International Journal of Social Science and Business
Volume 8, Number 2, 2024, pp. 259-273
P-ISSN: 2614-6533 E-ISSN: 2549-6409
Open Access: https://dx.doi.org/10.23887/ijssb.v8i2.54392

The Role of Financial Slack as a Mediating Variable between Corporate Governance's Effect on Company Performance

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ARTICLE INFO

Article history:
Received November 24, 2022
Revised October 29, 2023
Accepted Sepember 4, 2024
Available online Nov 04, 2024

Keywords:
Corporate Governance,
Company Performance,
Financial Slack

ABSTRACT

Amid the backdrop of the global pandemic, the economic sector has witnessed a profound transformation, with one of its notable consequences being the disruption of businesses, particularly in their struggle to access external resources. In this dynamically altered landscape, the imperative role of corporate governance practices within company management becomes pronounced. These practices are pivotal in orchestrating the efficient allocation and utilization of internal resources, evolving from a mere survival strategy to a competitive advantage, thereby bolstering overall company performance and ensuring sustained viability in the fiercely competitive modern business arena. The type of research used is descriptive research, and the research design employed is longitudinal design. The data that used for this research is 588 data from 98 listed manufacturing companies on the IDX from 2015 – 2020. All data is obtained from company financial reports and also from Bloomberg. Using multiple linear regression analysis and path analysis with SPSS version 25, the results showed that the company's internal resources (slack) could not mediate the relationship between corporate governance and company performance. This shows that company management has not been able to maximize the use of the company's internal resources (slack) in order to improve company performance. The results of this study can be used as input for company management to be able to maximize or use the company's internal resources (slack) properly in order to help the company improve its performance, because all decisions regarding the use of company resources are in the hands of company management.

1. INTRODUCTION

The worldwide COVID-19 pandemic has a profound impact on both human life and global economic activities (Jebran & Chen, 2021). This impact can occur as a result of the actions taken to control and prevent the spread of COVID-19 (Khatib & Nour, 2021). Yet, these actions have a profound impact on economic activity and can lead to the emergence of a new crisis that is assumed to be more devastating than previous crises (Jebran & Chen, 2021). Almost all the sectors of the company experience this impact, including companies in the manufacturing sector.

The manufacturing sector is crucial for competitiveness, but to thrive, companies require substantial investments in innovation and strong performance. Managers play a key role in optimizing production processes to generate surplus resources. It is because, during the economic crisis the company will experience limitations in accessing external resources (Agarwal et al., 2009). Hence, optimizing internal resources, including financial slack, is essential.

Slack itself is an excess resource that can be diverted or reused for the benefit of the company. During times of crisis, slack is considered very valuable, as slack resources can temper the impact of environmental changes and help enable companies to quickly seize new opportunities that arise (Gruener & Raastad, 2015). As a result, Management decisions are pivotal for a company's success. Good corporate governance is essential to align management decisions with company objectives.

Corporate governance is a system where a corporate business is run and directed (Mansur & Tangl, 2018). Corporate governance, linked to agency theory, addresses conflicts between management (agents) and owners (principals), aiming to mitigate these conflicts to benefit all parties involved. There are two mechanisms govern corporate governance, internal and external. Internal mechanisms include the board of directors responsible for daily operations, and the board of commissioners overseeing their performance. Corporate governance practices aim to enhance company performance by fostering initiatives that drive

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operational efficiency and market effectiveness, promoting long-term growth, and preventing resource misuse(Guluma, 2021). Effective company resource management is linked to its performance, as performance reflects the company's efficiency in resource utilization over a specific timeframe, serving as a metric for operational success.

Previous studies have explored corporate governance's impact on company performance, focusing on factors like board size and composition. In line with the agency theory view, board of director size and board of commissioner size has a negative effect on company performance, while the percentage of independent commissioners has a positive effect on company performance. In accordance with the view of agency theory, the results of this study found that the size of board directors has a negative effect on company performance (Palaniappan, 2017; Yan et al., 2021), board of commissioner size has a negative effect on company performance (Huang, 2010; Rosadi, 2016) and the percentage of independent commissioners has a positive effect on company performance (Al-Matari, 2020; Kao et al., 2019). Yet, the relationship between the size of board directors, board of commissioner size and the percentage of independent commissioners to company performance in listed manufacturing companies on the IDX in 2015 – 2020 is inconsistent.

Table 1. The Average of corporate governance internal mechanisms and ROA in Manufacturing Companies

No	Description	2015	2016	2017	2018	2019	2020
1	Board Directors	5	5	5	5	4	4
2	Board Commissioners	4	4	4	4	4	4
3	Independent Commissioners	38%	38%	38%	39%	40%	40%
4	ROA	5,2%	6,47%	6,01%	6,41%	5,21%	2,93%

Source: Author's processed data

In line with agency theory, both the size of the board of directors & board of commissioners negatively impact company performance, whereas an increase in the percentage of independent commissioners positively influences company performance. Based on Table 1, board of commissioner size did not experience an increase or decrease during 2015 – 2020. Whereas in 2019 the board of directors experienced a decrease which was also followed by a decrease in company performance (ROA). Meanwhile, the increase in the percentage of independent commissioners that occurred in 2019 has caused the company's performance (ROA) to experience a decrease in that year. These things are not accordance with the view of agency theory. Based on these explanations, it can be said that there is a gap phenomenon in the effect of board of director size, board of commissioner size and the percentage of independent commissioners on company performance in manufacturing companies listed on the IDX in 2015 – 2020.

There are several previous studies that found opposite results from the agency theory view, such as board of director size has a positive effect on company performance (Danoshana & Ravivathani, 2019; Merendino & Melville, 2019), board of commissioner size has a positive effect on company performance, and the percentage of independent commissioners has a negative effect on company performance (Long Kweh et al., 2019; Putri & Dul Muid, 2017). Based on gap phenomenon and research gaps that have been explained, it is necessary to do further study on the relationship between the company's corporate governance and its performance. One of them is by adding other variables to mediate the relationship between corporate governance and company performance. Therefore, researchers are interested in using financial slack as a mediating variable between the influence of corporate governance on company performance.

The following is the framework used in research on the effect of corporate governance on company performance with the financial slack mediating variable:

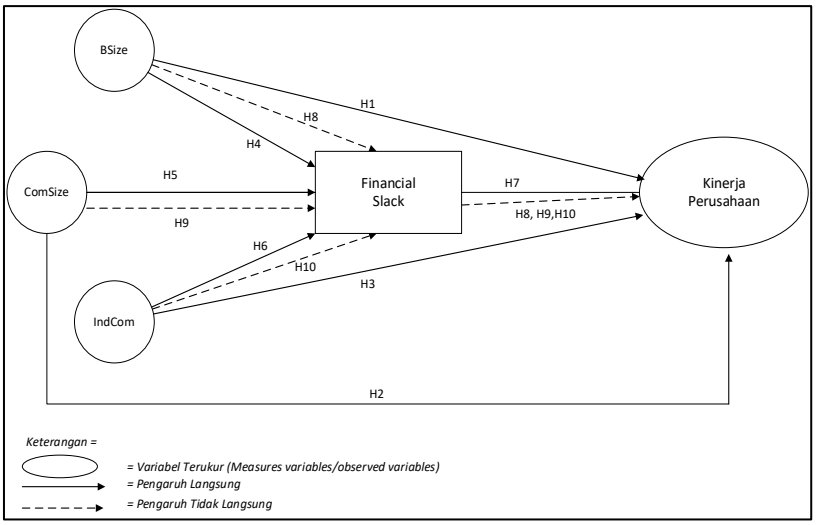

Figure 1. Research Framework

Effect of Corporate Governance on Company Performance

Corporate governance is tightly linked to internal mechanisms, particularly the board of directors and commissioners, whose decisions can significantly impact company performance. Board size is a notable characteristic common to both boards. According Tanjung (2020), While the ideal size of the board of directors remains a subject of debate, past research indicates that board size and composition are vital aspects of corporate governance. They serve to ensure agency oversight and provide valuable resources for the company.

From the perspective of agency theory, a larger board of directors negatively impacts company performance. This occurs because a large board can encounter coordination and communication issues, diminishing its effectiveness and, in turn, lowering company performance. This is supported by the results of the research conducted by Chintrakarn et al (2017) and Yan et al (2021). However, research conducted by Tulung & Ramdani (2018) and Ali (2018) found different results, that board of director size has a positive effect on company performance. Based on the explanations above, the research formulated the following hypothesis:

H1: The board size of directors has negative effect on company performance

The board of commissioners, responsible for overseeing the board of directors, can influence company performance. According to agency theory, the board of commissioners plays a role in monitoring the board of directors to reduce agency costs resulting from conflicts between the board of directors and shareholders. Therefore, the size of the board of commissioners can impact company performance. Martin & Lorsch (1992) and Jensen (1993) proponents of agency theory, contend that maintaining a sizable board of commissioners is detrimental to company profitability. This is due to the association of large board sizes with weakened oversight functions and slower decision-making, as noted by (Lakatos, 2020). This statement is in accordance with the results of research conducted by Liu et al (2015) and Bukair & Rahman (2015). However, different research results were found by Prawira & Haryanto (2015) and Yasser et al (2017) who found that board size of commissioner had a positive effect on company performance. Referring to the various explanations above, the authors propose the following hypothesis:

H2: The board size of commissioners has a negative effect on company performance

Beyond the board of commissioners' size, another factor influencing company performance is the percentage of independent commissioners. These individuals are external to the company and have no affiliations with the board of directors or shareholders. Independent commissioners are expected to offer advice, monitor management activities, and safeguard shareholders' interests (Wang et al., 2020). By having the same role as the board commissioners, the percentage of independent commissioners has a positive effect on company performance. This is supported by the results of research conducted by Liu et al (2015) and Tulung & Ramdani (2018). However, different results were found by Putri & Dul Muid (2017) and Puspita & Rinaldo (2015) who found that were was a negative effect between the percentage of independent commissioners and company performance. Referring to the various explanations above, the authors propose the following hypothesis:

H3: The percentage of Independent Commissioners has a positive effect on company performance

Effect of Financial slack on Corporate Governance

Based on standard economic theory, company performance can be maximized if the company can achieve certain results with minimum resources (Rafailov, 2017). Slack is an excess resources owned by the company. There are 2 types of slack, namely internal slack and external slack. Internal slack is slack contained within the company that has not been absorbed or has been absorbed. One type of internal slack is available slack. According to behavioral and resource-based theories, available slack can act as a buffer in a dynamic environment, help resolve conflicts, and promote company innovation (Hailu et al., 2020). From that explanation, it can be said that financial slack has a positive effect on company performance. This also supported by research conducted by Gral (2014) and Rafailov (2017).

From an agency theory perspective, financial slack is seen as having a negative impact on company performance due to its association with management inefficiency and agency conflicts. That view is supported by a study that was done by Stan et al (2014) and Altaf & Shah (2017). Referring to the various explanations above, the authors propose the following hypothesis:
H4: Financial Slack has a positive effect on company performance

Effect of Corporate Governance on Financial Slack

The main challenge of effective management is to use available company resources so as to minimize the impact of exogenous threats on the organization when trying to seize opportunities (Gruener & Raastad, 2015). Financial slack is one of the resources available within the company. One form of financial slack is cash owned by the companies which is also the most liquid and common form of available slack (Deb et al., 2017; Kim & Bettis, 2014).

The board of directors has an important role in maintaining and managing company resources. Managers, according to the pecking order theory, possess knowledge about the company's financial health and future investment opportunities, and they act in the shareholders' best interests by maintaining cash balances and liquid assets, including financial slack. Therefore, the larger of the board directors, the greater the cash owned (financial slack) by the company. This is supported by the results of the research conducted by Kusumawardani et al (2021) and Pandiangan (2022). However, different results were found by Ullah & Kamal (2017) who found that the size of the board of directors has a negative effect on the cash owned by the company. Based on the various explanations above, the researcher formulated the following hypothesis:
H5: Board of director size has positive effect on financial slack

The board of directors is under constant supervision by the board of commissioners, whose responsibilities include overseeing and advising the directors in their management of the company. Therefore, the board of commissioners also wields influence over the company's resource management. Research conducted by Mouline & Sadok (2021) found that board of commissioner size has a positive effect on the amount cash owned by the company. This can happen because the larger board of commissioner size can lead to less effective oversight of company management in managing company resources which can lead to conflicts of interest. The results of this study were also found by Senjaya & Yadnyana (2016) and Jamil et al (2016). However, research conducted by Masood & Shah (2014) and Al-Najjar & Clark (2017) found that board of commissioner sizehas a negative effect on the amount of cash owned by the company. Based on the various explanations above, the researcher formulates the hypothesis as follows:
H6: Board of commissioner size has positive effect on financial slack

Within the board of commissioners' structure, there is a percentage of independent commissioners. These individuals, external to the company, are meant to enhance management oversight. Lee & Lee (2010) suggest that the greater the percentage of independent commissioners, the less cash the company hoards. A higher number of independent commissioners results in more stringent management oversight, preventing actions that may solely benefit management, like hoarding cash. The result of this study also found by Wasiuzzaman (2014) and Rehman & Wang (2015). However, different results were found by Ferreira & Vicente (2020) and Qian (2021) who found that the percentage of independent commissioners had a positive effect on the amount of cash owned by the company. Referring to the various explanations above, the authors propose the following hypothesis:
H7: The percentage of independent commissioners has a negative effect on financial slack

Corporate Governance, Financial Slack and company performance

Previous research literature on corporate governance has focused on managerial behaviour disputes regarding the availability of slack and its impact on the financial health of company (Tabassam & Khan, 2021). There are different views regarding the relationship between corporate governance, financial slack, and company performance. In line with behavioural theory, slack can be used to resolve disputes between

managers and other stakeholders. In contrast, under agency theory, slack is believed to be used by managers for personal gain, rather than for the company's benefit, in alignment with theoretical distinctions and prior research by Tabassam & Khan (2021), the hypothesis regarding the relationship between corporate governance and company performance with financial slack as mediation is developed as follows:

H8: Financial slack could mediate the effect between board of director size and company performance

H9: Financial slack could mediate the effect between board of commissioner size and company performance

H10: Financial slack could mediate the effect between the percentage of independent commissioner and company performance

2. METHODS

This research uses a quantitative approach with the research subjects of corporate governance practices, slack resources and company performance of manufacturing companies listed on the IDX in 2015 - 2020 which then use a purposive sampling method with the criteria that have been determined until finally getting a total of 588 data from 98 listed manufacturing companies on the IDX from 2015 – 2020.

Table 2. Research Sample Criteria

No	Description	Number of Companies
1.	Listed manufacturing companies on the IDX from 2015-2020	194
2.	Companies that have published annual reports and financial reports from 2015 - 2020 consecutively	(96)
3.	Number of research samples	98

This study examines company performance (ROA) as the dependent variable and corporate governance factors, including board size, percentage of independent commissioners, and board of commissioner size, as independent variables. Financial slack, represented by the natural logarithm of total cash and cash equivalents, is the mediating variable."

The type of data used in this study is secondary data, taken from the Bloomberg laboratory at the Faculty of Economics and Business, Diponegoro University, as well as annual reports and company financial reports obtained from the website *https://www.idx.co.id/* or from the website of each company.

The data analysis technique used in this study used descriptive statistical tests, classical assumption tests, multiple regression analysis and path analysis. The data were tabulated using Microsoft excel and then analysed using SPSS software version 25.

Multiple linear regression analysis in this study was used to determine the direction and how much influence the independent variables have on the dependent variable in each research regression model. This study uses 2 regression equations.

The following are the 2 regression equations used in this study:

Regression Model Equation 1

$$\text{ROA} = \alpha + \beta_1 Bsize + \beta_2 ComSize + \beta_3 IndCom + \beta_4 FS + \varepsilon 1 \quad (1)$$

Regression Model Equation 2

$$\text{FS} = \alpha + \beta_1 Bsize + \beta_2 ComSize + \beta_3 IndCom + \varepsilon 2 \quad (2)$$

After conducting multiple linear regression analysis, the next step is to conduct path analysis which aims to analyse the pattern of relationships between variables. Where in this study is to determine the direct effect of corporate governance on company performance and the indirect effect through financial slack.

3. RESULTS AND DISCUSSIONS

Results

It can be seen form Table 3 which shows the descriptive statistics of the variables used in this study. There were 98 manufacturing companies that were uses as research samples so as to get a number of observations (N) are 588 observations.

Table 3 . Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
BSize	588	2.00	16.00	5.1276	2.35207
ComSize	588	2.00	13.00	4.1531	1.84410
ComInd	588	.29	.83	.4058	.09794
FS	588	18.81	31.49	25.4724	2.24427
ROA	588	-.32	1.10	.0554	.09979
Valid N (listwise)	588				

Source: Output SPSS 25

2.1 Classic Assumption Test

2.1.1 Normality Test

When carrying out the normality test on regression model equations 1 and 2, it was found that regression model 1 were not normally distributed. So, the researcher eliminated the outlier data. There were 67 outlier data found, so the number of research observations changed to 521 observations. After the outlier data has been eliminated, the normality test is repeated for the tow two regression model equations with the following results:

Table 4. Normality Test Results

One-Sample Kolmogorov-Smirnov Test

			Model Regresi 1	Model Regresi 2
N			521	521
Normal Parameters[a,b]	Mean		.0000000	.0000000
	Std. Deviation		.05311710	1.69085139
Most Extreme Differences	Absolute		.057	.042
	Positive		.057	.037
	Negative		-.034	-.042
Monte Carlo Sig. (2-tailed)	Sig.		.063[d]	.308[d]
	99% Confidence Interval	Lower Bound	.057	.296
		Upper Bound	.069	.320

Source: Output SPSS 25

Based on Table 4, it can be seen that the two regressions have a Monte Carlo significance value are 0.063 and 0.308 > 0.05. Therefore, the two regressions model equation have normally distributed data.

2.1.2. Multicollinearity Test

Table 5. Model 1 Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	BSize	.554	1.806
	ComSize	.631	1.584
	IndCom	.988	1.012
	FS	.617	1.622

a. Dependent Variable: ROA

Source: Output SPSS 25

Table 6. Model 2 Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
2	BSize	.671	1.491
	ComSize	.671	1.481
	IndCom	.997	1.003

a. Dependent Variable: FS
Source: Output SPSS 25

Based on Table 5 and Table 6, it can be seen that the tolerance and VIF values of each variable in the two regressions models have a tolerance value of > 0.10 and VIF value of < 10. So, it can be said that the two regression models do not have multicollinearity problems

2.1.3. Autocorrelation Test

Table 7. Model 1 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.472[a]	.223	.217	.05332	1.963

a. Predictors: (Constant), FS, IndCom, ComSize, BSize
b. Dependent Variable: ROA
Source: Output SPSS 25

From Table 7, it can be found that the Durbin-Watson value is 1.963 with dL and dU values for the number N = 521 and 4 independent variables respectively 1.804 and 1.871. Thus, with dW values that are between dU and 4-dU values (1.871 < 1.963 < 2.128), it can be said that in regression model 1 there is no autocorrelation.

Table 8. Model 2 Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
2	.619[a]	.383	.380	1.69575	2.110

a. Predictors: (Constant), IndCom, ComSize, BSize
b. Dependent Variable: FS
Source: Output SPSS 25

From Table 8, it can be found that the Durbin-Watson value is 2.110 with dL and dU values for the number N = 521 and 3 independent variables respectively 1.844 and 1.867. Thus, with dW values that are between dU and 4-dU values (1.867 < 2.110 < 2.132), It means that there is no autocorrelation in regression model 2.

2.1.4. Heteroscedasticity Test

Table 9. Model 1 Heteroscedasticity Test Results

Correlations

	BSize	ComSize	IndCom	FS	Unstandardized Residual 1
Correlation Coefficient	.041	.014	.017	-.010	1.000
Sig. (2-tailed)	.354	.747	.701000	.812	.
N	521	521	521		521

Source: Output SPSS 25

Based on Table 9, it can be seen that the significance value of the Sig (2-tailed) correlation for each independent variable in regression model 1 is greater than 0.05 (> 0.05). So, the conclusion can be drawn that there is no heteroscedasticity in regression model 1.

Table 10. Model 2 Heteroscedasticity Test

Correlations

	BSize	ComSize	IndCom	Unstandardized Residual 2
Correlation Coefficient	.023	.017	-.001	1.000
Sig. (2-tailed)	.599	.691	.988	.
N	521	521	521	521

Source: Output SPSS 25

Based on Table 10, it can be seen that the significance value of the Sig (2-tailed) correlation for each independent variable in the second regression model is greater than 0.05 (> 0.05). So, it can be concluded that in the second regression model there is no heteroscedasticity.

2.2 Model 1 Regression Equation Test

Table 11. Model 1 Determination Coefficient Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.448[a]	.223	.217	.05332

a. Predictors: (Constant), FS, BSize, ComSize, IndCom

b. Dependent Variable: ROA

Source: Output SPSS 25

From Table 11, it can be found that the adjusted R^2 value is 0.217 or 21.7%. Thus, it can be concluded that the variable return on assets (ROA) can be explained by the variable size of the board directors (BSize), board of commissioner size (ComSize), the percentage of independent commissioners (IndCom), financial slack (FS) of 21.7% and the remaining 78 .3% is explained by other variables outside the study.

Table 12. Model 1 F Test Results

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.420	4	.105	36.965	.000[b]
	Residual	1.467	516	.003		
	Total	1.888	540			

a. Dependent Variable: ROA

b. Predictors: (Constant), FS, BSize, ComSize, IndCom

Source: Output SPSS 25

From Table 12, with an F value of 36,965 and significance value equal to 0,000 is less than 0,05, it can be said that all independent variables which include board of director size, board of commissioner size, the percentage of independent commissioners and financial slack have a simultaneous effect on return on assets (ROA).

Table 13. Model 1 T Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constan)	-.317	.032		-9.959	.000
	BSize	-.000069	.002	-.002	-.045	.964
	ComSize	-.008	.002	-.208	-4.251	.000
	IndCom	.035	.029	.047	1.207	.228
	FS	.015	.001	.532	10.773	.000

a. Dependent Variable: ROA

Source: Output SPSS 25

From Table 13, the multiple linear regression equation model 1 can be compiled as follows:

ROA = -0,317 - 0,000069BSize - 0,008ComSize + 0,035IndCom + 0,015FS (3)

Based on the regression equation above, the following analysis can be carried out:

1. Board of director size variable (BSize)
   From Table 13 it is found that the t value of the board of director size on ROA is -0.045 with a significance of 0.964 (0.964 > 0.05) and a beta coefficient value of -0.000069. These results reveals that the variable size of the board of directors has a negative and insignificant effect on the return on assets (ROA) variable so that it can be summarized that hypothesis 1 is rejected.
2. Board of commissioner size variable (ComSize)
   Table 13 shows that the t-value of the board of commissioner size for ROA is -4.251 with a significance of 0.00 (0.00 <0.05) and a beta coefficient of -0.008. From these results indicate that the board of commissioner size variable has a negative and significant effect on the return on assets (ROA) variable so that it can be concluded that hypothesis 2 is accepted.
3. The percentage of independent commissioner variable (IndCom)
   Table 13 shows that the t value of the percentage of independent commissioners to ROA is 1.207 with a significance of 0.228 (0.228 > 0.05) and a beta coefficient of 0.035. These results reveals that the independent commissioner percentage variable has a positive and insignificant effect on the return on assets (ROA) variable so that it can be concluded that hypothesis 3 is rejected.
4. Financial slack variable (FS)
   Shows that the T value for the percentage of independent commissioners to ROA is 10.773 with a significance of 0.000 (0.000 <0.05) and a beta coefficient of 0.015. These results indicate that the board of director size variable has a positive and significant effect on the return on assets (ROA) variable so that it can be summarized that hypothesis 4 is accepted.

2.3 Model 2 Regression Equation Test

Table 14. Model 2 Determination Coefficient Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.608[a]	.383	.380	1.69575

a. Predictors: (Constant), BSize, ComSize, IndCom
b. Dependent Variable: FS
Source: Output SPSS 25

From Table 14, it can be found that the adjusted R^2 value is 0.380 or 38%. So, it can be concluded that financial slack can be explained by the variable size of the board of directors (BSize), the size of the board of commissioners (ComSize) and the percentage of independent commissioners (IndCom) of 38% and the remaining 62% is explained by other variables outside the study.

Table 15. Model 2 F Test Results

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
2	Regression	924.535	3	308.178	107.171	.000[b]
	Residual	1486.669	517	2.876		
	Total	2411.204	520			

a. Dependent Variable: FS
b. Predictors: (Constant), BSize, ComSize, ComInd
Source: Output SPSS 25

From Table 15, with an F value of 107.171 and significance value equal to 0,000 is less than 0,05, it can be said that all independent variables which include board of director size, board of commissioner size, and the percentage of independent commissioners have a simultaneous effect on financial slack (FS).

Table 16. Model 2 T Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
2	(Constant)	21.041	.411		51.244	.000
	BSize	.469	.045	.441	10.449	.000
	ComSize	.315	.055	.240	5.695	.000
	ComInd	1.930	.907	.074	2.129	.034

a. Dependent Variable: FS

From Table 16, the multiple linear regression equation model 2 can be compiled as follows

FS = 21,041 + 0,469BSize + 0,315ComSize + 1,930ComInd (4)

Based on the regression equation above, the following analysis can be carried out:

1. Board of director size (BSize)

   From Table 16 it is found that the t value of the size of the board of directors on FS is 10.449 with a significance of 0.000 (0.00 <0.05) and a beta coefficient value of 0.469. From these results reveals that the board of director size has a positive and significant effect on the financial slack variable so it can be summarized that hypothesis 5 is accepted.
2. Board of commissioner size (ComSize)

   Table 16 shows that the t value of the board of commissioner size to FS is 5.695 with a significance of 0.00 (0.00 <0.05) and a beta coefficient value of 0.315. From these results indicate that the board of commissioner size has a positive and significant effect on the financial slack variable so that it can be summarized that hypothesis 6 is accepted.
3. The percentage of independent commissioner (IndCom)

   Table 16 shows that the t value of the percentage of independent commissioners to FS is 2.129 with a significance of 0.034 (0.034 <0.05) and a beta coefficient of 1.930. From these results reveals that the independent commissioner percentage has a positive and significant effect on the financial slack variable so that it can be summarized that hypothesis 7 is rejected.

2.4 Path Analysis

The mediating variable used in this study is financial slack. Following are the results of the path analysis of BSize, ComSize, Indcom to ROA with financial slack as a mediating variable which is described as follows

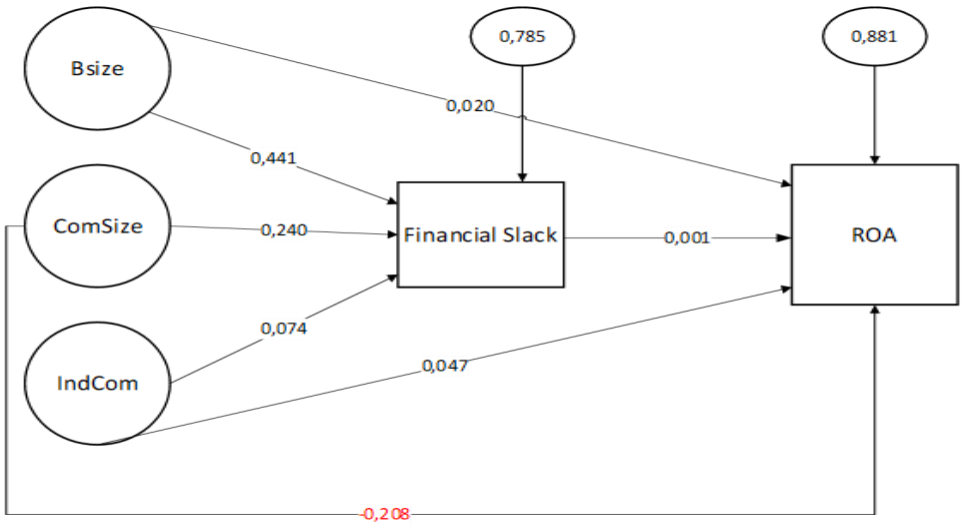

Figure 2. Path analysis Bsize, ComSize, & IndCom on ROA through Financial slack

The following is the calculation of the standard error for the indirect effect of BSize (board of director size) on ROA through financial slack:

$$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2} \quad (5)$$

$$Sab = \sqrt{(0{,}001)^2(0{,}045)^2 + (0{,}441)^2(0{,}001)^2 + (0{,}045)^2(0{,}001)^2} \quad (6)$$

$$Sab = 0{,}000531 \quad (7)$$

Based from the calculation results above, the t statistical value for the influence of financial slack mediation on board of director size and ROA could be calculated as explained in the following calculation:

$$t = \frac{ab}{Sab} = \frac{0{,}000441}{0{,}000531} = 0{,}831 \quad (8)$$

Based from the results of the t statistic calculation, it was discovered that the calculated t value was 0.831 while the t table value with a significance level of 0.05 (5%) was 1.96. Therefore, the t value is less than the t table value (0.831 > 1.96). So, it can be concluded that financial slack cannot mediate the effect of board director size (BSize) on return on assets (ROA). Thus, hypothesis 8 is rejected.

The following is the calculation of the standard error for the indirect effect of ComSize (board of commissioner size) on ROA through financial slack:

$$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2} \quad (9)$$

$$Sab = \sqrt{(0{,}001)^2(0{,}055)^2 + (0{,}240)^2(0{,}001)^2 + (0{,}055)^2(0{,}001)^2} \quad (10)$$

$$Sab = 0{,}00035 \quad (11)$$

From the calculation results, the t statistic value for the influence of financial slack mediation on board commissioner size and ROA can be calculated as explained in the following calculation

$$t = \frac{ab}{Sab} = \frac{0{,}00024}{0{,}00035} = 0{,}686 \quad (12)$$

From the results of the t statistic calculation, it was discovered that the calculated t value was 0.686 are less than the t table value (0.686 <1.965). So, it can be concluded that financial slack cannot mediate the effect of board commissioner size (ComSize) on return on assets (ROA). Thus, hypothesis 9 is rejected.

The following is the calculation of the standard error for the indirect effect of IndCom (the percentage of independent commissioners) on ROA through financial slack:

$$Sab = \sqrt{b^2sa^2 + a^2sb^2 + sa^2sb^2} \quad (13)$$

$$Sab = \sqrt{(0{,}001)^2(0{,}907)^2 + (0{,}074)^2(0{,}001)^2 + (0{,}907)^2(0{,}001)^2} \quad (14)$$

$$Sab = 0{,}001888 \quad (15)$$

From the results of the calculation above, the t statistical value for the influence of financial slack mediation on the size of the board of directors and ROA can be calculated as explained in the following calculation:

$$t = \frac{ab}{Sab} = \frac{0{,}000074}{0{,}001888} = 0{,}039 \quad (16)$$

From the results of the t statistic calculation, it was discovered that the calculated t value was 0.039, which is less than the t table value (0.039 < 1.96). So, it can be summarized that financial slack cannot mediate the effect of the percentage of independent commissioners on return on assets (ROA). Thus, hypothesis 10 is rejected.

Discussion

From these results it can be concluded that the practice of corporate governance has not been able to maximize the financial slack that exists in the company to improve company performance. This can be seen from the rejection of hypotheses 8, 9 and 10 where financial slack cannot mediate the relationship between the influence of corporate governance on company performance. The availability of financial slack in the company should have a positive effect on company performance in accordance with the views of the behavioural theory of the firm and resource-based theory (Gral, 2014). The results of this study are the same as research conducted by Chaudhary (2022) which says that financial slack cannot mediate the relationship between corporate governance and company performance. However, research conducted by Tabassam & Khan (2021) found that financial slack can mediate the relationship between corporate governance and company performance partially. The results of the study should be able to make stakeholders in the company aware, especially manufacturing companies, to be able to maximize the financial slack contained in the company in order to improve company performance. Because, financial slack is one of the internal resources that has many benefits for the company if it can be used properly and correctly. However, the limitation of this research is that it is still focused on manufacturing companies only and only uses one type of financial slack in the company. For future research, it is expected to expand the scope of the company and also use other types of financial slack.

4. CONCLUSION

The study findings highlight that board director size negatively impacts company performance, while financial slack has a positive effect on it. However, board commissioner size and the percentage of independent commissioners do not affect company performance. These governance factors do, though, positively affect financial slack. Interestingly, financial slack does not mediate the impact of board director size, board commissioner size, and the percentage of independent commissioners on company performance.

This study underscores the influence of overall corporate governance practices on company performance. However, it reveals that companies struggle to fully leverage their financial slack to enhance performance. These findings should encourage companies to consider not only the board's size but also the quality and competence of its members when selecting board members. Future research could explore additional corporate governance components, different types of financial slack, and include market-based performance metrics to measure company performance.

5. ACKNOWLEDGE

We would like to thank all those who have helped us in completing this paper and we also to the faculty of economics and business of diponegoro university for providing the opportunity and facilities so that it can help us in completing this paper. Hopefully this paper can provide knowledge and usefulness to its readers.

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