# CHAPTER I
# INTRODUCTION

As the business competition keeps getting tighter, developing innovation is the only way for companies to survive. Through innovation, many companies believe that they can create a long-term competitive advantage. However, producing innovation is not a simple matter. There are limitations to it because resources are limited. For example, natural resources are limited. The numbers of quality human resources are also limited due to unequal access to education. Therefore, companies have to decide strategically to make the most of their ideas and resources when it comes to innovation (Chesbrough, 2006; Grant, 1996).

Organizational slack refers to resources that are not for primary expenditure but can be used wisely within a company (Dimick & Murray, 1978). Bourgeois (1981) argues that a company can use slack to adjust to changing internal and external pressure conditions. According to Huang and Li (2012), slack can provide additional resources if used correctly and on target. Other than that, slack can also provide guaranteed resources and chance to explore innovation (Liu et al. 2017).

Research regarding the relationship between Slack and a company's innovation performance has shown different results. Many studies have found that the relationship between slack and firm innovation performance varies depending on the components and types of slack being tested (Singh, 1986; Geiger & Gashen, 2002). Sharfman et al. (1988) argue that disparate types of slack resources offer other mechanisms for managing strategic change in reducing internal and external pressures.

This study wants to research organizational slacks and their respective effects on a company's innovation performance. The type of slack that will be tested refers to the research of Bourgeois and Singh (1983), which classifies organizational slack into three according to their existence: available slack, recoverable slack, and potential slack. Each type of slack has a different relationship, which is related to risk-taking.

Research about organizational slack testing on corporate innovation performance has been done many times in major world economies like China, America, and South Korea. Increased research and development investment, as well as improved applications, allows China to contend for high-tech products (Li, 2013). One characteristic of research on the relationship between organizational slack and innovation has only been concerned with the manufacturing industry. For example, Marlin and Geiger (2015) research the relationship between organizational slack and innovation using cross-sectional data from America's manufacturing companies. Lee (2015) also examines the relationship between slack and innovation in Korean manufacturing companies using two types of slack: available and potential slack only. Meanwhile, Duan et al. (2020) examine the multiple mediating effects of absorption capacity on organization slack and the innovation performance of high-tech manufacturing companies in China. However, the industrial world is not limited to the manufacturing industry. The research regarding slack and innovation can be done in various sectors.

Previous studies researched the relationship between organizational slack and innovation using the number of invention patents and revenue from new product sales as well as R&D intensity broadly. These studies' measures may not necessarily be compatible with slack resources indicators in other settings, for example, in the retail industry. The number of invention patents and sales revenue for new products are also considered only to reflect the innovation performance of a single patent or new product, not the overall performance in the company's innovation. (Duan et al., 2020).

This research is unique because of three reasons. First, it tests all types of industries in Indonesia. Second, this study is also different because it measures innovation performance using return on intangible assets (net profit / net intangible assets). This research chooses to use return on intangible assets because it can comprehensively represents the novelty of innovation and the value of new products in all aspects of the industry, not just limited to manufacturing companies. Thirdly, this research will also examine the effect of compensation received by company executives.

The compensation here will act as a moderation between slack and innovation in the company. Accordingly, the level of compensation received by executives in Indonesian companies is determined by how the company has performed during the current one-year period. The higher the level of compensation, the higher is the company's performance. The performance of a company cannot be separated from the involvement of the executive's decisions. Managers tend to make decisions to maximize their career horizons (Chari et al., 2019). Therefore, company managers tend to adopt risk-taking strategies in developing innovations to increase their profits. In line with the research from Okoshi et al. (2019), participation and management of information and knowledge possessed by executives as crucial management are fundamental elements for a company's innovation.

The purpose of this study is to examine the relationship of organizational slack on corporate innovation performance with executive compensation as the moderation between the two. This study uses all samples of public companies listed on the Indonesia Stock Exchange from 2010-2019 (except SIC: 6). Data processing will be carried out to examine the relationship of organizational slack, innovation performance, and executive compensation using OLS Regression Software STATA 14.0. This research will also do regression analysis of the interaction of the three variables with the control variable. The purpose of regression analysis is to explain the results of the interpretation of the sample data used.

This research shows that each organizational slack has a significant relationship with the company's innovation performance. Where available, slack is the only one that has a direct connection with innovation performance, recoverable slack and potential slack have a reverse relationship with innovation performance. While using the executive’s compensation variable as a moderating variable, this research found that available slack and recoverable slack significantly affect the company's innovation performance. Both of these slacks have a unidirectional relationship with innovation performance. This implies that managers have considerable control over their resources. These decisions have an effect on how resources are allocated to enhance organizational innovation. This method is consistent with the findings of Vanacker et alstudy., (2013).

This study contributes to the literature related to the relationship of organizational slack on corporate innovation performance in Indonesia. This study also answers the gap in previous researches that have been conducted. This research can also contribute to the implementation of company policies and management, especially regarding improving profit through innovation. Hopefully, this research could also contribute to insight and knowledge about what is slack and how slack could affect innovation performance in any industry in Indonesia.

The remainder of this paper will be arranged as follows: section 2 literature review; section 3 research methodology; section 4 result and discussion; section 5 conclusion.