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The Role of Moderation in The Company's Age on Financial Slack's Relationship to Company Performance

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Abstract
This study examines whether financial slack is associated with firm performance and whether this relationship is moderated by firm size and firm age. This study consists of 251 firm-years covering the period from 2017to 2019 of 85 companies in the manufacturing industry listed on the Indonesia Stock Exchange (IDX). Our findings indicate that financial slack has a negative effect on company performance. This negative effect is weakened if the size of the company is larger and the age of the company is more mature. In addition, companies with financial slack tend not to use the slack of company financial resources for the benefit of the company. This can be attributed to the tendency of the company's management to use these resources to increase additional income or remuneration for managers. The management considers the company's short-term performance which has an impact on increasing management's welfare. These findings emphasize that big size companies will compete with younger companies that tend to invest in research and development. Therefore, large companies will use financial slack for the benefit of the company in order to maintain the company's survival in the future. Mature companies have experience in managing company resources and competence in gaining access to the resources needed to survive or grow. Therefore, based on experience and journey to gain access to funding, financial slack will be used for the benefit of the company. This study supports the prediction with evidence from Indonesia manufacture companies, and conclude that financial slack will be managed in aim maintain access to funding in the future.
Keywords: financial slack, firm performance, firm size, firm age.

Abstrak
Penelitian ini menguji apakah financial slack berasosiasi dengan kinerja perusahaan dan apakah hubungan ini dimoderasi dengan ukuran dan umur perusahaan. Penelitian ini menggunakan 251 observasi dari 85 perusahaan di industri manufaktur yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2017 - 2019. Peneliti menemukan bahwa financial slack berpengaruh negatif pada kinerja perusahaan. Pengaruh negatif ini diperlemah jika ukuran perusahaan lebih besar dan usia perusahaan yang lebih matang. Perusahaan dengan financial slack cenderung tidak menggunakan kelonggaran sumber daya keuangan perusahaan untuk kepentingan perusahaan. Hal ini, dapat dikaitkan dengan adanya kecenderungan dari manajemen perusahaan untuk menggunakan sumber daya tersebut guna meningkatkan penghasilan tambahan atau remunerasi bagi manajer. Manajemen perusahaan lebih mempertimbangkan kinerja jangka pendek perusahaan yang berdampak terhadap peningkatan kesejahteraan manajemen. Perusahaan besar akan bersaing dengan perusahaan yang lebih muda yang cenderung melakukan investasi di research and development. Oleh karena itu, perusahaan besar akan menggunakan financial slack untuk kepentingan perusahaan agar dapat mempertahankan keberlangsungan hidup perusahaan di masa mendatang. Perusahaan matang (mature firm) memiliki pengalaman dalam mengelola sumber daya perusahaan dan kompetensi dalam mendapatkan akses sumber daya yang dibutuhkan untuk bertahan atau bertumbuh. Oleh karena itu, berdasarkan pengalaman dan perjalanan untuk mendapatkan akses pendanaan maka financial slack akan digunakan untuk kepentingan perusahaan. Hal ini dilakukan perusahaan dengan tujuan agar akses pendanaan dapat dijaga dengan baik oleh perusahaan.
Kata Kunci: *financial slack, kinerja perusahaan, ukuran perusahaan, umur perusahaan.*

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1. Introduction

Company performance is an important target part of an organization because it shows the value of company success. Performance is a key indicator of a company's success given that good performance is beneficial to maintaining a good financial status of the company (Zhu et al., 2016). However, today the conditions faced by many companies are related to the problem of disruption. The era of disruption shows changes in many systems, demands for innovation, changes in the company's business mode, and the development of digital technology. Companies that are able to adjust the company's business in accordance with the demands of the disruption era will be able to compete with other companies. Companies need a lot of time and resources to make those changes.

Slack can be used to investigate a company's response to external environmental pressures. *Slack* is a collection of resources of an organization that exceeds the minimum amount of needs required to produce a certain level of organizational output (Nohria & Gulati, 1996; Meyer, 1982) . *Slack* is very important for companies in allocating resources in exploring new opportunities. *Financial slack* is defined as excess or unbound resources, which are beyond the lowest essential resources needed to sustain an organization (Bourgeois, 1981). Sumber potential power that allows organizations to mitigate internal and external pressures and to initiate changes in strategies regarding the external environment.

Financial slack leads to the level of liquid assets, as it faces fewer structural constraints and is therefore easier to reuse (Greve, 2003), (Kraatz & Zajac, 2001). Various studies have tested the effect of *financial slack* on company output. Using 4,489 company-year observations, Guo et al., (2020) found results that small and medium-sized manufacturing companies in China showed that *financial slack* affects company performance. Zhang et al., (2021) found that increasing *financial slack* could increase innovation investment in the future. Mattingly & Olsen (2018) found *that financial slack* has an influence on market performance but does not affect accounting performance. The findings of Boso et al., (2017) show the negative impact of *financial slack* on spending on sustainability. *Financial slack* was also found to strengthen the relationship between company planning and performance (Rau et al., 2020).

From an organizational perspective, company managers tend to use *slack* to increase their additional income or remuneration (Church, Jason, and Sarah, 2019). In addition, managers will support projects that will potentially advance their personal interests, for example by increasing short-term output for their bonus interests. From an agency point of view indicates the existence of a disharmony of interests between the principal and management. Information on the availability of *financial slack* may not be conveyed by the company to investors with short-term performance objectives that have an impact on management welfare.

Previous research sheds light on the debate over the role of *financial slack* for companies (Ashraf et al., 2020; Boso et al., 2017; Lin-Hua Lu & Poh-Thu, 2019) . By conducting meta-analysis testing. Daniel et al., (2004) found a relationship between *slack* and organizational performance and this relationship was influenced by the use of intervening variables. Researchers are expanding the role of moderation in the size and lifespan of companies that will weaken the negative relationship between *financial slack* and company performance. The size and age of the company is considered to contribute to determining organizational learning, employee innovation behavior and business competition (Bibi et al., 2020).

Coad, Segarra and Teruel (2016) explain the findings showing that companies that invest in *research and development* in general (but not always) tend to younger companies. Large companies have more capital, financial resources, and large research and development capacities for innovation. The Indonesian government asks large companies not only to think about corporate profits but also to develop network relationships with small and medium -sized companies. If the size of the company affects the performance of the company and the relationship between financial slack and the performance of the company is still the subject of discussion, then the size of the company will be able to provide an explanation for the ambiguous relationship between *financial slack* and company performance.

There is a suggestion from the government that large companies develop cooperation with small and medium-sized companies, so researchers expect that large companies will use *financial slack* more for the benefit of companies. This is due to supervision from the government and on the other hand there is competition with younger companies in terms of technology. Therefore, large companies will use *financial slack* which aims to produce good company performance and of course to remain in a good position from the perspective of stakeholders.

The age of the company has been widely used for research to indicate its effect on the company's output. Shrivastava and Tamvada (2019) explained that their findings show that *greening strategies* have an influence on company performance in small companies and large companies. As we get older, it is the company's experience and competence that helps run the company's operations efficiently and effectively. The mature *firm* has built an image for many years with a journey that is not easy. This includes when companies must get access to resources from public or private institutions needed to survive or grow. In addition, mature companies are considered to have experience in managing their resources. Therefore, mature companies that have *financial slack* will use company resources to improve company performance. The success of managing *financial slack* will have an impact on the company's image and will indirectly affect the image of the company's management itself.

Research on the relationship between *financial slack* and company performance is still interesting to study because of inconsistent research results. In addition, there are factors of company characteristics that are indicated to affect the relationship between *financial slack* and company performance. The selfish tendency of personal management to think about their personal well-being rather than for the benefit of the company causes *financial slack* not to be managed for the benefit of the company. Therefore, researchers expect that *financial slack* will have a negative impact on company performance. Large companies are the object of third-party supervision and have responsibilities to many stakeholders. Therefore, the size of the company will weaken the negative relationship between *financial slack* and company performance. In addition, a mature company will maintain its image and access to funding from both the public and the private sector that has been built in a short period of time. Therefore, the age of the company will weaken the negative relationship between *financial slack* and company performance.

2. Theoretical Framework and Hypothesis Development (If Any)

Resource-based View

Organizational resources or all assets, capabilities, organizational processes, company attributes, information, knowledge, etc. controlled by the company not only enable the company to demonstrate and implement strategies that increase efficiency and effectiveness but also create risk exposure (Mishra, Rolland and Satpathy, 2019) . The unique resources and capabilities of a company that offers a valuable competitive advantage, is rare, difficult to replicate, cannot be replaced by other resources, and is heterogeneously distributed among companies within an industry ((Barney, 1991); (Bharadwaj, 2000)).

RBV describes the company's ability to improve the company's performance over a long period of time driven by the company's excess financial resources (Verbeke and Yuan, 2013). Cruz & Haugan (2019) explains that RBV theory can be used for research that tests company performance. This is affirmed by Barney (1991) who explains that a company's RBV is a business management theory that examines a market with heterogeneity of company resources and imperfect resource mobility to determine the source of competition and sustainability.

Agency Theory

The relationship between the management of the company and shareholders sometimes indicates an out-of-line direction that will give rise to agency problems of principals and agents. This is due to the existence of different interests between the two as well as the separation of ownership and management control (Jensen and Meckling, 2019). The assumption underlying agency theory is that organizations aim to seek profit and agents are rational and *rent seeking*, and no motivation is non-money.

Panda and Leepsa (2017) explain that the authors have found separation of ownership from control, conflict of interest, risk aversion, information asymmetry to be the main causes of agency problems; while it was found that ownership structures, executive ownership and governance mechanisms such as board structures can minimize agency costs. Perilaku teori agency argues that maximizing agent performance should be the primary goal of the principal-agent relationship and that the importance of agent work motivation, including intrinsic motivation, should not be underestimated (Pepper and Gore, 2015).

Company Performance

The company's performance is the main concern of the company and stakeholders. The existence of good performance is a signal for a company for sustainability in the future.

Tzouvanas et al. (2020) explain that there is a relationship between environmental performance and the performance of manufacturing companies. These findings also support the theory of *financial slck argument.* Latan et al. (2020) found that the relationship between innovation and company performance, especially for companies that innovate continuously will have a good impact on company performance. This shows the decision of managers to invest capital in innovation so that the company's performance indicates sustainability.

Financial Slack

The basic definition of *financial slack is* that resources include potential or actual resources that can help any organization successfully adapt to change (Bourgeois, 1981); (Meyer, 1982).

Rau et al. (2020) found that the relationship between planning, learning and performance is more positive at a time when companies have high resources and medium to high *financial slack* shows the important role played by *Slack.* Chipeta and Nkiwane (2020) found companies with low levels of *financial slack* generate negative long-term operating profits.

Church et al. (2019) conducted an experimental test designed to investigate the benefits of *slack* in manager behavior in budget reporting. The findings showed a significant interaction of *slack* benefits and honesty of reports from participants. At a time when basic financial measurement is used for budget reporting, the manager's level of honesty decreases to a greater extent at a time when managers are directly benefiting from budget *slack* than when managers are not directly benefiting from budget *slack*.

Financial Slack and Company Performance

Companies that have financial *slack* will have benefits due to excess financial resources. These advantages can be used to innovate, expand in the field of technology, carry out social-related activities, etc.

The decision to use *financial slack*, of course, depends on the company's management. Agency theory explains that there are times when management acts not to maximize the interests of shareholders but rather for the personal interests of management. This includes using *financial slack* which tends to meet remuneration and bonus receipts for management (Church et al., 2019). Thus the use of *financial slack* will be used for management purposes not for the development and improvement of company needs. This, of course, will not have a good impact on the company's performance. Researchers expect that *financial slack* will have a negative impact on the company's performance.

H1: *Financial Slack* negatively affects the company's performance.

Company Size moderate financial slack relationships and company performance

Younis and Sundarakani (2020) found that company size has an influence on company performance which is reflected in environmental performance, economic performance, and social performance. Ling, Zhao, and Baron (2007) explain that company size impacts the relationship of chief executive officer's personal values and company performance, specifically for larger companies.

Large companies have more capital, both in terms of financial resources, and a large research and development capacity for innovation. This shows the ability of large companies to compete in the market. The existence of this ability will certainly be used for the benefit of the company in order to produce good company performance. This is of course related to the company's responsibility to shareholders. Researchers expect that company size will weaken the negative relationship between *financial slack* and company performance.

H2: Company size will weaken the negative relationship between *Financial Slack* and Company Performance.

The Company's lifespan moderates financial slack relationships and company performance

Younis and Sundarakani (2020) use the age of the company in testing the company's performance (environmental, economic and social). Aging businesses continue to improve their productivity, profitability, and equity ratios while lowering debt ratios (Mallinguh, Wasike and Zoltan, 2020). A mature business will have more access to funding in the market and have a mature credit record that has been built in a short period of time (Fort et al., 2013).

Mallinguh, Wasike and Zoltan (2020) explain that older wineries have superior performance than younger wineries, with the longevity factor significantly explaining the difference significantly. The explanation above shows the ability of mature companies in processing company resources. The ability of this company to describe a mature company will be better able to process *financial slack* which will have a good impact on the company's performance. Good company performance will also have an impact on the welfare of company management.

H3: The age of the company will weaken the negative relationship between *financial slack* and company performance.

3. Research Method

Data and Samples

This research uses data on the performance of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2017 to 2019. The selection of the manufacturing industry is based on the consideration that the manufacturing company is a large-scale company compared to other industries, making it easier to assess the company's performance and the potential for *financial slack*.

The sample used is a company that is still actively operating and has operating data. Data obtained from the Indonesian Capital Market database. The analysis technique used is the *unbalance* analysis of fixed *effect model* (FEM) panel data, this is because *cross-sectional* units have an unequal number of *time series* observations. Data processed with STATA program.

Operational Definition and Variable Measurement

Variable measurements are presented in Table 1. The table briefly presents the measurement of two main variables of the study, namely ROA and ROE. In addition to company performance, independent variables are *financial slack*, company size, company age and *leverage* using measurements as in the table. Mean, standard deviation and parameter coefficients are estimated using a one-year period.

Hypothesis Testing

This study adopted an approach by (Church et al., 2019) using panel data regression. The research model is:

Table 1. Variable Measurement

Variable	Measurement
Dependen Variabel	
Company Performance	*Return on Asset* (ROA): Ratio of EAT to total assets (Lin dkk., 2019)
Independen Variabel	
Financial Slack	Rasio *Free cah flows* terhadap total pendapatan (Griffin dan Mahon, 1997)
Company size (*Size*)	Logaritma total asset (Harymawan dkk., 2019)
Age of the company (*Age*)	Number of years since the company was founded until the research period(Lee dkk., 2014)
Leverage	The ratio of total debt to total assets (Munjal, 2018)

Company performance = *f* (*financial slack*, *size, age, leverage*)

The above model to test hypothesis 1. The size and lifespan of the company will be used as a moderation between *financial slack* and company performance. To test hypothesis 2 and hypothesis 3, the research model is as follows:

Company performance = *f* ((*financial slack*, *size, financial slack*size, age, financial slack*age, leverage*)

4. Result, Discussion, and Managerial Implication

Result

Total observations based on *unbalanced panel regression* were 251 observations from 86 manufacturing companies during the period 2017 to 2019. Based on Table 2 Panel A, the results of the descriptive test show that the company's performance based on the ability to utilize assets is relatively high with an average return on investment of 21%. The company's *average financial slack* is 9%, this value indicates that there is no amount of *free cash flow* available from total revenue. Meanwhile, the average age of the company is at the maturity of the company, which is over 39 years. In addition, the company's debt use is around 45% of its total assets. Table 2 Panel B shows the correlation between variables below VIF 10, this indicates that there is no multicholinearity between variables.

Next, hypothesis testing and model feasibility testing are carried out. Table 3 describes the results of panel data regression using the Fixed Effect Model (FEM) on variables used to measure company performance. The company's performance as measured by ROA estimates that are most appropriately used is FEM. The test results show that financial slack is statistically significant (negative) affecting ROA. This result supports hypothesis 1 which states that financial slack negatively affects the company's performance.

The assessment of the effect of moderation in size and age of companies is shown in Table 4. The estimation results show that the size of the company (1a) and the age of the company (1b) moderate the relationship between financial slack and company performance. This suggests that both statistically significantly weaken the negative relationship to the company's performance.

Robustness Test

Methodological estimation testing is performed to ensure that the results *are* statistically robust. Use the *white-hubber standard error* test, by interacting the size and lifespan of the company together. The test results showed consistency with previous tests that the two moderations weakened the negative relationship of *financial slack* to company performance. In addition, this research is also *robust* in terms of measuring company performance, namely providing consistent results on the negative impact of *financial slack* on company performance.

Discussion

This research supports an empirical study conducted by Church et al., (2019) which states that *financial slack* tends to be used by management to prosper personal interests in terms of meeting remuneration and receiving bonuses. The use of *financial slack* is allegedly for the benefit of management and not for the development and improvement of the company. Excess funds also indicate the risk

Table 2. Descriptive Statistics and Classical Assumption Test

Panel A: Descriptive Statistics

Variable	*Mean*	*Median*	*SD*	*Min*	*Max*
Dependent					
ROA	5.26	3.56	10.40	-38.59	71.6
Independen					
Financial Slack	0.09	0.07	0.36	-1.64	4.24
Size	21.55	21.31	1.55	18.58	26.57
Age	39.83	41	15.18	4	90
Leverage	0.45	0.41	0.35	0.04	3.74

Panel B: Test Classical Assumptions

	ROA	Financial Slack	Size	Age	Lev	VIF
ROA	1.000					
Financial Slack	-0.023	1.00				1.42
Size	0.208	-0.021	1.00			10.17
Age	0.317	0.118	0.260	1.00		8.57
Leverage	-0.289	0.490	-0.094	0.045	1.00	3.40
Mean						5.89

Table 3. Results of the Regression Panel of the Company Performance Panel

Variable	ROA (PLS)	ROA (FEM)
Financial Slack	3.3386*	-4.6205***
	(1.78)	(-2.77)
Size	0.6786*	0.4476
	(1.72)	(0.47)
Age	0.2001***	-0.5805
	(4.94)	(-1.33)
Leverage	-10.2979***	0.0514
	(-5.36)	(-1.32)
Intercept	-12.9798	24.2892
	(-1.55)	(0.93)
Adj.R^2	0.1990	0.0197
Prob > F	0.0000	0.0308
∑obs.	251	251

Table 4. Company Performance Estimation Results: Financial Slack Impact

Variable	ROA (White-Hubber Standard Error)	
	1a	1b
Financial Slack	-76.89**	-25.933*
	(-2.56)	(-1.87)
Size	0.129	0.706
	(0.23)	(1.40)
Financial Slack*Size	3.6710**	
	(2.55)	
Age	0.195**	0.112
	(1.99)	(1.17)
Financial Slack*Age		0.622*
		(1.72)
Leverage	-4.487	-8.672**
	(-1.21)	(-2.22)
Intercept	-3.384	-10.771
	(-0.28)	(-0.90)
Adj.R^2	0.2077	0.2886
Prob > F	0.0000	0.0000
∑obs.	251	251

Table 5. Estimation Methodology

Variable	ROA (White-Hubber Standard Error)
Financial Slack	-139.2487***
	(-2.57)
Size	0.131
	(0.22)
Financial Slack*Size	5.187**
	(2.49)
Age	0.073
	(0.80)
Financial Slack*Age	0.8123**
	(2.35)
Leverage	-5.087
	(-1.34)
Intercept	0.9712
	(0.07)
Adj.R^2	0.3278
Prob > F	0.0000
∑obs.	251

Information:
Significance level at * p<0.10; ** p<0.05; p<0.01. T-statistics presented in parentheses.

of using unused funds to maximize the company's interests.

The larger the size of the company will have more ability to have financial resources and greater responsibility for the fund provider. In addition, the company also receives greater scrutiny from stakeholders. Large companies will maximize the use of *financial scak* for the benefit of the company.

The company's mature age also moderates *financial slack* which negatively affects the company's performance. The more mature the company's age, the more trusted and easier it is to get access to funding. A mature company shows the company's ability to manage company resources. This shows that the company's experience in building a company is not in a short time. The trust that is already owned by the company will of course be maintained by producing a good company kinerj. Therefore, mature companies will utilize *financial slack* for the benefit of the company.

Implications of Manajerial

This research gives an implication in managing *financial slack* more efficiently because it has an impact on company performance. The use of *financial slack* should be aimed at innovation, expansion and activities that can increase company value. The decision is highly dependent on the management of the company in order to maximize the value of the company and to reduce agency conflicts between management and shareholders.

5. Conclusion, Suggestion, and Limitation

The effectiveness of using *financial slack* will affect the company's performance. This study shows negative associations of *financial slack* which indicates opportunistic activities of management if it is associated with excess funds in the company. In addition, the size and age of the company weakens the negative relationship between *financial slack* and company performance. That is, management will attach more importance to the interests of the company. This is a risk that must be addressed by the company.

This research is still limited to the company's performance in accounting and has not looked at the company's performance in the market or in terms of investor perception. Therefore, further research can carry out instruments for measuring the company's performance in the market. In addition, the focus on manufacturing companies has weaknesses in terms of generalization in other industrial sectors, so that further research can expand the industrial sector and the research period used.

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