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THE EFFECTS OF LEVERAGE, FIRM SIZE, AND MARKET VALUE ON FINANCIAL PERFORMANCE IN FOOD AND BEVERAGE MANUFACTURING FIRMS

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Abstract: Financial performance is an important phenomenon for measuring organizational success. This research aims to determine and analyze the influence of leverage, company size, and market value on financial performance. The research methods used are explanatory; the population used is food and beverage Manufacturing companies in the Food and Beverage sector listed on the Indonesia Stock Exchange for the 2017-2019 period are used to determine the number of samples in this study. From 31 December 2017 to 31 December 2019. The sampling technique used is a purposive sampling method and there are 12 companies published audited financial reports and reported them completely and consistently using the purposive sampling technique with criteria. The Source of data used is secondary data with a time series type of data. The hypothesis is tested using Partial Least Square (PLS) analysis with Smart PLS 3.0 software. The results show that Leverage has a significant effect on Financial Performance. At the same time, Firm Size had no significant effects on Financial Performance and Market Value had no significant effects on Financial Performance. This research implies that food and beverage companies need to develop financial strategies to improve their financial performance by increasing their leverage.

Keywords: Leverage, Firm Size, Market Value, Financial Performance

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INTRODUCTION

Along with developments in the capital market supported by data and statistical information in the fourth week of March 2019, it shows that there has been an improvement in the company's financial performance compared to the previous period. To maintain these conditions, the company faces business competition. One way to improve the company's financial performance is by paying attention to influencing factors. The factors that influence financial performance are financial leverage, earnings per share, and other variables. Many studies conducted previously on financial performance have obtained varying results. The company's financial performance in this research can be influenced by several factors, namely leverage, firm size, and market value. Financial performance is essential for organizational success and can help investors choose the best investment opportunities (Brigham and Houston, 2013) and (Sartono, 2014). A company's financial performance is also information that can be used for decision-making, both internal (management) and external (investors). The financial performance achievements in an accounting period can be seen in the financial reports (Anggitasari and Mutmainah, 2012). Herdian (2015) stated that financial leverage shows how much ability one has to pay debts with the capital one has. The results of research conducted by Dewi and Made (2018) and Kajola (2019) show that leverage has a significant effect on financial performance. However, this contradicts the results of research conducted by Putri and Elizabeth (2020), which states that leverage does not affect financial performance. Meanwhile, firm size can be seen from the size of a company and can be differentiated into large and small companies (Medyawati and Dayanti, 2016). The research results of Rompas et al. (2018) and Shibutse et al. (2019) stated that firm size influences financial performance. Meanwhile, research by Sari et al. (2020) stated that firm size has no effect on financial performance. Empirical studies show that the higher the earnings per share value, the higher the stock return, and a high company size in the organization can increase earnings per share (Estiasih and Putra, 2021).

Leverage is an important tool for measuring the effectiveness of debt users. Fahmi (2011) states that the leverage ratio can be used to measure how much of a company's assets are financed by debt. Halil and Hasan's (2012) research on financial leverage on company performance shows that company size is proxied by total assets and liquidity, leverage, and the ratio of inventory to total assets as control variables positively influence company size on profitability. Meanwhile, research related to company size conducted by Niresh and Velnampy (2014) on company size and profitability shows a significant relationship between company size and profitability. While Becker-Blease et al. (2010) stated company size and profitability, the results showed no relationship between profitability and company size. Market value in this research is proxied by earnings per share, which measures the company's ability to generate profits per owner's share. EPS also shows the company's ability to provide returns to shareholders. Therefore, EPS is interesting to use as a main indicator to see the attractiveness of stock investment. The amount of EPS is expected to influence investors' confidence in investing. The investors will rationally decide to invest with correct and accurate information in order to obtain the expected return (Estiasih et al., 2015). Meanwhile, research by Balaputhiran (2014) revealed no significant relationship between company performance and EPS, where company performance R was not a determining factor for EPS in listed banks in Sri Lanka. The Food and Beverage sector is one of the sectors that receives funds from the IDX; This sector is considered important for economic progress. Food and beverage companies are described based on food and beverage subsectors from 2017 to 2019.

Table 1. IDX Food and Beverage Companies

Year	Sector	Sub Sector	Amount
2017	goods for consumption	Food and Beverage	24
2018	goods for consumption	Food and Beverage	26
2019	goods for consumption	Food and Beverage	28

The reason for selecting research objects in food and beverage companies is because this company is a sector that is always growing rapidly compared to other sectors and is always experi-

encing growth in line with increasing population growth in Indonesia, so the need for food and beverage will continue to increase. This condition is also supported by the culture of Indonesian people who enjoy ready-to-eat food so that the food and beverage sector can support the Indonesian economy. To meet the needs of society, industrial companies in the food and beverage sector can expand their business to increase profits, thereby improving the company's financial performance. The manufacturing industry dominates the capital market, and 163 manufacturing industries were registered in 2018.

The main goal of a company is to increase and maximize profits for shareholders. Company profits are reflected in net profit, while profits for shareholders are reflected in earnings per share (EPS) (Dewanti and Sudiartha, 2011; Ulfa, 2009). To maximize profits, management must be able to make various efforts, including cutting costs, increasing sales volume, and determining selling prices (Estiasih et al., 2017).

From previous research, it appears that there is a research gap, namely, a gap for researchers to carry out research related to the variables studied. The novelty of this research is the measurement of the leverage variable, which is proxied by financial leverage on financial performance variables, considering the importance of financial leverage in the financial context. This research was conducted to determine the impact of each leverage, firm size, and market value variable on financial performance. Thus, it is hoped that this research can provide practical and theoretical contributions to investment decisions in the capital market and be used as a benchmark or reference for future researchers.

LITERATURE REVIEW

Leverage

According to Afriani et al. (2015), leverage is the extent to which a company's assets are financed by debt instead of its own capital. This ratio can assess a company's ability to meet long-term commitments. However, excessive debt can reduce the company's profits because the company must bear a high-interest burden. According to Kaddumi and Kilani (2015), high leverage minimizes a company's ability to pay dividends because it must maintain profits to pay off its debts. This leverage demonstrates the proportion of debt used to finance the investment.

There are three types of leverage: operating leverage, financial leverage, and total leverage. Financial leverage was employed in this study. According to Lestari and Nuzula (2017), financial leverage is the extent to which a company uses debt funding to expand its production activities and how much profit it has to cover interest costs. According to Harmoko (2009), financial leverage can be defined as the extent to which a debt-funding strategy is used to increase production and generate profits sufficient to cover interest costs and income taxes. The primary goal of financial leverage is to determine how much money is actually available to common stockholders after paying interest and dividends on preferred stock.

Financial leverage arises as a result of fixed financial obligations that must be issued by the company. This fixed financial obligation is unaffected by changes in EBIT (earnings before interest and taxes) and must be met regardless of the company's EBIT level. In this study, the following proxies for financial leverage were used:

$$\text{Financial Leverage} = \frac{\text{Total Hutang}}{\text{Total Asset}}$$

Firm Size

Firm size (company size) describes the company's size as a proxy for total assets on the Balance Sheets and total sales on the Income Statement. According to Khasanah (2009), Li et al. (2017), and Vu et al. (2018), company size is the size of the company as determined by total assets and sales. Companies with large total assets can motivate management to be more flexible in using their assets in operational activities, demonstrating that the company has matured. Aside from that, company size can describe a company's ability to survive and show that the company can compete in the economy. One of the factors that investors consider is the size of the company.

The company's size is a symbol of the company's opportunity and ability to enter the capital market, as well as other types of financing that demonstrate the ability to borrow. Large companies are preferred by investors over small companies. One of the factors that investors consider when evaluating a company before investing is its size. The average net sales for the year in question

over several years are used to calculate company size (Andriyanti, 2007).

Mahya (2016) also stated that company size is a determinant of financial structure. Almost every study has different reasons, namely: (1) Company size can determine the level of ease of company obtaining from the capital market for small companies generally lack access to an organized market, (2) The size of the company determines the bargaining power in financial contracts, (3) Because of the possibility of a scale effect in costs and returns, larger companies can now earn more profits. Delgado et al. (2018) investigated the relationship between company size and tax rates on earnings per share in Germany, finding a positive linear relationship between company size and increased earnings per share intensity. The following are the firm-size proxies used in this study:

Firm Size = ln Penjualan

Market Value Ratio

The market value ratio is related to the performance evaluation of company shares traded on the capital market (gone public) (Sudana, 2011). Earnings per share (EPS) can be used as a proxy for market value ratios because it demonstrates the company's ability to provide returns to shareholders. As a result, EPS is an interesting indicator to use as the primary indicator to assess the attractiveness of stock investment; the amount of EPS is expected to influence the level of investor confidence to invest. According to Kasmir (2012), earnings per share is a ratio used to assess management's success in generating profits for shareholders. Earnings per share measures the amount of rupiah earned for each common share. The company's primary goal is to increase and maximize shareholder profits. Profits for the company are reflected in net profit, while profits for shareholders are reflected in earnings per share or earnings per share (EPS). Prospective shareholders and shareholders are interested in high earnings per share; the greater the company's ability to distribute net income to shareholders, the higher the company's EPS level.

Unlike the research conducted by Balaputhiran (2014), the results reveal no significant relationship between company performance and EPS, where the R2 value reveals that company performance is not a determining factor for EPS for banking companies registered in Sri Lanka. Whereas Utami and Darmawan (2019) investigated the relationship between DER, EPS, ROA, and ROE on the Sariah Indonesia stock index, this research aims to help professionals understand the importance of earnings per share in financial decision-making. In these earnings per share study, the proxy market value ratio is as follows:

$$\text{EPS} = \frac{\text{Laba bersih}}{\text{Jumlah saham yang beredar}}$$

Performance Financial

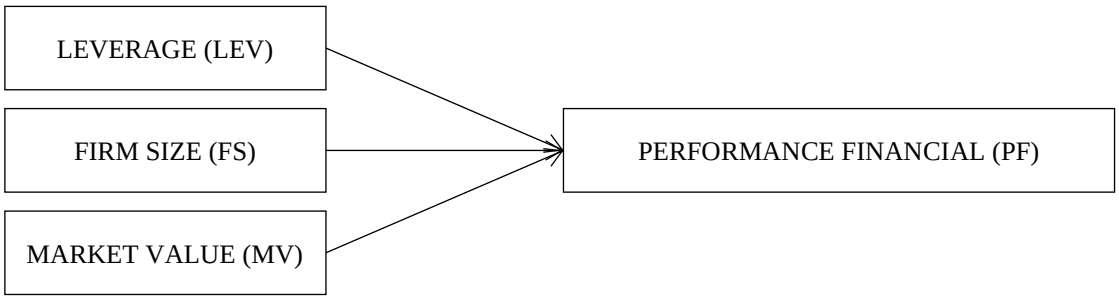
Performance Financial (financial performance) is the achievement of implementation/programs/policies in realizing an organization's goals, objectives, mission, and vision (Bastian, 2006). Meanwhile, according to Fahmi (2011), performance is an examination of how far a company has progressed by following the rules of financial implementation properly and correctly. Financial performance is a description of a company's financial condition that is analyzed using financial analysis tools so that the merits of a company's financial condition that reflects its achievements can be known.

According to Gitosudarmo and Basri (2002), financial performance is a series of financial activities over a specific period reported in financial reports as income statements and balance sheets. Financial performance is a predictor of a company's ability to generate profits. The financial data published by the company on the capital market can be used to determine the company's ability to generate profits. In contrast, financial ratios, specifically the profitability ratio, can be used to measure financial performance. According to Enekwe et al. (2014), a positive and significant relationship exists between financial leverage and financial performance. In this study, return on equity (ROE) is used as a proxy for financial performance as follows:

$$\text{ROE} = \frac{\text{Laba bersih sesudah pajak}}{\text{Modal sendiri}}$$

Table 2. Variable Measurement

No.	Variable	Proxy/Measurement
1	Leverage	Financial Leverage = Total Debt: Total Assets
2	Firm Size	Sales Logarithm
3	Market Value Ratio	Earnings per Share = Net income: The total number of outstanding shares
4	Financial performance	Return on Equity (ROE) = Net income after Tax: Total Equity



Source: Processed Data (2023)

Figure 1. Conceptual Framework

HYPOTHESIS DEVELOPMENT

Leverage and Performance Financial

According to Enekwe et al. (2014) study, The Effect of Financial Leverage on Financial Performance: Evidence of Quoted Pharmaceutical Companies in Nigeria, there is a positive and significant influence between Financial Leverage and financial performance in pharmaceutical companies in the Nigerian capital market. Meanwhile, according to Hamid et al. (2015), research entitled Effects of Financial Leverage on Return on Equity (ROE) and Earning Per Share (EPS) in the Basic and Chemical Industry Sectors Listed on the Indonesian Stock Exchange, the use of Financial Leverage in stable economic conditions can have a positive impact on ROE in the form of an increase in ROE value. During less stable economic conditions, such as a monetary crisis, using Financial Leverage can negatively affect ROE. This is due to the rate of return on investment on small company profits, plus interest expenses to be paid.
H1: Leverage affects financial performance.

Firm Size and Financial Performance

Employees, firm size, and profitability in the United States Manufacturing Industries (2010), a study conducted by Becker-Blease et al., examined the relationship between firm size and profitability in 109 4-digit SIC manufacturing industries. The findings revealed that there was no relationship between profitability and firm size. Meanwhile, Halil and Hasan's (2012) study, The Effect of Financial Leverage on Corporate Performance of Some Selected Companies in Nigeria, claims that company size has a positive impact on manufacturing company profitability. Firm Growth and Liquidity Constraints: A Dynamic Analysis (2014) by Niresh and Velnampy investigates the effect of company size on profitability for 15 active manufacturing companies on the Colombo Stock Exchange (CSE) using multiple regression and correlation methods. The results show a weak positive relationship between firm size and profitability.
H2: Firm size affects financial performance.

Market Value and Performance Financial

According to Balaputhiran's research, titled Firm Performance and earnings per share: A Study and Finance (2014), there is no significant relationship between company performance and EPS, and the R2 value reveals that the company is not a determining factor for EPS for banking companies

listed on the Sri Lanka stock exchange. According to Kasmir (2012), earnings per share is a ratio that measures management's success in generating profits for shareholders. Earnings per share is a profit per share that describes how much rupiah is earned for each common share.

H3: Market value influences financial performance.

METHOD

This study employs a quantitative approach, a research method based on the philosophy of positivism that examines specific populations or samples that are generally drawn at random. Data is collected using research instruments and then quantitatively or statistically analyzed to test hypotheses, Sugiyono (2011). This study's population is a manufacturing company listed on the Indonesia Stock Exchange. The sample represents a subset of the population's characteristics (Sugiyono, 2011). Manufacturing companies in the Food and Beverage sector listed on the Indonesia Stock Exchange for the 2017-2019 period are used to determine the number of samples in this study. From 31 December 2017 to 31 December 2019, 12 companies published audited financial reports and reported them completely and consistently using the purposive sampling technique with criteria.

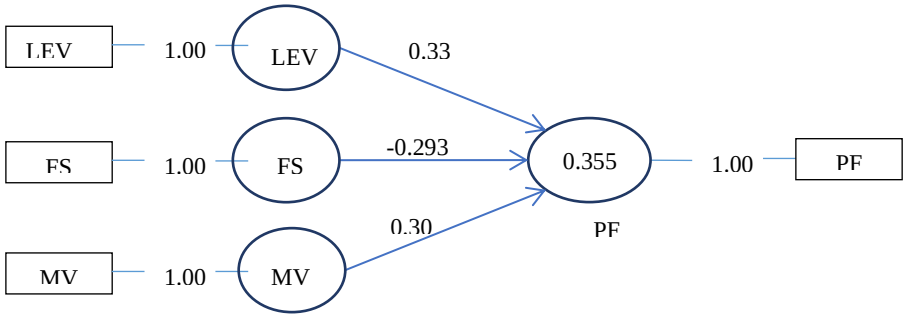
Secondary data from the Indonesian Capital Market Directory (ICMD) and annual reports were used in this study. The data used in this study is a time series. This is explanatory research, which is a study that seeks to explain the relationship (causality) between variables through hypothesis testing (Solimun, 2012). The Partial Least Squares (PLS) method was used to analyze the data in this study. PLS analysis is used to determine causal relationships (Ghozali, 2012). This study was carried out using SmartPLS 3.0 software because it employs indicators that can be used to calculate quantitative variables with numbers to calculate the amount.

RESULTS

The PLS model does not require a normal distribution assumption test in this study, which uses reflective indicators and latent variables with one indicator, making the data easier to use. This study used 12 companies from 2017 to 2019, with 36 observations.

Indicator Test

Individual indicators are considered valid if they have a correlation value greater than 0.70, but loading values between 0.50 and 0.60 are still acceptable in the research at the scale development stage. The indicator test results can be obtained from the structural model shown in Figure 2.



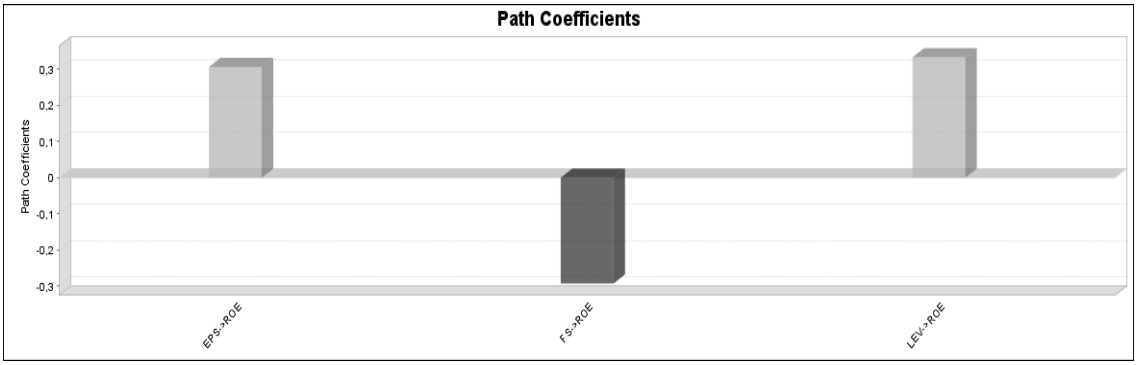
Source: Processed Data (2023)

Figure 2. Structural Model

Table 4. Result Path Coefficients

	Original Sample (O)	T Statistics (| O/STDEV |)	P Values
LEV -> PF	0,333	2,135	0,033
FS -> PF	-0,293	-1,350	0,178
MV -> PF	0,306	1,219	0,224

Source: Processed Data (2023)



Source: Processed Data (2023)

Figure 3. depicts a path coefficients graph based on Table 4

Table 5. Coefficient Value

Model	R	R Square
1	.596[a]	,355

Source: Processed Data (2023)

Path Analysis

a.Path analysis reveals that variables in the study have a significant influence on one another. The magnitude of the structural path coefficient and the P-value for the predictive model's significance are the results of the path analysis. According to Table 4, leverage has an original sample value of 0.333, indicating a unidirectional effect. It has a P value of 0.033, a significance level (α5%), and a t-statistic value of 2.135 > a t-table of 1.670, indicating that leverage has a positive and significant effect on financial performance.

Firm size has a negative original sample value of -0.293, indicating a non-unidirectional effect, with a P value of 0.178 and a t-statistic value of -1.350 t-table of 1.670, indicating that firm size has a negative and non-significant effect on financial performance. Market value has a positive original sample value of 0.306, indicating a unidirectional effect. A P value of 0.224 and a t-statistic value of 1.219 indicate a positive and insignificant effect on financial performance.

Goodness of Fit

The goodness of fit value is obtained from the R2 coefficient of 0.355 and shows the variability of the latent variables in the research model. The coefficient of determination (R2) measures how well the model explains variation in the dependent variable. The coefficient of determination in Table 3 is 0.355, which equals 35.5%, indicating that the variables leverage, firm size, and market value influence variable financial performance. Other variables not included in this research model influence the remaining 64.5%.

DISCUSSION

Leverage's Impact on Financial Performance

The findings of this study indicate that the leverage variable has a significant effect on the financial performance variable. In this study, leverage is represented by financial leverage, a funding strategy for investment that uses debt to increase output and generate profits that cover interest and taxes. Investors will see more information on how the company's management uses the total debt to total equity ratio wisely in improving the company's financial performance. Investors will be more interested if management can use the company's equity to benefit investors by providing increasing returns year after year.

According to Enekwe et al. (2014) research in Nigeria, Financial Leverage has a positive and significant influence on the financial performance of pharmaceutical companies in the Nigerian capital market. Meanwhile, Hamid et al. (2015) found that using financial leverage in stable economic conditions can have a positive effect on return on

equity by increasing the value of return on equity, whereas using financial leverage in less stable economic conditions, such as a monetary crisis, can have a negative effect on returns. Financial leverage can pose a risk because of the rate of return on investment in small business profits, plus the interest expense to be paid. According to Kaddumi and Kilani (2015), high leverage reduces the company's ability to pay dividends because it must maintain profits to pay off its debts. This leverage shows how much debt was used to finance the investment.

According to Abdel-Basset et al. (2020), the debt-to-equity ratio is the debt to shareholder equity ratio. This demonstrates that high financial leverage enables businesses to acquire assets and resources that can be used to expand the business, increase productivity, and return on equity. Increasing the debt-to-equity ratio can boost earnings per share. This study supports the findings of Nuryani and Sunarsi (2020), who discovered that when large amounts of debt are used to fund business growth, companies can generate more income than they could previously without debt, which only used equity.

Based on the data examined, there are 7 Food and Beverage companies with a Financial Leverage value greater than 0.50, implying that 7 Food and Beverage companies use debt that exceeds 50% of their total assets. The company's financial performance during a specific period can be seen from its ability to make profits and the rate of return on debt on its asset ownership due to the Financial Leverage owned by the company. If a company lacks leverage, it only uses its capital in its operational activities. Thus, the findings of this study support the findings of Enekwe et al. (2014) and Hamid et al. (2015).

Effect of Firm Size on Financial Performance

According to this study's findings, the significance value of Firm Size is 0.147 > 0.05, indicating that the Firm Size variable has no significant effect on Financial Performance. In this study, firm size is proxied by sales ln. According to Andriyanti (2007), firm size is one of the factors that investors consider when evaluating a company before investing. Company size is the average total net sales for the year to several years. Becker-Blease et al. (2010) researched the relationship between firm size and profitability in 109 4-digit SIC manufacturing industries, and the results revealed no relationship between profitability and firm size. According to Kallmuenzer and Peters's (2018) research, organizations with efficient entrepreneurial skills, high asset quality, high sales, and accumulated equity market value mean that the company's size allows it to carry out effective business operations in order to benefit from the specified sales. Thus, an increase in company size can increase earnings per share. According to Halil and Hasan (2012), company size has a positive impact on manufacturing company profitability. Niresh and Velnampy (2014) used multiple regression and correlation methods to investigate the effect of company size on profitability for 15 active manufacturing companies on the Colombo Stock Exchange (CSE). The results revealed a weak positive relationship between company size and profitability. Thus, the findings of this study support the research of Becker-Blease et al. (2010) and Niresh and Velnampy (2014) but contradict the findings of Halil and Hasan (2012).

Effect of Market Value on Performance Financial

According to the findings of this study, the significance value of Market Value is 0.128 0.05, indicating that the Market Value variable has no significant effect on Financial Performance. Earnings Per Share (EPS) is used to approximate market value in this study (EPS). According to Kasmir (2012), earnings per share is a ratio used to assess management's success in generating profits for shareholders. Earnings per share is a profit per share that describes how much rupiah is earned for each common share.

The company's primary goal is to increase and maximize shareholder profits. Profits for the company are reflected in net profit, while profits for shareholders are reflected in earnings per share or earnings per share (EPS). According to Das and Swain (2018), return on assets indicates management efficiency in generating maximum profit by maximizing the use of available assets. Optimal profit through efficient asset utilization can improve the company's ability to provide prosperity to shareholders. According to the findings of Cho et al. (2019).'s research, earnings per share are profits distributed to shareholders on the investments

made in the company. Shareholders hope the company can increase earnings per share by utilizing assets efficiently to generate high net income. As a result, using high-value assets can result in higher earnings per share.

Balaputhiran (2014) found no significant relationship between company performance and EPS, and the value of R2 indicates that the company is not a determining factor for EPS for banking companies registered in Sri Lanka. Thus, this study's findings support Balaputhiran's (2014) research but contradict Kasmir's (2012) theory that earnings per share is a ratio used to measure management success in achieving profits for shareholders. Studies from Estiasih et al. (2020), Shukla and Krishnakumar (2020), Harahap et al. (2020), and Robin et al. (2018) show the results also indicate that an increase in return on equity and return on assets improves the earnings per share as it points to the efficiency of the business management in terms of achieving more profits with a limited amount of capital and assets, which ultimately increases sales and profitability. The results also show that the increase in a debt-to-equity ratio shows an increase in financial leverage, which, in turn, means there are more opportunities for the firm, hence accelerating the earnings per share. The study concludes that an organization with a high firm size can increase earnings per share.

IMPLICATIONS

This research provides theoretical and empirical implications. Theoretically, this research makes a significant contribution to the existing literature. There has been a lot of research that discusses the importance of factors that influence the financial performance of companies listed on the capital market. In this research, financial performance is represented by the variables Leverage, Firm Size, and Market Value. This research was conducted to determine the impact of each leverage, firm size, and market value on financial performance. Empirically, the results of this research show that Leverage and Market Value have a significant influence on financial performance, so it can be used as a benchmark or reference for future researchers in developing financial management strategies to improve financial performance through Leverage, which is proxied by Financial Leverage.

RECOMMENDATIONS

Before deciding to invest in the capital market, investors can use the leverage ratio proxied by financial leverage as a benchmark. The primary goal of the financial leverage is to determine how much money is actually available to the common stockholders after paying interest and dividends on preferred stock. It is preferable for management or company managers to maintain financial leverage; using financial leverage in stable economic conditions can increase the value of return on equity. This research has the potential to be expanded upon by future researchers by including additional variables, while policymakers can use it as a reference for financial performance achievements in food and beverage companies.

CONCLUSIONS

This study attempts to explain the impact of leverage, firm size, and market value variables on food and beverage companies' capital market financial performance. This empirical research was conducted to analyze these four variables, including an empirical survey of the Indonesian stock market. The study's findings indicate that leverage has a positive and significant effect on financial performance, while firm size has a negative and insignificant effect, and market value has a positive and insignificant effect.

The findings also show that an increase in the debt-to-asset ratio indicates an increase in financial leverage, which refers to the extent to which the debt-funding strategy is used to increase production and generate profits that can cover interest costs and income taxes. The primary goal of financial leverage is to determine how much money is actually available to common stockholders after paying interest and dividends on preferred stock. This study also concludes that company size has a negative and insignificant effect on financial performance, implying that increasing earnings per share is impossible. In contrast, market value has a positive but insignificant effect on financial performance; the market value ratio in this study is proxied by earnings per share (EPS). EPS demonstrates a company's ability to return capital to shareholders. As a result, EPS is an interesting indicator to use as the primary indicator to assess the attractiveness of stock investment; the amount of EPS is expected to influence the level of investor confi-

dence to invest.

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