 2002). Corporate Strategy associated with financial theory and influence capital structure are growth strategy and liquidity. (Kim *et al.* 1986; Barton & Gordon, 1988; Balakrishnan & Fox, 1993; hatfield *et al.* 1994; Lowe *et al.* 1994; McConnell *et al.* 1995; Jung *et al.* 1996; Chen, 2002; Chathoth, 2002; Tian Pao *et al.* 2003; Eldomiaty, 2003). Leland and Pyle (1997) and Ross (1977) assumed that managers utilize the ratio of capital structure as signal. As a matter of fact, high *leverage* will result in larger expense and larger risks of bankruptcy particularly for low qualified companies.

Stulz (1990) confirms that debts may bring positive or negative impact on corporate value (even if tax and bankruptcy cost are not included). He saw a manager as a person that does not have any share of his own. It's only his power that makes him receiving projects with negative *present value*. As a consequence, share holders will force him to make debts. But if they force him

Vol. 17, No. 1/ Agustus 2009

too hard, manager will neglect his obligation to take projects with positive present value. That's why it is necessary to ' put *agency cost of debt* and *agency cost of managerial discretion* stay in balance. This

Slies that companies with high growth rate will have negative correlation with *erage*, whereas companies with low growth rate will have positive correlation with *erage* (McConnell & Servaes : 1995).

In *strategic management*, risks that come from surrounding environment:quently called as *uncertainty*, *complexity*, *dynamism* and *illiberality* (Olsen, *et*,1998; Simerly & Li, 2000; Chathoth, 2002). In financial theory, risks are classified into *financial risk*, *business risk* and *market risk* (Barton & Gordon, 1988; Lowe, *et*., 1994; Setyaningsih, 1996; Prasad, *et ai*, 1997; Kochhar & Hitt, 1998; Booth, *etd*., 2000; Han Shin,*ef ai*, 2000; Ratnawati, 2001; Chathoth, 2002; Tien Pao, 2003;ildomiaty, 2003; Sudarma, 2004; Indahwati, 2004). The definition of risk in *strategic management* and financial theory are almost similar. That the risks itselfs rise from efforts to gain opportunities while reducing threats. Therefore, a proper formulation of corporate strategy is needed. Relationship between risk and *strategic management* —in particular *corporate strategy*— has ever been reported by some scholars (Barton &Gordon, 1988; Lowe, *et al*., 1994; Chathoth, 2002).

In the free *cashflow* theory, Jensen (1986) asserts that manager having free *cash flow* tends to make less beneficial investment. Manager thinks that it is better than if he returns the money to the share holders. Manager would prefer investment that may retain corporate growth, though the growth won't raise its value. According to this theory, share holders force manager to make debts as much as possible: in order to deduct agency cost, and to discipline the manager in managing their fund and force him to achieve certain productivity level as they expect. Jensen said that debts would encourage more efficient management, that assets utilization become more productive. Hence, the *free cash flow* theory predicts positive relationship between capital structure with investment and assets productivity (Sugihen, 2003).

Information asymmetry assumption and *The pecking order theory* (Myers dan Majluf: 1984) predict that companies would take *pecking order* theory as an optimum financial strategy. The basic reason for this theory is if manager serves as a half-owner, he would exerts all his efforts to gain higher stock price exceeding its rea value (*over price*). *Cost of equity capital* as a sensitive issue would be thrown to the market to give an image that the stock price had been too high.

This study was aimed at: (1) examining the effects of *environment risk* consisted of *financial risk*, *business risk* and *market risk* on *corporate strategy*, *capit structure*, *asset productivity*, *financial performance* and corporate value. (examining the effects of *corporate strategy* consisted of *liquidity*, *sales growth*, *assets growth* and *growth potential* on capital structure, assets

productivity, financial performance and corporate value. (3) examining capital on assets productivity, financial performance and corporate value.

RESEARCH METHOD

This study is an explanatory observational ex-post facto research that presents causal explanation or relationships among variables through hypothetical examination. As population were go public companies registered at Jakarta Stock Exchange (JSE or Bursa Efek Jakarta, BEJ). Samples were taken purposively, in accord with criterions as follow: 1) They must had been registered at JSE since 1998. Those registered in 1999 or the next years would not be classified as samples. This is in order to prevent bias that may come from age difference among companies as long as they become "public." 2) Their financial reports end up on 31 December. Companies that do not have financial reports closed 31 December were excluded. This is in order to avoid mis-perception on their performance. 3) Banks and finance institutions (banks, Multi Finance and Insurance) were excluded for avoiding bias caused by difference in types of business and criterions of standard measurement. 4) In the presented financial reports, negative equity balance is not permissible, for this would cause disorders if included into ratio analysis.

JSE classified emitents into two groups: *main board* and *development board*. Main board includes great emitents with good track record, whereas development board handles smaller emitents. Development board also includes companies (emitents) that are in process of restructurization and performance recovery. Concerning that these emitents come form various sectors in JSE, and in order to avoid bias resulted from unification of different sectors, this study held sectoral analysis with grouping as follows:

Table 1. Sectoral Analysis On Companies At Jakarta Stock Exchange

NO	SECTOR	MEMBERS
1	Basic and chemicals Industries	26 Emitents
2	Multivarious Industries	26 Emitents
3	Consumption Goods Industries	21 Emitents
4	Property & Real Estate and Transportation & Emitents	22 Emitents
5	Infrastructure	26 Emitents
6	Commerce and Service Agriculture and Mining	Data Insufficient
	TOTAL	122 Emitent

Source: processed

There was only 9 emitents or 45 data for Agriculture and mining. This number is insufficient to fulfill minimum SEM requirement (100 Data). Therefore both sectors can not be included for further analysis.

The number of samples was 100 minimally, since analysis instrument uses Structural Equation Modeling. Data were of primary and secondary at JSE and go public companies at JSE. Documentation was carried out in order to check: financial reports, stock price, Combined Stock Price Index, and the list of emitents classified as main board and development board. Concerning that so many variables involved and the need to find out relationships among variables simultaneously, a statistic multivariate method is necessary for analyzing more than two variables. Structural Equation Model (SEM) was used with the help of software SPSS and AMOS 4.0.

RESULTS AND DISCUSSIONS

Environment risk on corporate strategy. In general, companies saw *Environment Risk* had not significant effects on *Corporate Strategy* with fault tolerance of 87%. The same description found at Main board and Development board. Fault tolerance of each group are 98,3% and 51,4%, respectively. A fair exception applied to chemical and basic industries, multivariuous industries, and consumption good Industries, where for these three sectors, *environment Risk* had significant effects on *Corporate Strategy*. With fault tolerance of 2,1%, 4%, and "Fix," respectively. Only Property & Real estate, Transportation & Infrastructure, and Commerce and Service did not agree with this relationships. *Environment Risk* had not any effects on *Corporate Strategy*. With fault tolerance of 14,9% for Property & Real estate and Transportation & Infrastructure and 53,6% for-commerce and service sectors.

Environment risk on Capital Structure. There was significant effect of environment risk on capital structure at Main board companies with fault tolerance of 0,2%. The findings in main board companies were not followed by Development Board companies which found no significant effects of *Environment Risk* on capital Structure, with fault tolerance of 11,9%. Whereas for the Total Board (Main Board plus Development Board) there was significant effects of *Environment Risk* on capital structure, with fault tolerance of 0,5% only. For Basic and Chemicals Industries and Commerce and Service there was a Fix relationship. While for multivariuous industries and consumption good Industries there was significant effects of *environment risk* on capital structure, with fault tolerance only 1,8% and 2,7%, respectively. The reverse applied to property & Real Estate and Transportation & Infrastructure Sectors with fault tolerance of 46,7%.

Environment Risk on Assets productivity. *Environment risk* had significant effects on assets productivity as found on main board companies with fault tolerance only of 0,2%. Whereas Development Board strongly confirmed fix relationship between *environment risk* and assets productivity. The same results reflected from the Total Board which found Fix relationship between *Environment Risk* and assets productivity. The results of these three sectors may be found on Basic and Chemicals Sector which had fix relationship between *environment risk* and assets productivity. This results were followed by Consumption Goods Industries and Property & Real Estate and Transportation & Infrastructure Sectors which found significant effects of *environment Risk* on assets productivity. Fault tolerance of both sectors was only 0,5% and 3,6% respectively. Whereas Multivarious Industries and Commerce and Service Sectors found no significant relationships of *environment risk* on assets productivity. Fault tolerance of each sector reached 72,4% for Multivarious Industries and 57,3% for Commerce and Service Sector.

Environment risk on Financial Performance. In Main board companies, *environment risk* had no significant effects on Financial Performance with fault tolerance of 25,7%. Whereas the results found in Development board group seemed to be different: *environment risk* had significant effects on Financial Performance with fault tolerances sebesar 0,7%. But, this result was not reflected in the results of Total Board showing that *environment risk* had no significant effects on Financial Performance with fault tolerance of 76,7%. Property & Real Estate, Transportation & Infrastructure found that *environment risk* had significant effects on Financial Performance with fault tolerance only of 7%. Basic and Chemicals Sector, Multivarious Industries, Consumption Goods Industries and Commerce and Service Sectors showed the reverse: *environment risk* had no significant effects on financial performance. Fault tolerance of each sector was 77,4% for Basic and Chemicals, 46,4% for Multivarious Industries, 98,3% for Consumption Goods Industries and 46,4% for Commerce and Service Sector.

Environment risk on Corporate Value. For main board, *environment risk* had significant effects on corporate value with fault tolerance only of 2,8%. This was followed by Development board which found significant effects of *environment risk* on corporate value, with fault tolerance only of 8,6%. Thus, the Total board showed convincing relationships between *environment risk* on corporate value, with fault tolerance only of 0,3%.

Sectoral analysis showed different results, some of them supported hypothesis and some of them did not. Basic and Chemicals Sector found a Fix relationship of *environment risk* on corporate value. This was followed by Consumption Goods Industries and Commerce & Service Sector that found

Vol. 17, No. 1/ Agustus 2009

significant effects of *environment risk* on corporate value, with fault tolerance only of 9.8% for Consumption Goods Industries and 4.9% for Commerce and Service Sector. Other sectors such as Multivarious Industries and Property & Real Estate and Transportation & Infrastructure found no significant relationship between *environment risk* and corporate value. Each fault tolerance reached 55% for Multivarious Industries and 26% for Property & Real Estate and Transportation & Infrastructure.

Capital Structure on Assets Productivity. In line with *free cash flow* theory of Jensen (1986) investors would force the management to utilize assets productively, by making much more debts and debts. That capital structure would bring positive impact on assets productivity. This is in accord with the findings of Lichtenberg and Siegel (1990); Nickell & Nicolitsas (1999); Filbeck & Gorman (2001); Indahwati (2004). There is a convincing relationship between capital structure and assets productivity both for the main board and development board. But the relationship was negative: opposed against with hypothesis *and free cashflow* theory. In other words, the increase of capital structure would lower assets productivity. Companies preferred to utilize internal fund (liquidity) to improve assets productivity than making debts which only bloat expenses that in turn lowering their assets productivity. Priority on the utilization if internal fund reflects *the pecking order theory* of Myers (1984) rather *ihanfree cashflow* theory. Though investors tend to embrace *the free cashflow* theory by encouraging management to make debts, but in fact, managements both in main and development board tend to behave conservatively towards debts. Then-carefulness is some kind of trauma on their experience during the past 1998 crisis. The result in sectors showed that only Basic and Chemicals Sector and Property & Real Estate and Transportation & Infrastructure that found convincing effects of capital structure on assets productivity, while other sectors did not find any convincing one. Only Consumption Goods Industries that embraces *free cash flow theory* of Jensen (1986), where management was forced to make debts to utilize assets as efficient as possible. This would result in negative effects of liquidity on assets productivity. In other words, management did not invest on *liquid assets* as internal fund reserve, but tends to use debts. Other sectors still showed positive effects according to *the pecking order theory*.

Capital structure on Financial Performance. In line with *pecking order theory* of Myers (1984) that put priority on internal source funding, debts would only bring negative impact on financial performance, in accord with the findings of Kester (1986); Titman & Wessels (1988); Barton & Gordon (1988); Friend & Lang (1988); Harris (1991); Rajan & Zingales (1994); Johnson (1997); Jordan, et al.(1998); Moh'd. et al.(1998); Wald (1999); Wiwattanakantang (1999); Booth, et al.(2000); Elashker & Wattanasuwannee

Vol. 17, No. 1/ Agustus 2009

(2000); Huang & Song (2002); Antoniou (2002); Chen, et al.(1998); Chathoth (2002); Tien pao (2003); Bunkanwanicha, et al.(2003); Chen (2003); Akhtar (2005), Ratnawati (2001) and Indahwati (2003). The result found in main board companies showed no convincing relationship between capital structure and financial performance. On contrary, for development board there was convincing relationship between capital structure and Financial Performance, the direction resulted for main board was positive, whereas for development board was negative. This showed that for main board, raising debts would provide additional benefits that would improve company's Financial Performance, while, for development board raising debts may became new burden which only deduct company's Financial Performance. This is in line with the findings of Damodaran (1997). Sectors that found significant effects of capital structure on Financial Performance were only Multivarious Industries and consumption goods. Negative direction was found only on Multivarious Industries and Commerce and Service Sector. While, other sectors found positive direction

Capital structure on Corporate Value. In accord with *pecking order theory* of Myers (1984) raising debts may give negative signal to investors for internal fund is insufficient to make investment. This is in line with the findings of Jensen & Meckling (1976); Myers (1976); Myers (1984); Myers & Majlut (1984); Damodaran (1997); Fama & French (1998); Ross, et al (1999); Antoniou (2002 Indahwati (2004); Sugihen (2003) and Sudarma (2004). The result showed that only main board companies that convincingly found the effects of capital structure on corporate value, while development board companies did not find the same. In general in all sector we cannot find any significant effects of capital structure on corporate value. The direction was positive, which means that raising debts would give positive signal to investors that in turn would improve corporate value. This is in accord with *signaling theory* of Ross (1977) *free cash flow* theory of Jensen (1986). Only Basic and Chemicals Sector, Consumption Goods Industries and Property & Real Estate, Transportation & Infrastructure found convincing relationships of capital structure and corporate value. The direction is negative, while others sectors is positive. His implied that *pecking order theory* is applied more often on multivarious industries, Consumption Goods Industries, property & real estate and Transportation & Infrastructure. While, Basic and Chemicals Sector, Commerce and Service Sector tend to *signaling theory* of Ross (1977) and *free cashflow* theory of Jensen (1986).

Corporate Strategy on Capital structure. Barton & Gordon (1987) found a significant relationship between *corporate strategy* and capital structure. They were supported by Chathoth (2002) who found a fix relationship between *corporate strategy* and capital structure. The relationship between *Corporate strategy* and capital structure in main board

and second (development) board showed quite high value of 47,6% for the main board and 53,1% for development board. The numbers showed a very close relationship. This relation was also reflected in hypothesis analysis on main board companies that showed a fix influence of *corporate strategy* on capital structure. The same thing applied to second board companies that showed significant effects of *corporate strategy* on capital structure. This means that in taking policy regarding capital structure, companies always consider corporate strategy. In general, companies in Indonesia also showed capital structure policy that counts corporate strategy.

Only Basic and Chemicals Sector and Commerce and Service Sector did not show any relationship between *corporate strategy* and capital structure. While, multi-various industries, Consumption Goods, Property & Real Estate, and Transportation & Infrastructure showed a convincing relationships between *corporate strategy* and capital structure. Companies in Basic & Chemicals Sector, and Commerce & Service Sector gave less attention on established corporate strategy in taking capital structure policies.

Corporate Strategy on Assets productivity. Hall & Weiss (1983) and Capon (1990) found that stable growth may improve company's Financial Performance. Assets productivity is one form of financial performance. The element of corporate strategy we mean here is growth strategy. Main board and development board showed a close and convincing relationship between corporate strategy and assets productivity. The same result reflected in all companies in Indonesia. This means that to optimize asset utilization, management must put attention on the already established corporate strategy.

Only Basic and Chemicals Sector and Property & Real Estate and Transportation & Infrastructure that showed convincing relationship between corporate strategy with assets productivity. This implies that other sectors gave less attention on already established corporate strategy in order to achieve efficiency in assets utilization.

Corporate Strategy on Financial Performance. Study on the relationship between *corporate strategy* and Financial Performance was pioneered by Barton & Gordon

(1987). Their study was followed and supported by Capon, *et al* (1990) and Hill & Jones (1998). The result of correlation coefficient analysis showed a close relationship between *corporate strategy* and Financial Performance, in first class, second class, and companies in all sectors in general. But, from hypothetical analysis only second class companies that found significant effects of *corporate strategy* on financial performance, whereas for the main board companies and all sectors did not found any relationship. This implies that corporate strategy do not have optimum role for improving financial performance, except in development board companies. It

Vol. 17, No. 1/ Agustus 2009

was only multi-various industries sector that had convincing relationship between corporate strategy and financial performance, whereas other sectors did not.

Corporate Strategy on Corporate Value. Convincing corporate strategy is vital, to make investors to perceive that the company had a good corporate value. Ratnawati (2001) and Sudarma (2004) found significant relationship between corporate growth and corporate value. The results of correlation analysis showed that there is a close relationship between corporate strategy with corporate value, both for main board, development board companies, and all sectors. The same result was also reflected from hypothetical analysis which found a significant influence of corporate strategy on corporate value. This showed that proper corporate strategy may become a positive signal for investors, that in the future it would be realized in form of improved corporate value.

CONCLUSIONS

1. Investors in Indonesia tend to encourage main board companies to make debts based on confidence that the managements are able in managing debts. This proved that investors tend to agree with *free cash flow* meory of Jensen (1986). Reversely, for development board companies, investors tend to recommend internal finding rather than making debts, which is in line with *pecking order theory* of Myers (1984). On the other hand, management of main and development boards had a conservative attitude on debts. They are more convinced on the effectiveness of *pecking order theory* and *asymmetric information theory* by putting priorities on internal capital funding rather than the external one. Management of main board companies prefer to make investments on *liquid assets* as their anticipation on business risk increase. Second board management, on the contrary did not take the same policy, though they were *concerned* on *pecking order theory* and *asymmetric information theory* and recognized positive impact of the raise of *liquid assets* on financial performance.
2. Corporate value that indirectly describes company's stock price was influenced by assets productivity, capital structure, *corporate strategy* and *environment risk* In the era of globalization presently companies are required to be more productive to compete with each other. That's why the increase of assets productivity was responded positively by investors. Deducting new debts may be effective to raise corporate value when accompanied by productive assets utilization. Formulating and utilizing good corporate strategy may also raise corporate value, but it would be stronger if accompanied by raising productive assets utilization. Hence, risk increase would still be responded positively by investors for

Vol. 17, No. 1/ Agustus 2009

© Centre for Indonesian Accounting and Management Research
Postgraduate Program, Brawijaya University

they see the company is able to utilize assets productively through a proper formulation of corporate strategy and strong capital structure. When composing capital structure, most of Indonesian companies always consider a corporate strategy that is able to eliminate risks. In short, productive assets utilization is the best prelude step recommended for leveraging up corporate value.

3. Corporate value of main board companies was also influenced by assets productivity, capital structure, *corporate strategy* and *environment risk*. Productive assets utilization was highly appreciated by investors. But they also expect that management would be more frequent in utilizing debts. Proper corporate strategy would improve corporate value. But this improvement would have been better if followed by productive assets utilization. This at once would make investors to perceive risks positively. Proper arrangement of capital structure composition was also influenced by the formulation of corporate strategy and the risks company would deal with.
4. Corporate value of development board companies was also influenced by their financial performance, assets productivity, capital structure, *corporate strategy* dan *environment risk*. It's only that in this group the main focus to lever up corporate value was put on its financial performance. Good financial performance would raise corporate value when supported with assets productivity, good composition of capital structure, proper formulation of corporate strategy and the elimination of risks. Company's assets productivity had significant effects on corporate value if company's financial performance was improved. Good composition of capital structure would bring positive impacts on corporate value if it could just improve company's Financial Performance. The role of corporate strategy is pivotal for raising corporate value, but the value would have been larger if company's Financial Performance was improved. That's why investors hold their assumption that the increase of financial risks may be eliminated by the company. As conclusion, to improve corporate value of development board companies, managerial efforts are absolutely necessary for improving company's financial performance.
5. Risks deduction makes managers become more aggressive by launching higher growth and liquidity strategy to obtain high assets productivity. Same condition applied to companies in development board.
6. Corporate strategy all this time had important role in improving corporate value (for the shareholder) and creditors' value (for the bondholder).
7. Creditors fear of lending their fund to companies with high risk business. But, they are assured of good corporate strategy that would improve company's assets productivity and financial performance. In this matter, creditors were convinced with liquidity strategy. This means that if

management was quite conservative towards debts and tends to make investment on *liquid assets*. debts given by the creditors would be safer. Unfortunately, in giving loans, creditors do not always consider financial risk that leads to bankruptcy (*financial distress*) in order to anticipate stuck credits.

8. Risk increase -in particular market risks caused by turbulence in the market- was responded positively but investors, since they are convinced that the management was able to cope with it. Investors are assured of corporate strategy, especially asset growth and potential growth strategies. On the other hand, the management gave response according to investors' expectation by launching asset growth strategy, potential growth strategy, and liquidity strategy. These strategies would raise company's financial performance and eventually increase its corporate value. In other words, there is strong and un-separable relationship between strategic management and financial management as found by Barton & Gordon (1987 & 1988).

REFERENCES

- Anderson, Ronald W., 2002, **Capital Structure, Firm Liquidity and Growth**, National Bank of Belgium Working Paper - Research Series, No. 27
May 2002. Akhtar, Shumi, 2005, **The Determinants of Capital Structure for Australian Multinational and Domestic Corporations**, Australian Journal management, Vol.30, No.2 December 2005, Antoniou. Antonios, Yilmaz Guney, Krishna Paudyal, 2002, **Determinants of Corporate Capital Structure: Evidence from European Countries**, Center for Empirical Research in Finance, Department of Economics and Finance, University of Durham, Version 1.2, March, 2002 Balakrishnan, Srinivasan & Isaac Fox, 1993, **Asset Specificity, Firm Heterogeneity and Capital Structure**, Strategic Management Journal, Vol.14, p.3-16.
Bapepam, 1999, **Laporan Tahunan 1999**, Badan Pengawas Pasar Modal, Jakarta.
—, 2000, **Laporan Tahunan 2000**, Badan Pengawas Pasar Modal, Jakarta.
---, 2001, **Laporan Tahunan 2001**, Badan Pengawas Pasar Modal, Jakarta.
-----, 2002, **Laporan Tahunan 2002**, Badan Pengawas Pasar Modal, Jakarta.
-----, 2003, **Laporan Tahunan 2003**, Badan Pengawas Pasar Modal, Jakarta.
-----, 2004, **Laporan Tahunan 2004**, Badan Pengawas Pasar Modal, Jakarta.
Barton SL, Gordon PJ.. 1987, **Corporate Strategy : Useful Perspective for the study of Capital Structure ?**, Academic Management Review 12: p.67-75. Barton SL, Gordon PJ., 1988, **Corporate Strategy and Capital Structure**, Strategic management Journal. Vol.9 p.623-632. Booth, Laurence, Varouj Aivazian, Asli Demirguc Kunt & Vojislav Maksimovic, 2000, **Capital Structure in Developing Countries**, Tenth Draft May 2000. Bunkanwanicha, Pramuan, Jyoti Gupta, Rofikoh Rokhim, 2003, **Debt and Entrenchment : Evidence from Thailand and Indonesia**, ROSES-CNRS

- Maison des Sciences Economiques, University Paris, September 2003.
- Bradley, Richard A. and Myers, Stewart C., 1996, **Principles of Corporate Finance**,
McGraw-Hill Companies, Inc Brigham, Eugene F., and Philip R. Daves, **Intermediate Financial Management**,
Seventh Edition, Thomson Learning, Inc., 2002. Brigham, Eugene F., and Philip R. Daves, **Intermediate Financial Management**,
Eighth Edition, Thomson Learning, Inc., 2004.
- Chathoth, Prakash K., 2002, **Co-alignment Between Environment Risk, Corporate Strategy, Capital Structure, and Firm Performance : An Empirical Investigation of Restaurant Firms**, Dissertation to the Faculty of the Virginia Polytechnic Institute and State University.
- Chen, Kaifeng, 2002, **The Influence of Capital Structure on Company Value with Different Growth Opportunities**, Paper for EFMA 2002 Annual Meeting
- Chen, Carl R., Thomas L. Steiner, 1999, **Managerial Ownership and Agency Conflicts : A Nonlinear Simultaneous Equation Analysis of Managerial Ownership, Risk Taking, Debt Policy, and Dividend Policy**, The Financial Review 34 (1999) PP.119-136.
- Elashker, Ahmed, and Tanongsak Wattanasuwannee, 2000, **Capital Structure in Thailand on The Eve of Recovery : An Empirical Inquiry**, ABAC Journal,
Assumption University, Vol.20 No.1 Jan-April 2000.
- Eldomiaty, Tarek I., 2003, **Dynamics of Firm's Market Value, Capital Structure and Systematic Risk**, The 3rd International Conference of Economics and Management 'Financial Management Trends 2003', Kaunas University of Technology - Lithuania and Kaliningrad State Technical University.
- Fama, Eugene F., Kenneth French, 1997, **Investment Decisions, Financing Decisions, and Firm Value**, Social Science Research Network Electronic Library, Date Posted January 27, 1997. Fama, Eugene F., Kenneth French, 1997, **Taxes, Financing Decisions, and Firm Value**, Social Science Research Network Electronic Library, May, 1997.
- Fama, Eugene F., Kenneth French, 1997, **Value Versus Growth: The International Evidence**, Social Science Research Network Electronic Library, August, 1997.
- Fernandez, Pablo, 2001, **Optimal Capital Structure : Problem with the Harvard and Damodaran Approaches**, IESE Business School Filbeck, Greg. Raymond F. Gorman, 2001, **The Relationship Between Productivity**

- and Leverage**, Internet Publication, Miami University, Ohio Friend, Irwin & Larry H.P. Lang, 1988, **An Empirical Test of The Impact of Managerial Self-interest on Corporate Capital Structure**, The Journal Of Finance, Vol. XLIII, No.2, June 1988. Jensen, Michael C, 1986, **Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers**, American Economic Review, Vol 76, No.2, pp.323-329, May 1986. Han Sin, Hyun, Rene M. Stulz, 2000, **Firm Value, Risk, and Growth Opportunities**, National Bureau of Economic Research Working Paper Series, June 2000. Hatfield, Gay B., Louis T.W. Cheng & Wallace N. Davidson, III, 1994, **The Determination of Optimal Capital Structure : The Effect of Firm and Industry Debt Ratios on Market Value**, Journal of Financial and Strategic Decisions, Volume 7 Number 3. Harris, M. and Raviv.A., 1990, **Capital Structure and The Informational Role of Debt**, Journal of Finance, Vol45, pp.321-349. Harris, M. and Raviv.A., 1991, **The Theory of Capital Structure**, Journal of Finance, Vol46, pp.297-355 Hill, Charles W.L., Gareth R. Jones, 1998, **Strategic Management, an Integrated Approach 4th Edition**, Houghton Mifflin Company, Boston, USA. Huang, Samuel G.H., Frank M. Song, 2002, **The Determinants of Capital Structure : Evidence From China**, School of Economics and Finance and Center for China Financial Research (CCFR), The University of Hong Kong. Pokfulam Road, Hong Kong. Indahwati, 2003, **AnaJisis Pengaruh Leverage dan Kebijakan Struktur Modal Terhadap Kinerja Keuangan dan Nilai Perusahaan-Perusahaan Go Public di Pasar Modal Indonesia Selama Masa Krisis 1998-2001**, Disertasi Program Pascasarjana Universitas Brawijaya, Malang. Leland, H. E. and Pyle, D. H. 1977, **Informational asymmetries, financial structure, and financial intermediation**, Journal of Finance. Jensen, Michael C, William H. Meckling, 1976, **Theory of The Firm : Managerial Behavior, Agency Costs and Ownership Structure**, Journal of Financial Economics. October 1976, V.3 No.4, pp. 305-360. reprinted in Harvard University Press, December 2000 Jung, K., Kim, Y.C., and Stulz, R.M., 1996, **Timing, investment opportunities, managerial discretion, and the security issue decision**", Journal of Financial

- Economics, Volume 42, Issue 2, Oktober 1996, pp. 159-186. Kim, Wi Saeng & Eric H. Sorensen, 1986, **Evidence on The Impact of the Agency Costs of Debt on Corporate Debt Policy**, Journal of Finance and Quantitative Analysis, Volume 21 No.2, June 1986.
- Kochhar, Rahul, Michael A. Hitt, 1998, **Linking Corporate Strategy and Capital Structure : Diversification Strategy, Type and Source of Financing**, Strategic management Journal (1986-1998), Summer 1998, p.601.
- Lee, Tenpao, Hsiao Tien Pao, Bohdan Pikas, 2003, **The Determinants of Capital Structure Choice Using Linear Models : High Technology Vs. Traditional Corporations**, Journal of the Academy of Business and Economics, January 2003.
- Lichtenberg, Frank R., and Donald Siegel, 1989, **The Effects of Leveraged Buyouts on Productivity and Related Aspects of Firm Behavior**, National Bureau of economic Research Working Paper Series No. 3022, June 1989
- Lowe, Julian, Tony Naughton & Peter Taylor, 1994, **The Impact of Corporate Strategy on the Capital Structure of Australian Companies**, Managerial and Decision Economics (1986-1998), May/June 1994, p.245.
- McConnell, J. J & Servaes, H. 1995, **Equity ownership and the two faces of debt**, Journal of Financial Economics, Volume 39, Issue 1, September 1995, pp.131~157.
- Miller, H. Merton, 1977, **Debt And Taxes**, The Journal of Finance, Volume XXXII, No.2, May 1977.
- Modigliani, Franco and Merton H. Miller, 1958, **The Cost of Capital, Corporate Finance and The Theory of Investment**, The American Economic Review, Volume XLVIII, No.3, June 1958.
- Moh'd, Mahmoud A., Larry G. Perry, James N. Rimbey, 1998, **The Impact of Ownership Structure on Corporate Debt Policy : a Time Series Cross Sectional Analysis**, The Financial Review 33, 85-98.
- Myers, Stewart C., 1976, **Determinants of Corporate Borrowing**, Working Paper 875-76, Sloan School of Management, Massachusetts Institute of Technology, September 1976.
- Myers, S. C. & Majluf, N.S., 1984, **Corporate financing and investment decisions when firms have information that investors do not have**, Journal of Financial Economics. Myers, S. C. 1998, **Outside Equity Financing**, National Bureau of economic

- Research Working Paper Series No. 6561, May 1998. Nickell, Stephen and Dephne Nicholitsas, 1999, **How Does Financial Pressure Affect Firm ?**, *European Economic Review*, 42(8), 1435-1456 O'Brien, Jonathan P., 2003, **The Capital Structure Implications of Pursuing a Strategy of Innovation**, *Strategic Management Journal*, Vol. 24, Iss. 5, p.415, May 2003.
- Prasad, Dev, Garry D. Bruton, and Andreas G. Merikas, 1997, **Long-Run Strategic Capital Structure**, *Journal of Financial and Strategic Decisions*, Volume 10 Number 1, Spring 1997, pp.47-57.
- Rajan, Raghuram G., Luigi Zingales, 1994, **What do We Know About Capital Structure? Some Evidence from International Data**, National Bureau of Economic Research Working Paper Series 4875, October 1994.
- Ratnawati, Kusuma, 2001, **Ana Us is Perbedaan Struktur Modal dan Faktor Interen, Faktor Eksteren Perusahaan Industri PMA dan Perusahaan Industri PMDN di Bursa Efek Jakarta, Serta Pengaruhnya Terhadap Nilai Perusahaan**, Disertasi Program Pascasarjana Universitas Airlangga, Surabaya.
- Ross, S. A., 1977, **The Determination of Financial Structure: The Incentive-Signalling Approach**, *The Bell Journal of Economics*, Volume 8, No.1, Spring 1977, pp.23-40
- Setyaningsih, 1996, **Analisis Perbedaan Kinerja Keuangan Perusahaan Sebelum dan Sesudah Go-Public Serta Pengaruhnya Terhadap Tingkat Hasil Saham Di pasar Modal Indonesia, Thailand dan Jepang**, Disertasi Program Pascasarjana Universitas Airlangga, Surabaya.
- Shah, Kshitij, 1994, **The Nature of Information Conveyed by Pure Capital Structure Changes**, *Journal of Financial Economics*, 36, 89-126.
- Simerly, Roy L., Mingfang Li. 2000, **Environmental Dynamism, Capital Structure and Performance : A Theoretical Integration and an Empirical Test**, *Strategic Management Journal*, Chichester, Vol.21, Iss. 1; p.31, Jan 2000.
- Safieddine, Assem, Sheridan Titman, 1997, **Debt and Corporate Performance : Evidence From Unsuccessful Takeovers**, National Bureau of Economic Research Working Paper Series 6068, June 1997.
- Setyaningsih, 1996, **Analisis Perbedaan Kinerja Keuangan Perusahaan Sebelum dan Sesudah Go-Public Serta Pengaruhnya Terhadap Tingkat Hasil Saham Di pasar Modal Indonesia, Thailand dan Jepang**, Disertasi Program Pascasarjana Universitas Airlangga, Surabaya.

- Sudarma, Made. 2004. **Pengaruh Struktur Kepemilikan Saham, Faktor Intern dan Faktor Ekstern Terhadap Struktur Modal dan Nilai Perusahaan (Studi pada Industri yang Go-Public di Bursa Efek Jakarta)**, Disertasi Program Pascasarjana Universitas Brawijaya, Malang
- Sugihen, Syafruddin Ginting, 2003, **Pengaruh Struktur Modal Terhadap Produktivitas Aktiva dan Kinerja Keuangan serta Nilai Perusahaan Industri Manufaktur Terbuka di Indonesia**, Disertasi Program Pascasarjana Universitas Airlangga, Surabaya.
- Stulz, R., 1990, **Managerial discretion and optimal financing policies**, Journal of Financial Economics.
- Tien Pao, Hsiao, Bohdan Pikas, & Tenpao Lee, 2003, **The Determinants of Capital Structure Choice using Linier Models : High Technology Vs. Traditional Corporations**, Journal of Academy of Business and Economics, January 2003.
- Titman, S. and Wessels, R., 1988, **The determinants of capital structure choice**, Journal of Finance.
- Wiwattanakantang, Yupana, 1999, **An Empirical Study on the Determinants of The Capital Structure of Thai Firms**, Pacific Basin Finance Journal, Vol.7, No.3-4, August 1999.