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THE INFLUENCE OF FIRM SIZE ON FINANCIAL PERFORMANCE WITH EARNINGS MANAGEMENT AS AN INTERVENING VARIABLE

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Abstract

This study uses a quantitative approach to analyze the impact of company size on financial performance. Furthermore, earnings management serves as an intervening variable. This study focuses on manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) from 2022 to 2024. The data used is secondary, obtained from the companies' annual reports. The research sample consisted of 23 companies selected using a purposive sampling method. Several techniques were used to analyze the data, including descriptive statistical analysis, classical assumption testing, partial hypothesis testing, coefficient of determination analysis, and path regression. The partial test results indicate that company size and earnings management have a significant influence on financial performance. Furthermore, company size, through earnings management, has also been shown to significantly impact financial performance. However, company size does not significantly influence earnings management practices.

Keywords: Company Size, Company Financial Performance, Earnings Management

INTRODUCTION

The development of the business world has pushed companies to build competitive advantages, especially in terms of measuring financial performance. Financial statements have become an important instrument because they are able to provide a comprehensive overview of a company's condition and performance. One of the main indicators used to evaluate performance is profit reported in financial statements. In the analysis process, company size is also often used as a basis for assessing success, as high profit is believed to reflect a company's ability to manage its resources effectively and maximize earnings. With efficient resource management, companies are better able to face market competition in a more effective and efficient manner. Therefore, company size is an important factor that can influence financial performance, as it captures the magnitude of assets, capital, and operational capacity available to a company in carrying out its business activities.

The manufacturing sector in Indonesia, particularly the food and beverage subsector, has continued to experience rapid growth and is considered one of the most promising sectors. This is due to factors such as a large population, high consumer demand, and strong purchasing power. This subsector also plays a crucial role in supporting national economic growth due to its significant contribution to gross domestic product (GDP). The researcher selects the food and beverage subsector because it has proven resilient in facing global crises and has become a leading industry within the manufacturing sector. For example, a company with the code **ROTI**, established in 2010, has a company size measurement of 29.001 and an ROA ratio of 0.09 over the 2022–2024 period. In contrast, company **DLTA**, established in 1984, has a smaller company size of 20.913 but a higher ROA of 0.16 over the same period. This comparison indicates that a large company size or a longer operating history does not always guarantee higher profitability or profit levels.

Based on this phenomenon, this study aims to analyze the relationship among company size, earnings management, and financial performance in food and beverage companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. The research problems are formulated as follows: (1) whether company size has a significant effect on financial performance; (2) whether company size has a significant effect on earnings management; (3) whether earnings management has a significant effect on financial performance; and (4) whether company size has a significant effect on financial performance through earnings management as an intervening variable. The objective of this study is to analyze the significance of the effect of company size on financial performance, both directly and through earnings management as an intervening variable, for food and beverage companies listed on the IDX during the 2022–2024 period. It is expected that the findings of this study will help companies better understand the roles of company size and earnings management in improving financial performance, as well as provide reference material for investors in assessing company performance and future prospects.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Company Size

In general, company size describes the large or small scale of a business entity. The larger the company's scale, the higher the complexity of operational activities occurring, both internal and external. This encourages managers to carry out earnings management practices so that the financial statements appear better. Conversely, small-scale companies are also vulnerable to engaging in earnings management so that the assets they own appear more significant when reported (Joe & Ginting, 2022). In this study, company size is measured based on total assets by using the natural logarithm (Ln). Company size is defined as the magnitude of the business scale, proxied through the natural logarithm of the total assets owned by the company (Effendi & Ulhaq, 2021).

Company Financial Performance

Company financial performance is an evaluation of how well a company achieves the targets and objectives that have been set, both operationally and strategically, measured through various indicators, including financial and non-financial indicators (Oktaviyah, 2024). In this study, financial performance is proxied by ROA, calculated by comparing net income with total assets. This ratio is considered more comprehensive compared to Return on Equity (ROE) because it does not only assess the return for shareholders, but also takes into account the contribution of creditors to the total assets owned by the company (Firdausi, 2020), (Sososutiksno et al., 2024). In addition, ROA more reflects the internal conditions of the company, such as the effectiveness of strategy and managerial control, whereas market-based indicators tend to be influenced by external factors, including investor perceptions.

Earnings Management

According to (Setiowati et al., 2023) earnings management is the decision made by managers through the selection of accounting policies or specific actions that can influence the profit figures in financial statements, with the aim of achieving certain outcomes (Lestari & Wulandari, 2019), (Juliana & others, 2025). One of the reasons for implementing earnings management is to influence the information in financial statements, so that stakeholders do not fully know the true condition and performance of the company. Earnings management is an action taken by managers to alter financial statements, particularly the income statement, from the original to a manipulated version with the purpose of deceiving stakeholders so that they do not know the actual condition of the financial statements (Lestari & Wulandari, 2019), (Kusuma & Anggadwita, 2021). According to (Dewi & Lubis, 2023) According to earnings management in this study is calculated using the earnings distribution approach.

Hypotheses

H1: Company size is expected to have a significant effect on the company financial performance of manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange in the year 2022 – 2024.

H2: Company size is expected to have a significant effect on earnings management in manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange in the year 2022 – 2024.

H3: Earnings management is expected to have a significant effect on company financial performance in manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange in the year 2022 – 2024.

H4: Company size is expected to have a significant effect on company financial performance through earnings management as an intervening variable in manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange in the year 2022 – 2024

RESEARCH METHODS

Type of Research

This study uses a quantitative approach, that is, a research method that focuses on collecting and analyzing data in the form of numbers or numeric variables. The quantitative method aims to provide empirical evidence through statistical data processing so that it can answer the research problems objectively.

Research Object

The object in this study is the influence of company size on financial performance with earnings management as an intervening variable in manufacturing companies of the food and beverage subsector listed on the Indonesia Stock Exchange for the period 2022–2024.

Data Collection Method

The data used are secondary data, namely the annual financial statements of manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange for the period 2022–2024. All data were downloaded through the official website of the Indonesia Stock Exchange.

Population and Sample

The population in this study comprises all manufacturing companies in the food and beverage subsector listed on the Indonesia Stock Exchange (IDX) during the period 2022–2024, with a total of 46 companies. From this population, the sample was determined using purposive sampling, resulting in 23 companies. With an observation period of three years, the total number of observation data used in this study is 69 company-year data points.

RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1. Descriptive Statistical

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
Company Size	69	14.31	31.02	23.4428	5.61021
Earnings Management	69	-.08	.16	.0057	.03057
Company Financial Performance	69	.00	.33	.1020	.07064
Valid N (listwise)	69				

Source: from SPSS version 22 results in 2025

Table 1 presents the descriptive statistics results of the research variables. The Company Size variable (X) consists of 69 samples with a minimum value of 14.31, a maximum value of 31.02, a mean of 23.4428, and a standard deviation of 5.61022. The Earnings Management variable (Z) comprises 69 samples with a minimum value of –0.08, a maximum value of 0.16, a mean of 0.0057, and a standard deviation of 0.03057. Meanwhile, the Company Financial Performance variable (Y) also consists of 69 samples with a minimum value of 0.00, a maximum value of 0.33, a mean of 0.1020, and a standard deviation of 0.07064. Thus, the final number of samples analyzed is 69 data points.

Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		69
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.06433707
Most Extreme Differences	Absolute	.084
	Positive	.084
	Negative	-.063
Test Statistic		.084
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: from SPSS version 22 results in 2025

The test result in Table 2 above shows an Asymp. Sig. (2-tailed) value of 0.200, which is greater than the significance level of 0.05. Thus, the data in this study can be said to fulfill the normality assumption or to be normally distributed.

Multicollinearity Test

Table 3. Multicollinearity Test Results

Coefficients[a]								
		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.190	.034		5.580	.000		
	Company Size	-.004	.001	-.310	-2.766	.007	.998	1.002

Earnings Management	.663	.259	.287	2.556	.013	.998	1.002
a. Dependent Variable: Company Financial Performance							

Source: from SPSS version 22 results in 2025

Based on the results in Table 3, the Company Size variable has a tolerance value of 0.998 > 0.10 and a VIF value of 1.002 < 10. Meanwhile, the Earnings Management variable also shows a tolerance value of 0.998 > 0.10 and a VIF of 1.002 < 10. This indicates that both independent variables do not suffer from multicollinearity problems, and are therefore suitable for use in the subsequent regression analysis.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test Results

Coefficients[a]						
		Unstandardized Coefficients		**Standardized Coefficients**		
Model		**B**	**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	1.084	.341		3.180	.002
	Company Size	-.013	.014	-.112	-.931	.355
	Earnings Management	-3.758	2.600	-.174	-1.446	.153
a. Dependent Variable: ABS_RES2						

Source: from SPSS version 22 results in 2025

From Table 4 it can be explained that:

1. The Company Size variable has a significance level of 0.355 > 0.05, so it can be concluded that there is no indication of heteroscedasticity.
2. The Earnings Management variable obtains a significance level of 0.153 > 0.05, which means that there is also no heteroscedasticity problem.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.821[a]	.703	.675	.04986	1.769
a. Predictors: (Constant), Manajemen laba, Ukuran Perusahaan					
b. Dependent Variable: Kinerja Keuangan Perusahaan					

Source: from SPSS version 22 results in 2025

Based on Table 5 above, the Durbin-Watson (DW) value obtained is 1.769. This value is then compared with the Durbin-Watson table value at the 5% significance level (α = 0.05) using the formula (k; n), where the number of independent variables (k) = 1 and the sample size (n) = 69. The calculation shows an upper bound (dU) of 1.6390. Since dU (1.6390) < DW (1.769) < (4 – dU) = 2.361, it can be concluded that the regression model in this study is free from autocorrelation problems.

Partial Hypothesis Test

Table 6. Partial Hypothesis Test Results

Hypothesis	t_{hitung}	sig	Conclusion

1	Company size versus company financial performance	-2.766	0.007	Hypothesis is accepted
2	Company size versus earnings management	-1.061	0.293	Hypothesis is rejected
3	Earnings management versus company financial performance	2.556	0.013	Hypothesis is accepted

Source: from SPSS version 22 results in 2025

Interpretation of the partial test results:

1. Company size → Financial performance
   The significance value is 0.007 < 0.05, so Company size has a significant effect on Financial performance.
2. Company size → Earnings management
   The significance value is 0.293 > 0.05, so Company size does not have a significant effect on Earnings management.
3. Earnings management → Financial performance
   The significance value is 0.013 < 0.05, so Earnings management has a significant effect on Financial performance.

Path Analysis (Path Analysis)

Equation 1: The effect of company size on earnings management

Table 8. Path Analysis Regression Results (Path Analysis)

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	3.024	2.077		1.456	.150
	company size	-.091	.086	-.129	-1.061	.293
a. Dependent Variable: earnings management						

Source: from SPSS version 22 results in 2025

Based on Table 8, the significance value of the company size variable is 0.293, which is greater than 0.05. Therefore, it can be concluded that company size does not have a significant effect on earnings management practices.

Table 9. Path Analysis Regression Results (Path Analysis)

Model Summary				
Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	.129[a]	.017	.002	3.98759
a. Predictors: (Constant), company size				

Source: from SPSS version 22 results in 2025

Based on Table 9, the R-square value obtained is 0.017. This indicates that the company size variable is only able to explain 1.7% of the variation in earnings management, while the remaining variation is explained by other variables outside the model. The error value (e1) is calculated using the formula √(1 – 0.017) = 0.991.

The estimated regression equation is presented as Equation (1):

$$ML = \alpha_0 + \alpha_{1FS} + e \text{ ......} \quad (1)$$

$ML = 3.024 - 0.129FS$

Note:

ML: Earnings Management

α : Constant

FS: Firm Size (Company Size)
Equation 2: The effect of company size through earnings management on company financial performance.

Table 10. Path Analysis Regression Results (Path Analysis)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.190	.034		5.580	.000
	Company Size	-.004	.001	-.310	-2.766	.007
	Earnings Management	.663	.259	.287	2.556	.013

a. Dependent Variable: Company Financial Performance

Source: from SPSS version 22 results in 2025

Based on Table 10 it can be explained that:
The company size variable has a significance value of 0.007 < 0.05, so it can be concluded that company size has a significant effect on company financial performance. The earnings management variable shows a significance value of 0.013 < 0.05, so it can be concluded that earnings management has a significant effect on company financial performance.

Table 11. Path Analysis Regression Results (Path Analysis)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.821[a]	.703	.675	.04986	1.769

a. Predictors: (Constant), earnings management, company size
b. Dependent Variable: Company Financial Performance

Source: from SPSS version 22 results in 2025

Based on Table 11, the R-square value obtained is 0.703. This indicates that the variable company size through earnings management is able to explain 70.3% of the influence on company financial performance, while the remaining 29.7% is influenced by other factors outside the research model. The error value (e1) is calculated using the formula √(1 – 0.703), resulting in 0.545. The result of Equation 2 is as follows:

$$KP = \beta_0 + \beta_{1FS} + \beta_{2ML} + e \quad (2)$$

$$KP = 0.190 - 0.310 + 0.287 + 0.545$$

Note:
KP : Company Financial Performance
$\beta_0 - \beta_2$: Regression coefficients
FS: Firm Size (Company Size)
ML: Earnings Management

DISCUSSION

The Effect of Company Size on Company Financial Performance

Based on the statistical analysis using SPSS version 22, the Company Size variable has a regression coefficient value of –2.766 with a significance level of 0.007 < 0.05. Thus, it can be concluded that Company Size has a significant negative effect on Company Financial Performance in the food and beverage sector listed on the Indonesia Stock Exchange for the period 2022–2024. In other words, the larger a company's scale, the more likely its financial performance tends to decline. Several factors may contribute to this result: large companies tend to incur higher operating costs, and their operations are likely more complex than those of small companies in terms of activities and technology usage. In addition, larger companies also carry higher potential risks, which increases uncertainty in revenue projections (Faisol, 2021). This finding is consistent with Faisol's study, which shows that, when measured using total assets, company size has a significant negative effect on financial performance.

The Effect of Company Size on Earnings Management

The data processing results using SPSS version 22 show that the Company Size variable has a regression coefficient value of –1.061 with a significance level of 0.293 > 0.05. This means that Company Size does not have a significant effect on Earnings Management in food and beverage companies listed on the Indonesia Stock Exchange for the period 2022–2024. This insignificance can be explained by the fact that both companies with large and small assets are still likely to engage in earnings management practices. Conversely, there are also companies with high as well as low assets that do not carry out earnings management. Therefore, total assets, used as a proxy for company size, cannot serve as a consistent indicator for determining the presence or absence of earnings management practices (Meirianto, Rico and Panjaitan, 2019), (Siregar & Utama, 2008). The results of this study support the findings of (Bansal, 2024), , which state that company size does not affect earnings management. However, this result contradicts the studies of (Setiowati et al., 2023) and (Joe & Ginting, 2022), which find a significant influence between company size and earnings management.

The Effect of Earnings Management on Company Financial Performance

The data analysis using SPSS version 22 shows that the Earnings Management variable has a regression coefficient value of 2.556 with a significance level of 0.013 < 0.05. This means that Earnings Management has a significant positive effect on Company Financial Performance in the food and beverage sector listed on the Indonesia Stock Exchange for the period 2022–2024. Therefore, the higher the level of earnings management practiced by management, the better the financial performance reflected in the company's reports. This situation makes the company appear more profitable and efficient. This research finding is consistent with Santoso et al. (2017), who state that earnings management has a significant effect on company financial performance.
The Effect of Company Size on Company Financial Performance through Earnings Management
Based on the path analysis (Path Analysis) using SPSS version 22, the direct effect of company size on financial performance is –0.310, whereas the indirect effect through earnings management is only –0.037. This indicates that the indirect effect is smaller than the direct effect. In other words, earnings management does not play a significant role as a mediating variable between company size and financial performance. The direct effect value of –0.310 indicates that the larger the company size, the more financial performance tends to decline. Meanwhile, the indirect effect value of –0.037 is obtained from multiplying the effect of company size on earnings management and the effect of earnings management on financial performance. This small value confirms that the contribution of earnings management in mediating this relationship is not significant. This result shows that the variable earnings management, as an intervening variable in the relationship between the company size variable and the company financial performance variable, is weaker than the direct effect of company size on company financial performance. Thus, the majority of the relationship between company size and financial performance occurs directly rather than through earnings management (Meirianto, Rico and Panjaitan, 2019).

CONCLUSION

Based on the data processing and analysis results, company size has a significant negative effect on company financial performance. This is evidenced by a significance value of 0.007 < 0.05, which indicates that the larger the company size, the more financial performance tends to decline.

Company size does not have a significant effect on earnings management. The test result shows a significance value of 0.293 > 0.05, meaning that the magnitude of total assets cannot be used as the main indicator in influencing earnings management practices.
Earnings management has a significant positive effect on company financial performance. A significance value of 0.013 < 0.05 proves that the higher the level of earnings management practiced, the better the financial performance displayed by the company.
Company size does not have a significant effect on financial performance through earnings management as an intervening variable. The path analysis result shows that the indirect effect is smaller than the direct effect, indicating that earnings management is unable to significantly mediate the relationship between company size and financial performance.

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