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The Impact of Company Size, Leverage, and Profitability Combination on Company Financial Performance

Arya Maddinsyah Putra
Universitas Islam Sultan Agung Semarang, Indonesia
Kangaryamp15@gmail.com

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ABSTRACT

The importance of understanding factors influencing corporate financial performance to enhance competitiveness and sustainability in an increasingly competitive market. Company size, leverage, and profitability are considered key factors influencing corporate financial performance. The objective of this study is to analyze and identify the impact of the combination of company size, leverage, and profitability on corporate financial performance. This research aims to provide a deeper understanding of how these three factors interact and affect corporate financial performance. The study uses a quantitative method with multiple regression approach to analyze data from companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023. The findings indicate that company size, leverage, and profitability significantly influence corporate financial performance. Specifically, company size and profitability have a positive impact on financial performance, while leverage also has a positive impact. The combination of these factors shows a more complex influence on financial performance, suggesting that companies need to balance company size, leverage, and profitability appropriately to achieve optimal financial performance.

Keywords: Company Size, Leverage, Profitability, Financial Performance, Business Growth

INTRODUCTION

Financial performance of a company reflects how effectively it manages its resources to achieve financial goals. Financial performance indicators such as net profit, return on assets (ROA), return on equity (ROE), and profit margins provide insights into profitability, operational efficiency, and the company's ability to generate value for shareholders. Good financial performance demonstrates that a company operates efficiently, generates adequate profits, and manages its debts effectively. This not only builds trust among investors and shareholders but also attracts prospective investors who see the company as a promising investment opportunity (Fatmawati & Alliyah, 2023).

Moreover, strong financial performance serves as the foundation for a company to grow and compete in the global market. In a competitive business environment, companies must adapt quickly to market and technological changes. Robust financial performance gives companies the flexibility to invest in innovation, expansion, and enhancing product or service quality. With sufficient financial resources, companies can strengthen their market position, explore new opportunities, and confront emerging challenges. Thus, good financial performance not only reflects past success but also serves as the cornerstone for future growth and sustainability.

The size of a company has a significant impact on various operational and strategic aspects of the company. Large companies usually have more resources, both in the form of assets, labor, and production capacity. With more abundant resources, large companies can more easily diversify products, expand markets, and invest in research and development. In addition, easier access to capital allows large companies to obtain financing at lower costs, either through bank loans or the issuance of stocks or bonds. Higher bargaining power in the market also allows large companies to obtain better prices from suppliers and dictate more favorable terms in contract negotiations (Ramadhani, et, al., 2021).

However, the large size of the company also presents unique challenges. More complex bureaucracy can hinder a company's flexibility and responsiveness to market changes. Larger organizational structures tend to require more layers of management, which can slow down the decision-making process and increase administrative costs. In addition, operational inefficiencies can arise due to difficulties in coordinating various business units and departments that are scattered. Therefore, it is important for large companies to develop effective management and control systems to address these challenges. Understanding how company size affects financial performance assists management in formulating strategies that can maximize the benefits of economies of scale while minimizing the negative impact of bureaucracy and operational inefficiencies.

Leverage, in corporate finance, refers to the use of debt to fund a company's operational activities and investments. Effective leverage can help companies to increase return on equity (ROE) by leveraging borrowed funds to generate profits that are greater than the cost of borrowing itself. For example, by using debt, companies can expand their operations, increase production capacity, or enter new markets without having to spend all of their capital from their own equity. This allows companies to seize growth opportunities that may not be achievable if they rely solely on internal funding (Vianti, et, al., 2023). However, it is important to note that the use of leverage must be done with careful consideration and proper planning so that the benefits of leverage can be maximized without compromising the company's financial stability.

On the other hand, high leverage carries significant risks. If the income generated from debt-funded investments is not enough to cover interest costs and principal returns of debt, the company could face liquidity and solvency issues. The inability to meet debt obligations can lead to bankruptcy or costly debt restructuring. In addition, high leverage can also affect the market's perception of a company's risk, which can negatively impact stock prices and capital costs. Therefore, companies need to balance the benefits of using debt and the risks incurred. This balance can be achieved through careful financial management, including in-depth risk analysis, constant monitoring of financial conditions, and effective debt management strategies.

Profitability is an important indicator that shows the operational efficiency and the ability of the company to generate profits from the revenue generated. A high level of profitability indicates that the company is able to manage its resources effectively, minimize costs, and maximize revenue. With a good level of profitability, companies have more stable finances, allowing them to reinvest in the form of new product development, market expansion, or technological upgrades. This reinvestment, in turn, can drive long-term growth and increase the company's competitiveness in the market (Christiaan, 2022). High profitability also allows companies to face greater economic and competitive challenges with more confidence.

However, profitability cannot be analyzed in isolation without considering company size and leverage. Company size can influence the ability of a company to achieve economies of scale, which ultimately can impact profitability levels. Larger companies may have advantages in negotiating raw material prices or production efficiency, but they may also face challenges such as bureaucracy and operational inefficiencies that can reduce profitability. On the other hand, leverage or the use of debt in the capital structure also has significant implications. Proper leverage can enhance profitability by allowing companies to leverage additional funds for profitable investments. However, excessive leverage can increase interest costs and financial risks, which can ultimately reduce profitability.

THEORETICAL BASIS

Financial Performance

Financial performance is a measure used to assess how well a company achieves its financial objectives and efficiently utilizes available resources. It encompasses various aspects, including profitability, liquidity, solvency, and operational efficiency (Sumarna, 2023). Profitability measures the company's ability to generate profit from its sales, while liquidity indicates the company's ability to meet its short-term obligations. Solvency measures the company's ability to meet its long-term obligations, and operational efficiency evaluates how well the company manages costs and revenues to maximize shareholder value.

The theory of financial performance is based on various concepts and models developed in the fields of accounting and financial management. One relevant foundational theory is agency theory, which explains the relationship between the owners (principals) and managers (agents) of a company. According to this theory, managers as agents are expected to act in the best interests of the company's owners, but there often exist conflicts of interest that can influence financial performance (Rahman, 2020). Therefore, financial performance serves as a tool to measure the extent to which managers successfully meet the financial objectives expected by the owners. Financial ratios and financial statement analysis are common methods used to measure and monitor the financial performance of a company.

Good financial performance indicates that a company can generate consistent profits, manage debt wisely, and maintain a healthy cash flow. It also reflects the company's ability to endure economic downturns and adapt to market changes. Strong financial performance attracts interest from investors and creditors, enhancing their confidence in the company's stability and future prospects. Conversely, poor financial performance can erode trust and lead to difficulties in obtaining funding or attracting new investors (Ismanto & Setiawan, 2023). Therefore, monitoring and managing financial performance are critical aspects of effective business management.

Company Size

Company size refers to the scale or magnitude of a company, often measured through various indicators such as total assets, number of employees, revenue, or market capitalization. Company size is a crucial factor in financial and strategic analysis because it affects a company's ability to operate and compete in the market. Larger companies tend to have more resources, allowing them to achieve economies of scale, reduce per unit costs of products or services through mass production and operational efficiency. Larger companies often have easier access to capital markets, facilitating their ability to raise funds through stock or bond issuances (Ariansyah, et al., 2023).

The theory of company size encompasses the concept that the scale or magnitude of a company can influence various operational, strategic, and financial aspects. Organizational and management theories state that company size also affects organizational structure, internal communication, and decision-making processes. Larger companies tend to have more complex organizational structures with higher levels of hierarchy. This can impact communication efficiency and coordination among business units and departments. Moreover, strategic decisions in large companies often involve longer and more complex processes as they require approvals from multiple management levels (Farida & Yulazri, 2023). In this regard, company management must carefully consider the impacts of company size on all operational and strategic aspects to optimize overall company performance.

On the other hand, company size can also influence management strategies and business decisions. For instance, small companies may be more agile and able to adapt more quickly to changes in the market or new technologies compared to larger companies. However, they may face constraints in terms of funding, production capacity, and market penetration. The optimal company size varies depending on the industry, market conditions, and business strategies applied (Pusaka & Takarini, 2023). Therefore, understanding company size and its impact on various operational and strategic aspects is crucial for management in formulating effective policies and decisions.

Leverage

Leverage in finance refers to the use of borrowed funds or debt to amplify the potential profit or return on investment or operations of a company. The concept of leverage is crucial in financial management because it can influence the risk and expected return for shareholders and creditors. Leverage allows companies to use more funds than they own themselves, with the expectation that the returns generated from these investments will exceed the costs of the debt incurred. Companies must be able to meet their debt obligations, including paying interest and principal, even in unfavorable economic conditions (Yuliastuti & Merawati, 2022).

Theory on leverage in finance refers to the concept of using debt to amplify the returns of a company's investments or operations. This theory posits that leverage can enhance the expected return for shareholders by borrowing additional funds to make investments that are anticipated to yield greater profits than the cost of the debt incurred (Syarifudin, et al., 2023). Economically, leverage capitalizes on the notion that debt costs are often lower than equity costs, allowing companies to increase profits available to shareholders.

Managing leverage is a critical part of a company's financial strategy as it can affect long-term financial stability. Companies must consider a leverage policy that aligns with their risk profile and current market conditions. Too much debt can lead to liquidity and solvency issues, while too little debt may limit growth potential (Sariroh, 2021). Therefore, decisions regarding leverage should carefully consider external and internal factors that can impact the long-term success of the company's financial strategy.

Profitability

Profitability is the primary measure of a company's efficiency and financial health. It refers to a company's ability to generate profits from its business operations and activities. There are several metrics commonly used to measure profitability, such as net profit margin, return on assets (ROA), return on equity (ROE), and gross profit margin. Net profit margin measures the percentage of revenue remaining after all operating costs and taxes are paid, while ROA measures the efficiency of using a company's assets in generating profits. ROE, on the other hand, shows the rate of return a company obtains on the equity invested by shareholders (Christiaan, 2022).

Economic theory suggests that profitability plays a crucial role in determining the attractiveness and sustainability of a company in the market. Companies with high profitability tend to be more appealing to investors because they offer greater potential returns on their investments. Stable and consistent profitability also strengthens market confidence in the company's ability to manage risks and withstand economic challenges that may arise (Putra & Wahyuni, 2021). In this regard, company management needs to thoroughly understand the factors influencing profitability and develop appropriate strategies to enhance or maintain optimal levels of profitability over the long term.

High profitability indicates that a company is able to manage its operations

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efficiently, control costs, and maximize revenue. It also serves as a strong indicator of the company's financial health and attractiveness to investors. Companies with good profitability often have a greater competitive advantage in the market as they can offer products or services at more competitive prices or leverage innovation and investment for long-term growth. Conversely, low profitability may indicate issues in cost management, operational efficiency, or other challenges that need to be addressed by company management (Rasyid, et al., 2022).

METHOD

This research method employs a quantitative approach by collecting data from various sources to conduct in-depth analysis. This approach allows for systematically identifying relationships between company size, leverage, profitability, and financial performance. The study population consists of all food and beverage companies listed on the Indonesia Stock Exchange, totaling 47 companies. However, due to time constraints, resource limitations, and accessibility issues, the study opts to use purposive sampling. Using this method, researchers intentionally select samples based on specific criteria deemed relevant to the research objectives. A total of 20 companies are chosen as samples.

Statistical analysis will be conducted to test hypotheses and identify patterns of relationships among the variables under study. One of the methods to be employed is multiple regression analysis, which allows for evaluating the significance of the influence of company size, leverage, and profitability on the financial performance of companies. This analysis will control for other variables that may affect the outcomes, such as market conditions or macroeconomic factors. With this approach, the study aims to provide a deeper understanding of how the combination of company size, leverage, and profitability affects financial performance and its implications in the context of financial management and business strategy.

RESULT

The Influence of Company Size on Financial Performance

The results of this study indicate a positive and significant influence of Company Size on Financial Performance. This research employed partial hypothesis testing,

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showing that the calculated t-value for the variable Company Size on Financial Performance is 5.102, which exceeds the critical t-value of 1.984 at a significance level of 0.05. This suggests a statistically significant influence between Company Size and Financial Performance. The null hypothesis (H0) stating that there is no relationship between Company Size and Financial Performance is rejected, while the alternative hypothesis (Ha) stating that there is a relationship between Company Size and Financial Performance is accepted. This means that Company Size positively affects Financial Performance. The coefficient of determination (r2) between Company Size and Financial Performance is 0.337. This indicates that the Company Size variable can explain or contribute to 33.7% of the variance or variability in Financial Performance observed in this study. The remaining 66.3% is influenced by other factors not examined in this research.

These findings suggest that Company Size plays a crucial role in determining a company's Financial Performance. Larger companies tend to have access to more resources and markets, which can positively contribute to their financial performance. Managerial implications from this research may include strategies to enhance company scale or size, whether through organic expansion or acquisitions, to improve financial performance. It is important to note that this study may have limitations, such as sample constraints or methodological choices. These results should be considered within the specific context and conditions of the companies studied. Therefore, this research provides valuable insights into how Company Size can influence Financial Performance, serving as a basis for strategic decision-making at the managerial level.

The Influence of Leverage on Financial Performance

The results of the study on the influence of Leverage analysis on Financial Performance reveal significant findings. The analysis using partial hypothesis testing shows that the t-value for the variable Leverage on Financial Performance is 3.958. This value exceeds the critical t-value of 1.984 at a significance level of 0.05. Therefore, it can be concluded that there is a statistically significant influence between Leverage (financial leverage) and the Financial Performance of the company. The null hypothesis (H0), which states that there is no influence between Leverage and Financial Performance, is rejected, while the alternative hypothesis (Ha), which suggests an influence between Leverage and Financial Performance, is accepted. This means that Leverage has a positive and significant impact on Financial Performance. The coefficient of determination (r2) between Leverage and Financial Performance is 0.482. This indicates that the Leverage variable can explain or contribute to 48.2% of the variation or variability in Financial Performance observed in this study. The remaining 51.8% is influenced by other factors not examined in this research.

These findings indicate that the prudent and effective use of Leverage can significantly contribute to improving the Financial Performance of a company. Leverage can be utilized to enhance profitability and foster growth through the use of additional financial resources. Company management can consider appropriate Leverage strategies to maximize financial performance; however, it's essential to manage the associated risks carefully. It should be noted that this research may have limitations, such as methodological constraints or specific characteristics of the sample used. The implications of this study should be considered within the specific context of the company and industry in question. Thus, these findings provide valuable insights for financial managers and corporate executives on the importance of effectively managing Leverage to achieve corporate financial goals.

The Effect of Profitability on Financial Performance

The results of the study on the impact of Profitability on Financial Performance show significant findings. Based on partial hypothesis testing, the t-value for the variable Profitability on Financial Performance is 5.725. This value is much greater than the critical t-value of 1.984 at a significance level of 0.05. Therefore, it can be concluded that there is a statistically significant influence between company Profitability and Financial Performance. The null hypothesis (H0) stating that there is no relationship between Profitability and Financial Performance is rejected, while the alternative hypothesis (Ha) stating that there is a relationship between Profitability and Financial Performance is accepted. This indicates that Profitability has a positive and significant impact on company Financial Performance. The coefficient of determination (r2) between Profitability and Financial Performance is 0.503. This means that Profitability analysis can explain or contribute to 50.3% of the variation or variability in Financial Performance observed in this study. The remaining 49.7% is influenced by other factors not examined in this research.

The findings indicate that the level of company Profitability has a significant impact on Financial Performance. Companies that are able to increase their Profitability tend to exhibit better financial performance, such as increased net profit, return on investment (ROI), or return on equity (ROE). Company management can consider strategies to enhance Profitability through various means, such as improving operational efficiency, better cost management, or more effective marketing strategies. It is important to note that the results of this research may be constrained by the methodology used or the characteristics of the selected sample. The implications of these findings should be considered within the specific context of the industry and the companies involved. Thus, this study provides important insights into how Profitability can be a key factor in improving company Financial Performance. This can serve as a foundation for strategic decisions at the managerial level to achieve more optimal financial goals.

The Influence of Company Size, Leverage, and Profitability on Financial Performance

The results of this study indicate a positive and significant simultaneous influence of Company Size, Leverage, and Profitability on Financial Performance. The simultaneous F-test shows an F-value of 82.956, which exceeds the critical value (F-table) of 2.67 at a significance level (α) of 0.05. This suggests that there is a statistically significant influence of Company Size, Leverage, and Profitability on Financial Performance collectively. The null hypothesis (H0) stating that there is no simultaneous influence of Company Size, Leverage, and Profitability on Financial Performance is rejected, while the alternative hypothesis (Ha) stating that there is a simultaneous influence of these variables on Financial Performance is accepted. This implies that Company Size, Leverage, and Profitability collectively affect Financial Performance positively and significantly. The correlation coefficient (R) of 0.715 indicates a very strong correlation between Company Size, Leverage, and Profitability with Financial Performance. This indicates that changes in Company Size, Leverage, and Profitability together are closely related to changes in the Financial Performance of the company.

The contribution of the three independent variables (Company Size, Leverage, and Profitability) to Financial Performance is 71.5%. This means that 71.5% of the observed variation in Financial Performance can be explained by these variables. The remaining 28.5% is influenced by other factors not examined in this study. These findings provide evidence that not only do each of the variables (Company Size, Leverage, or Profitability) individually impact Financial Performance, but when considered together, their combined influence on Financial Performance becomes stronger. Company management can use this information to develop more holistic strategies to enhance Financial Performance, taking into account not just one, but the combination of Company Size, optimal Leverage levels, and improved Profitability. It is important to note that this research also has limitations, such as sample constraints or the methodology used. The implications of these findings should be considered in light of the specific context and characteristics of the industry or company under study.

CONCLUSION

Based on the research findings discussed, it can be concluded that Company Size, Leverage, and Profitability individually and collectively play significant roles in determining a company's Financial Performance. Individually, each of these variables has been shown to have a positive and significant impact on Financial Performance. Company Size reflects operational scale and the potential for economies of scale, while Leverage indicates that smart use of debt capital can amplify profit potential. Meanwhile, Profitability serves as a measure of the company's operational success in generating adequate net profits.

Simultaneously, these three variables interact in complex ways and reinforce each other in influencing Financial Performance. The finding that they together explain a substantial portion of the variability in Financial Performance, contributing 71.5%, underscores the importance of considering holistic strategies in corporate management. Company management can use this information to design more integrated policies that focus not only on individual aspects but also on the synergy between operational scale, capital structure, and operational efficiency to achieve optimal financial goals.

However, it is important to note that this research has limitations such as sample constraints or specific industry contexts that may affect the generalization of findings. The implications of these findings should be carefully considered within the specific context of the company and industry. Additionally, further studies integrating other variables or employing different methodological approaches could provide additional insights to deepen understanding of the factors influencing company Financial Performance comprehensively.

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