CHAPTER I

INTRODUCTION

1.1 Background of the Study

The growth of the era and the intensifying competition in the business world encourage each company to develop its own advantages. Each company will continue to compete to increase and maximize its own profits and benefits in order to survive (Harsono & Pamungkas, 2024). Financial performance is one aspect that is considered very important because it can reflect the company performance and situation, therefore each company must put extra attention to its financial performance with the aim to withhold its position and compete in the era of sharp globalization. Through financial performance, it can be seen how a company runs its business and to what extent the company has achieved (Meiyana & Aisyah, 2019).

According to (Januarty, 2019), Financial performance represents a principal indicator of a company's overall condition, assessed from both financial and managerial perspectives. Strong financial performance not only indicated effective resources management but also attracts investors by showcasing the company’s capability to optimize its assets and operation. Before investing, investors must analyze the financial performance of the company. Investing in the wrong company carries significant risks, so this is non-negotiable .In order to gain investor trust to invest their capital, it is important for the company to have good financial performance.

For companies that list their shares on the IDX, financial performance serves as a key indicator of financial success and must be consistenly prioritized. The company financial performance can be assessed and evaluated by analyzing its financial statement (Sari et al., 2020). One of the indicators commonly used in assessing financial performance is the financial ratio, because this ratio can show the company's capability to create profits and how effective the company is in managing its company management (Yudha, 2021). Financial ratios can be divided into five, namely liquidity, activity, solvency, profitability and investment ratio. Of the five ratios, the profitability ratio is considered the most in line and directly correlated with the company's goals , as pertains to the company’s profit and loss (Jessica & Triyani, 2022).

One of the indicator to measured financial performance is the Return on Equity (ROE) ratio. This ratio can show how high the percentage of the company's net profit after tax is to equity (capital), so this ratio can be one of the company's benchmarks for investing its capital. A high ROE ratio will attract investors to invest because it indicates a high rate of return (Alim & Assyifa, 2019).

It is important to recognize that a company's financial performance can be affected by a number of factors, including its firm size, liquidity, inventory turnover, firm age, capital structure and many more. The size of a company is a significant determinant of its financial performance, as it provides insight into the scale and scope of the enterprise. Large companies are considered to have the ability to generate higher profits. Large companies also have a more competitive benefits in the market, such as the ability to set product prices (Jessica & Triyani, 2022).

(Ernawati & Santoso, 2021) also added that large companies tend to find it easier to obtain external funding that can support their operational activities, therefore this will have the impact on the company's financial performance.

According to (Fauzi & Puspitasari, 2021), firm size can be calculated by looking at the total assets of an enterprise. The increase of total asset in a enterprise can enlarge the scale of the company and vice versa, a decrease in assets can cause the company to shrink. A growth in the size of an enterprise can be demonstrated by its profitability, which in turn can be used to predict the company's future financial performance. The assertion is consistent with the findings of (Erawati et al., 2022) which indicates that firm size has a positive and statistically significant impact on financial performance.

This study takes manufacturing sector as the object of research. Manufacturing itself means something that is made by hand (manual) or produced by machine to produce goods. As an industry that has the ability to produce goods, the manufacturing sector is a benchmark for national industrial development and as a development engine in Indonesia because of its superiority compared to other sectors. The superiority of the manufacturing sector can be assessed from its ability to absorb a large workforce and create added value from processed raw materials. Another advantage is the very large capitalization value of the invested capital (Januarty, 2019).

Indonesia itself has a lot of manufacturing companies. There are three types of manufacturing sector groups in Indonesia that have been listed on the IDX, namely the various industrial sectors, basic and chemical industries, and the

consumer goods industry (Rahmatin & Kristanti, 2020). The present of the manufacturing sector to Indonesia's GDP in 2020 as stated in (Diana & Osesoga, 2020) was 20%, while for taxation it was 30% and exports were up to 74%, which indicates that the contribution of this manufacturing is quite large.

Due to its large contribution to the Indonesian economy, the author took this sector for research. Manufacturing companies are also quite in demand and viewed by investors because of their ability to survive which is quite high and stable, so it is a good option for investors (Agustin et al., 2022). However, because its financial resources are quite dependent on investors, manufacturing companies must pay more attention to their health conditions (Putri & Ardini, 2020). One of the benchmarks is through financial performance. Generally, investors make investment choice based on the company's financial performance. Investors may take into consideration if the company financial are reliable and released on a regular basis. However, investors will immediately avoid from making an investment in the company if its financial reports is poor (Putri & Ardini, 2020).

Research conducted by (Januarty, 2019) showed that larger companies tend to have a greater and healthier financial performance, which demonstrates that firm size positively affect the financial performance. However, what really happened in the manufacturing sector showed that a growth in the scale of the company does not always mean an increase in profitability. It is shown by the table below.

Table 1. 1 Phenomenon

Code	Company	Size			Return on Equity (ROE)		
		2021	2022	2023	2021	2022	2023
CPIN	PT. Charoen Pokphand Indonesia Tbk	17.3835	17.5006	17.5284	0.1440	0.1112	0.0858
EKAD	PT. Ekadharma International Tbk	13.9687	14.0154	14.0365	0.1013	0.0689	0.0627
ESIP	PT. Sinergi Inti Plastindo Tbk	11.3455	11.4978	11.5190	0.0114	0.0096	0.0091
GGRP	PT. Gunung Raja Paksi Tbk	16.5382	16.7291	16.7566	0.0822	0.0724	0.0403
Average		14.8090	14.9357	14.9601	0.0847	0.0656	0.0495

Source: Prepared by writer (2024)

Table 1.1 displays four manufacturing companies that keep experiencing a decrease in ROE value as the size increase. In 2022 and 2023, "PT.Charoen Pokphand Indonesia Tbk" experienced an increase in size of 0.673% and 0.159% respectively, yet it showed a decrease of ROE value of 22.744% and 22.878%. "PT. Sinergi Inti Plastindo Tbk" also experienced an increase in size of 0.334% and 0.15% in 2022 and 2023, yet the ROE value also became lower, which decreased by 31.963% and 9.078%, which indicates a lower performance of the company. The size of "PT. Sinergi Inti Plastindo Tbk" also increase by 1.342% and 0.185% in 2022 and 2023, yet the ROE decreased by 15.769% and 5.305%. Lastly, the size of "PT. Gunung Raja Paksi Tbk" showed an increase of 1.154% and 0.165% in 2022 and 2023, yet the ROE also decreased by 11.87% and 44.343%.

The phenomenon shows that size does not significantly determine the financial performance of an enterprise, as what also stated by (Ernawati & Santoso, 2021). However, many studies showed that firm size does affect financial performance, such as study conducted by (Harianto & Hendrani, 2022) and (Nagian & Edward, 2019). Due to the inconsistent results showed by multiple prior studies

which resulted in a research gap, so the author is encouraged to conduct additional study under the same topic, particularly in the manufacturing sector. Therefore, the author decided to held this research with the title of "**The Impact of Firm Size on Financial Performance**".

1.2 Problem Formulation

In light of the aforementioned background studies, the following problem formulation emerges from this research:

1. Does firm size have a significant influence on financial performance?

1.3 Objective of the Research

From the problem formulation described above, the objective of the research is as follow:

1. To observe whether firm size has a significant influence on financial performance.

1.4 Benefit of the Research

From this research, there will be two part of benefit which are theoretical benefit and practical benefit.

1.4.1 Theoritical Benefit

In theory, this research is supposed to be valuable for enlarge knowledge and experience in the practical of accounting, and it also might be a references model in the upcoming research.

1.4.2 Practical Benefit

a. For the Author

The research conducted by the author is expected to provide new experiences and broader insights so that the author can apply the information that has been researched in real life.

b. For the Companies

This research offers useful insights for business leaders, investors, and policymakers about how a manufacturing company's size affects its financial success. By understanding these effects, large companies can focus on managing costs through bulk production, while smaller companies can make the most of their ability to adapt quickly and serve niche markets.

c. For Future Researchers

It is hoped that this research can give a great insight and become a reference for future researchers.

1.5 Problem Limitation

As what stated on the background above, problem limitation was carried out to demonstrate this research focuses on the impact of Firm Size on financial performance. Manufacturing companies listed on the IDX in the period of 2021 – 2023 is the object of research. The dependent variable is financial performance, independent variable is Firm Size, and the control variables are liquidity, inventory turnover, firm age and capital structure. The presence of this limitation problem can provide comprehension of this research and provide accurate data outcomes.