

The Testing Of Pecking Order Theory For Behavior Financing In The Company's Life Stage

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Abstract

The diversity of behavior financing occurs in companies listed on the Indonesian capital market and still leaves debate on theoretical assumptions so that the researchers are motivated to do this research. This research aims to investigate the behavior financing of each stage of the company's life, specifically for young, mature and waning ages as the representations of Pecking Order Theory (POT) financing behavior. The object of this research is a manufacturing company that is listed Indonesian capital market at least 3 years after the IPO and has a complete financial performance report. The results of the regression analysis results behavior of sales growth, profitability behavior, dividend behavior, retained earnings behavior, free cash flow behavior, risk behavior, size behavior and financial leverage behavior, shows various behaviors in each stage of the company's life. Behavior financing at the young and waning stages tends to favor POT behavior rather than trade-off behavior financing. In the mature stage, the behavior of profitability, retained earnings, FCF, and size do not support POT behavior tends to lead to trade-off financing behavior.

Keywords : POT, behavior financing, company life cycle

JEL Classification : G02, G23, E44

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1. INTRODUCTION

Much earlier, Modigliani and Miller (1958, 1963) presented an extensive discussion of corporate financing decisions. From this discussion, there was still a debate over the assumptions of this theory. The built assumption of this theory is the amount of debt has no relevance to stock prices or company value, even though the assumptions of the theory are not entirely in accordance with the actual reality. Financial observers try to loosen these assumptions to be closer to the reality while looking for the concessions of assumptions from other theories, for example, *Trade-off Theory* (TOT) and *Pecking Order Theory* (POT). Until now, between TOT and POT are still competing and financial stakeholders are still constantly looking for answers, which theory is loose in its assumptions and close to the reality. In several previous studies, some are fanatical about TOT, for example, Haddad and Lotfaliei (2019); J. Glover and Hambusch, (2014) has

some views that how to choosing the allocation of their resources and comparing the tax benefits of debt with the bankruptcy costs, so as they could targeting the optimal debt ratio. Meanwhile, there are POT stakeholders such as Bhama *et al.* , (2019); Naranjon *et al.* , (2020) whose prestige prefers sequential options to external financing sources, if they have available internal financing they will save on funding costs, risk and avoid information asymmetry without pursuing optimal leverage targets. In fact, there are also financial lovers who use a combination of behavior financing between TOT and POT such as (Adair and Adaskou (2015); Agyei *et al.* , (2020) .

Apparently, a series of previous studies, those have not found a completed reason or answer why the funding decisions are made in every stage of the company's life? In fact, in funding decisions, there are various behavior financing that are in accordance with investment needs and the availability of internal funding sources. including financial performance behavior (Sumail and Akob, 2021) . For example, the sales growth, profitability, dividends, retained earnings, free cash flow, financial risk and company size. It will be even more interesting, when behavior financing is described through POT which the previous researchers has not considered at all in the perspective of every stage of the company's life. It is believed, POT is the entrance to get completed information about financing behavior in every stage of the company's life. As the essential of POT is, to relying on the funding hierarchy, prioritizing the assumption of the lowest cost, the smallest risk including how to avoid information asymmetry, and pursuing optimal leverage such as the TOT direction.

Relying on the essential of the funding hierarchy, the attractiveness of research is to broaden the discussion about POT. For example, at the young stage, sales growth behavior tends to move up, usually starting to look for debt, in contrast to the starter stage, which does not dare to borrow (Ahsan *et al.* , 2016; Pai *et al.* , 2014) . Likewise, the behavior of profitability tends to be low towards the desire to increase debt (Danis *et al.* , 2014; Sheikh and Qureshi, 2017) . Then, the relationship between dividend behavior and earnings behavior for each life stage is different (Meza *et al.* , 2020) . Dividend payments that tend to be high can reduce retained earnings, especially the *Retained Earnings of total assets* (RE/TA) proxy , so the company is forced to owe (Hasan and Habib, 2017; Kaur, 2019a) . Furthermore, Buus (2015) stated that the behavior of *free cash flow* (FCF) tends to be low and dynamic with leverage. Then, the financial risk behavior of the young age or in developing stage, tends to be low, in contrast to the introduction stage and the waning or waning stage, which tend to be high (Shahzad *et al.* , 2019) . And the size at the young stage tends to be low because the company is just growing (Tavassoli, 2015) then the company begins to look for debt, assuming that if profits move up.

The next discussion is dwelling on the behavior of sales growth that the mature stage displays a moderate movement, sometimes the upward movement is almost similar to the young stage so that companies dare to increase debt (Ahsan *et al.* , 2016; Pai *et al.* , 2014) . Likewise, the behavior of profitability in the mature stage moves up along with the movement of sales growth (Castro *et al.* , 2016a) . Dividend behavior at the mature stage shows moderate to high so that it has an impact on *financial leverage behavior* that leads to an increase (Ahsan *et al.* , 2016; Pai *et al.* , 2014) . As the behavior of retained earnings tends to be high due to moderate dividend payments, the company will raising the debt (Hasan and Habib, 2017; Sumail and Akob, 2021) . The behavior of FCF in the mature stage is higher than in the growth stage and is stagnant (Bin Khidmat *et al.* , 2019) . Furthermore, financial risk behavior at the mature stage is low, so companies dare to

increase debt (Sumail and Akob, 2021) . And the size reflected by the asset that the mature stage is large so that the desire to increase debt is high because the available assets can be used as collateral (Castro *et al.* , 2016a; Shahzad *et al.* , 2019) .

The last discussion about the behavior of sales growth at the waning stage tends to decline, so companies are reluctant to increase the debt (Meza *et al.*, 2020; Pai *et al.* , 2014) . Then the behavior of profitability at the waning stage also shows a downward movement along with sales growth behavior so that companies are reluctant to increase debt (Meza *et al.* , 2020; Sumail and Akob, 2021) . Management is faced to the rights of shareholders that they have to pay dividends and also pay debts that are due, so the company may reluctant to increase debt. Hasan and Habib Studies , (2017) ; Sumail and Akob, (2021) stated that the high ratio of Retained Earnings to Total Assets (RE/TA) and Retained Earnings to Total Equity (RE/TE) was in the mature stage , and in the waning stage because investment tends to start to decline as in the mature stage. The FCF behavior at the waning stage is the same as the behavior at the young stage is low. Then, financial risk behavior at the waning stage tends to be high similar to the starter stage so that companies are reluctant to increase the debt (Shahzad *et al.* , 2019) . Finally, the behavior of size tends to be low which looks similar to the developing young stage.

In our knowledge, this discussion could contributes to the literature related to financing behavior in every life stage that has not been revealed by previous research, namely: First, each stage of life namely young, mature, and waning stage will fill literature gap on financing behavior which tends varieties in related to growth, sales, profitability, dividends, retained earnings, FCF, financial risk and size. The second contribution provides a completed answer whether each stage of financing behavior which is consistent with POT behavior or not.

The achievement this study is to investigate the behavior of POT on financing behavior in every stage of the company's life, especially manufacturing companies on the Indonesia Stock Exchange (ISE). It is as if manufacturing companies have different asset characteristics and sources of financing from financial companies. Therefore, it is reasonable if it is used as an object of research on behavior financing in every stage of the company's life. In the end, the results of this study will produce a solution to the previous literature gap. In order to obtain accurate information about financing behavior, this research is constructed into three stages of life, namely the young stage, the mature stage and the waning stage. This article consists of: in part 2 theoretical framework and hypothesis development; in section 3 methods ; in section 4 results; in section 5 discussion; in section 6 conclusions, suggestions and limitations.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS FORMULATION

Following the history of irrelevant propositions popularized by Modigliani and Miller (1958) that there seems to be friction about funding decision which it is explained by the irrelevant proposition, that the size of the debt has nothing to do with stock prices or company's value. Then, the big question is, why do companies want to get into debt? Answering this question, it can be assumed that there is behavior financing that has not been explained by the irrelevant proposition. In order to get a completed explanation, one of the methods to find the answer of questions above is by using funding sequence theory or POT.

POT was originally published by Donaldson (1961), then continued by Myers (1984) and Myers and Majluf (1984) on the behavior of the financing hierarchy. POT is here to

complete the explanation that has not been explained by the irrelevant proposition and is also a competitor of TOT related to the behavior of the financing hierarchy. Myers and Majluf (1984) states that ideally the behavior of the financing hierarchy begins with internal financing in the form of profit, retained earnings, and *free cash flow*. If the funding is not sufficient to finance productive investment activities, the company will start looking at external funding in the form of debt. Even if, for example, external funding sources are not sufficient, the company is forced to issue shares as a last resort. Stock issuance is good news for new stockholders and bad news for existing stockholders. Because the voting rights of the old shareholders tend to decrease. Therefore, the assumption of the behavior of the financing hierarchy is to look for funds that have the lowest costs and the smallest risks and try to avoid the potential for information asymmetry (Bhama *et al.*, 2018; Bhama *et al.*, 2019).

POT becomes an analytical knife to describe the behavior of financial performance at every stage of the company's life. For example, the relationship between leverage behavior and sales growth behavior, profitability behavior, dividend behavior, retained earnings behavior, FCF behavior, financial risk and firm size behavior. This is caused as each stage of financial performance behavior is different (Dickinson, 2011; Sumail and Akob, 2021). The following describes the relationship between POT with financial performance in every stage of the company's life in below.

Sales growth with leverage in the company's life stage: Sales will grow if there is support from assets and leverage. Then, when sales growth increases, the company may dare to raise the debt so that leverage increases. Wang *et al.*, (2019) found that the sales growth can improve financial performance, including leverage. As the company has been managed well, the sales growth has increased so that the company dares to go into debt (Pham and Nguyen, 2020). On the other hand, companies that do not experience growth in sales are reluctant to raise the debt. The sales growth behavior resulted in positive *cash flows from operations* (CFO) behavior (Bravo, 2019; Kaur, 2019b; Sumail and Akob, 2021), so companies began to be engrossed in raise the debt. As (Ahsan *et al.*, 2016; Pai *et al.*, 2014) states that at the young stage of sales growth tends to move up, the mature stage of sales growth is moderate or even high and the waning stage of sales growth starts to be low. So, the proposed hypothesis is:

H1a. At the young stage, sales growth behavior towards leverage tends to be positive.

H1b. In the mature stage, sales growth behavior towards leverage tends to be positive.

H1c. In the waning stage, the behavior of sales growth towards leverage tends to be negative.

Profitability with leverage in the company's life stage: Profitability is a source of internal funding to finance productive investment activities. It may the management's desire for debt will be high because it relies on its profitability. On the other hand, they are reluctant or refrain from raising the debt because the company's profits tend not to grow. Recent studies (Morais *et al.*, 2020) explores the relationship between profitability and the demand motive for debt. The results of the search show that profitability can drive demand for debt. Meanwhile (Danis *et al.*, 2014; Sheikh and Qureshi, 2017) reports that profitability was negatively related to financial leverage or debt. Likewise, the behavior of profitability in mature stage moves up along the sales growth movement. (Castro *et al.*, 2016a) concludes that profitability moves up at the maturity stage as sales grow so that companies are more willing to take on debt. Then, the behavior of profitability at the waning stage also shows a downward movement in line with the

behavior of sales growth so that companies are reluctant to raising the debt. As (Meza *et al.*, 2020; Sumail and Akob, 2021) provides the evidence that the behavior of profitability at the waning stage tends to decline so that the company's desire to raise the debt also decreases. So the provisional conclusions are:

H2a. *At the young stage, the behavior of profitability towards leverage tends to be negative.*

H2b. *In the mature stage, the behavior of profitability towards leverage tends to be positive.*

H2c. *At the waning stage, the behavior of profitability towards leverage tends to be negative.*

Dividends with leverage in the company's life stage: The dividends are a representation that the company produces good financial performance. The behavior of dividends at each stage is different, depending on the company's ability to generate profits and available funds (Sumail & Akob, 2021). Dividend behavior as reported by (Kaur, 2019a; Pai *et al.*, 2014) that dividend payments tends to be high and companies start to dare to raising the debt at the growth or young stage. In fact, behavioral finance enthusiasts such as (Meza *et al.*, 2020) states that the relationship between dividend behavior and earnings behavior for each stage of life is different. Furthermore, the behavior of dividends at the mature stage shows moderate or even high so that it has an impact on *financial leverage behavior* which leads to a flow. (Ahsan *et al.*, 2016; Pai *et al.*, 2014) provides the evidence that the dividend behavior at the mature stage is moderate and sometimes high, of course the company has a high desire to raising the debt. Then, the behavior of the waning stage dividends tends to be high. Management is faced with the rights of shareholders, namely having to pay dividends and also pay debts that are due, so the behavior of $CFF < 0$, of course the company is reluctant to increase debt. So the provisional conclusions are:

H3a. *At the young stage, dividend behavior towards leverage tends to be positive.*

H3b. *In the mature stage, dividend behavior towards leverage tends to be positive.*

H3c. *At the waning stage, dividend behavior towards leverage tends to be positive.*

Retained earnings with leverage in the company's life stage: *Retained Earnings* is a part of financing sources to finance profitable investments. When retained earnings are available, the company may not increase debt. On the other hand, the retained earnings are not sufficient to finance operational and investment activities, so the company looks to borrow the loan. Therefore, the behavior of retained earnings in each stage shows varying behavior (Deangelo and Deangelo, 2006, 2010; Kaur, 2019b). Kaur's study (2019b) explains that the company's retained earnings at the starter stage does not exist yet because the company has not yet made a profit. The consequences of dividend payments that tend to be high can reduce retained earnings, especially the *Retained Earnings of total assets* (RE/TA) proxy which tends to decrease, then, the availability of internal funds decreases so that the company is forced to borrow the loan. As stated by (Hasan & Habib, 2017; Kaur, 2019a) that the behavior of RE/TA and the behavior of *Retained Earnings of total equity* (RE/TE) tend to be low at the young stage, developing stage, so companies are forced to borrow to finance operations.

In the mature stage, the behavior of retained earnings tends to be high because dividend payments are in the medium category, then, the company will be engrossed in raising the debt. And perhaps the behavior of retained earnings will be low if the dividend payments are high. As, Hasan and Habib, (2017); Sumail and Akob (2021) argues that companies with high *Retained Earnings to Total Assets* (RE/TA) and *Retained Earnings to Total Equity* (RE/TE) ratios are usually in the mature stage, and in the waning

stage, the investment tends to decline. This is similar (Hsu, 2018) that the behavior of retained earnings at the waning stage is different from the *mature stage*. Therefore, the proposed hypothesis is :

H4a. At the young stage , the behavior of retained earnings towards leverage tends to be negative.

H4b. At the mature stage, the behavior of retained earnings towards leverage tends to be positive .

H4c. At the waning stage, the behavior of retained earnings towards leverage tends to be negative .

Free cash flow with leverage in the company's life stage: Cash remaining from investing and operating activities as free cash flow. In practice, the company often relies on funds from FCF in funding operational activities and funding short-term investments. Availability of FCF funds, the managers will be more confident in managing the company's financial resources related to investment activities (Chen *et al.* , 2016; Kwon *et al.* , 2021) . In other words, FCF is used in profitable investment activities so that the remaining cash flow available in the hands of management can be reduced (Mnisi and Alhassan, 2021) .

The behavior of *free cash flow* (FCF) at a young stage is low in encouraging financial leverage. Bin Khidmat *et al.* , (2019); Hsu (2018) reports that the behavior of FCF at the young stage is the same as at the stagnant stage which tends to decline and the company still adheres to the investment principle so that the Cash flows from investment (CFI) is low or $CFI < 0$ then there is a tendency for the company to increase debt. In fact, Buus (2015) stated that free cash flow behavior tends to be dynamic with leverage. Also, Ghose and Kabra (2020) explain that if the corporation has a lot of free cash , there is a tendency for management to feel loose to adjust leverage . On the basis of this argument, when growth is low, FCF is still low so there is a tendency for companies to increase debt. Then, the behavior of FCF at the mature stage is high because the company no longer adheres to the investment principle but is more dominant in the *funding* principle. The Adjusted R-squared was 0.46 so that the company reasons to increase debt. Then, the sales growth of the waning stage tends to decrease which results in a decrease in FCF . The decline in FCF is in the waning stage, the company does not increase debt or the company refrains from debt. Therefore, leverage is an instrument in reducing FCF and its estuary can encourage corporate performance (Park and Jang, 2013) . Thus, the research hypothesis is:

H5a. At the young stage , the behavior of free cash flow towards leverage tends to be negative.

H5b. At the mature stage, the behavior of free cash flow towards leverage tends to be positive .

H5c. In the waning stage, the behavior of free cash flow towards leverage tends to be negative .

Financial risk with leverage in the company's life stage: Risk can be interpreted as the possibility of slipping or not achieving the expected results (Sumail and Akob, 2021) . Financial risk behavior in each stage of the company's life is different (Al-Hadi *et al.* , 2016; Sumail and Akob, 2021) . As (Shahzad *et al.* , 2019) provides evidence that at the young and developing stage, the company's financial risk tends to be low in contrast to the introduction stage and the decline or waning stage which tend to be high. Financial risk behavior at the mature stage is seen as very low. As suggested by Shahzad *et al.* , (2020); Shahzad *et al.* , (2019) stated that the mature stage of financial risk tends to be low. In fact, a recent study , Roma, *et al.* , (2020) stated that the behavior of cash flow patterns reflects the characteristics of the company in terms of profitability, growth and risk. Then, the behavior of high old-age financial risk is similar to the introduction stage, even the behavior of $CFO < 0$ because the behavior of sales growth is in the low category so that the

company is reluctant to increase debt. The study of Shahzad *et al.* , (2019) provides evidence that the financial risk behavior of the declining or waning stage which tends to be high is different from the young stage that is developing, namely that the company's financial risk tends to be low. So the proposed hypothesis is:

H6a. At the young stage , financial risk behavior towards leverage tends to be negative.

H6b. In the mature stage, financial risk behavior towards leverage tends to be negative

H6c. At the waning stage, financial risk behavior towards leverage tends to be positive .

Measures with leverage in the company's life stage: company size is a portrait that whether the company is experiencing asset growth or on hold. When the company experiences sales growth, it is certain that it will enlarge assets, because the profits generated can boost assets. Companies that produce strong assets will certainly increase debt. This argument is exactly the same expressed by several previous studies. For example, Morais *et al.* , (2020); Sheikh and Qureshi, (2017) explain that company size can encourage leverage. Conversely, companies that do not have asset strength will be reluctant to increase debt. The same tone, expressed by Bhat, *et al.* , (2020) that a strong firm size tends to have a low level of leverage. This may be due to relatively small sales growth. Tavassoli (2015) suggests that newly-growing companies tend to have small assets and small profits. However, Omar *et al.* , (2014) have a different view that firm growth is not related to firm size. In fact, the study of Shahzad *et al.* , (2019) states that at a young stage the size of the company is high so that the company's courage to raise the debt is very high, on the grounds that assets can be used as collateral for debt. Then, the behavior of the size of the company which is reflected by the assets that are in the mature stage is large so that the desire to raising the debt is high because the available assets can be used as collateral. From Castro *et al.* , (2016a); Shahzad *et al.* , (2019) proves that the larger the size can encourage companies to increase debt. Then, the size behavior showed was low similar to that of the developing young stage. Behavioral finance enthusiasts suggest that the size of the supply from earnings CFOs, while CFOs from earnings at the waning stage tends to be low so that the size of the company is also low because the company is experiencing declining sales growth and the company is not willing to increase debt. So, the proposed hypothesis is:

H7a. At the young stage , the behavior of firm size towards leverage tends to be negative.

H7b. At the mature stage, the behavior of firm size on leverage tends to be positive .

H7c. At the waning stage, the behavior of firm size towards leverage tends to be negative

3. METHOD

The companies as the object of research are 193 companies listed on the Indonesian capital market. The reason for choosing the object of research in manufacturing companies is because the characteristics of current liabilities are greater than long-term liabilities. Dominant productive assets are financed from current liabilities sources. In addition, the value of current assets are greater than half of total assets when compared to financial companies. Furthermore, the sample is a manufacturing company with a minimum age of 3 years after the IPO and companies that have completed financial performance reports such as financial leverage, sales growth, profitability, free cash flow, and company size. All financial data is collected from the Indonesia Stock Exchange website before 1995-2021.

We follow Bhama *et al.*, (2018) related to determining the company's life stage, namely using the age of the company. The following are the criteria for determining each stage of the company's life as follows.

Table 1. Criteria for the company's life stage

No	Phase/stage	Company age (years)
1	Introduction	0-2
2	Growth (young)	2.5-4
3	Mature (Middle-aged)	5-25
4	Waning	>25

Source: Bhama et al., (2018)

We did not make observations at the starter stage because he was relatively young, which was between 0-2. As it hasn't made a profit, The targets of our observations are the growth phase, the mature phase and the waning phase. As one of the differences with previous studies, we determined the stage using the age of the company (see Table 1). This study uses the dependent variable, independent (see Table 2)

Table 2. Operational definitions of variables

Variable	acronym	Definition
<i>Dependent variable</i>		
Financial leverage	LEV	Total debt as a percentage of total assets
<i>Independent variable</i>		
Profitability	ROA	Net profit/total asset
Retained earnings	RE	Retained Earnings of total asset
Sales Growth	GROWTH	(Current year sale/previous year sales) - 1
Free cash flow	FCF	Cash flow from operation period t - Fixed asset - (Net working capital = current asset - current liabilities) / Total asset
Firm size	SIZE	Natural logarithm of total asset

The research model is designed as follows:

$$\text{LEV (young)} = a + b_1\text{GWOTH1} + b_2\text{ROA2} + b_3\text{DPR3} + b_4\text{RE4} + b_5\text{FCF5} + b_6\text{SIZE6}$$

$$e_1 \dots(1)$$

$$\text{LEV (mature)} = a + b_1\text{GWOTH1} + b_2\text{ROA2} + b_3\text{DPR3} + b_4\text{RE4} + b_5\text{FCF5} + b_6\text{SIZE6}$$

+

$$e_1 \dots(2)$$

$$\text{LEV (waning)} = a + b_1\text{GWOTH1} + b_2\text{ROA2} + b_3\text{DPR3} + b_4\text{RE4} + b_5\text{FCF5} + b_6\text{SIZE6} +$$

$$e_1 \dots(3)$$

To get the completed information, this research uses review regression with the following steps. The first step is to combine time series data and cross section data to produce panel data. The second step is to perform a descriptive analysis to obtain information about the average of each variable, the lowest value, the maximum value and

the standard deviation. The third step, we perform model simulations in each stage, namely the *common effect model* (CEM), *fixed effect model* (FEM), and *random effect model* (REM). The fourth step, we select the panel regression model by performing the Chow test, Langrange Multiplier test and Hausman test. The fifth step is to test the classical assumption whether it is fulfilled or not, and if it is fulfilled, panel data analysis is carried out. The sixth step, we conducted a significant test. The last step is to interpret the results of data analysis.

4. RESULTS

Table 3, the behavior of financial leverage at the young stage, as if it has not used much funds from debt below 25 percent, which is 17.70 percent. At this stage, the sales growth rate began to rise and the company's profit was still relatively low, which seemed to have not become a mainstay as a source of internal funding. As the company's profit is still low, management's obligation to pay dividends to shareholders still shows a small amount, as well as retained earnings which tend to be low. The remaining cash flow from operational activities as a source of internal funding is still low. Furthermore, the financial risk faced by the company tends to be high above 25 percent because the company is looking for market positioning. Then, the number of assets owned at this stage is relatively small.

In the mature stage, the desire for debt by the company tends to be high at 48.80 percent, close to 50 percent. As evidence of the behavior of *financial leverage* began to move up before 17.70 percent in the young stage rose to 48.80 percent in the mature stage. This resolution was based on the ability to encourage sales growth and profits that tend to move up so that dividend payments tend to start high and retained earnings are relatively low. At the mature stage, the FCF from operating activities was relatively high which can be used as a source of internal funding. At this stage, the company has obtained a market positioning so that the financial risk faced was relatively small when compared to the young stage. As in the mature stage, the growth rate of sales and profits has increased, the higher the number of assets obtained.

In the waning stage, the desire to increase debt tends to decrease, namely the *financial leverage level* of 14.28 percent because the company was not sure about the behavior of sales growth and profit behavior which shows a downward trend. At this stage, the company was still consistent in paying dividends to shareholders in large numbers so that the retained earnings as a source of internal funding were relatively low at 4.57 percent. Other internal funding sources such as FCF at this stage tends to be low at 21.06 percent, where the behavior was the same as the young stage, but different from the mature stage. At this stage, the company's interest in the market moves downwards so that the financial risks faced were relatively high and the number of assets acquired also begins to decline.

Table 3. The descriptive statistics for each stage of the company's life

Stage	Variable	mean	Min	Max	Sta. Div
Young	Financial leverage	0.1770	0.0120	0.3300	0.0090

n=75	Sales growth	0.2095	0.0584	0.3021	0.0348
	Profitability	0.1997	0.0435	0.3123	0.0780
	dividend	0.1589	0.1003	0.3287	0.0504
	Retained earnings	0.0388	0.0100	0.0577	0.0068
	Free cash flow	0.2075	0.0809	0.2532	0.0970
	Risk	0.2546	0.0711	0.3670	0.1441
	Firm Size	14.367640	10.888700	17.7145400	1.635000
Dewasa	Financial leverage	0.4680	0.1800	0.5760	0.1413
n=540	Sales growth	0.5674	0.2412	0.6523	0.1041
	Profitability	0.4991	0.2261	0.5460	0.1439
	Dividend	0.4007	0.1124	0.5765	0.1922
	Retained earnings	0.0478	0.0200	0.0556	0.0039
	Free cash flow	0.3391	0.1112	0.4557	0.0835
	Risk	0.1526	0.0720	0.1611	0.0680
	Firm Size	14.581120	11.975390	18.335470	1.590209
Tua	Financial leverage	0.1428	0.0152	0.2552	0.1004
n=820	Sales growth	0.2430	0.0539	0.3782	0.1418
	Profitability	0.2147	0.0535	0.3223	0.1781
	Dividend	0.5373	0.4111	0.7187	0.2725
	Retained earnings	0.0457	0.0201	0.0511	0.0205
	Free cash flow	0.2106	0.0612	0.2987	0.0912
	Risk	0.2541	0.0724	0.3633	0.1801
	Firm Size	14.928350	13.314050	19.504670	1.4397650

The obtained hierarchy got from the explanation of behavior financing in the company's life cycle, this study applies regression analysis (see Table 4). *First*, it begins with a simulation of the estimation model, namely the *Common effect model (CEM)*, *Fixed effect model (FEM)* and *Random effects model (REM)*. *Second*, the regression model is tested in each stage. Test results based on test Chow turned out to be at the young stage the *Fixed Effect Model (FEM)* chosen because the p value was 0.000 less than 0.05 or $p < 0.05$. Furthermore, through the Hausman test, it turns out that what is desired at the mature stage is the *Random effect model (REM)* where the p value of 0.0800 is greater than 0.05 or $p \text{ value} > 0.05$. And the waning stage, through the Chow test, the *Fixed effect model (FEM)* was chosen with the assumption of $p < 0.05$. *Third*, perform the classical assumption test and only choose one assumption test, namely the normality test with the assumption that the *histogram normality test value* is $p > 0.05$ and autocorrelation test using Durbin-Watson stat. The young stage has a probability value of ($p = 0.6020$), the mature stage is ($p = 0.6100$), and the waning stage has a probability value of ($p = 0.7004$).

The *fourth*, displays the F ratio test, which is testing the independent variables jointly affecting the dependent variable with the assumption that $p < 0.05$. The young

stage has a probability value of ($p= 0.0045$), the mature stage is ($p= 0.0068$), and the waning stage has a probability value of ($p= 0.0458$). Accompanied by the determinant coefficient test, namely *Adjusted R-squared*. The young stage is 0.4741 or 47.41 percent, the mature stage is 0.5078 or 50.78 percent and the waning stage is 0.4602 or 46.02 percent. The portrait of the goodness of the model illustrated by *Adjusted R-squared* is close to 50 percent or above 50 percent, so the model can be declared as good in explaining the relationship between variables. Finally, we perform a t-test or partial test (see Table 4).

Table 4 displays information on the relationship between variables. *Young stage: sales growth* has a positive and significant effect on *financial leverage* ($= 0.2136, p < 0.0111$) because the *p value* is smaller than 0.05 so that it gets empirical support. Profitability has a negative and significant effect on *financial leverage* ($= -0.4231, p < 0.0159$) gets empirical support. Then, financial dividends have a positive and significant effect on *financial leverage* ($= 0.3757, p < 0.0064$) gets empirical support. Furthermore, *retained earnings* have a negative and significant effect on *financial leverage* ($= -0.0629, p < 0.0507$) gets empirical support. Then, *free cash flow* negative and significant effect on *financial leverage* ($= -0.1555, p < 0.0031$) got empirical support. Likewise, risk negative and significant effect on *financial leverage* ($= -0.0138, p < 0.0019$) got empirical support. And lastly, *firm size* negative and significant effect on *financial leverage* ($= -0.0104, p < 0.0076$) got empirical support.

For mature stage: sales growth has a positive and significant effect on *financial leverage* ($= 0.3466, p < 0.0402$) because the *p value* is smaller than 0.05 so that it gets empirical support. Profitability has a positive and significant effect on *financial leverage* ($= 0.1039, p < 0.0000$) gets empirical support. Then, financial dividends have a positive and significant effect on *financial leverage* ($= 0.4142, p < 0.0000$) gets empirical support. Furthermore, *retained earnings* have a negative and significant effect on *financial leverage* ($= -0.3014, p < 0.0175$) gets empirical support. Then, *free cash flow* has a positive and significant effect on *financial leverage* ($= 0.1223, p < 0.0304$) gets empirical support. Likewise, risk negative and significant effect on *financial leverage* ($= -0.0622, p < 0.0249$) got empirical support. Also, *firm size* positive and significant effect on *financial leverage* ($= 0.2228, p < 0.0000$) got empirical support.

For waning stage: sales growth has a positive and significant effect on *financial leverage* ($\beta = 0.3379, p < 0.0471$) because the *p value* is smaller than 0.05 so that it gets empirical support. Profitability has a positive and significant effect on *financial leverage* ($= 0.1970, p < 0.0000$) gets empirical support. Then, financial dividends have a positive and significant effect on *financial leverage* ($= 0.8819, p < 0.0000$) gets empirical support. Then, *retained earnings* have a positive and significant effect on *financial leverage* ($= 0.1180, p < 0.0000$) got empirical support. Furthermore, *free cash flow* has a positive and significant effect on *financial leverage* ($= 0.2693, p < 0.0383$) and has empirical support. Likewise, risk negative and significant effect on *financial leverage* ($= -0.2781, p < 0.0507$) got empirical support. Also, the *firm size* negative and significant effect on *financial leverage* ($= -0.7990, p < 0.0004$) got empirical support.

Table 4. Estimated financing behavior in the company's life stage

Variable	Young	Mature	Waning
	Fixed Effects Model	Random Effects Model	Fixed Effects Model

	Coefficient	Prob	Coefficient	Prob	Coefficient	Prob
Constant	0.2348	0.3440	0.6863	0.4750	0.3204	0.0000
Sales growth	0.2136	0.0111	0.3466	0.0402	-0.3379	0.0471
Profitability	-0.4231	0.0159	0.1039	0.0000	-0.1970	0.0000
Dividend	0.3757	0.0064	0.4142	0.0000	0.8819	0.0000
Retained earnings	-0.0629	0.0507	0.3014	0.0175	0.1180	0.0000
Free cash flow	-0.1555	0.0031	0.1223	0.0304	-0.2693	0.0383
Risk	-0.0138	0.0019	-0.0622	0.0249	0.2781	0.0507
Firm Size	-0.0104	0.0076	0.2228	0.0000	-0.7990	0.0004
Adjusted R-squared	0.4741		0.5078		0.4602	
F-ratio	0.0045		0.0068		0.0458	
Chow test (p-value)	0.0000		-		0.0000	
Hausman test (p-value)	-		0.0800		-	
Histogram normality test	0.6020		0.6100		0.7004	
Durbin-Watson stat	2.6960		2.8241		3.7221	
Number	75		540		820	

4. DISCUSSION

The young stage: The sales growth behavior tends to move up, yet, the company has started to look for debt, in contrast to the starter stage where the company has not dared to borrow. For the companies that has sales growth was seen as a source of internal funding, as well as a stepping stone in the selection of funding sequences. Of course, sales growth resulted in positive *cash flows from operations* (CFO) behavior (Bravo, 2019; Kaur, 2019b; Sumail and Akob, 2021) , so companies began to be interested in debt. Therefore, the company is consistent with the *pecking order theory* (POT) principle. As Ahsan *et al .*, (2016); Pai *et al .*, (2014) states that in the young stage of sales growth tends to move up, the mature stage of sales growth is moderate or even high and the waning stage of sales growth starts to be low. Likewise, profitability behavior shows a low response to the desire to increase debt. Study of Danis *et al .*, (2014) ; Sheikh and Qureshi (2017) reports that profitability is negatively related to *financial leverage* or debt. This fact shows that the company is still consistent with the POT pattern, namely the desire to increase debt if internal funding is not sufficient as the source of profit.

Even though the company has made a profit, the behavior of paying dividends has started to move up but the increase has not been too high so that *Cash flows from financial* (CFF) has also move up. In fact, investment needs at this stage tend to be high as a consequence of meeting market needs, so management is forced to allocate CFO from profits. As a result, internal funding sources are corrected or not sufficient to finance operations, the company begins to look at debt. Kaur, (2019a); Pai *et al .*, (2014) reports that the dividend payments tend to be high and companies begin to dare to borrow at the growth stage or young. In fact, behavioral finance enthusiasts such as Meza *et al .*, (2020) states that the relationship between the dividend behavior and earnings behavior for each life stage is different. They also find that changes in dividend amounts provide some information about future earnings, especially during the introduction and growth stages.

Therefore, this fact may show the company's consistency that relies on the POT hierarchy in terms of financing behavior.

The consequences of dividend payments that tend to be high can reduce the retained earnings, especially the *Retained Earnings of total assets* (RE/TA) proxy which tends to decrease, the availability of internal funds decreases so that the company is forced to borrow. As stated by Hasan and Habib, (2017) ; Kaur (2019a) that RE/TA behavior and *Retained Earnings of total equity* (RE/TE) behavior tend to be low at the young, developing stage , so companies are forced to borrow to finance operations. This shows consistency with the POT spirit.

The behavior of *free cash flow* (FCF) at a young stage is low in encouraging *financial leverage*. Bin Khidmat *et al .*, (2019); Hsu (2018) reports that the behavior of FCF at the young stage is the same as at the stagnant stage which tends to decline and the company still adheres to the investment principle so that the *Cash flows from investment* (CFI) is low or $CFI < 0$ then there is a tendency for the company to increase debt. This means that internal funding sources are not sufficient so that the company has a desire to borrow. Of course, this desire is in accordance with the hierarchy of funding needs that relies on the spirit of POT. In fact, Buus (2015) states that free cash flow behavior tends to be dynamic with leverage. Also, Ghose and Kabra (2020) explain that if the corporation has a lot of free cash, there is a tendency for management to feel loose to adjust leverage. On the basis of this argument, when growth is low, FCF tends going to short so there is a tendency for companies to raise the debt.

Financial risk behavior in each stage of the company's life is different (Al-Hadi *et al .*, 2016; Sumail and Akob, 2021) . As Shahzad *et al .*, (2019) provide evidence, the company's financial risk tends to be low at the young and developing stage, in contrast to the starter stage and the decline or waning stage, which tend to be high. When the financial risk is low, the company's desire to choose external funding in the form of debt tends to be high because the cost of funds and financial risk is low. Of course, CFO behavior moves up at an early stage so it is reasonable as revealed by Roma *et al .*, (2020) that the cash flow pattern reflects the company's characteristics in terms of profitability, growth, and risk . This fact shows the company's consistency that relies on the POT pattern if the cost of funds and financial risk is small, the company increases the debt.

The size of the company is supplied by the CFO of earnings, while the CFO of earnings at the early stage tends to be low so that the size of the company is also small because the company is just growing (Tavassoli, 2015), then the company begins to look for debt, assuming that if profits move up. This fact shows that the company is still consistent with the POT spirit in choosing the source of funding. This study does not support the findings of Shahzad *et al .*, (2019) which states that at a young stage the size of the company is high so that the company's courage to increase debt is very high, on the grounds that assets can be used as collateral for a debt.

The mature stage: The sales growth behavior in the mature stage shows a moderate movement; sometimes, the upward trend is almost similar to the early stage, so the company dares to increase debt. As Ahsan *et al .*, (2016); Pai *et al .*, (2014) provide evidence that sales growth in the mature stage is moderate or even high, so that *financial leverage behavior* in the mature stage is high (Castro *et al .*, 2016b; Shahzad *et al .*, 2019) . *Financial leverage* behavior at the mature stage seems to support *trade-off financing* behavior. Similar suggested by Ahsan *et al .*, (2016) that companies that grow and mature in *trade-off*

financing behavior while companies that decline in yield do not support *trade-off financing behavior*. Likewise, the behavior of profitability in the mature stage tends to move up along with the movement of sales growth. Castro *et al.* , (2016a) concludes that profitability moves up at the maturity stage along with sales growth, so the companies are more willing to take on debt. Therefore, the pattern of financing behavior leads to trade-off financing behavior instead of POT.

Dividend behavior at the mature stage shows moderate and even high so that it impacts *financial leverage behavior* which leads to an increase. Ahsan *et al.* , (2016); Pai *et al.* , (2014) provide evidence that dividend behavior at the mature stage is moderate and sometimes high; of course the company has a high desire to increase debt. Therefore, CFF is reduced due to dividend payments, thus requiring a CFO to finance the company's operations sourced from debt funds. Thus, the decision on the CFO of debt was shown POT behavior with the assumption that the selected cost of funds is small and has the lowest risk. Then, the behavior of retained earnings shows that it tends to be high because dividend payments are moderate, and the company is interested in increasing debt because the company believes it will be able to pay its obligations. Also, the behavior of retained earnings may be low if dividend payments are high. Likewise, Hasan and Habib, (2017) ; Sumail and Akob (2021) argue that the high Retained Earnings to Total Assets (RE/TA) companies and Retained Earnings to Total Equity (RE /TE) ratios are usually in the mature stage , and in the waning stage because investment tends to decline. The depiction of high retained earnings as a source of internal funding tends to show the courage to increase debt, and this fact does not support POT behavior which tends to lead to *trade-off financing behavior*.

The FCF behavior at the mature stage is high. Not only the company no longer adheres to the investment principle but also it is more dominant in the funding principle so that the CFO at this stage is greater than zero or negative ($CFO > 0$), and the company tends to use debt a lot. (Bin Khidmat *et al.* , 2019) stated that the FCF at the mature stage was higher than the growth stage and stagnant, and the Adjusted R-squared was 0.46 so that the company reasoned to increase debt. This shows that the companies were siding in *trade-off financing* behavior rather than POT behavior.

Financial risk behavior at the mature stage shows very low, even CFO behavior > 0 because the behavior of sales growth is in the medium category and sometimes shows an upward movement, and at the growth stage, the types of stocks owned and ogled by investors are valuable stocks (*income stock*), *blue chips* and stocks that survive (*defensive stock*), so that at this stage it is reasonable to have low financial risk, the company dares to raise the debt (Sumail and Akob, 2021) . Also, at this stage the company no longer adheres to the investment principle so its behavior shows a $CFI < 0$. And in the mature stage, the company sometimes pays large dividends, repurchases growth shares and liquidity, and makes debt payments that tend to be high along with decreased investment opportunities, resulting in negative cash flow to finance funding ($CFO < 0$), then encourage increased debt. As suggested by Shahzad *et al.* , (2020, 2019) states that the maturity stage of the financial risk level tends to be low. A recent study , Roma *et al.* , (2020) states that the behavior of cash flow patterns reflects the company's characteristics in terms of profitability, growth, and risk. This fact shows that the companies were siding with the POT argument that the selection of funding is based on the lowest risk.

The behavior of the size of the company is reflected by the assets that the mature stage is significant so that the desire to increase debt is high because the available assets

can be used as collateral. A study of Castro *et al.*, (2016a); Shahzad *et al.*, (2019) proves that the larger the size can encourage companies to increase debt. This fact shows the company's alignment with the TOT concept that the company is raising a large amounts of debt because it prioritizes the principle of more excellent benefits on the use of debt and the cost of funds so that assets can be used as collateral. The company does not side with POT.

The waning stage: The behavior of sales growth in the waning stage tends to decline, so the company is reluctant to increase debt. Meza *et al.* study, (2020); Pai *et al.*, (2014) state that the behavior of sales growth in the waning stage is starting to decline, maybe they were reluctant to increase debt. Of course, the behavior of *financial leverage* at a waning stage tends to support POT behavior. Then the behavior of profitability at the waning stage also shows a downward movement in line with the behavior of sales growth so that companies are reluctant to raise the debt, as evidenced by the behavior of $CFO < 0$. As Meza *et al.*, (2020); Sumail and Akob (2021) provide evidence that the behavior of profitability at the waning stage tends to decrease so that the company's desire to raise the debt also decreases. On the other hand, management is faced with the rights of shareholders, so they have to not only pay dividends but also pay debts that are due, so the behavior of $CFF < 0$, of course the company is reluctant to increase debt. In the POT study, when earnings behavior begins to decline, companies are usually unwilling to increase debt because internal funding is sufficient. Hasan and Habib Studies, (2017); Sumail and Akob (2021) stated that the high ratio of *Retained Earnings to Total Assets* (RE/TA) and *Retained Earnings to Total Equity* (RE/TE) was in the mature stage, and in the waning stage because the investment tends to start to decline as in the mature stage. This fact shows that the company's reluctance not to raise debt is consistent with the POT spirit.

FCF behavior at the waning stage was the same as behavior when young, which is low. CFO behavior shows < 0 because sales growth has decreased or is in the shake-out phase so that the company does not dare to raise debt. As, (Bin Khidmat *et al.*, 2019) states that the FCF at the young stage and the waning stage is lower than the mature stage where the Adjusted R-squared value is 0.46 so the company reasons to raise the debt at the mature stage. This fact shows that the companies tend to side at POT behavior rather than *trade-off financing behavior*.

The financial risk behavior shows very high similar to the starter stage at the waning stage, even CFO behavior shows < 0 because sales growth behavior is in a low category, so that the company is reluctant to increase debt. The study of Shahzad *et al.*, (2019) provides evidence that the financial risk behavior of the declining or waning stage which tends to be high is different from the young stage that is developing, namely that the financial risk of the company tends to be low. As the financial risk is high, of course, the company is not interested in raising the debt so that the company can be declared consistent with POT behavior. Lastly, the size behavior shown is low similar to that of the developing young stage. Behavioral finance stakeholders assume that the size of the supply was from earnings CFOs, while CFOs was from earnings at the waning stage tends to be low so that the size of the company is also small because the company is experiencing declining sales growth (Tavassoli, 2015) and the company is not willing to raise the debt. Thus, companies tend to siding at POT behavior.

5. CONCLUSIONS AND RECOMMENDATIONS

Conclusion

The main issue of this research is to examine the behavior financing in the company's life cycle whether it is consistent with POT behavior or not. At the young stage, the sales growth behavior is positive, the profitability behavior is negative, the dividend behavior is positive, the retained earnings behavior is negative, the FCF behavior is negative, the financial risk behavior is negative, and the signal size behavior is negative. In fact, behavior financing at the young stage is consistent with POT behavior. Then, at the mature stage, the behavior of sales growth signals positive, the profitability behavior is positive, the dividend behavior is positive, the retained earnings is signaled positive, the FCF behavior is positive, the financial risk behavior is negative, and the signal size behavior is positive. Interestingly, the behavior of profitability, the retained earnings, the FCF, and size do not support POT behavior tends to lead to *trade-off financing behavior*. Finally, the waning stage, the sales growth behavior is negative, the profitability behavior is negative, the dividend behavior is positive, the retained earnings behavior is positive, the FCF behavior is negative, the financial risk behavior is positive, and the signal size behavior is negative. Generally, the financing behavior at the waning stage tends to favor POT behavior rather than *trade-off financing behavior*.

Research Suggestions and Limitations

The research agenda in the future can be expanded to the research object area, for example investigating the behavior of POT and TOT financing in the SME sector. Therefore, it is also a limitation of this study because it only captures financing behavior from the perspective of POT. If, if the behavior financing is photographed in comparison between TOT and POT, it will contribute to a more meaningful and broad literature contribution related to behavior financing in every stage of life.

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