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EDITORIAL ADDRESS

Jl. Ikan Wijinongko No.18a, Sobo, Kec. Banyuwangi, Kabupaten Banyuwangi, 68418

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## EXPLANATION STUDY OF AGRO-INDUSTRIAL FIRM FINANCIAL PERFORMANCE BASED ON CAPITAL STRUCTURE AND FIRM STRATEGY IN THE COVID-19 PANDEMIC

**Agung Budi Sulistiyo<sup>1</sup>**  
**Bunga Maharani<sup>2</sup>**  
**Bayu Aprillianto<sup>3</sup>**  
**Novi Wulandari Widiyanti<sup>4</sup>**  
**Muhammad Miqdad<sup>5</sup>**

### ABSTRACT

The purpose of this study was to examine the effect of corporate strategy on financial performance with capital structure as an intervening variable. The advantage of this research lies in taking the object of the company in the agroindustry sector in the Covid-19 pandemic situation which has not been the concern of researchers. The population is all agroindustry companies, listed in Indonesian Stock Exchange. Data collection technique using purposive sampling method and a total of 52 sample data were obtained with a time span of 2020-2021 which were processed using the multiple regression method. The results show that there is an effect of corporate strategy on capital structure, as well as capital structure that affects financial performance. However, the opposite result is shown by the non-influence of corporate strategy variables on financial performance. Thus, the mediating role of capital structure in the relationship between corporate strategy and financial performance has been clearly proven. The results of this study are able to provide future research recommendations in the form of using variations of company strategies that can have different implications, especially for companies in the agroindustry sector during the covid-19 pandemic. In addition, this study also recommends companies to manage their capital structure optimally to generate value to financial performance. This research will also contribute on the fast growth of literature related to corporate strategy, capital structure, and financial performance as well as the development of agency theory, signal theory and pecking order theory.

**Keyword:** Capital structure, cost efficiency, financial performance, firm strategy

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### ABSTRAK

Tujuan penelitian ini adalah untuk menguji pengaruh strategi perusahaan terhadap kinerja keuangan dengan struktur modal sebagai variabel intervening. Keunggulan riset ini terletak pada pengambilan objek perusahaan di sektor agroindustri dalam situasi pandemi covid-19 yang belum menjadi perhatian banyak peneliti. Populasi dalam penelitian ini adalah seluruh perusahaan agroindustri yang terdaftar di Bursa Efek Indonesia. Teknik pengumpulan data menggunakan metode purposive sampling sebanyak 52 data sampel diperoleh dalam rentang waktu tahun 2020-2021 yang diolah dengan metode regresi berganda. Hasil penelitian menunjukkan adanya pengaruh strategi perusahaan terhadap struktur modal, begitu pula dengan struktur modal yang berpengaruh terhadap kinerja keuangan. Namun hasil sebaliknya ditunjukkan oleh tidak berpengaruhnya variabel strategi perusahaan terhadap kinerja keuangan. Dengan demikian peran mediasi struktur modal dalam hubungan antara strategi perusahaan dan kinerja keuangan telah nyata terbukti. Hasil penelitian ini mampu memberikan rekomendasi riset mendatang berupa penggunaan variasi strategi perusahaan yang dapat memberikan implikasi yang berbeda terutama pada perusahaan-perusahaan di sektor agroindustri di masa pandemi covid-19. Penelitian ini juga merekomendasikan pentingnya perusahaan untuk mengatur struktur modalnya dengan optimal sehingga dapat memberikan nilai terhadap kinerja keuangan. Penelitian ini juga memberikan kontribusi terhadap perkembangan keilmuan khususnya di bidang strategi perusahaan, struktur modal dan kinerja keuangan serta perkembangan teori keagenan, teori sinyal dan pecking order.

**Kata kunci:** Struktur modal, efisiensi biaya, kinerja keuangan, strategi perusahaan

<sup>1</sup> Correspondence Author : Lecturer at University of Jember, Jember, Telp. 081336129425, Email : [agungbudisulistio@gmail.com](mailto:agungbudisulistio@gmail.com)

<sup>2</sup> Second Author : Lecturer at University of Jember, Jember

<sup>3</sup> Third Author : Lecturer at University of Jember, Jember

<sup>4</sup> Fourth Author : Lecturer at University of Jember, Jember

<sup>5</sup> Fifth Author : Lecturer at University of Jember, Jember

## Introduction

The Covid 19 pandemic, which began in 2019 in Wuhan, China, has had a huge impact on countries in the world, including Indonesia. All aspects are affected by the pandemic, both small and large scale. The most influential sectors include the health, social, technology, services, economic and transportation sectors. The government's policy by limiting the movement of the people will certainly result in significant changes, especially in the economic sector. The regional restrictions and quarantines carried out resulted in the people's purchasing power weakening and the economy becoming stagnant (Shen et al, 2020). The impact of the covid pandemic has also resulted in many companies whose financial performance has decreased drastically. This condition is not experienced by the agro-industrial sector in Indonesia. Research conducted by Runtunuwu et al. (2021) shows that financial performance as measured by financial ratios in agro-industrial companies actually outperforms other industrial sectors. Dewanti et al. (2022) emphasized that there was no difference in the financial performance of one of the agro-industrial companies, namely PT Provident Agro Tbk before and after the COVID-19 pandemic, this shows the resilience of the company's financial condition in the agro-industrial sector compared to other sectors. This empirical phenomenon, which is different from the phenomenon in business and other financial companies, creates a gap phenomenon. This unique and distinctive condition in the agroindustry sector is certainly interesting to explore further.

The development of market capitalization in the shares of companies listed on the Indonesia Stock Exchange shows evidence of an increasing demand for sources of corporate capital, especially equity. The increase in demand for equity certainly gives a positive signal that the company will provide better company performance. The capital structure is a mixture of long-term debt and equity to fund the company's operations. The choice to optimize the capital structure can of course be influenced by both internal and external factors (Gombola et al., 2019). The optimal capital structure must of course consider the proportion of debt and equity use that can increase the value of the company and minimize the cost of capital by considering company policies (Prieto and Lee, 2019 and Zani et al., 2014).

Research related to the impact of COVID 19 on financial performance is still not widely explored, especially considering the firm strategy and capital structure. Several previous studies that have been carried out have only identified differences in conditions before and after the pandemic and then identified what factors caused changes in financial performance (Dimson et al., 2020 and Kalemly-Ozcan et al., 2020). This study attempts to fill the gap by analyzing the effect of firm strategy on financial performance through capital structure. The novelty offered in this study is focused on the use of capital structure as an intervening variable. In addition, the researchers took a research period during the Covid 19 pandemic between 2020-2021 and the object of research, namely agro-industrial companies in Indonesia. As one of the agrarian countries in the world, Indonesia is certainly an interesting place to explore the agro-industrial sector which has proven to be able to survive and actually produce good financial performance.

Based on the explanation above, this study aims to examine the effect of firm strategy and corporate capital structure on the financial performance of agro-industrial companies in Indonesia during the COVID-19 pandemic. It contributes to the financial management literature from theoretical and practical perspectives.

From a theoretical perspective, it addresses the mediating relationship between financial performance and its determinants, namely, firm strategy and capital structure. From a practical perspective, it will be useful for companies in the agro-industrial sector and policy makers to design appropriate strategies to improve the corporate financial performance.

## Literature review

### Agency Theory

Agency theory is the theory that underlies the company's business practices that apply so far. The existence of a relationship between the party giving the authority (principal), namely the investor and the party receiving the authority (agency), namely the manager in the form of a cooperation contract called the "nexus of contract" is the main principle of agency theory. Agency theory states that management and owners have different interests (Jensen and Meckling, 1976).

In the agency model, a system is designed that involves both parties, so a work contract is needed between the owner (principal) and management (agent). The agreement is expected to maximize the utility of the principal, and can satisfy and guarantee the agent to receive rewards from the results of the company's management activities. The difference in interests between owner and management lies in maximizing the benefits (utility) of the owner (principal) with constraints, benefits (utility) and incentives that will be received by management (agent). Different interests often lead to conflicts of interest between shareholders/owners (principals) and management (agents). Because of this difference in interests, each party tries to increase their respective profits. Principal wants a maximum and fast return on investment, one of which is reflected by an increase in the dividend portion of each share owned. Agents want their interests to be accommodated by providing "adequate" and maximum compensation, bonuses, incentives or remuneration for their performance.

Agency theory provides space for optimal monitoring and appropriate incentives so that the firm strategy becomes more oriented towards the prosperity of shareholders. On the other hand, agency theory also explains a tendency for companies to use a higher debt-based capital structure composition to reduce agency problems. Larger debt will force management (as an agent) to work more optimally to minimize debt risk so that the firm performance increases because it can generate greater benefits than the cost of debt. Regarding financial performance, the consequences of agency theory will direct the focus of agents to maximize profits so that the company's performance looks better than the targets that have been made previously.

### Signaling Theory

Signaling theory explains the urgency of an information owned by the company. Shareholders and external parties of the company really need information about the company. Information about the company will be used by interested parties to assess the condition of the company in the past, present, and predictions for the future. Spence (2002) states that the purpose of signaling theory is to minimize the occurrence of information imbalances owned by managers and other



parties (shareholders and external parties). Management becomes the party who knows more information about the company, therefore the company tries to give signals to external parties to reduce information asymmetry. This will make the value provided by the company at a fair value.

Signaling theory argues that companies should provide signal to the stakeholders about the financial performance of the company. This signal is information about what has been done by the management to realize the desire of the owner. Signals can be promotional or other information stating that the company is better than other companies. Signaling theory explains that signals delivered by managers to reduce information asymmetry. Managers provide information through financial statements that they are implementing a conservative accounting policy that results in higher profits because this principle prevents companies from enlarging profits and helping users with financial reports by presenting quality profits and assets.

Financial performance is one of the signals that can be used by the investors to make investment decisions. By giving information about the capital structure and strategy used, investors will have a better understanding of financial performance of the companies. Signaling theory also provides an explanation on how important to know the financial performance to obtain valuable information and minimize the asymmetric information.

### **Pecking Order Theory**

Pecking Order Theory explains that a company has three sources of funding, namely internal funding, debt and the issuance of new shares. This theory suggests that companies should rely on internal financing rather than debt and share issuance. Issuance of shares is the last alternative if the company's needs are not met (Mudany, 2020). Pecking order theory predicts a negative relationship between debt ratios and profitability because companies prioritize internal funding, then debt and share issuance. According to this theory, profitable companies use less debt than less profitable companies. This is because the funds used come from retained earnings. On the other hand, debt adds to the interest expense for the company. This theory also explains that the optimal capital structure will be achieved when the tax benefits of borrowing (tax shield) are balanced against the financial costs (Mudany, 2020). Pecking Order Theory has an important meaning because it gives a signal to the public how the company is performing. This means that if the company finances itself internally, it means that the company is strong and if the company has external financing, then this shows a high level of confidence that the company has a high chance to fulfill its obligations (Wahome et al., 2015).

Effective financial management and what characters affect their capital structure are important for a company to obtain better operational performance. A wrong decision about the capital structure may lead to financial distress and even to bankruptcy. The pecking order theory assumes that there is no target capital structure. The companies choose capitals according to the following preference order: internal finance, debt, equity. Myers and Majluf (1984) argued the existence of information asymmetry between managers (insiders) and investors (outsiders).

They argued that managers have more inside information than investors and act in favor of old shareholders. By having information on capital structure, strategy and financial performance, investors can minimize asymmetry information.

### **Firm Strategy**

Firm strategy conceptually describes the various patterns of decision-making carried out in order to achieve company goals. Firm strategy is divided into 3 levels of strategy, namely corporate level strategy, business unit level strategy and functional level strategy. Firm strategy stems from the decision of top management in deciding to invest in businesses that provide the most value added. Firm strategy affects strategy formulation at all levels including the business unit level and functional level, where decisions made at the firm level will become the blueprint for strategy formulation at the business unit level and subsequently at the functional level.

Firm strategy according to its type can be classified into 3, namely the concentration strategy, integration strategy and diversification strategy (Ali et al., 2020). As a result, companies that implement this strategy will be able to develop appropriate technology, choose the right investment and be able to streamline operational costs. This strategy then became the main focus in this research. The integration strategy or better known as the growth strategy places more emphasis on efforts to expand (expand) business lines. This strategy in the long term can change the main business that the company has initially done. The diversification strategy places more emphasis on the firm's entry into new business lines that bring about changes in systems, administrative structures and other management processes such as acquisitions, new business developments related to the company's old business or completely different from the company's original business as a form of business diversification.

### **Capital Structure**

The capital structure of a company consists of 2 (two) elements, namely debt and equity. Ross et al. (1999) explained that management's goal is to maximize the market value of debt and market value of equity. By doing this, the company is able to maximize the value of the company. The company's capital structure will be optimal if it is able to minimize the cost of equity. In other words, a balanced proportion of debt and equity will optimize the cost of debt and equity. Capital structure is an important thing to consider because it can affect the financial condition and stability of the company, especially in order to survive in a competitive environment (Pinto, 2017).

The theory of Modigliani Miller (MM) states that the value of the company does not depend on the capital structure. Brigham and Houston (2015) argue that the proportion of debt and equity has no impact on the success of increasing firm value. In the theory of MM II (tax shield), the use of debt can save taxes that benefit the company's finances. According to MM, the optimal capital structure is entirely debt. The Trade Off theory explains that the company will be in debt to a certain level where the value of the tax shield will be equal to the value of the cost of financial distress (financial distress).

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## **Financial performance**

According to Van Horne (2021) financial performance is a measure of the company's performance, so profit is one of the tools used by managers. Financial performance will also provide an overview of the efficiency of the use of funds regarding the results will get a profit can be seen after comparing net income after tax. Financial performance is an analysis that has a target to see whether the company has implemented financial implementation rules properly. Generally, financial performance is stated in the form of financial statements, where the financial statements must follow general accounting principles. Financial performance can also be interpreted as the performance achievement of the company (Irham, 2014).

## **Hypothesis Development**

### **The Influence of Firm Strategy on Capital Structure**

Pecking order theory explains the most optimal company strategy to make the most efficient choice of capital structure policy. Myers and Majluf (1984) stated that in pecking order theory, there was not a certain target of debt-to-equity ratio, the most preferred source of funding divided into internal and external funding. According to Satoto (2009) the company has set a diversification strategy to expand its business, so that diversification is mostly carried out by companies with strong capital. As in previous studies, namely Wardhani and Hasibuan (2011), Umrrie and Yuliani (2013), Singh et al. (2003), which states that the diversification strategy has a positive and significant effect on capital structure. Likewise, Cappa et al. (2020) confirmed the significant impact of corporate strategy on the capital structure of public companies in Italy. This means that the diversity of businesses leads to a larger capital structure.

The relationship between firm strategy on capital structure was developed by Barton and Gordon (1987). The authors claimed that firm strategy (sales growth) will have negative relationships to capital structure (debt levels). When the growth is favorable for the firms, the debt will be used lesser to equity. Thus, also supported by Ross (1999) which suggest that firm with strong strategy (high growth potential) will have lower levels of debt as compared to firms with low growth industries. This leads to hypothesis 1.

**H<sub>1</sub>: The firm strategy affects the capital structure**

### **The Influence of Firm Strategy on Financial Performance**

Determining firm strategy to improve the corporate financial performance is the most crucial issue in the context of financial management. In the context of signaling theory, it can be seen that there is a very strong and positive correlation between the strategies made by companies to provide positive signals to investors in the form of publication of their financial performance. Hitt et al. (2011) explains that the diversification strategy is a value creation when a company can increase its strategic competitiveness as a result of implementing a diversification strategy. In addition, by carrying out a diversification strategy, the company can develop its market power to increase income. According to David (2011) the biggest risk is moving in a single industry (single business strategy), if the company only has one

business, if the business experiences a continuous decline in performance, it will be fatal, because the company does not have business reserves. This is in line with the results of research by Yuliani et al. (2012) which states that the effect of diversification can increase firm value. The results of research by Umrie and Yuliani (2013) also support that the effect of diversification on firm value was found to be significant and positive.

Firms that pursue an effective strategy will have positive impact on performance. Firms that apply strategy effectively while using their asset leading to optimal use of resources will impact on their financial performance in a positive way. This leads to hypotheses 2:

**H<sub>2</sub>: Company strategy affects financial performance**

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

Brigham and Houston (2015) stated that financial leverage is an alternative that can be used to increase profits. Agency theory describes the existence of a strong commitment and encouragement from the principal to the agent so that the corporate financial performance targets can be achieved within the agreed time frame. The use of debt in investment as an addition to funding the company's assets is expected to increase the profits to be obtained by the company, because the company's assets are used to generate profits. As the results of research by Fachrudin (2011) which states that leverage increases return to shareholders. This means that funds from debt are used in a good way so as to increase profits. The company also still has a pretty good profit before interest and tax. Shindu et al. (2014) also show that Leverage shows a positive relationship with firm performance measures. It is also strengthened by the findings of Nini et al. (2020) who see the effect of choosing a company strategy using debt financing on corporate financial performance on the Indonesian Stock Exchange.

Firms that use a higher level of debt in their capital structure as compared to firms that use a relatively lower level of debt will have a negative impact on their return on equity, ceteris paribus (Arditti, 1967; Hall and Weiss, 1967; Gale, 1972). The increased debt level will increase the debt services through increased interest expense, which will lower the net income available to shareholders (Damodaran, 1997 and Ross et al., 1999). This is assuming that the overall operating cost structure of the firm remains the same or changes marginally so as not to affect performance in a significant way over the time period. An increase in debt level will also increase the probability of the firm's bankruptcy (Damodaran, 1997) which will lead to an increase in costs associated with financing the firm strategy. The contrary will be true when the firm's debt ratio decreases over a given time period. This leads to hypothesis 3:

**H<sub>3</sub>: Capital structure affects financial performance**

### **The Influence of Corporate Strategy on Financial Performance with Capital Structure as an Intervening Variable**

Umrie and Yuliani (2013) explained that related to the financing mix, it means that if the company manager can determine correctly the assets will be funded with the right sources because it is related to the cost of debt, the company

value will increase. This is in accordance with the results of research by Rayid and Yuliani (2013) that the results of path analysis to measure the variable financing mix (FM) as a mediation of the effect of diversification on firm value obtained significant with a positive coefficient value.

The firm's performance will be superior to other firms if it is able to manage and develop a firm strategy, and choose a capital structure to support the corporate strategy. The model will help to explain a significant variance in firm performance represented by Return on Asset (ROA) using the association between the firm strategy and capital structure as intervening variable. This leads to hypothesis 4:

**H4: Company strategy has an effect on financial performance with capital structure as an intervening variable**

## Research Methods

### Types of research

This research is an explanatory study with a quantitative approach to explain the effect of corporate strategy on financial performance with capital structure as an intervening variable.

### Population and Sample

The research population is all publicly listed companies that are members of the agroindustry sector and are listed on the Indonesia Stock Exchange. The purposive sampling method used and followed by certain criteria such as have a positive net income and the business sustain during the pandemic period 2020 until 2021. Total there was 52 companies used as sample or 104 total data observation.

### Data Sources and Types

The type of data in this study is quantitative data using audited financial reports and annual reports taken from the Indonesian stock exchange website ([www.idx.co.id](http://www.idx.co.id)) and the official website of each sample.

### Method of Collecting data

The data collection in this study was carried out using the documentation method, namely by collecting financial data from audited financial reports and annual reports for each sample database in Indonesia for 2 years, starting from 2020 to 2021.

### Operational Definition and Measurement of Variables

This study consisted of two independent variables namely firm strategy and capital structure. Firm Strategy (FS) measured by a long-term plan that outlines clear goals for a company. This study used Cost Efficiency (CE) as proxy for firm strategy. The formula of CE is (Cappa et al., 2020):

$$CE = \frac{\text{Total Manufactured Cost}_t}{\text{Total Net Sales}_t} - \left( \frac{\text{Total Manufactured Cost}_{t-1}}{\text{Total Net Sales}_{t-1}} \right)$$

Capital Structure (CS) is the balance between the capital originating from the creditors and the total capital based on market value. The formula of CS is (Brigham and Houston, 2015):

$$DER = \frac{\text{Total Debt}}{\text{Total Equity}}$$

The dependent variable of this study is financial performance which showing the ability to use resources efficiently which is reflected in the firm's ability to generate net profit for its shareholders. Financial performance measured by using Return on Assets (ROA). The formula of ROA is (Brigham and Houston, 2015):

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

### Data Analysis Technique

The data analysis used multiple regression method with intervening variables. Before performing regression analysis, descriptive statistical tests and classical assumption tests were performed. Details of descriptive statistical analysis and classical assumption test can be explained as follows: This analysis contains data presentation with SPSS version 24 to see the average, minimum, maximum and standard deviation values. With this analysis it is useful to see the distribution of statistical data. A good regression model should have no correlation between independent variables and if the tolerance value is  $> 0.10$  and the VIF (Variance Inflation Factor) value is  $< 10$ , there is no multicollinearity.

In order to detect autocorrelation, run test is used with test criteria where if the significance value is above 0.05 then the regression model is free from autocorrelation. The heteroscedasticity test used in this study is the Glejser test which regresses the absolute value of the residuals on the independent variables. If the significant value between the independent variable and the absolute residual value is more than 0.05, then the model does not contain heteroscedasticity. After the fulfillment of these tests, a multiple regression model was tested with the following 2 equations:

$$\text{Equation I: } CS = + 1 SP + e.$$

$$\text{Equation II: } FP = + 2 SP + 3 SM + 4 SP*SM + e.$$

Where is a constant; 1, 2, 3, 4 are regression coefficients; KK is financial performance; FS is firm strategy; CS is the capital structure; and e is an error.

## Result and Discussion

### Result

#### Descriptive statistics

The results of descriptive statistical analysis are used to provide an overview or description of the research variables. The measurements used in this study are the mean, standard deviation, minimum value, and maximum value. The following will explain the descriptive statistics of each variable.

Based on table 2, it can be seen with 52 observational data, financial performance has an average value of 0.028 with the lowest value of -0.639 and the highest value of 0.494. The average value of the firm strategy is -0.001 with the lowest value -0.437 and the highest value 0.845. The capital structure has an average value of 3,406 with the lowest value of -4.863 and the highest value of

92.5. From descriptive statistics, it is known that the average value of the corporate strategy variable has a negative value, while the capital structure and financial performance are positive. The standard deviation value for all variables has a value greater than the average, this indicates that the data distribution is quite varied.

**Table 2. Descriptive Statistic Results**

	N	Minimum	Maximum	Average		Deviation Standard
				Statistic	Std. Error	
FS	52	-0,437	0,845	-0,001	0,030	0,218
CS	52	-4,863	92,500	3,406	1,794	12,938
FP	52	-0,639	0,494	0,028	0,022	0,163
Valid N (listwise)	52					

  

	N	Skewness		Kurtosis	
		Statistic	Std. Error	Statistic	Std. Error
FS	52	1,539	0,330	4,285	0,650
CS	52	6,671	0,330	46,436	0,650
FP	52	-0,836	0,330	6,047	0,650
Valid N (listwise)	52				

Source: Secondary data processed, 2022

### Classical Assumption Test

Classical assumption test includes multicollinearity test, autocorrelation test and heteroscedasticity test. The multiple regression equation model with the intervening variables tested for multicollinearity is as follows:  $FP = + 2 FS + 3 CS + e$ . The results of the multicollinearity test are shown in table 3.

**Table 3. Multicollinearity Test Results on the Second Regression Equation**

Correlations	SP	SM	Collinearity Statistics	
			Tolerance	VIF
FS	1,000	-0,283	0,920	1,087
CS	-0,283	1,000	0,920	1,087

Variabel Dependen: KK

Source: Secondary data processed, 2022

Based on table 3, it can be analyzed that the level of correlation between firm strategy variables (FS) and capital structure (CS) is -0.283 or 28.3%. Because the correlation level is still below 90%, it can be stated that in this regression model there is no multicollinearity. The calculation result of the tolerance value of 0.920 or 92% also shows that there is no independent variable that has a tolerance value of less than 10%, which means that there is no correlation between the independent variables whose value is more than 95%. The results of the calculation of the VIF value also show the same thing, namely that there is no single independent variable that has a VIF value of more than 10. Therefore, it can be concluded that there is no multicollinearity between the independent variables in the regression equation.

In this autocorrelation test using the Run Test. The results of the Run Test on the regression model are presented in table 4 below.

**Table 4. Test Run Test**

Runs Test	
	Unstandardized Residual
Test Value <sup>a</sup>	,00049
Cases < Test Value	25
Cases >= Test Value	25
Total Cases	50
Number of Runs	22
Z	-1,143
Asymp. Sig. (2-tailed)	,253

a. Median

Source : Secondary data processed, 2022

Based on the results of the Run Test, the test value is 0.00049 with a probability of 0.253 which is not significant at 0.05, which means the null hypothesis is accepted. This means that in the regression model there is no autocorrelation. In this heteroscedasticity test using the Glejser test. The following table 5 describes the results of the Glejser test which shows that there is not a single independent variable that is statistically significant in influencing the absolute value of the dependent variable. This can be seen from the significance probability above the 5% confidence level. Hence, it can be concluded that the regression model does not contain heteroscedasticity.

**Table 5. Glejser Test Results**

Model	Coefficients				t	Sig.
	Unstandardized Coefficients		Standardized	Beta		
	B	Std. Error	Coefficients			
1 (Constant)	,099	,016		6,277	,000	
FS	-,129	,079	-,222	-1,628	,110	
CS	-,009	,005	-,269	-1,969	,055	

a. Dependent Variable: Abs\_RES

Source: Secondary data processed, 2022

**Hypothesis Testing**

Hypothesis testing in this study was conducted on two models of regression equations. The first regression equation model is:  $CS = + 1 FS + e$ . The test results can be seen in table 6.

**Table 6. Testing Results of the First Regression Equation Model**

Model	Coefficients				t	Sig.
	Unstandardized Coefficients		Standardized	Beta		
	B	Std. Error	Coefficients			
1 (Constant)	3,418	1,738		1,967	0,055	
FS	16,779	8,031	0,283	2,089	0,042	

a. Dependent Variable: CS

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,283 <sup>a</sup>	0,080	0,062	12,531483

a. Predictors: (Constant), FS

Source: Secondary data processed, 2022



Based on the adjusted R-square value, it is known that it is 6.2%. This means that variations in capital structure can only be explained by the firm strategy variable as much as 6.2% while the remaining 93.8% is explained by other variables that are not included in this regression equation model. The significance value of the influence of the firm strategy on the capital structure is positive at 0.042 or below 5%. This statistical conclusion shows that the first hypothesis (H1) which states that the firm strategy affects the capital structure is accepted.

Testing on the second regression equation model is used to answer the second, third and fourth hypotheses. The second regression equation model is:  $FP = + 2 FS + 3 CS + 4 FS*CS + e$ . Table 7 presents the test results of this second regression equation model.

**Table 7. Test Results of the Second Regression Equation Model**

Model	Coefficients				T	Sig.
	Unstandardized Coefficients		Standardized			
	B	Std. Error	Coefficients			
1	(Constant)	0,054	0,019	Beta	2,817	0,007
	FS	0,041	0,090	0,055	0,456	0,650
	CS	-0,008	0,002	-0,605	-5,044	0,000

a. Dependent Variable: FP

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,592 <sup>a</sup>	0,351	0,324	0,134

a. Predictors: (Constant), CS, FS

Source: Secondary data processed, 2022

The adjusted R square value of 32.4% indicates the ability of the firm strategy and capital structure variables to explain financial performance, while the remaining 67.6% is explained by other variables outside the regression model made. The significance value of the influence of firm strategy on financial performance is 0.650 or well above 0.05. Thus, the second hypothesis (H2) which states that the firm strategy has an effect on financial performance is rejected. The third hypothesis which states that there is an effect of capital structure on financial performance shows the statistical results at a significance level of 0.000. This figure is far below 0.05, so it was decided that the third hypothesis (H3) which states that capital structure affects financial performance is accepted.

For the fourth hypothesis (H4) which explains the effect of corporate strategy on financial performance with capital structure as an intervening variable (mediation) is accepted. The argument that can be submitted is that because the direct relationship between firm strategy and financial performance is not statistically significant, the actual relationship is an indirect relationship with capital structure as the mediating variable. This can be proven by the value of the regression coefficient between the firm strategy on capital structure is significant positive at 16,779, while the effect of capital structure on financial performance is significant negative at -0.008. The total value of the indirect effect is the product of the two regression coefficients (16.779 x -0.008) = -0.13423. Here are two basic

considerations, namely the direct and significant influence between the firm strategy and capital structure. Likewise, there is a significant causal relationship between capital structure and financial performance.

## Discussion

### The Influence of Firm Strategy on Capital Structure

The results of this study prove that the firm strategy affects the firm capital structure. This empirical finding supports the pecking order theory which tends to encourage companies to choose the most efficient capital structure by adjusting the firm's most effective strategy. This is in line with research by Wardhani and Hasibuan (2011), Umrie and Yuliani (2013), Singh et al. (2003), and Cappa et al. (2020), which states that the diversification strategy has a positive effect on capital structure. Companies with increasingly stringent cost efficiency strategies will require greater sources of funding from debt than from share capital. Ding and Sickles (2018) also find that the more efficient the company will increase capital holdings and take higher risk in credit decisions.

Agro-industrial companies are companies that are classified as consumer non-cyclicals that produce or distribute products and services that are generally sold to customers. Non-cyclicals (primary) products and services are not affected by the level of economic growth, including during the COVID-19 pandemic. Work from home regulations and the Enforcement of Restrictions on Community Activities forces companies to regulate the use of direct and indirect labor as efficiently as possible. Efficiency in order to maintain productivity in order to meet market demand so that cash inflows from sales are ultimately able to cover the cost of capital in the firm capital structure. In general, the effect of the combination of firm strategy and capital structure explains logically the difference in firm performance. In other words, the firm strategy used by agro-industrial companies has an empirical impact on the capital structure policy set.

### The Influence of Firm Strategy on Financial Performance

This study failed to find that the firm strategy has an effect on the firm financial performance. This is contrary to signaling theory which sees the role of firm strategy in influencing investors' perceptions of the firm financial performance. The firm strategy to reduce production costs as a form of business efficiency does not affect the firm's ability to generate profits. The firm is quite difficult to reduce production and operational costs. Most fixed costs are difficult to reduce. Increasing sales is more necessary in order to increase the firm's ability to generate profits during the COVID 19 pandemic. This finding can also be influenced by the character of agroindustry companies where the selling price is strongly influenced by the market price of the commodity. In this context, agency theory becomes more relevant to explain how the relationship between the firm strategy and the achievement of the firm financial performance. The results of this study are in line with the research of Sulastri (2015), Duncan and Elliott (2004), Evans (2018), and Yusuf (2013), which explain that the firm strategy does not affect financial performance. High financial performance is more influenced by how the firm can manage the cost of capital where the capital is used to generate

profits. Furthermore, as a non-cyclical company whose product demand level is not affected by the level of economic growth, the application of efficiency of agroindustry companies aims to maintain a balance between supply and demand only.

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

The results of this study succeeded in proving that the capital structure has an effect on the firm financial performance. This empirical finding supports agency theory regarding the choice of a firm capital policy that represents the principal's desire regarding expected financial performance. The firm's policy in choosing funding sources affects the firm's ability to generate profits. The result of this study indicates that capital structure has a negative effect on financial performance. This indicates that the more the firm's funding comes from debt, the lower the firm's ability to generate profits. Debt will lead to a higher cost of debt compared to the issuance of shares. This cost of capital will erode the profits generated by the company. The character of agro-industrial companies, which are mostly seasonal and whose cash flow is highly dependent on the harvesting process, is not in accordance with the character of debt financing which requires periodic repayment of principal and interest. This study is in line with the research results of Nurlaela et al. (2019), Prabowo and Sutanto (2019), Rahman (2019), Nguyen and Nguyen's (2020), Putri and Rahyuda (2020), Aprillianto and Wardhaningrum (2021), Nugraha et al. (2021). The study explains that if the firm's ability to be able to settle long-term debt is higher, then the use of firm capital to be able to earn profits decreases.

### **The Influence of Corporate Strategy on Financial Performance with Capital Structure as an Intervening Variable**

This study succeeded in proving that the firm strategy affects the firm financial performance, if through the capital structure as an intermediate variable. Indirectly, the findings of this research support pecking order theory and agency theory which emphasize strong support for the most efficient role of capital structure compared to firm strategy in improving financial performance. As previously explained, the firm strategy cannot directly affect financial performance. The result of this study proves that the strategy adopted by the firm through cost efficiency determines the funding policies taken by the firm. Based on the funding policy decided by the firm, it will affect the firm's ability to generate profits.

### **Conclusion**

Based on the result of hypotheses testing, the following conclusions can be drawn:

1. Firm strategy has a significant effect on capital structure of agro-industrial companies listed on the Indonesia Stock Exchange for the 2020-2021 period.
2. Firm strategy has no effect on the financial performance of agro-industrial companies listed on the Indonesia Stock Exchange for the 2020-2021 period.
3. Capital structure has a significant effect on agro-industrial companies listed on the Indonesia Stock Exchange for the 2020-2021 period.

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4. Firm strategy has a significant effect on financial performance with capital structure as an intervening variable in agro-industrial companies listed on the Indonesia Stock Exchange for the period 2020-2021.

### Limitation

This study lacks firm strategy measurement which is only cost efficiency. There would be more various firm strategies used by agro-industrial companies observed during the pandemic. Only cost efficiency was taken in this study due to the majority phenomenon during the pandemic that firms tried to reduce cost to maintain the margin profit. This study also lacks the depth analysis on how agro-industrial companies using their firm strategy to survive during the pandemic and how agro-industrial companies to set up the target ratio of their capital structure. Hence it could be found the effect of firm strategy and capital structure on financial performance more comprehensively.

### Suggestion

Based on the limitations described previously, future studies can employ other firm strategy proxies such as asset parsimony to analyze the effect of firm strategy on financial performance. In some cases, asset parsimony could be an option for the firm to make more efficient business operations. The non-operating assets could be sold to earn revenue and to omit the maintenance cost or the company could use the assets in a more optimal way to earn more revenue. The firm strategy in agro-industrial companies is a phenomenon that should be explored by using a qualitative approach in order to have a more profound analysis.

### Implication

This research has implications for the firm's management by recommending that the firm strategy, the formulation of the proper capital structure improves the firm financial performance. The decision is important not only because of the need to maximize returns for the firm's investors, but also its impact on the firm's ability to cope its competitive environment. From the results of the study, it was concluded that the effect of capital structure mediating the firm strategy on firm financial performance. This study recommends that institutions in the agro-industrial sector should adopt a balanced capital structure strategy that will optimize firm performance and firm value. The study also recommends that firms should improve their capital structure and implement strategies that leads to improved financial performance. This research will also contribute to the literature related to firm strategy, capital structure, and financial performance as well as the development of agency theory, signal theory and pecking order theory.

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