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Financial Slack and Firm's Performance: Does Ownership Structure Matters?

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Abstract

Financial slack resources are unutilized assets and capabilities. According to Resource-Based View, such resources are concealed energies and can boost the financial performance of an organization. On the other hand, Agency theory believes that slack resources are redundant cost and need minimisation. The present study investigates the influence of one of the corporate governance factor—ownership structure as a moderating variable—on the relation between financial slack (available and potential) and firm performance. The study expands the scope of agency theory to incorporate the interest of owners. Dynamic generalized method of moments regression results and fixed effects generalized least square results show a positive linear relationship between financial slack and firm performance. Findings of study support Resource-based view and behavioural theory of the firm. Moreover, the findings show that the identity of the owners matters in shaping the relationship, high level of slack resources benefit firm, the level of slack is important rather than fungibility of slack resources, who the owner is matters and, national corporate governance system as well as firm-level corporate governance system influence investment horizon of outside investors

Keywords: Financial Slack, Performance, Corporate Governance, Ownership Structure, GMM regression, Fixed Effect Model

Organisational slack is generally defined as the surplus resources available to the firm, like excess financial resources (see, e.g. Wang, Su & Zhang, 2019). The current study focuses on financial slacks which refer to a financial resource in surplus of what is necessary to sustain the business (see, e.g. Carnes, Xu, Sirmon&Karadag, 2019). Organisational theories define financial slack as "those resources which a firm has obtained and/are not committed to a needed expenditure" and "can be used in a discretionary manner" (Dimick and Murray, 1978). There are different organisational theories regarding the debate of financial slack. The argument of these theories is that financial slack affects different organisationalbehaviour in different dimensions and ultimately firm performance. Therefore, the relationship between financial slack and firm performance seems logical (see, e.g. Wang, Su & Zhang, 2019).

Although numbers of scholars acknowledge the relation of financial slack and firm performance, nevertheless they do not agree on the directionality of the effect whether financial slack affects firm performance positively or negatively (see, e.g. Suzuki, 2019). Also, there exists a contradiction among theorists regarding the relation of slack and firm's performance (see, e.g. Carnes, et al., 2019). Classical theories, for example,behavioural theory of the firm (Cyert and March, 1963) and resource-based theory (Penrose, 1959) claim that financial slack offers firm more autonomy and resources necessary to adapt changing economic conditions and thus enhances firm performance and managers have an incentive to utilise excess resources efficiently. On the other hand, agency theory (Jensen and Meckling, 1976) in contrast to classic organisation theories states that in the absence of suitable control and monitoring system managers are likely to waste surplus resources, thereby hurts firm performance and also overinvest slack into negative NPV. Therefore, it is theoretically and empirically not apparent to conclude whether the effect of financial slack on firm performance is negative or positive, which demands to address latest call for further research (see, e.g. Suzuki, 2019; Wang, Su & Zhang, 2019).There are a number of empirical researches that focus on direct association of financial slacks and firm performance (see, e.g. Carnes et al., 2019; Rafailov, 2017, Zhu et al., 2017,Lee, 2012, Lee, 2011, Daniel et al., 2004 and Tan and Peng 2003).However, these studies ignore the possible effect of any moderating variable to disrupt the

established relationship of financial slack and firm performance. Arecent study by Shaikh et al. (2018) claim that insider directors positively influence the relationship between financial slack and research and development (R&D) intensity, ignoring direct relationship between firm performance and financial slack and also other ownership structure (outside owners).

Therefore, the present study incorporates ownership structure as a moderating variable—one of the corporate governance factor— in order to explore the effect of slack financial resources on firm's performance. In doing so, our study expands the range and borders of agency theory into principal-principal conflict of interest. According to Dharwadkar et al. (2000) different shareholders have different interests regarding investment and resource allocation, and this conflict of interest leads to differences in performance. Similarly, according to Carnes et al. (2019) and Hu etal., (2009) and different owners influence how to utilise slack resources to enhance the firm's performance. Consequently, it seems crucial to integrate ownership structure as a moderating variable in investigating the slack-performance relationship (see, e.g. Suzuki, 2019). Thus, in the present study, four dimensions of ownership structure, i.e. family ownership, affiliated ownership, domestic and foreign ownership are included as moderating variables.

The contribution of the present study can be viewed from theoretical and practical perspectives:

Theoretical contribution; the present study further enriches the existing literature on financial slack and firm performance by examining two research gaps. Firstly, it does this by utilizing a new set of data from different contextual background having different economic conditions and corporate governance system. Secondly, this study expands the debate of slack and firm performance by introducing ownership structure as unexplored moderating variable. Few of the researches have explored slack-performance link in the corporate governance context, and have ignored the importance of ownership structure as moderator variable. Thus, by further extending the concept of agency theory into principal-principal goal conflict this study investigates the moderating role of ownership structure in shaping slack-performance link. Thus, it will be instrumental to enhance the understanding of the nature of the relationship.

Practical contribution; The sustainable development and survival of the firms in these competitive and dynamic environments is challenging task for the firms that can be achieved by obtaining competitive advantage through innovation performance and proper utilization of slack resources and this is under the control of owners and organizational slack. The presence of different owners with varying interest makes allocation of financial slack resources different. Hence, this study guides the policy makers and top management that under a particular ownership structure what should be the optimal financial slack resources to maximize firm financial performance.

Hypotheses Development
Financial Slack and Firm's Performance

Literature shows that classical theorists highlight the existence of slack resources within the firm offering flexibility to respond to available opportunities and dynamic changes in the external environment (Carnes et al., 2019; Chiedu and Musa, 2012, Lee, 2011; Suzuki, 2019). Whereas, from agency theory paradigms, slack is surplus resources which can breed ineffectiveness and inefficiency in the firm. These theories view managers' behaviour from different angles: from the perspective of classical theories managers are the ones who take initiatives and perform optimistically to enhance firm performance. Whereas, agency theory considers managers as agents they operate on behalf of ultimate owners (the shareholders). These two theories regarding slack are disparate from each other based on many assumptions on how managers use excess resources? The two classical organisational theories (behavioural theory and resource-based view) argue that in the presence of valuable financial slack managerial initiatives contributes to firm performance whereas the agency theory claims that higher managerial discretion in the presence of excess resources will breed inefficiency in the firm. Therefore, monitoring is essential to prevent managers from allocating excess resources to self-serving activities, and if excess resources are given to them without monitoring, they will be more likely to pursue their personal preferences thereby resulting inefficiency in firm performance. Either managerial initiatives or monitoring of management is necessary concerning financial slack there seems to be a tradeoff between these two concepts (see e.g. Wang et al, 2019),which effect (positive or negative) dominates in the real economy is still answerable. Based on this evidence, the present study predicts a positive association between firm performance and financial slack. Thus it is hypothesised that;

Hypothesis 1. "Available *Financial slack is positively related to the firm's performance"*.
Hypothesis 2. "*Potential financial slack is positively related to firm's performance"*.

Ownership Structure as Moderator

Ownership structure has been distinguished between insider owner and outsider owner in the corporate governance literature. Compared to an outsider, Insiders owners influence strategic investment decision and have quick access to firm-specific information (Baysinger and Hoskisson, 1990). Because of asymmetric information and the capacity to sway firm management the investment horizon of the various owners may be different and inducement to monitor the firm may also vary based on owners (Fiss and Zajac 2004, Ramaswamy et al. 2002;Wang, Su& Zhang, 2019).

Family Ownership- Inside Owners

In Pakistan- an informal economy, mostlythe firms are owned by family members (see, e.g. Saleem, Siddique & Ahmed, 2019). Holding a huge percentage of equity ownership, these family and founding owners also hold key positions in the firm like chairperson, CEO or any other position in top management (see, e.g. Saleem, Khalid, & Nadeem, 2019). Being insiders, family owners have quick access to crucial inside information and have strong influence on allocating financial resources among competing needs. Due to such informational and control advantage family owners are in a better position to utilise financial slack in their own way. Some previous studies like La Porta et al. (2000a) report that family owners misuse these advantages (information and control) to pursue self-serving activities at the expense of other shareholders; it is extreme in the case of emerging economies due to weak legal environment and weak protection of outside investors (Saleem, Siddique & Ahmed, 2019).

However, the role of a family member concerning firm wealth maximisation is different;This is because the wealth of family members is closely associated with the wealth of the firm.Thereforefamily owners have considerable economic benefits to maximise value of the firm (Anderson and Reeb, 2004, Anderson and Reeb, 2003; Carnes et al., 2019). The investment horizons of the family owners are usually long term (Anderson et al., 2003). Family owners pass control of the firm to their descendants rather than utilising the whole wealth during their lifetime (Casson, 1999). Since family owners are recognised by their firms, therefore, selling off their equity holding and exiting from the firm may harm their status as trustworthy business partners. Additionally, quitting from the firm beside reducing equity holding that their descendant will inherit and also lead to emotional cost linked with loss of power and authority contradicting family expectation and reduced status (Casson, 1999). Therefore, family owners have long term investment perspective than other equity holders; hence they invest in long term positive NPV projects to maximise firm value.

Available slack being an internal source of capital offers greater flexibility and strategic choice to family owners (Suzuki, 2019). Since the interests of family owners are associated with the long term performance of the firm. Being residual claimant's family owners are more likely to allocate substantial portions of available slack for profitable investment. Accordingly, it is hypothesized that:

Hypothesis 3. "*Family ownership positively moderate the relationship between Available financial slack and firm performance"*.

On the other hand, family owners are unwilling to depend on external sources of fund needed for risky projects. Because the external source of fund like in shape of debt can reduce the control of the family owners over firm (Mishra and McConaughy, 1999). Due to asymmetric information external investors are unable to monitor and evaluate investments hence external investors demand more premiums (Jensen and Meckling, 1976; Suzuki, 2019). Such kinds of issues are more common in underdeveloped financial markets of emerging economies like Pakistan. Accordingly, it is hypothesized that:

Hypothesis 3a. "*Family ownership negatively moderate the relationship between Potential financial slack and firm performance"*.

Affiliated Ownership- Insider Owners

Affiliated ownership is common in Pakistan. Through interlocking ownership structure, affiliated firms are associated with each other where one affiliated firm owns another affiliated firm (Joh, 2003). Due to interlocking ownership structure these affiliated firms have easy access to critical information and share resources (Chang et al., 2006, Chang and Hong, 2000 and Chang 2003a). Like family owners, affiliated owners may also benefit from information availability and control advantages concerning financial slack. Furthermore, due to formal and informal ties, these

affiliated firms are bound to share resources and also coordinates their operating activities (Khanna and Rivkin, 2001; Granovetter, 1994; Saleem, Khalid & Nadeem, 2019). The affiliated firm performs like lender of the last resort by providing necessary fund at the time of liquidity constraints. For example, if one of the affiliated firms faces liquidity constraints the other firm with surplus cash flow will provide necessary fund. (Scharfstein and Stein, 2000; Lincoln et al., 1996). In this kind of internal capital market one affiliated firm ownership affects another affiliated firm differently based on the level of financial slack available to the focal firm. In the presence of high degree of financial slack affiliated firm ownership motivates focal firm to put aside greater portion of financial slack for another affiliated firm. Therefore, the focal affiliated firm becomes unable to allocate its substantial financial slack to profitable investment. On the contrary, if a focal affiliated firm faces liquidity constraints the focal firm may ask affiliated firms to transfer additional fund needed for long term investment (see, e.g. Suzuki, 2019; Wang et al. 2019). Hence, the focal firm will more likely be able to convert financial slack into profitable investments since affiliated firms are self-sufficient they do not further encourage focal firm to keep substantial slack for them. Based on the above discussion it is hypothesised that:

Hypothesis 4. "*Affiliated ownership positively moderate the relationship between Available financial slack and firm performance*".

Hypothesis 4a. "*Affiliated ownership negatively moderate the relationship between Potential financial slack and firm performance*".

Domestic and Foreign Ownership - Outside Owners

In contrast to family and affiliated owners outside owners (Like foreign and domestic owners) generally bear control and informational disadvantages (Williamson, 1975). However, domestic institutional owners and foreign institutional owners to some extent, are active investors as compared to individual investors. In fact, domestic institutional investors hold large equity ownership block in firms. Therefore, they have strong reason behind incurring monitoring cost. In the same way, foreign investors in developing economies are primarily institutional investors from western and Middle East countries (Choe et al., 1999). After financial crisis due to financial liberalisation these foreign investors can influence managerial decisions more effectively.

According to Baysinger et al. (1991), there is a direct relationship between institutional ownership and long term investment. Similarly, investigating high growth Japanese firm David et al., (2006) observed positive relationship between foreign institutional ownership and long term investments such as Capital investment and research & development investments (see e.g. Saleem, Siddique & Ahmed, 2019).

However, in developing economies like Pakistan foreign investors and domestic institutional investor are tend to be short term investors because of the weak legal protection of outside shareholders (La Porta et al., 2000). Due to expropriating behaviour of the controlling owners' foreign or domestic institutional investors usually prefers immediate short term gains over long term gains like in the shape of dividend (La Porta et al., 2000b; Jensen 1989; Shefrin and Statman 1984, Suzuki, 2019). Consequently, as the ownership of outside investors' increases they are less likely to allocate financial resources to long term profitable investments. Therefore, it is hypothesized that:

Hypothesis 5. "*Domestic institutional ownership negatively moderate the relationship between Available financial slack and firm performance*".

Hypothesis 5a. "*Domestic institutional negatively moderate the relationship between Potential financial slack and firm performance*".

Hypothesis 6. "*Foreign ownership negatively moderate the relationship between Available financial slack and firm performance*".

Hypothesis 6a. "*Foreign ownership negatively moderate the relationship between Potential financial slack and firm performance*".

Methodology

For the purpose of empirical evaluation and validation of two divergent views regarding financial slack-firm performance and moderating role of ownership structure on the relationship between financial slack and firm financial performance, the present study employs panel data set of 131 Pakistani firms listed in Pakistan stock exchange over the period of 10 years (2009 to 2018). One of the benefits of using panel data is that it can capture the vibrant changes occurs in each firm over time. Therefore, it can offer highly credible results for the financial slack and firm performance relation and also for the moderating role of ownership structure. For the purpose of

examining panel data, the current study employs generalized least square (GLS) method for linear and quadratic models and difference generalized method of moment (GMM) for the dynamic panel data model.The benefit of using GMM is not only done its controlor fixed effects, but it also accounts for heteroskedasticity and auto-correlation that may influence R & D investment over time(Arellano & Bond, 1991). Although the GMM is a powerful tool to ad-dress endogeneity, it has been shown that after differencing the data toremove thefixed effects, the differenced residual is correlated with thelagged (and differenced) dependent variable, and this can lead to biasedestimates if not corrected (Wooldridge, 2001). The present study uses a simple linear model, distributed lag structure model (i.e. model with lagged values of only independent variables), dynamic panel data model (including lagged dependent variable as independent variables), quadratic model and dynamic interaction models. For panel data, this study also employee Hussman's test, the result of this test reveals fixed effect is suitable with P-value less than 1%.

Two standard dimensions of the financial slack concept are addressed to analyse the value of financial slack. The most widely used classifications of slack seem to be available and potential slack (Cheng &Kesner, 1997; Daniel et al., 2004). These two types of slack are differentiated based on their "ease of recovery". Extant literature most often defines available slack as the difference between available working capital and required working capital (Bourgeois III & Singh, 1983; Bradley, Wiklund, & Shepherd, 2010; Bromiley, 1991; Chiu &Liaw, 2009; Geiger &Cashen, 2002). This difference is known as the current ratio, as is demonstrated in the overviews given by both Daniel et al. (2004) and Tan and Peng (2003). To keep in line with previous inquiries and to facilitate cross-study comparison, this study also applies the current ratio, measured as current assets divided by current liabilities. Potential slack indicates the firm's ability to gain external resources (Hambrick&D'Aveni, 1988). It is common to capture this variable by using a leverage ratio; here, the ratio of equity to total debt is applied.

$$ROA_{it} = \alpha_i + \beta_1 CR_{it} + \beta_2 DTE_{it} + \beta_3 LAS_i + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \quad \text{(1)}$$

Where, ROA (Return on Asset), CR (Current Ratio), DTE (Debt to total Equity Ratio), LAS (Log of Asset), ε_{it} (Error term), λ_t (Parameter of time dummy variable), $\acute{\eta}_i$(Unobservable heterogeneity Individual effect), α (Constant). The lag structure is another important concern in regression. According to Daniel et al., (2004) the empirical findings of the research could significantly vary depending on if the study uses lagged slack variable or not. Therefore, the present study also estimates the lag structured model. The logic is also related to theoretical consideration. According to theories financial slack influence a firm's capability to deal with environmental demands, managerial incentives and decisions for creative and innovative activities. All these capabilities ultimately affect firm performance. The present study uses the following lag model:

$$ROA_{it} = \alpha + \beta_1 CR_{it-n} + \beta_2 DTE_{it-n} + \beta_3 LAS_i + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \quad \text{(2)}$$

The study also estimates first (n-1) and second-order (n-2) lagged model as well.

Besides linear and lag structure model the present study also estimates quadratic regression model which is generally employed to verify the importance of the curvilinear relationship: relation of financial slack and firm performance can be negative at a higher level of slack whereas positive at some low degree of slack and vice versa. The quadratic equation is as follows:

$$ROA_{it} = \alpha + \beta_1 CR_{it} + \beta_2 CR^2_{it} + \beta_3 DTE_{it} + \beta_4 DTE^2_{it} + \beta_5 LAS_i + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \quad \text{(3)}$$

The present study also puts attention on the omitted variable problem that equation 1 is likely to encounter. Much literature in finance, economics and management point out various factors that can affect firm accounting performance (or ROA), but due to non-availability of data, the present study does not control for them. Taking this issue into consideration the study uses dynamic panel data model in addition to equation 2 and 3;

$$ROA_{it} = \alpha + \beta_1 ROA_{it-1} + \beta_2 CR_{it-1} + \beta_3 DTE_{it-1} + \beta_4 LAS_i + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \quad \text{(4)}$$

The possible consequences of omitted variables could be controlled by incorporating the lagged dependent variable as an independent variable. The lagged performance variable can explain various determinants of performance in the previous year. In addition to equation 4 the study estimates equation 5 using a *t*-2 lagged variable as a robust method:

$$ROA_{it} = \alpha + \beta_1 ROA_{it-1} + \beta_2 ROA_{it-2} + \beta_3 CR_{it-1} + \beta_4 DTE_{it-1} + \beta_5 LAS_i + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \quad \text{(5)}$$

In order to estimate the dynamic regression, model the present study employs Generalized Method of Moments (GMM) a kind of estimator suggested by Blundell and Bond (1998). As GMM instrument a two year or earlier lag is used in the current study. In order to check whether the model is correctly specified or not the present study conducts sargan test and m2 test, tests for second-order serial correlation of residuals.

Finally, the relation between financial slack and firm performance may also be affected by firm specific characteristics. The present study evaluates the moderating role of ownership structure. For this purpose, in the present study dummy interaction model is employed. The interaction model equations are:

$$ROA_{it} = \alpha + \beta_1 ROA_{it-1} + \beta_2 ROA_{it-2} + \beta_3 CR_{it} + \beta_4 CR_{it}* FO + \beta_5 CR_{it}*AO + \beta_6 CR_{it}*DO + \beta_7 CR_{it}* FRO + \beta_8 AS_{it} + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \qquad (6)$$

$$ROA_{it} = \alpha + \beta_1 ROA_{it-1} + \beta_2 ROA_{it-2} + \beta_3 DTE_{it} + \beta_4 DTE_{it}*FO + \beta_5 DTE_{it}*AO + \beta_6 DTE_{it}*DO + \beta_7 DTE_{it}*FRO + \beta_8 AS_{it} + \lambda_t + \acute{\eta}_i + \varepsilon_{it} \qquad (7)$$

Result & Discussion

The results in table 1 reflect that available slack variable has expected positive sign and statistically significant at 1% significance level in both two-step difference GMM model and fixed effects GLS linear model but the effect of available slack is more pronounced and significant in difference GMM model regression with higher coefficient estimates. Thus, the finding suggests that available slack have a significant impact on firm performance. The result confirms the RBV hypothesis that high level of slack benefit firm by contradicting agency theory hypothesis that slack resources are source of agency problem and are redundant cost that should be minimised to enhance firm performance. Thus, the result supports H1 of the study that available slack is positively related to firm performance, and the finding is consistent with Lee (2011).

The variable potential slack also has predicted sing and statistically significant in both models, but again like available slack, potential slack has higher coefficient estimates in difference GMM model. The coefficient of potential slack is negative in both models. Note that negative coefficients of potential slack represent positive impact of potential slack on performance and thus, the negative value associated with the coefficient of potential slack Thus, the finding supports the RBV hypothesis of positive effect, and the result is inconsistent with H2 of the study that potential financial slack has positive association with firm performance. Note that the coefficients of lagged performance variable are also significant as expected. Moreover, size of the firm used in the study as control variable is insignificant in all the models except two-step difference GMM at t-1 lag. The regression result reflects that positive effect exists in both types of slacks. So, from the result it is concluded that there is no disparity between the effect of available and potential slacks on firm performance. Secondly, the agency problem seems unimportant in the Pakistani context.Table 1 also presents distributed lag model results estimated through fixed effect GLS at time t-1 and t-2. The lagged regression results show that both available slack and potential slack are statistically insignificant at t-1 lag. On the other hand, regression result of t-2 lag model reflects that the effect of available slack has an unexpected negative sign and significant at 10% level available slack represents all the liquid assets of the firm to meet its immediate obligations, but potential slacks are one that cannot be generated and deployed immediately. Therefore, available slack is easy to utilise at any time to enhance firm performance. So, it is argued that the effect of available slack on firm performance is more pronounced in the same period rather than in future. The linear and lag regression result in table 1 supports the argument. Whereas, table 1 reflects that the coefficient of the potential slack variable is positive at 5% significance level. The results contradict with the argument of delayed effect of potential slack on firm performance. Table 1 depicts that quadratic regression results do not support the existence of curvilinear relationship between slack variables and firm performance. The result suggests that the coefficient of quadratic term for available slack is insignificant whereas, quadratic term for potential slack is significant with its expected positive sign, but the magnitude is negligible. Hence, it is found that curvilinear relationship between slack variables and firm performance does not exist.

Table 1 Fixed GLS & Two-Step Difference GMM Regression Results

Note: Robust Standard errors in parentheses below Regression Coefficients*** p<0.01, ** p<0.05, * p<0.1

GMM Interaction Regression Results

Table 2 and 3 present regression results of the moderating effect of four different types of owners on the relationship between slack variables (Available slack and Potential slack) on firm performance. Model 1 in table 2 supports H3; the table reflects that the coefficient of interaction term has expected positive sign and significant at 1% level. Model 1 in table 3 supports H3a; the coefficient of interaction term is negative and statistically significant at 5% level in model 1 and 1% level in model 5. Model 2 and 5 in table 3 found support for H4 (coefficient of interaction term is positive and statistically significant at 1% level in both models) & H4a (coefficient of interaction term is negative and statistically significant at 5% level in model 2 and 1% level in model 5).

Finally, Consistent with our propositions, model 3 and 5 in table 2 and 3 illustrates that domestic ownership negatively moderates the relation between slack variables (Potential and available slacks) and firm performance. The coefficients of both interaction terms are negative as expected, and the interaction term of available slack and domestic ownership is significant at 5% level whereas, the interaction term of potential slack and domestic ownership is significant at 1% level. Similarly, model 4 and 5 in table 2 provides support to H6, the coefficients of interaction term of available slack and foreign ownership has negative predicted sign and statistically significant at 1% level. Thus, it confirmed the proposition that foreign ownership negatively moderates the relationship between available slack and firm performance. Whereas model 4 and 5 in table 3 fails to support H6a, the interaction term of potential slack and foreign ownership is significant at 1% level but has unexpected positive sing. The result suggests that foreign ownership positively moderates the relationship between potential slack and firm performance. Thus, the findings are inconsistent withthe hypothesis H6a of the study.

Moreover, the study offers additional analysis by grouping family ownership and affiliated ownership into inside owners and foreign ownership and domestic ownership into outside owners to illustrate the moderating effect of inside and outside owners on the positive linear relationship of slack variable and firm performance. Results in Table 4 depict that inside ownership positively moderates the relation between available slack and firm performance. The interaction term is significant at 5% level, but the magnitude of the coefficient is too small. On the other side, inside ownership negatively moderates the positive relation of potential slack and firm performance. The coefficient of the interaction term is negative and significant at 1% level. In the same way, outside ownership variable negatively moderates the relation between available slack and firm performance whereas, it moderates positively in case of potential slack and firm performance relationship.

Table 2. *GMM Interaction Regression Result- Moderating Effect of Ownership Structure*

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5
Performance t-1	0.0740***	0.0891***	0.0845***	0.0724***	0.0442***
	(0.0114)	(0.0128)	(0.0114)	(0.0116)	(0.00541)
Performance t-2	-0.115***	-0.121***	-0.125***	-0.142***	0.148***
	(0.0103)	(0.0115)	(0.00980)	(0.00930)	(0.00428)
Available Slack$_t$	0.0606***	0.0484***	0.0435***	0.0707***	0.0352***
	(0.00321)	(0.00371)	(0.00470)	(0.00378)	(0.00159)
Available Slack$_t$x					0.00140***
Family Ownership	0.00169***				(0.000103)
	(0.000294)				
Available Slack$_t$x		0.0101***			0.0298***
Affiliated Ownership		(0.00924)			(0.00270)
Available Slack$_t$x			-0.0236**		-0.0289***
Domestic Ownership			(0.0201)		(0.00559)

	Model 1	Model 2	Model 3	Model 4	Model 5
Available Slack$_t$x Foreign Ownership				-0.0938***	-0.0179***
				(0.00685)	(0.00248)
Size$_t$	-0.00698*	-0.0119***	-0.00263	-0.00529	0.0299***
	(0.00384)	(0.00378)	(0.00305)	(0.00367)	(0.00269)
Sargan test	88.71(75)	102.65(75)	105.43(75)	99.57(75)	164.69(135)
Prob. > Chi2	0.133	0.01	0.01	0.03	0.04
AR (1) test	-4.71	-4.72	-4.74	-4.82	-4.58
Prob. > Z	0.000	0.000	0.000	0.000	0.000
AR (2) test	0.77	0.88	0.92	1.24	1.06
Prob. > Z	0.27	0.38	0.35	0.21	0.28
F values	898.21	167.68	117.36	192.08	78478.76
Prob. > F	0.000	0.000	0.000	0.000	0.000

Note: Robust Standard errors in parentheses below Regression Coefficients *** p<0.01, ** p<0.05, * p<0.1

The figures reported are the coefficients, probabilities and standard errors. The standard errors are asymptotically robust to heteroscedasticity. The Sargan (P-Value) test of over identifying restrictions has the null hypothesis of instrumental validity and asymptotically distributed as χ2 whereas the m-statistics for the detection of serial correlation of first difference residuals has the null hypothesis of no serial correlation and asymptotically distributed as standard normal distribution.

Table 3. *GMM Interaction Regression Result- Moderating Effect of Ownership Structure*

VARIABLES	Model 1	Model 2	Model 3	Model 4	Model 5
Performance t-1	0.0705***	0.0811***	0.0865***	0.0688***	0.0484***
	(0.0103)	(0.00850)	(0.0109)	(0.0109)	(0.00254)
Performance t-2	-0.134***	-0.136***	-0.122***	-0.141***	0.167***
	(0.00746)	(0.00671)	(0.00915)	(0.00934)	(0.00465)
Potential Slack$_t$	-0.0512***	-0.0537***	-0.0372***	0.0612***	-0.0371***
	(0.00206)	(0.00254)	(0.00417)	(0.00214)	(0.000932)
Potential Slack$_t$x Family Ownership	-0.00100**				-0.00122***
	(0.000479)				(0.000379)
Potential Slack$_t$x Affiliated Ownership		-0.0128**			-0.0498***
		(0.00521)			(0.00599)
Potential Slack$_t$x Domestic Ownership			-0.0650***		-0.0321***
			(0.0154)		(0.00475)
Potential Slack$_t$x Foreign Ownership				0.0143***	0.0394***
				(0.00394)	(0.00522)
Size$_t$	0.00937***	0.00454*	-0.00235	0.0152***	0.00708***
	(0.00324)	(0.00247)	(0.00343)	(0.00417)	(0.00126)
Sargan test	107.85(75)	105.95(75)	115.52(75)	125.60(75)	202.25(135)
Prob. > Chi2	0.008	0.011	0.002	0.000	0.000
AR (1) test	-4.64	-4.62	-4.69	-4.65	-4.67
Prob. > Z	0.000	0.000	0.000	0.000	0.000
AR (2) test	1.06	1.14	1.04	1.18	1.48

Prob. > Z	0.28	0.25	0.298	0.239	0.138
F values	205.07	507.50	174.07	426.29	72641.88
Prob. > F	0.000	0.000	0.000	0.000	0.000

Note: Robust Standard errors in parentheses below Regression Coefficients *** p<0.01, ** p<0.05, * p<0.1

The figures reported are the coefficients, probabilities and standard errors. The standard errors are asymptotically robust to heteroscedasticity. The Sargan (P-Value) test of over identifying restrictions has the null hypothesis of instrumental validity and asymptotically distributed as χ2 whereas the m-statistics for the detection of serial correlation of first difference residuals has the null hypothesis of no serial correlation and asymptotically distributed as standard normal distribution.

Table 4. *GMM interaction regression result Inside and outside ownership*

VARIABLES	Model 1	Model 2
Performance t-1	0.0571***	0.0649***
	(0.00719)	(0.00590)
Performance t-2	-0.139***	0.151***
	(0.00343)	(0.00398)
Available Slack	0.0508***	
	(0.00260)	
Available Slack x	0.000660**	
Inside Ownership	(0.000260)	
Available Slack x	-0.0363***	
Outside Ownership	(0.00442)	
Potential Slack		-0.0598***
		(0.00152)
Potential Slack x		-0.000574***
Inside Owner		(0.000147)
Potential Slack x		0.0323***
Outside Owner		(0.00200)
Size	0.0206***	0.0129***
	(0.00247)	(0.00174)
Sargan test	139.00(95)	141.84(95)
Prob. > Chi2	0.002	0.001
AR (1) test	-4.63	-4.62
Prob. > Z	0.000	0.000
AR (2) test	1.02	1.25
Prob. > Z	0.306	0.210

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F values	298.40	2062.38
Prob. > F	0.000	0.000

Note: Robust Standard errors in parentheses below Regression Coefficients *** p<0.01, ** p<0.05, * p<0.1

The figures reported are the coefficients, probabilities and standard errors. The standard errors are asymptotically robust to heteroscedasticity. The Sargan (P-Value) test of over identifying restrictions has the null hypothesis of instrumental validity and asymptotically distributed as χ2 whereas the m-statistics for the detection of serial correlation of first difference residuals has the null hypothesis of no serial correlation and asymptotically distributed as standard normal distribution.

Discussion

There are two divergent views regarding the effect of financial slack on firm performance. Firstly, classical organisation perspective like resource-based and behavioural theory of the firm consider slack resources as useful resources to capture dynamic opportunities. Thus, these theories emphasise the positive effect of slack variables on firm performance. Secondly, the agency perspective of corporate governance which considers slack resources as redundant cost and can be the source of agency problem. Therefore, puts emphasise on negative effect of slack resources on firm performance.

By extending the scope of agency theory, the current study investigated and provided evidence on how different types of owners affect firm performance in the presence of financial slack. In doing so, the study firstly explored the directionality of the relationship between financial slack variables and firm performance. The findings provided answers to George's (2005) reframed theoretical question for future research; "whether slack resources are good for firm performance?" Inconsistent with Suzuki (2019) and Lee (2011), the study found that both available slack (high discretionary) and potential slacks (Low discretionary) positively affect firm performance in the firms of an emerging economy like Pakistan (H1 and H2). The finding has strong hypothetical background, i.e. resource-based and behavioural theory of the firm. These theories emphasise the positive effect of slack resources. The finding of the study is interesting and contradicting with fungibility or discretionary theories. According to these theories, the easiness to deploy slack resources plays vital role to enhance firm performance rather than level of slack resources. But, the regression results in both GMM and fixed effects GLS show that the effect of potential slack is more pronounced though, potential slack is less fungible. Hence, the current study suggests that the level of slack resources is essential rather than discretionarily or fungibility of the resources.

Secondly, the study explored the resource allocation behaviour of different types of owners. The empirical findings of GMM interaction term regression confirmed that who the owner is matters. The current study found evidence for the proposition that the nature of the ownership structure influences how to distribute slack resources among competing demands. Specifically, the study found that family ownership positively moderates the relation between available slack and firm performance (H3). It is concluded from the result that large portion of available slack is invested in long term projects when magnitude of family ownership increases in the firm. Thus, the findings of the study suggest that family owners are long term investors and focus on long-run investment like R&D investment while generating rent, contrary to this, family ownership negatively moderates the relationship between potential slack and firm performance (H3a). The result suggests that family owners prefer an internal source of financing rather than external. The finding makes sense that family owners do not prefer external sources because it can reduce their control over firm as well as due to asymmetric information external debtor demands high premium (see, e.gSaleem, Siddique & Ahmed, 2019).

The findings of the study can be observed as conflicting to some earlier studies that emphasise on confiscation of external investors by family owners in emerging economies (e.g., Johnson et al. 2000; Shaikh et al, 2018). Their focus is agency problem between outside owners and family owners in rent appropriation perspective (Chang 2003a, Coff 1999). However, it is observed that family owners play vital role in rent generation. It is usually viewed that family owners confiscate value at the expense of outside owners (Saleem, Khalid& Nadeem, 2019). However, they also play important role in rent generation by transferring large portion of available slack variable into long term investment. Hence, it is the family owners who drive Pakistani firms to make long term investment and enhance firm performance. Though their intention may be to pass

large and healthier firm onto their descendants the ultimate result is to invest more in long term investment like R&D investment (see, e.g. Wang, et al., 2019). However, after generation of rent, how to distribute it among different owners may be the significant conflict of interest. Hence, family ownership itself may not be problematic as the corporate governance context permits outside owners to monitor and regulate family owners (Anderson and Reeb 2003). High disclosure, escalating transparency and legal protection of outside owners also contribute to uplifting value creation ability of family owners and abolish its rent expropriation potential. A comparative study with different corporate governance system countries would disclose how the effect of family ownership is subject to differences in national corporate governance system (see, e.g. Gomez-Mejia, Neacsu& Martin, 2019). Similar to study hypotheses, the findings support that affiliated ownership has a positive moderating effect on the relation between available slack and firm performance (H4). It implies that when affiliated ownership increases in the firm, the firm becomes able to get financial resources from affiliated firm and have a significant amount of available slack to invest. On the contrary, it negatively moderates the relationship between potential slack and firm performance (H4a). The finding implies as affiliated ownership portion increases in the firm, the firm becomes able to make high investment utilising their internal resources, ultimately reducing the need for external financing. Thus, an increase in affiliated ownership discourages debt financing. The finding also depicts that affiliated owners have same behaviour towards debt financing (Gomez-Mejia et al., 2019). We also found that both foreign ownership and domestic institutional ownership negatively moderate the relation between slack variables and firm performance (H5, H5a and H6). Many of the earlier studies based on Western or American firm data suggest that both domestic and foreign institutional shareholders are long-run investors (see, e.g. Allen 1993, David et al. 2001; Gomez-Mejia et al, 2019; Wang, Su, & Zhang, 2019), but the findings of current study contradict with these results. The study supports short term investors' argument regarding the firms operating in developing the economy of Pakistan. However, the finding of the study advocates that the effect of both foreign and domestic institutional shareholders is subject to differences in corporate governance system across countries (Dharwadkar et al. 2000; Saleem, Siddique& Ahmed, 2019; Suzuki, 2019). In the developed economies institutional investors can be active and sophisticated investors upholding long-run investment because of high disclosure, increasing transparency, lack of asymmetric information and durable legal protection of outside owners (see, e,g, Shaikh, et al., 2018). However, the corporate governance system of developing economies is fragile (see, e.g. Saleem,Siddique, & Ahmed, 2019). The system presents weak protection of minor and outside owners. So, this weak legal protection ultimately leads them to become short term oriented. The confiscating hazard by controlling shareholders leads them to prefer short term gains instead of long run investment. Thus, the finding also suggests that firm-level corporate governance features within a single country can also affect the investment horizon of outside investors.

Limitations and Future Research Directions

The present study is not free from limitations. Firstly; the sample consists of all the firms listed in PSE regardless of the nature of the firm (Saleem,Siddique, & Ahmed, 2019). The present study ignores the segregation of sample based on industry differences. Nevertheless, doing so is eliminating gaps associated with across industry differences (Suzuki, 2019). Therefore, the study limits the investigation of the overall industry, which in turn is not suitable and rational for generalizability (Wang et al., 2019). So, it is best left for future research to do a comparative study across the industry. Secondly, the present study is not entirely determining corporate governance issues. The study covers just one factor among various aspects of corporate governance due to short period for this research. The study offers future research opportunity by considering other components of corporate governance like board characteristics (Iqbal &Kakakhel, 2016; Saleem, Siddique, & Ahmed, 2019), finance structure and decision-making process. Finally, the present study is based on developing economy like Pakistan. Therefore, the findings cannot be generalised. The finding of the study shows that national governance context can be relevant to understand the inferences of firm-specific governance issues. For example, in the United States institutional investors are considered as long term investors (Hansen and Hill 1991; Suzuki, 2019), whereas, this study found that institutional investors both foreign and domestic are short term oriented in Pakistan. Thus, it will be fruitful area for future research to conduct comparative studies by integrating the differences in the attributes of both firm-level governance and national governance (Carnes et al., 2019).

Conclusion

This paper made an effort to reconcile the slack literature by empirically investigating how ownership structure influences the relationship interacting with financial slack (Available and Potential slack). In doing so, the study firstly explored the directionality of the relationship between financial slack and firm performance based on two contrasting theoretical background. First, agency theory focuses on negative effect and second, Resource-based view focuses on positive effect. The empirical examination using GMM and fixed effects GLS estimation methods support resource-based view and behavioural theory of the firm. The study found that there is positive linear relationship between financial slack (available and potential slacks) and firm performance. Although potential slack being less fungible slack resource, it has strongly significant impact on firm performance.

Based on this theoretical perspective, the study developed and empirically tested interaction term model to examine the marginal effects of different types of ownership structure. The result reports that family ownership positively moderates the relation between available slack and firm performance. The finding implies that it is the family owner who drives Pakistani firm to enhance firm performance. The intention may be to pass sound financial firm onto their decedents. Whereas, family ownership negatively moderates the relationship between potential slack and firm performance is negative. The finding reflects the financing behaviour of the family owners as controlling owner. It means that family owners prefer internal source rather than external-debt. The ultimate reason might be to hold their control over firm because increase in debt can reduce their control position and resource allocation behaviour.

Similarly, affiliated firm ownership positively moderates the relation between available slack and firm performance. Whereas, negatively moderates the relation between potential slack and firm performance. Pakistani firms are parts of the close business group through interlocking directorship. Therefore, the behaviour regarding financing and resource allocation is similar to family ownership. Secondly, the finding regarding negative moderating effect with interacting potential slack implies that the increase in affiliated ownership increases available slack for the firm. Thus, the firm discourages debt financing and prefer internal capital market.The result of the study also shows that domestic and foreign ownership negatively moderate the relation between available slack and firm performance. Further, domestic ownership negatively moderates the relationship between potential slack and firm performance. However, contrary to the study hypothesis, foreign ownership positively moderates the relationship between potential slack and firm performance. The finding reflects the short term orientation of foreign and domestic ownership regarding resource allocation. The results contradict with other studies conducted using data from other countries (David et al. 2001, Allen 1993). In summary: (1) high level of slack resources benefit firm (2) the level of slack is essential rather than fungibility of slack resources (3) Who the owner is matters and (4) national corporate governance system as well as firm-level corporate governance system influence investment horizon of outside investors.

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