

# **The Effect of Conservatism, Slack, Managerial Ability, and Uncertainty on Company Financial Performance**

**Eduard Ary Binsar Naibaho<sup>1</sup>, Farah Margaretha Leon<sup>1</sup> and Bahtiar Usman<sup>1</sup>**

## **Abstract**

This study aims to investigate the role of debt financing in the relationship between conservatism, slack, managerial capability, uncertainty, and corporate financial performance. To evaluate this effect, an exploratory study has been used on 382 samples of all sectors, except finance, listed on the ASEAN 5 for 21 years. Panel data regression with a fixed effect method is used to test the company's financial performance. The study results indicate that conservatism and available slack positively affect a company's financial performance. Conversely, recoverable slack and macroeconomic uncertainty negatively affect a company's financial performance. This paper contributes to the literature by advancing knowledge about accounting conservatism, organization slack, and company financial performance relationships over time, which have been scarcely studied.

**JEL classification numbers:** M410, G300, G100,

**Keywords:** Accounting conservatism, Slack, Managerial ability, Uncertainty.

---

<sup>1</sup> Trisakti University, Faculty of Economics and Business.

## 1. Introduction

Today's business world no longer recognizes VUCA as anything other than the "new normal." As a result, how businesses operate and their executives steer the ship is evolving. Leaders nowadays need to be able to think strategically and critically on a more complicated level. Companies might benefit from human resources and professional talent management programs that train executives to deal with volatile, uncertain, complex, and ambiguous (VUCA) situations (Ramakhrisnan, 2021; Wolanin, 2022).

The shift from an industrial economy to one centered on services and information technology has impacted the significance and utility of accounting information. Prior research has determined that the value relevance of accounting has diminished, particularly regarding profitability, and has mostly ascribed this decline to the transition to the new economy. Alongside accounting items denoting intangible assets, growth opportunities, and alternative performance metrics -elements deemed more pertinent in the contemporary economy- and other significant factors identified by prior research, we also assess the relevance of earnings and book value of equity. Accounting elements concerning intangible assets, growth prospects, and alternative performance metrics are becoming pertinent (Barth et al., 2023).

Accounting conservatism is significant in developed nations; however, its function still needs to be clarified in emerging and developing economies. Considering swift globalization and evolving environmental conditions, there is a pressing necessity for high-caliber financial reporting that can withstand competitive scrutiny. Organizations that maintain superior quality in their accounting information tend to exhibit enhanced profitability and overall performance (Nassar & Al Twerqi, 2021). Companies that utilize Slack will achieve superior outcomes compared to their competitors, who need access to these resources. The statement asserts that "unused productive services are a source of competitive advantage, an incentive to expand, and a challenge to innovation for companies." In the short term, economic profitability is consistently and positively influenced by the availability of leisure. Other forms of slack consistently impact company performance; however, recoverable slack has a detrimental effect on performance (Agusti-Perez et al., 2020).

Organizations today are confronted with significant uncertainty, volatility, and intense competition, particularly considering the COVID-19 pandemic. As a result of the rapid pace of change in the corporate world, organizations are subject to significant external pressure. The capacity of an organization to survive, recover, and then develop from crises is a critical factor in its ability to survive and thrive in the long term in today's complex and volatile world. Limited resources and organizational learning are essential components of organizational resilience. Organizational resiliency will be enhanced by both absorbed and unabsorbed slack (Mao et al., 2023).

The senior management team's knowledge, skills, and experience, frequently concealed and challenging to quantify, are collectively referred to as managerial

capability. Companies that acquire other companies with superior managerial capabilities will generate superior long-term operating performance and stock returns. When the acquirer and target company are in the same industry, the positive impact of managerial aptitude on long-term performance is more pronounced. Managers who exhibit superior capabilities in administering their organizations, as evidenced by their ability to generate greater revenues with the resources at their disposal, are more likely to achieve synergistic advantages (Cui & Chi-Moon Leung, 2020).

Enhanced managerial skills proactively adjust organizations to environmental changes and identify innovative methods to optimize resources for long-term sustainability. Both theoretically and practically, managerial talents are undeniably among the most significant human resources impacting firm value. Competent managers leverage their professional and academic experience to optimize the utilization of the company's limited resources in a challenging environment. They leverage their knowledge and expertise to attain sustainable growth. Highly competent managers markedly enhance firm performance, while less competent managers substantially diminish it (Inam Bhutta et al., 2021).

According to (Bloom, 2017) three essential phenomena are critical for modeling the impact of uncertainty on growth. Uncertainty arises from international abundance. Significant uncertainty shocks in any country often originate abroad, particularly in small nations. The primary uncertainty channel affecting gross domestic product growth is investment, which responds more robustly and rapidly than consumption expenditure. Companies may exhibit a more forward-looking approach than consumers, demonstrating a more robust response to shifts in expectations regarding future business conditions. Third, uncertainty escalated significantly in three distinct waves: the Great Recession of 2008–2009, the fiscal crises in the United States and Europe from 2010 to 2012, and, more recently, the consequences of Brexit and the Trump vote.

According to Davis et al., (2022) the notion that macroeconomic performance will be weakened by high economic policy uncertainty is supported by the results of their research despite the difficulty of establishing a causal influence. In response to current economic disruptions, policy uncertainty is influenced by past policy decisions and institutions. Based on their research, macroeconomic performance will be positively impacted by a credible credit policy plan and a robust policy framework, as they will mitigate the effects of policy uncertainty.

Economic policy uncertainty hurts economic growth, according to research by Makosa et al. (2021); economic policy uncertainty affects a firm's investment choices, explaining its short-term financial constraints. In the short term, this will decrease investment by augmenting cash reserves, while in the long term, it will impose greater financial constraints on the company. This study advocates for carefully implementing policy changes to mitigate volatility and friction in corporate investment decisions.

ASEAN is a dynamic region encompassing Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam, with a population of over 650 million. It is situated in the heart of a region currently experiencing economic expansion. ASEAN allows its member nations to enhance the socioeconomic status of their citizens by expanding communication and infrastructure networks and facilitating the movement of people, commodities, and services throughout the region.

**Table 1: Number of Populations ASEAN 5 and ASEAN, 2013-2022 (The ASEAN Secretariat, 2023)**

										(in million)	
Country	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Indonesia	253.28	256.23	259.09	261.85	264.50	267.07	269.58	271.86	273.75	275.50	277.53
Malaysia	30.13	30.61	31.07	31.53	31.98	32.40	32.80	33.20	33.57	33.94	34.31
Philippines	99.70	101.33	103.03	104.88	106.74	108.57	110.38	112.19	113.88	115.56	117.34
Singapore	5.40	5.47	5.54	5.61	5.61	5.64	5.70	5.69	5.45	5.64	5.92
Thailand	69.58	69.96	70.29	70.61	70.90	71.13	71.31	71.48	71.60	71.70	71.80
ASEAN 5	458.09	463.59	469.02	474.47	479.72	484.80	489.78	494.41	498.26	502.33	506.90
ASEAN	621.02	628.22	635.32	642.43	649.30	655.95	662.45	668.64	673.99	679.45	685.37
ASEAN 5 Weight	73.76%	73.79%	73.82%	73.86%	73.88%	73.91%	73.93%	73.94%	73.93%	73.93%	73.96%

Previous studies by various researchers have yielded inconclusive or ambiguous results, indicating a gap between the theoretical and empirical understanding of determinants of company financial performance. Existing research has not simultaneously addressed the impact of accounting conservatism, organizational slack, managerial ability, uncertainty, and external corporate governance mechanisms of debt financing on financial performance, nor has it explored the moderating role of debt finance in this context.

This study analyses the impact of accounting conservatism, organizational slack, managerial ability, and uncertainty on financial performance.

## **2. Literature Review and Hypothesis Development**

The theoretical foundation of this study is constructed by integrating agency, signaling, resource-based, and upper-echelon theory. According to Jensen & Meckling, (1976) an agency relationship is a contractual arrangement in which one or more parties, the principal, appoint another party as an agent to render services on their behalf, including delegating some decision-making powers to the agent. If both sides in the relationship are utility maximized, it is plausible that the agent may not consistently operate in the principal's best interests. Debt diminishes the agency costs associated with free cash flow by limiting the cash flow accessible for discretionary expenditure by management. This debt control effect is a potential determinant of capital structure (Jensen, 1986).

Signaling theory was first introduced by Spence (1973) in the article titled "Job Market Signaling." Signal theory indicates that uncertainty exists in all labor markets concerning the productivity levels of individuals hired by firms. Assessing an individual's productivity potential necessitates time, rendering recruitment a requisite investment. The signaling model posits that the seller possesses greater product information than the buyer. According to Bae et al., (2018) from the perspective of signal theory, elements of corporate governance significantly impact the transmission of positive signals to the market, thereby mitigating information asymmetry and ensuring the integrity of signals from various stakeholders.

Resource-based theory was first presented by Wernerfelt in 1984. This theory posits that companies, products, and resources are two aspects of the same coin. In general, resources can be utilized for multiple products, and products necessitate services from various resources. To optimize resource utilization, it is imperative to identify effective organizational activities. This theory posits that resources can serve as strengths and liabilities for a company. All company assets are resources the company can employ to attain efficiency and effectiveness in its strategy, including capabilities and knowledge (Wernerfelt, 1984). Company resources might differ both within and beyond the company and organization. Internal resources include research and development capabilities, logistics, brand management, and low-cost procedures, whereas external resources include supplier roles, customer demand, and technology advances (Utami, H. & Alamanos, 2023).

The upper echelons theory was first introduced by D.C Hambrick & Mason, (1984) to offer novel perspectives on two fundamental inquiries of organizational theory: (1) What is the rationale behind the actions of organizations? and (2) what is the rationale behind the actions of organizations? Before developing the upper-echelon theory, organizational strategies and performance outcomes were primarily assessed through deterministic theoretical frameworks, including institutional theory and population ecology. This theory posits that a company's or organization's performance, encompassing strategic decisions and performance metrics, is partially influenced by the characteristics of its management background. Organizations' outcomes in terms of strategy and effectiveness indicate the values and cognitive frameworks of influential organizational actors.

## 2.1 Accounting Conservatism and Company Financial Performance

Accounting conservatism can reduce agency costs where agents apply the precautionary principle as required in FASB, (1980) will carry out its function of presenting financial reports that reflect the company's actual condition. This, in turn, will, in the signal theory approach, provide a positive signal to investors regarding the company's financial reports presented.

According to Ugwunta & Ugwuanyi, (2019) an accounting system that fails to deliver high-quality managerial information is deemed an ineffective tool for investment decision-making. The favorable correlation between accounting conservatism and future profitability is linked to enhanced investment organization. Accounting conservatism incentivizes managers to endorse projects with superior outcomes, consequently enhancing future performance due to the increased profitability of these economic or financial initiatives.

The enhancement of conservatism in financial reporting is a contentious topic in modern accounting and has been a central theme in accounting literature. From 2014 to 2019, accounting conservatism substantially impacted the performance measures of Egypt's forty most active non-financial enterprises. This subsequently enhanced the company's performance for shareholders, resulting in a robust financial position (El-Habashy, 2019).

**H<sub>1</sub>:** Accounting conservatism has a positive effect on company financial performance.

## 2.2 Organizational Slack and Company Financial Performance

According to Wiersma, (2017) in his research, he inquired, "How and when can companies convert slack into improved performance?" The research findings indicate that company managers exhibiting elevated levels of slack are prone to overinvestment, negatively affecting performance. Slack is appropriate when an organization possesses a lucrative investment opportunity. The impact of available slack on performance is positive, whereas recoverable slack negatively influences performance.

Companies with abundant resources will achieve superior outcomes compared to their competitors who lack these resources. The relationship between slack resources and their relationship to firm performance has been extensively examined in the literature; however, the duration of their impact still needs to be discovered. The effect of idle resources on performance depends on the specific resource. In the short term, economic profitability is consistently and positively influenced by the availability of leisure. Other forms of slack persistently impact performance; however, recoverable slack exhibits a negative sign that contradicts the advantages of these resources. Finally, financial profitability is perpetually influenced by potential slack; however, the extent of this impact will vary depending on the economic context (Agusti-Perez et al., 2020).

According to Weng & Yang, (2022) organizational slack positively impacts firm performance, and its effect varies based on short-term versus long-term perspectives. Moreover, they discovered that boundary conditions influence Slack's impact on performance.

**H<sub>2a</sub>:** Available slack has a positive effect on company financial performance.

**H<sub>2b</sub>:** Recoverable slack has a negative effect on the company's financial performance.

### **2.3 Managerial Ability and Company Financial Performance**

Managers with superior talents proactively adapt within the organization, acknowledging environmental changes and implementing creative strategies to enhance their resources for long-term sustainability. Effective managers optimize the usage of scarce firm resources in a demanding environment through their professional and academic expertise. Moreover, they leverage their knowledge and experience to attain sustainable growth. Highly competent managers substantially enhance firm performance, but less competent managers diminish it. Qualified managers will improve corporate value, with a more pronounced effect in financially robust organizations (Inam Bhutta et al., 2021).

In the current dynamic business environment, concentrating exclusively on the direct impact of management competence on organizational performance may not adequately capture managers' capacity to sustain competitive advantage. Managerial competencies are crucial for establishing, enhancing, and attaining organizational success, assessed by productivity, investment choices, remuneration, and overall corporate performance. Managers with superior competencies undertake initiatives and innovative measures to leverage firm resources for enduring financial sustainability. Managerial competence positively influences corporate performance in Taiwanese enterprises (Ting et al., 2021).

The triumph and growth of the commercial realm are inextricably linked to the proficiency of its management practices. Making accurate and prompt decisions is essential in the contemporary, rapid, competitive business environment. The proficiency of management enhances the calibre of profits and the company's overall performance. Furthermore, it has been noted that the quality of earnings significantly contributes to improving a company's financial performance. The quality of earnings serves as a partial mediator in the relationship between managerial ability and corporate performance. This indicates that proficient managers enhance the quality of earnings and mitigate information asymmetry, thereby leading to superior company performance (Ashiq et al., 2023).

**H<sub>3</sub>:** Managerial ability positively affects a company's financial performance.

## 2.4 Macroeconomic Uncertainty and Company Financial Performance

Macroeconomic uncertainty is characterized by an inability to forecast future economic situations, resulting in adverse effects on economic agents due to ambiguous expectations and a failure to discern the outcomes of their decisions. Increased global and national economic uncertainty adversely impacts the company's balance sheet performance (Çolak et al., 2020).

Following the Asian and Global Financial Crises, there has been an increased focus on the relationship between macroeconomic conditions and company performance. The Global Financial Crisis (GFC) originated in the United States and has been recognized as one of the most devastating financial crises ever, with far-reaching consequences for equities markets and economies worldwide. During this period, macroeconomic uncertainty had a detrimental and severe impact on firm performance (Cheong & Hoang, 2021).

According Garcia-Cascaldi et al., (2023) in his research on What is certain about uncertainty? Dibiasi & Iselin, (2021) their research on Knightian uncertainty discovered that macroeconomic uncertainty encourages businesses to delay and cut investment. Increased macroeconomic uncertainty will have a significant negative impact and financial consequences.

The theoretical relationship between macroeconomic uncertainty and company profitability needs to be clarified. Income and expenditures are collectively determined by profitability, influenced by consumption and investment. Low revenues and expenditures are the result of growing macroeconomic uncertainty. The short-term profitability is positively affected by the cost reduction, which exceeds the revenue reduction. This advantageous profitability effect is diminished for organizations that cannot implement cost-cutting, currency retention, and earnings accrual components (Binz, 2022).

**H4:** Macroeconomic uncertainty has a negative effect on a company's financial performance.

## 2.5 Economic Policy Uncertainty and Company Financial Performance

Based on a study conducted by D. Phan et al., (2020) is there a relationship between economic policy uncertainty and financial stability? A study conducted for 23 nations between 1996 and 2016 revealed that economic policy uncertainty negatively and considerably impacts financial stability. Countries with strong market competitiveness, less stringent capital rules, and smaller financial systems experience more negative consequences.

According to the research of Ahsan & Qureshi, (2021) his research on the interplay between policy uncertainty, sustainability disclosure, and the moderating effect of sustainability disclosure on corporate performance indicates that policy uncertainty diminishes financial performance for European enterprises. Nonetheless, sustainability disclosure enhances the reputation of enterprises in Europe, thereby mitigating the adverse effects of regulatory uncertainty on financial performance.



According to García-Gómez et al., (2022) his research on the influence of economic policy uncertainty on tourism firms in the United States revealed that such uncertainty adversely affected company performance, including ROA, ROE, and Tobin's Q. This research also found that firm size and leverage reduced the adverse association between economic policy uncertainty and corporate performance.

**H<sub>s</sub>:** Economic policy uncertainty has a negative effect on company financial performance.

### **3. Research Methodology**

The author employs quantitative research methods to examine the impact of accounting conservatism, organizational slack, managerial ability, macroeconomic uncertainty, and economic policy uncertainty on company performance, with external corporate governance mechanisms of debt financing serving as a moderating factor. The author aims to elucidate the research problem by examining the relationship among the research variables. The author employs a correlational descriptive methodology to analyze phenomena arising from the relationships between variables, utilizing hypothesis testing to ascertain the influence among the research variables (Curtis et al., 2016; Siedlecki, 2020).

#### **3.1 Data and Sample**

The population of this study consists of publicly traded companies listed on stock exchanges in the ASEAN 5 nations: Indonesia, Singapore, Malaysia, Thailand, and the Philippines. This study encompasses 2,613 publicly listed companies on stock exchanges in the ASEAN 5 countries: Indonesia, Singapore, Malaysia, Thailand, and the Philippines, covering the period from 2002 to 2022. S&P Capital IQ database data encompasses financial information for 1,381 enterprises across all sectors, excluding non-financial entities. We exclude 195 banking sector firms, 472 enterprises listed after 2002 or delisted before 2022, and 183 firms whose financial reports are unavailable in English translation. Upon data cleansing, we possess a final sample of 8,022 firm-year observations encompassing 1,381 firms, including all variables.

This study also acquired macroeconomic uncertainty data as per Jurado, et al. (2015) from Sydney Ludvigson's website (<https://www.sydneyludvigson.com>), macroeconomic policy uncertainty data developed by Baker et al. (2016) from (<http://www.policyuncertainty.com>), and annual GDP data from (<https://databank.worldbank.org>).

### 3.2 Estimation Models

The estimation model that was used to see how conservatism, slack, managerial ability, and uncertainty affected the company's financial performance:

$$TQ_{it} = \beta_0 + \beta_1 CA_{i,t} + \beta_2 ASlack_{i,t} + \beta_3 RSlack_{i,t} + \beta_4 MA_{i,t} + \beta_5 MAU_{i,t} + \beta_6 EPU_{i,t} + \beta_7 LEV_{i,t} + \beta_8 GO_{i,t} + \beta_9 GDPL_{i,t-1} + \varepsilon_{i,t} \quad (1)$$

This is the estimation model that was used to see how conservatism, slack, managerial ability, uncertainty, and the external corporate governance mechanism of debt financing affected the company's financial performance:

$$TQ_{it} = \beta_0 + \beta_1 CA_{i,t} + \beta_2 ASlack_{i,t} + \beta_3 RSlack_{i,t} + \beta_4 MA_{i,t} + \beta_5 MAU_{i,t} + \beta_6 EPU_{i,t} + \beta_7 DFIN_{i,t} + \beta_8 LEV_{i,t} + \beta_9 GO_{i,t} + \beta_{10} GDPL_{i,t-1} + \varepsilon_{i,t} \quad (2)$$

Note:

- TQ : TOBINS'Q
- CA : Accounting Conservatism
- ASlack : Available Slack
- RSlack : Recoverable Slack
- MA : Managerial Ability
- MAU : Macroeconomic Uncertainty
- EPU : Economic Policy Uncertainty
- DFIN : Debt Financing
- LEV : Leverage
- GO : Growth Opportunity
- GDPL : GDP Lagged

**Table 2: Variable Operationalization**

<b>Dependent Variable</b>			
<b>Variable</b>	<b>Proxy</b>	<b>Formula</b>	<b>Reference</b>
Company Financial Performance	$TQ_{it}$	$TQ_{it} = \frac{\text{Total market value of firm} + \text{Debt}}{\text{Total Assets}}$	(Cho et al., 2019; Kyere & Ausloos, 2021; Mardones, 2022)
<b>Independent Variable</b>			
Accounting conservatism	$CA_{it}$	$\text{Accruals} = \frac{NOI_{it} + DEP_{it} - OCF_{it}}{TA_{it}}$ $CA_{it} = (\text{Accruals}) \times (-1)$	(Ahmed & Duellman, 2007; Al-Fasfus et al., 2022; Givoly & Hayn, 2000; Nassar & Al Twerqi, 2021; Ugwunta & Ugwuanyi, 2019)
Organizational Slack	ASlack <sub>it</sub>  RSlack <sub>it</sub>	1. Available Slack $\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$ 2. Recoverable Slack $\text{Recoverable Slack} = \frac{\text{Sales and General Administration}}{\text{Net Sales}}$	(Wiersma, 2017; Zheng et al., 2022)  (Xu et al., 2015; Zheng et al., 2022)
Managerial Ability	$MA_{it}$	$\max\theta_v = (\text{Sales}) \cdot (v_1\text{COGS} + v_2\text{SG\&A} + v_3\text{PPE} + v_4\text{OpsLease} + v_5\text{R\&D} + v_6\text{Goodwill} + v_7\text{OtherIntan})^{-1}$ $\text{Firm Efficiency} = \alpha + \beta_1 \text{SIZE} + \beta_2 \text{Market Share} + \beta_3 \text{Free Cash Flow} + \beta_4 \text{Firm Age} + \beta_5 \text{Business Segment Concentration} + \beta_6 \text{Foreign Currency Indicator} + \sum \text{Industry}_{Effect} + \sum \text{Years}_{Effect} + \varepsilon$	(Demerjian et al., 2012; Inam Bhutta et al., 2021; D. H. B. Phan et al., 2020; Simamora, 2021; Ting et al., 2021)
Macroeconomic Uncertainty	$MAU_{it}$	Macroeconomic uncertainty index from the website: <a href="https://www.sydneyludvigson.com/">https://www.sydneyludvigson.com/</a>	(Jurado et al., 2015; Ludvigson et al., 2021)
Economic Policy Uncertainty	$EPU_{it}$	Economic policy uncertainty index from the website: <a href="http://www.policyuncertainty.com/">http://www.policyuncertainty.com/</a>	(Baker et al., 2016)
<b>Control Variable</b>			
Leverage	$LEV_{it}$	$DAR = \frac{\text{Total Debt}}{\text{Total Asset}}$	(Appiah et al., 2020; Budhathoki & Rai, 2020)
Growth Opportunity	$GO_{it}$	$GO = \frac{(\text{Sales}_t - \text{Sales}_{t-1})}{\text{Sales}_t}$	(Guluma, 2021; Mishra & Kapil, 2018)
GDP Lagged	$GDPL_{t-1}$	$GDPL_{t-1} = \frac{GDP_t - GDP_{t-1}}{GDP_{t-1}}$	(Chen et al., 2020; García-Gómez et al., 2022)

## 4. Empirical Findings and Discussion

### 4.1 Descriptive Statistics Analysis

Descriptive statistics outline the fundamental characteristics of the study data and aim to summarize a data collection. Table 3 gives the descriptive statistics for the independent and dependent variables considered in the investigation. The independent variables comprised CA, ASlack, RSlack, MA, MAU, EPU, and DFIN, while TQ assessed the dependent variable (firm financial performance). The descriptive statistics provide the variables' standard deviation, mean, count of observations, and maximum and minimum values.

This study identified 8,022 observations over 21 years from 2002 to 2022 for non-financial companies listed in ASEAN 5. The mean of the dependent variable (TQ) is 0.8999216, accompanied by a standard deviation of 0.7405446, suggesting that the data variation of TQ is less than the mean value. The variation in the independent variables CA, ASlack, and RSlack exceeds the mean value. The variation in the independent variables MA, MAU, and EPU is less than the mean value.

**Table 3: Descriptive Statistics Summary**

Variable	Obs	Mean	Std. Dev.	Min	Max
TQ	8022	0.8999216	0.7405446	0.023299	4.44087
CA	8022	-0.0179465	0.1735518	-0.892705	11.7178
ASlack	8022	2.913134	5.241937	0.012417	154.435
RSlack	8022	0.1792721	0.1913422	0.011348	1.28334
MA	8022	0.7799889	0.2257358	0.350128	1.91959
MAU	8022	0.9164781	0.061224	0.84652	1.06387
EPU	8022	0.1596102	0.1161926	0	0.505
DFIN	8022	0.6401715	0.967628	-1.25318	6.54292
LEV	8022	0.2489129	0.2918225	0.00000584	18.3649
GO	8022	0.8547427	42.06189	-9.5	3.693.640
GDPL	8022	4.394465	3.146673	-9.5	14.5

### 4.2 Pearson Correlation Analysis

Table 4 presents the results of the Pearson correlation coefficient analysis among the dependent variable of company financial performance Tobin's Q (TQ), independent variables (CA, ASlack, RSlack, MA, MAU, EPU, and DFIN), control variables (LEV, GO, and GDPL). Therefore, this study will analyze corporate performance through the perspective of TQ.

**Table 4: Result of Pearson Correlation Analysis**

Variables	TQ	CA	ASlack	RSlack	MA	MAU	EPU
TQ	1.000						
CA	-0.008	1.000					
Aslack	0.157***	-0.004	1.000				
Rslack	-0.005	0.131***	0.136***	1.000			
MA	-0.009	-0.012	0.028**	-0.069***	1.000		
MAU	-0.038***	0.034***	0.010	0.025**	0.026**	1.000	
EPU	0.026**	-0.018*	0.001	0.012	0.055***	0.079***	1.000
Variables	TQ	CA	ASlack	RSlack	MA	MAU	EPU
LEV	-0.272***	0.015	-0.263***	-0.069***	0.000	0.084***	0.064***
GO	0.014	-0.002	-0.069***	-0.102***	0.297***	0.016	0.043***
GDPL	-0.153***	-0.013	-0.170***	-0.044***	0.040***	0.023**	0.635***
Variables	LEV	GO	GDPL				
LEV	1.000						
GO	-0.011	1.000					
GDPL	0.008	-0.005	1.000				

\*\*\*, \*\*, \* indicate the significance of the correlation at the 1%, 5%, and 10%

The variables of interest (CA, RSlack, MA, MAU) negatively correlate to the company's financial performance. The variables of interest (ASlack and EPU) positively affect the company's financial performance. The control variable leverage (LEV) has a positive correlation with company financial performance, while growth opportunity (GO) and lagged GDP (GDPL) demonstrate a negative correlation toward company financial performance.

### 4.3 Multiple Regression Analysis

This study examines the relationship among conservatism, slack organization, managerial ability, macroeconomic uncertainty, economic policy uncertainty, debt financing, product market competition, company financial performance, and the moderating effect of external corporate governance mechanisms, utilizing panel multiple regression analysis across all models. This research employs panel data exhibiting time-invariant characteristics. The Hausman Test confirms this finding. The Hausman test results indicated the suitability of the fixed effect (FE) method. Table 5 exhibits the findings from the final estimations of fixed effects regression concerning firm financial performance following the completion of diagnostic tests, including Hausman, multicollinearity, heteroscedasticity, and autocorrelation tests. The models are adjusted employing Driscoll-Kraay standard errors. The year-fixed effect also controls all regressions.

**Table 5: Multiple Regression Results for Estimation Model**

<b>Variables</b>	<b>Model 1</b>	<b>Model 2</b>	<b>Model 3</b>
Constanta	1.227388	1.261338	1.220346
CA	0.1568135 0,044**	0.138281 0.0655*	0.1578485 0.0425**
ASlack	0.0199653 0.000***	0.019002 0.000***	0.20038 0.000***
RSlack	-0.1793725 0.0015***	-0.1987445 0.0005***	-0.170842 0.0015***
MA	0.060815 0.0985*	0.0665 0.071*	0.0578609 0.111
MAU	-0.4234239 0.0465**	-0.4146057 0.0515*	-0.4275449 0.045**
EPU	0.1203824 0.152	0.1227635 0.57	0.1189383 0.1545
LEV	-0.1796102 0.113	-0.0774759 0.246	-0.1806342 0.1125
GO	0.0054983 0.000***	0.0005109 0.000***	0.005381 0.000***
GDPL	0.0034131 0.271	0.0036786 0.2665	0.003118 0.2885
Observations	8,022	8,022	8,022
F-statistics	48.20	1,219.71	43.62
P-value	0.0000	0.0000	0.0000
Adjusted R-squared	0.0476	0.0701	0.0480

The figures in bold are the coefficients. \*is statistically significant at 10%, \*\* is statistically significant at 5%. \*\*\* is statistically significant at 1%.

Note:

CA: Accounting conservatism

ASlack: Available Slack

RSlack: Recoverable Slack

MA: Managerial Ability

MAU: Macroeconomic Uncertainty

EPU: Economic Policy Uncertainty

LEV: Leverage

GO: Growth Opportunity

GDPL: GDP Lagged

## **5. Conclusions**

Accounting conservatism positively and significantly impacts the company's financial performance. Applying the principle of prudence in preparing the company's financial statements assures users that the financial performance reported is unbiased and conveys a favorable signal to investors. This study's results indicate a positive and significant relationship between accounting conservatism and financial performance in the Information Technology and Real Estate sectors. As indicated by available slack, organizational slack positively and significantly impacts the company's financial performance. Firms possessing greater liquidity exhibit enhanced financial flexibility, which can be leveraged to maintain favorable financial performance. As recoverable slack indicates, organizational slack negatively and significantly impacts the company's financial performance. Companies possessing higher recoverable slack may experience a decline in financial performance, as this directly affects profit levels. Therefore, optimal management of this slack is essential for sustaining the company's benefits.

Macroeconomic uncertainty negatively and significantly impacts a company's financial performance. Macroeconomic uncertainty will directly affect a nation's economy; increased macroeconomic uncertainty diminishes consumer purchasing power, reducing aggregate demand for products and services companies offer and consequently negatively impacting their financial performance.

Managers must acknowledge that accounting conservatism has a favorable impact on the firm's financial performance. In the conservative approach to accounting, managers prioritize exercising caution when generating financial statements to guarantee the long-term viability of the company's financial performance. The managers inside the organization must acknowledge that Slack has the potential to function as a resource that, if handled properly, will contribute to the company's financial performance. To maintain and improve the company's financial performance, managers must anticipate the possibility of a slowdown in the GDP growth in the ASEAN 5 countries.

Managers must acknowledge that macroeconomic uncertainty can hamper a company's ability to improve its financial performance. Regulators should be aware of this and able to foresee it so that it does not constitute a barrier to improvement.

## **ACKNOWLEDGEMENTS.**

All authors received no financial support for this article's research, authorship, and/or publication and declared no potential conflicts of interest concerning these activities.

## References

- [1] Agusti-Perez, M., Galan, J. L., & Acedo, F. J. (2020). Relationship between slack resources and performance: temporal symmetry and duration of effects. *European Journal of Management and Business Economics*, 29(3), 255–275. <https://doi.org/10.1108/EJMBE-10-2019-0177>
- [2] Ahmed, A. S., & Duellman, S. (2007). Accounting conservatism and board of director characteristics: An empirical analysis. *Journal of Accounting and Economics*, 43(2–3), 411–437. <https://doi.org/10.1016/j.jacceco.2007.01.005>
- [3] Ahsan, T., & Qureshi, M. A. (2021). The nexus between policy uncertainty, sustainability disclosure and firm performance. *Applied Economics*, 53(4), 441–453. <https://doi.org/10.1080/00036846.2020.1808178>
- [4] Al-Fasfus, F. S., Al-Rawashdeh, A. M., Al-Theebbeh, Z. A., & Al-Enabi, H. A. M. (2022). The Impact of Accounting Conservatism on Financial Performance in Services Companies Listed on Amman Stock Exchange. *Academic Journal of Interdisciplinary Studies*, 11(4), 285–299. <https://doi.org/10.36941/ajis-2022-0116>
- [5] Appiah, K. O., Gyimah, P., & Abdul-Razak, Y. (2020). Financial leverage and corporate performance: Does the duration of the debt ratio matters? *International Journal of Business and Emerging Markets*, 12(1), 31–45. <https://doi.org/10.1504/IJBEM.2020.106200>
- [6] Ashiq, A., Guoxing, Z., Hussain, A., & Nadeem, M. (2023). *Indirect Effect of Earnings Quality in the Linkage between Managerial Ability and Firm Performance : Evidence from an Emerging Economy*. 44(2), 335–350.
- [7] Bae, S. M., Masud, M. A. K., & Kim, J. D. (2018). A cross-country investigation of corporate governance and corporate sustainability disclosure: A signaling theory perspective. *Sustainability (Switzerland)*, 10(8). <https://doi.org/10.3390/su10082611>
- [8] Baker, Bloom, N., & Davis, S. J. (2016). Measuring Economic Policy Uncertainty. *The Quarterly Journal of Economics*, 131(November), 1593–1636. <https://doi.org/10.1093/qje/qjw024>. Advance
- [9] Barth, M. E., Li, K., & McClure, C. G. (2023). Evolution in Value Relevance of Accounting Information. *The Accounting Review*, 98(1), 1–28. <https://doi.org/10.2308/tar-2019-0521>
- [10] Binz, O. (2022). Managerial Response to Macroeconomic Uncertainty: Implications for Firm Profitability. *The Accounting Review*, 97(5), 89–117. <https://doi.org/10.2308/tar-2020-0342>
- [11] Bloom, N. (2017). Observations on Uncertainty. *The Australian Economic Review*, 50(1), 79–84.
- [12] Budhathoki, P. B., & Rai, C. K. (2020). The Impact of the Debt Ratio, Total Assets, and Earning Growth Rate on WACC: Evidence from Nepalese Commercial Banks. *Asian Journal of Economics, Business and Accounting*, May, 16–23. <https://doi.org/10.9734/ajeba/2020/v15i230210>



- [13] Chen, X., Cheng, Q., Hao, Y., & Liu, Q. (2020). GDP growth incentives and earnings management: evidence from China. *Review of Accounting Studies*, 25(3), 1002–1039. <https://doi.org/10.1007/s11142-020-09547-8>
- [14] Cheong, C., & Hoang, H. V. (2021). Macroeconomic factors or firm-specific factors? An examination of the impact on corporate profitability before, during and after the global financial crisis. *Cogent Economics and Finance*, 9(1). <https://doi.org/10.1080/23322039.2021.1959703>
- [15] Cho, S. J., Chung, C. Y., & Young, J. (2019). Study on the relationship between CSR and financial performance. *Sustainability (Switzerland)*, 11(2), 1–26. <https://doi.org/10.3390/su11020343>
- [16] Çolak, S., Güney, E., & Hacıhasanoğlu, S. (2020). The Relationship between Economic Uncertainty and Firms' Balance Sheet Strength. In R. Haron, Maizaitulaidawati Md Husin, & M. Murg (Eds.), *Banking and Finance* (Vol. 1, p. 276). Intechopen. <https://doi.org/10.5772/intechopen.87329>
- [17] Cui, H., & Chi-Moon Leung, S. (2020). The long-run performance of acquiring firms in mergers and acquisitions: Does managerial ability matter? *Journal of Contemporary Accounting and Economics*, 16(1), 100185. <https://doi.org/10.1016/j.jcae.2020.100185>
- [18] Curtis, E., Comiskey, C., & Dempsey, O. (2016). Importance and use of correlational research. *Nurse Researcher*, 23(6), 20–25. <https://doi.org/10.7748/nr.2016.e1382>
- [19] Davis, S. J., Arbatli, E. C., Ito, A., & Miake, N. (2022). Policy Uncertainty in Japan. *Nber Working Paper Series Policy*.
- [20] Demerjian, P., Lev, B., & McVay, S. (2012). Quantifying managerial ability: A new measure and validity tests. *Management Science*, 58(7), 1229–1248. <https://doi.org/10.1287/mnsc.1110.1487>
- [21] Dibiasi, A., & Iselin, D. (2021). Measuring Knightian uncertainty. *Empirical Economics*, 61(4), 2113–2141. <https://doi.org/10.1007/s00181-021-02106-3>
- [22] El-Habashy, H. A. (2019). The Impact of Accounting Conservatism on Corporate Performance Indicators in Egypt. *International Journal of Business and Management*, 14(10), 1. <https://doi.org/10.5539/ijbm.v14n10p1>
- [23] FASB. (1980). *Financial Accounting Standards Board (FASB): 1980*.
- [24] Garcia-Cascaldi, D., Sarisoy, C., JuanM, L., Rogers, J., Sun, B., Datta, D., Ferreira, T., Grischenko, O., Jahan-Parvar, M. R., Loria, F., Ma, S., Rodriguez, M., & Zer, I. (2023). What is Certain about Uncertainty? *Journal of Economic Literature*, 61(2), 624–654. <https://doi.org/10.1257/jel.20211645>
- [25] García-Gómez, C. D., Demir, E., Chen, M. H., & Díez-Esteban, J. M. (2022). Understanding the effects of economic policy uncertainty on US tourism firms' performance. *Tourism Economics*, 28(5), 1174–1192. <https://doi.org/10.1177/1354816620983148>
- [26] Givoly, D., & Hayn, C. (2000). The Changing Time-Series Properties of Earnings, Cash Flows and Accruals. *Journal of Accounting and Economics*, 29, 287–320.

- [27] Guluma, T. F. (2021). The impact of corporate governance measures on firm performance: the influences of managerial overconfidence. *Future Business Journal*, 7(1), 1–18. <https://doi.org/10.1186/s43093-021-00093-6>
- [28] Hambrick, D. ., & Mason, P. (1984). Upper Echelons : The organization as a reflection of its top managers. *Academy of Management Review*, 9(2), 193–206.
- [29] Inam Bhutta, A., Sheikh, M. F., Munir, A., Naz, A., & Saif, I. (2021). Managerial ability and firm performance: Evidence from an emerging market. *Cogent Business and Management*, 8(1). <https://doi.org/10.1080/23311975.2021.1879449>
- [30] Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review*, 76(2), 323–329. <https://doi.org/10.1017/cbo9780511609435.005>
- [31] Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. <https://doi.org/10.1177/0018726718812602>
- [32] Jurado, K., Ludvigson, S. C., & Ng, S. (2015). Measuring Uncertainty. *American Economic Review*, 105(3), 1177–1216. <https://doi.org/10.1111/j.1467-9639.1980.tb00367.x>
- [33] Kyere, M., & Ausloos, M. (2021). Corporate governance and firms financial performance in the United Kingdom. *International Journal of Finance and Economics*, 26(2), 1871–1885. <https://doi.org/10.1002/ijfe.1883>
- [34] Ludvigson, S. C., Ma, S., & Ng, S. (2021). Uncertainty and Business Cycles: Exogenous Impulse or Endogenous Response?†. *American Economic Journal: Macroeconomics*, 13(4), 369–410. <https://doi.org/10.1257/mac.20190171>
- [35] Makosa, L., Jie, S., Bonga, W. G., Jachi, M., & Sitsha, L. (2021). Does economic policy uncertainty aggravate financial constraints? *South African Journal of Accounting Research*, 35(2), 151–166. <https://doi.org/10.1080/10291954.2021.1885233>
- [36] Mao, Y., Li, P., & Li, Y. (2023). The relationship between slack resources and organizational resilience: The moderating role of dual learning. *Heliyon*, 9(3). <https://doi.org/10.1016/j.heliyon.2023.e14044>
- [37] Mardones, J. G. (2022). Working capital management and business performance: evidence from Latin American companies. *Economic Research-Ekonomska Istrazivanja* , 35(1), 3189–3205. <https://doi.org/10.1080/1331677X.2021.1986675>
- [38] Mishra, R. K., & Kapil, S. (2018). Board characteristics and firm value for Indian companies. *Journal of Indian Business Research*, 10(1), 2–32. <https://doi.org/10.1108/JIBR-07-2016-0074>
- [39] Nassar, M. A., & Al Twerqi, H. M. (2021). Accounting Conservatism and Company’s Profitability: The Moderating Effect of Ownership Concentration. *Jordan Journal of Business Administration*, 17(4), 483–504.

- [40] Phan, D. H. B., Tran, V. T., Nguyen, D. T., & Le, A. (2020). The importance of managerial ability on crude oil price uncertainty-firm performance relationship. *Energy Economics*, 88, 104778. <https://doi.org/10.1016/j.eneco.2020.104778>
- [41] Phan, D., Iyke, B. N., Sharma, S. S., & Affandi, Y. (2020). Economic policy uncertainty and financial stability - Is there a relation? *Economic Modelling*, 94(January), 1018-1029. <https://doi.org/10.1016/j.econmod.2020.02.042>
- [42] Ramakhrisan, R. (2021). Leading in a VUCA world. *Ushus-Journal of Business Management*, 20(1), 89-111. <https://doi.org/10.12725/ujbm.54.5>
- [43] Siedlecki, S. L. (2020). Understanding Descriptive Research Designs and Methods. *Clinical Nurse Specialist*, 34(1), 8–12. <https://doi.org/10.1097/NUR.0000000000000493>
- [44] Simamora, A. J. (2021). Capital structure and performance: Examination of managerial ability as moderating role. *Asian Academy of Management Journal of Accounting and Finance*, 17(1), 191–224. <https://doi.org/10.21315/aamjaf2021.17.1.7>
- [45] Spence, M. (1973). Job Market Signaling. In *Quarterly Journal of Economics* (Vol. 87). Academic Press, INC. <https://doi.org/10.1016/b978-0-12-214850-7.50025-5>
- [46] The ASEAN Secretariat. (2023). Asean Statistical Yearbook 2003. *ASEAN Secretariat 2023*, 1(December), 1689–1699.
- [47] Ting, I. W. K., Tebourbi, I., Lu, W. M., & Kweh, Q. L. (2021). The effects of managerial ability on firm performance and the mediating role of capital structure: evidence from Taiwan. *Financial Innovation*, 7(1). <https://doi.org/10.1186/s40854-021-00320-7>
- [48] Ugwunta, D. O., & Ugwuanyi, B. U. (2019). Accounting conservatism and performance of Nigerian consumer goods firms': An examination of the role of accruals. *International Journal of Financial Research*, 10(1), 1-9. <https://doi.org/10.5430/ijfr.v10n1p1>
- [49] Utami, H. & Alamanos, E. (2023). *Resource-Based Theory:A review*. In S. Papagiannidis (Ed), *TheoryHub Book*. Available at <https://open.ncl.ac.uk/> / ISBN: 9781739604400.
- [50] Weng, D. H., & Yang, K.-P. (2022). How does organizational slack influence firm performance? A replication and extension of Peng, Li, Xie, and Su (2010). *Asia Pacific Journal of Management*. <https://doi.org/10.1007/s10490-022-09842-9>
- [51] Wernerfelt, B. (1984). A resource-based view of the firm. *Strategic Management Journal*, 5, 171-180. <https://doi.org/10.1177/1056492611436225>
- [52] Wiersma, E. (2017). How and when do firms translate slack into better performance? *British Accounting Review*, 49(5), 445-459. <https://doi.org/10.1016/j.bar.2017.05.007>

- [53] Wolanin, M. (2022). Competencies of top management, and the needs of 21st century enterprises in a VUCA world. *VUZF Review*, 7(2), 170-182. <https://doi.org/10.38188/2534-9228.22.2.18>
- [54] Xu, E., Yang, H., Quan, J. M., & Lu, Y. (2015). Organizational slack and corporate social performance: Empirical evidence from China's public firms. *Asia Pacific Journal of Management*, 32(1), 181–198. <https://doi.org/10.1007/s10490-014-9401-0>
- [55] Zheng, C., Li, Z., & Wu, J. (2022). Tourism Firms' Vulnerability to Risk: The Role of Organizational Slack in Performance and Failure. *Journal of Travel Research*, 61(5), 990-1005. <https://doi.org/10.1177/00472875211014956>