Journal of Financial Management Strategy
Alzahra University
Vol. 11, No. 41, Summer 2023

pp. 17-20

Research Paper

The Effect of Financial Flexibility, Managerial Efficiency, and Life Cycle on the Financial Performance of Companies Listed in the Tehran Stock Exchange[1]

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Received: 2022/12/14 Accepted: 2023/06/10

INTRODUCTION

Evidence shows that a factor that has received less attention so far is financial flexibility. Financial flexibility refers to the availability of the company's liquidity or the ability to create liquidity with the highest speed and lowest cost so that the company can avoid bankruptcy in case of a recession and invest well in times of inflation and prosperity (Meier et al., 2013). An essential aspect of financial flexibility is cash holdings. Rapp et al. (2014) explain that holding cash is both beneficial and harmful (Rapp et al., 2014). Keeping cash, from one point of view, can cause representation problems between shareholders and managers; on the other hand, when financing from outside the company is expensive (with high interest) or time-consuming, internal financing, which is one way to quickly use funding cash reserves within the company, is both quick and less sensitive to interest rate fluctuations and the like. Financial flexibility and management efficiency impact the company's financial performance

1. DOI: 10.22051/JFM.2023.42306.2765

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(Chang & Ma, 2018). According to the stated content, financial flexibility can solve an essential missing link in the theories of financial performance and managerial efficiency. Compared to previous research in Iran, the innovation of this research is to investigate the simultaneous effect of financial flexibility variables and management efficiency on the performance of companies concerning the moderating role of the life cycle. In previous research, only the effect of the financial flexibility variable has been measured, but in this research, not only the effect of financial flexibility and management efficiency on performance has been considered, but also the simultaneous and separate effect of each of these two factors on the performance of companies in different stages of the life cycle is examined. This research intends to deal with the financial performance of companies and contribute to better transparency and efficiency of companies listed on the Tehran Stock Exchange.

MATERIALS AND METHODS

Since the present research examines the financial impact, managerial efficiency, and life cycle on the financial performance of companies, it is descriptive-correlational in terms of its nature and method. Based on the systematic elimination method, 84 companies were selected from 2011 to 2021. Anthony and Ramesh's method is used for the operational definition of life cycle variables (Anthony & Ramesh, 1992), the VOFF index is used for financial flexibility (Rapp et al., 2014), and the Demerjian method is used for managerial efficiency (Demerjian et al., 2013). The analysis and estimation procedures have been conducted using the EViews software.

RESULTS AND DISCUSSION

The results of all the test models are summarized in the table below. This table helps to compare the results according to the objectives and assumptions.

In the table 1, the parts marked with * indicate that the variable has a significant effect on companies' performance at the 5% error level. It is evident that management efficiency has a much more significant impact on the performance of companies in all stages of the life cycle. Specifically, in interactive mode, models 4, 6, and 8 demonstrate this relationship. In model 4, representing the life cycle growth stage, management efficiency does not affect performance, but flexibility shows an impact. Conversely, in models 6 and 8, representing the maturity and decline stages, flexibility does not affect performance, while management efficiency remains influential. Therefore, in interactive mode, each of these three models provides results that highlight the impact of company performance.

Table 1. Test results of research models (8 models)

ROA model	All companies		Growth stage		Maturity stage		decline stage	
Test models	Normal model 1	Interactive model 2	Normal model 3	Interactive model 4	Normal model 5	Interactive model 6	Normal model 7	Interactive model 8
C	0/006*	0/000*	0/038*	0/191	0/000*	0/000*	0/749	0/014*
voff	0/000*	0/000*	0/035*	0/039*	0/016*	0/143	0/029*	0/089
ME	0/001*	0/040*	0/008*	0/068	0/033*	0/031*	0/002*	0/042*
VOFF * ME		0/000*		0/031		0/000*		0/000*
Q	0/000*	0/000*	0/008*	0/857	0/039*	0/036*	0/019*	0/749
GOV	0/033*	0/000*	0/225*	0/052*	0/000*	0/000*	0/045*	0/663
CR	0/193	0/001*	0/124	0/382	0/560	0/468	0/356	0/006*
SIZE	0/019*	0/000*	0/000*	0/000*	0/000*	0/000*	0/000*	0/000*
AGE	0/779	0/000*	0/216	0/529	0/045*	0/026*	0/672	0/755
TANG	0/526	0/536	0/431	0/527	0/498	0/466	0/000*	0/232
DIV	0/738	0/370	0/331	0/001*	0/039*	0/000*	0/320	0/412
Durbin-Watson	2/057	2/069	1/663	1/827	1/771	1/764	1/908	1/944
R	0/802	0/890	0/866	0/874	0/785	0/884	0/885	0/892
R^2	0/773	0/873	0/760	0/770	0/683	0/782	0/783	0/791

Source: Researcher's findings

CONCLUSION

The efficiency of management in the decline stage of the life cycle has had the most significant impact on performance, and this result can indicate that we should take a special look at the efficiency of management during this stage. Effective management can delay the decline and potential bankruptcy of the company. Moving on to the growth stage, as the company faces new challenges, efficient management is necessary to steer it in the right direction. In the maturity stage, where operations and methods are well-established, the impact of management efficiency is relatively minimal. The company is focused on growth and profitability, and management changes have little effect on performance.

Regarding flexibility, its effectiveness on company performance varies across the different stages of the life cycle. In the maturity and decline stages, liquidity becomes particularly important, indicating the need for sufficient resources during relative stability or challenging times. In the growth stage, flexibility also plays a role, highlighting the importance of liquidity for the company's expansion.

The research results indicate that the efficiency of management significantly impacts the performance of companies in all stages of the life cycle. In interactive mode, if financial flexibility or management efficiency is inappropriate at each life cycle stage, the other variable becomes more efficient and effective.

Keywords: Financial Flexibility, Financial Performance, Life Cycle, Managerial Efficiency. Tehran Stock Exchange.

JEL Classification: G32 ،L25 ،G11.