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# The Effect of Firm Size on Financial Performance: The Moderating Role of External Pressure

**Oktaviana[1*], Sutarti [2]**
[1, 2]*Institut Bisnis dan Informatika Kesatuan*
***Email:** oktavianaber25@gmail.com

**ABSTRACT**

This research aims to examine how company size affects financial performance, with external pressure as a factor influencing this relationship. This research was conducted on companies in the hotel, restaurant, and tourism subsector listed on the Indonesia Stock Exchange (IDX) during the 2024–2025 period. The analysis was conducted using the panel data regression method on 31 companies with a total of 155 data points, to examine how internal company characteristics interact with external pressures, particularly pressure from government regulations. The results indicate that large companies tend to have lower financial performance due to operational inefficiencies and high fixed costs. However, external pressure did not moderate the relationship between firm size and financial performance, meaning government efficiency policies did not directly decrease firm profits. This finding supports the contingency theory that internal factors remain the primary determinants of performance despite external pressures. This research emphasizes that external pressure can be an opportunity for innovation and strategic adaptation. From a practical standpoint, companies in the tourism sector are advised to view efficiency policies as an opportunity to enhance competitiveness and resilience by improving management capabilities.

## INTRODUCTION

The Indonesian economy experienced a major shock due to the COVID-19 pandemic in 2020, leading to a contraction in Gross Domestic Product (GDP) of -2.07%, the first decline since the 1998 Asian economic crisis (*Indonesia: Key Development Data & Statistics*, 2006). This decline is due to weakening household consumption and a decrease in foreign tourist visits by more than 75% compared to the previous year (Ministry of Tourism and Creative Economy, 2021). After that period, Indonesia entered a phase of economic recovery with consecutive positive growth of 3.70% in 2021, 5.31% in 2022, 5.05% in 2023, and 5.03% in 2024 (*Indonesia Economic Profile*, 2024).

However, in early 2025, new challenges emerged as Indonesia's economic growth showed signs of slowing down. Data from Central Bureau of Statistics (2025) show that although annual economic growth reached 4.87% (year-on-year), there was a contraction of -0.98% quarter-to-quarter (QoQ), indicating a weakening of short-term economic activity. This condition coincides with the issuance of Presidential Instruction Number 1 of 2025 concerning Expenditure Efficiency, where the government is making significant savings on official travel, goods expenditure, and promotional budgets.

Although national economic growth is still increasing in aggregate, these efficiency policies are creating structural pressure that is significantly impacting the tourism subsector, particularly the hotel and restaurant industry. According to Tourism Development in January and February (2025), the hotel occupancy rate (TPK) for star-rated hotels in February 2025 was only 47.21%, down 2.24 points compared to the previous year, while non-star-rated

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hotels decreased by 3.10 points. The Indonesian Hotel and Restaurant Association (PHRI) also reported that approximately 40% of previous hotel revenue came from government business trips, so the budget cuts have a significant impact on company revenue. As a result, many hotels are implementing cost efficiencies, reducing staff, and restricting operations, with the estimated losses for the hospitality sector reaching Rp24.5 trillion throughout 2025 (Anggela, 2025 ). Similar phenomena are occurring in various regions, such as Sumedang Regency, where tourism business owners are reporting a decrease in the number of tourists due to limited promotional budgets (Maariij, 2025).

This condition indicates the presence of external pressure that can affect the company's financial performance, particularly in sectors heavily reliant on mobility and tourism activity. Firm size is one of the internal factors often associated with a company's ability to withstand external pressures. Large companies are generally considered more resilient because they have broader resources, assets, and business networks. However, the results of previous studies have shown inconsistent findings. Meiryani et al. (2020) found that company size did not significantly affect financial performance, while Hindasah et al. (2021) reported a significant positive impact. Additionally, most previous research still focuses on the manufacturing sector, while research on the hotel, restaurant, and tourism subsectors, which are highly sensitive to government policies, remains limited.

Based on the phenomena and inconsistencies in the results of previous studies, this study aims to analyze the influence of firm size on financial performance, with external pressure as a moderating variable, in companies in the hotel, restaurant, and tourism subsector listed on the Indonesia Stock Exchange (IDX) during the 2024–2025 period. The research findings are expected to contribute theoretically to the development of accounting and management literature, and to provide practical implications for tourism industry players in formulating adaptive strategies against external economic pressures.

## LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### Agency theory

Agency theory, proposed by Jensen & Meckling (1976) , explains the relationship between shareholders (the principal) and managers (the agent). The owner grants the manager the authority to manage the company and optimize performance. However, differences in interests and information asymmetry can lead to agency conflicts that result in inefficiency and increased monitoring costs (Eisenhardt, 1989). This theory assumes that managers tend to act in their own self-interest and have broader access to information than owners, which can influence decision making behaviour (Ningsih & Wuryani, 2021). Some empirical studies show that reducing agency conflict can improve a company's financial performance (Kurniawati et al., 2020 ; Jackling & Johl, 2009) . Therefore, agency theory is relevant for explaining how company characteristics particularly company size relate to the efficiency of financial management and company performance results.

### Resource-Based View theory

This research uses the Resource-Based View (RBV) approach as the main theoretical foundation to explain the influence of company size on financial performance. Unlike the traditional view that focuses on market position, RBV emphasizes that a company's competitive advantage stems from the ownership and management of valuable, rare,

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inimitable, and organized internal resources, known as the VRIO framework (Barney, 1991). Company resources are categorized into tangible resources, such as physical and financial assets, and intangible resources, such as knowledge, technology, and reputation (Grant, 1991; Russo & Fouts, 1997). The effective combination of these two types of resources forms the foundation for companies to build sustainable capabilities and competitive advantages. Additionally, organizational resources—which include internal structure, decision-making processes, and stakeholder engagement play a crucial role in ensuring efficient resource management aligned with business strategy. Management's commitment to allocating and optimizing resources also determines the operational effectiveness and strategic capabilities of the company (Lubis, 2022).

**Contingency theory**

According to Ghozali (2020) , Contingency Theory is an organizational approach that challenges the view that there is a single universal and most effective way to manage a company. This theory assumes that an organization's success is influenced by the alignment between its internal and external factors. Therefore, the effectiveness of a company's strategy and structure depends on how well both can adapt to the surrounding environmental conditions. The core concept of this theory views organizations as open systems that must continuously adjust to external environmental changes to achieve optimal performance. In the context of this research, Contingency Theory is used to explain that the relationship between firm size and financial performance may be affected by external pressure as a contingency factor. In other words, the effect of firm size on financial performance depends on how effectively companies are able to align their strategies and structures with environmental changes, such as government efficiency policies or ongoing economic dynamics.

**Empirical Study**

Evidence present on the effect of company size on financial performance is fragemented. Empirical findings by Hindasah et al. (2021) and Darman & Hilumalo (2023) testify to the strong positive impact. However, empirical findings by Meiryani et al. (2020) and Kurniawati et al. (2020) suggest that financial performance is not influenced by firm size. The conflicting findings suggesy the existence of other variables, i.e., external pressure, to moderate this effect. External pressure variables, i.e., state policy or pressures of society, will either enhace or reduce the influence company size has on financial performance depending on how responsice the firm has been (Setyowati & Yaya, 2017; (Indrayani et al., 2017).

**Hypothesis Development**

The Effect of Company Size on Financial Performance

The size of the firm is determined by how a firm is able to access sources of funds and efficiently use its resources. Large firms enjoy a better reputation, greater stability in performing, and increased profits (Barney, 1991 ; Martawati & Samin, 2015 ; Jessica & Triyani, 2022). From this point onwards, the first hypothesis is explained below:

H1: Company Size has a positive impact on financial performance.

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The Moderating Role of External Pressure

For contingency theory, whether or not firm size affects profitability depends to a great extent on how responsive the firm is when put under pressure. Firm size can enhance or negate this effect depending on the response of the firms that has been nurtured (Setyowati & Yaya, 2017 ; Indrayani et al., 2017) . The second hypothesis consequently emerges as follows:

H2: External Pressure moderates the relationship between finance performance and company size.

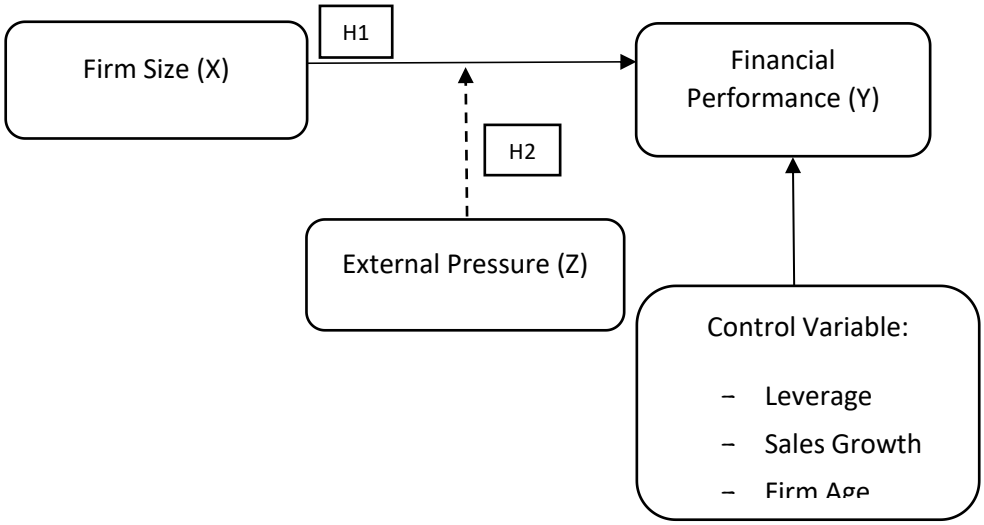


**Figure 1**. Conceptual Framework

## METHODS

### Population and Sample

The subjects of this research are listed companies in the hotel, restaurant, and tourism subsector on the IDX (Indonesia Stock Exchange) from the second quarter of 2024 until the second quarter of 2025. Purposive sampling was used, and the criteria given to choose the sample were companies continuously listed on the IDX throughout the period 2024-2025 and had complete year and quarter financial reports published within the research period. The data were obtained from annual reports, quarterly finance reports, the IDX website, and the companies' respective websites. From the sample selection results, 31 companies were derived that were relevant to the study, amounting to 155 observations. The present study utilizes data obtained from annual and quarterly finance reports published by the IDX.

### Research Model

The research model for hypothesis testing uses a hierarchical model as shown in models 1, 2, and 3. This model is based on equations formulated by Sutarti et al. (2021)and Yeni et al. (2024).

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Research model 1 is used to answer H1, which tests the effect of firm size on financial performance.

$$ROA_{it} = \beta 0 + \beta 1 SIZE_{it} + \beta x\ Control_{it} + \varepsilon it \quad \ldots\ldots (1)$$

Research models 2 and 3 are used to test hypothesis H2:

$$ROA_{it} = \beta 0 + \beta 1 SIZE_{it} + \beta 2 EP_{it} + \beta x\ Control_{it} + \varepsilon it \quad \ldots\ldots (2)$$
$$ROA_{it} = \beta 0 + \beta 1 SIZE_{it} + \beta 2 EP_{it} + \beta 3\ SIZE*EP_{it} + \beta x\ Control_{it} + \varepsilon it \quad \ldots\ldots (3)$$

**Variable Definition and Measurement**

In this study, the dependent variable is financial performance, the independent variable is firm size, and the moderating variable is external pressure. This study also uses control variables including leverage, sales growth, and firm age.

1. Financial Performance
   ROA= Net Income/Total Asset.
   which measures how well the company performs in meeting various financial aspects of business sustainability (Kijkasiwat & Phuensane, 2020). The authors suggest dividing performance into three parts, distinguishing between monetary, operational, and organizational metrics. Regarding indicators, researchers have a variety of options in this domain, but they generally prefer financial ratios to assess monetary metrics (Sainaghi, 2010) . In this analysis, the dependent variable is financial performance, evaluated by ROA as an accounting metric (Lajmi et al., 2025).
2. Firm Size
   SIZE= Ln(total asset).
   This reflects the company's ability to utilize its resources, market power, and operational efficiency, which is greater for large companies compared to small ones (Hung et al., 2021) . Company size is measured using the natural logarithm of total assets (Odalo et al., 2016; John & Adebayo, 2013; (Gitau Muigai, 2017).
3. External Pressure
   EP= Dummy.
   External pressure is a factor originating from outside the organization that influences company activities, particularly those stemming from government policies and regulations (He et al., 2019). The research by Xue et al. (2023) dan Liu & Li (2022) used dummy variables measured as 1 and 0.
4. Leverage
   Leverage= Total Liabilities/Total Asset.
   Leverage is the extent to which a company utilizes borrowed funds or debt to finance its assets. This ratio indicates the portion of a company's total assets that are funded thru obligations or liabilities (Harasheh & De Vincenzo, 2023).
5. Sales Growth
   SG= (Current year's sales – previous year's sales)/previous year's sales
   Sales growth is the percentage increase or decrease in a company's sales over a specific period (Baehre et al., 2021) . This factor is one of the keys to increasing profitability, which can be achieved thru increased sales of existing products or

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services, as well as thru diversification into new products and services (Nuševa et al., 2025).

6. Firm Age
   Age= research year – founding year
   year Firm age is defined as the length of time a company has been operating since its founding, measured by the difference between the research year and the year it was established (Kücher et al., 2020;Esteve-Pérez et al., 2017; Pervan et al., 2017).

**Methods of Analysis**

Analysis Method Multiple linear regression analysis for panel data is used in this study. The software used in this quantitative test is STATA version 17. The research data, processed using panel data, consists of the pooled least square, fixed effect, and random effect models based on the best-fit selection test. The panel data analysis estimator uses the generalized least squares (GLS) method. Heteroskedasticity violations are addressed by adding the "vce (robust)" option when running the regression command in STATA. To test the classical assumption of multicollinearity, the Variance Inflation Factor (VIF) test is applied, where an average VIF above 10 indicates multicollinearity. Based on the VIF test for each test model, multicollinearity was found for several test variables. Multicollinearity violations in this study are addressed by centring.

**RESULTS**

Descriptive statistics explaining the effect of firm size on financial performance with external pressure as a moderating variable are presented in Table 1.

**Table 1.** Descriptive Statistics

| Variables | Indicators | Min | Max | Mean | Std. Dev |
|---|---|---|---|---|---|
| Financial Performance | ROA | -0.138 | 29.496 | 0.192 | 2.369 |
| Firm Size | SIZE | 0.048 | 33.433 | 2.683 | 2.569 |
| External Pressure | EP | 0 | 1 | 0.4 | 0.491 |
| Leverage | Leverage | 0 | 1 | 0.397 | 0.256 |
| Sales Growth | SG | -0.773 | 1396.76 | 35.545 | 198.111 |
| Firm Age | Age | 6 | 56 | 28.174 | 15.130 |

**Source:** *STATA 17 (2025)*

Overall, financial performance measured using Return on Assets (ROA) shows a positive average of 0.192. This indicates that, in aggregate, the companies in the sample are able to generate profit from their assets. However, the high standard deviation (2.369) and wide range of values (–0.138 to 29.496) indicate a significant performance gap between companies. This negative ROA value aligns with the context of economic pressure and efficiency policies in 2025, which caused some companies to experience operational losses. The firm size variable (Firm Size/SIZE) has an average of 2.683 with a value range of 0.048 – 33.433 and a standard deviation of 2.569, indicating a high level of heterogeneity encompassing small to large companies. The moderator variable, external pressure (EP), is a dummy variable with an average value of 0.4, meaning that approximately 40% of the

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observations were under the influence of government efficiency policies. Control variables also show significant variation: leverage has an average of 0.397, meaning approximately 39.7% of assets are financed by debt; sales growth has a very high standard deviation (198.111) with a value range of –0.773 to 1396.76, indicating volatility in sales performance across companies; and firm age has an average of 28.174 years, with a range of 6 to 56 years, indicating a mix of new and established companies.

**Table 2. Correlation of Firm Size and Financial Performance and Moderation**

| No | Variable | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|
| 1 | ROA | 1 | | | | | |
| 2 | SIZE | -0.8415 *** | 1 | | | | |
| 3 | EP | -0.0661 * | 0.0481 * | 1 | | | |
| 4 | Leverage | 0.0452 * | 0.0208 * | -0.0035 * | 1 | | |
| 5 | SG | -0.0143 * | 0.1644 * | -0.1470 ** | 0.0681 * | 1 | |
| 6 | Age | 0.1130 * | 0.1258 * | 0.0325 * | 0.0194 * | 0.2243 *** | 1 |

*p<0.1, **p<0.05, ***p<0.001

**Source:** *STATA 17 (2025)*

Correlation analysis shows a highly significant negative relationship between firm size (SIZE) and financial performance measured by ROA (Return on Assets) with a correlation coefficient of -0.8415 (p<0.001). This finding indicates that the larger the company size, the lower the level of profitability achieved in this research sample. External pressure (EP) has a small but significant negative correlation with ROA (-0.0661, p<0.1), indicating that external pressure tends to be associated with a decline in financial performance, although its influence is weaker than company size. Company size is also positively and significantly correlated with external pressure (0.0481, p<0.1), indicating that larger companies tend to face greater external pressure. Leverage shows a small and significant positive correlation with ROA (0.0452, p<0.1), which may indicate that the use of debt contributes positively to financial performance, although the impact is relatively small. Sales growth (SG) is negatively correlated with external pressure (-0.1470, p<0.05), indicating that external pressure can hinder a company's sales growth. On the other hand, company age (Age) is

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significantly positively correlated with sales growth (0.2243, p<0.001), suggesting that older companies tend to experience more stable sales growth.

**Table 3. Results of Regression Models 1, 2, and 3**

| | | Var. Dep: Financial Performance = ROA | | |
|---|---|---|---|---|
| **Description** | **Predict** | **Model 1** | **Model 2** | **Model 3** |
| | | **Coef.** | **Coef.** | **Coef.** |
| **Independent Variable** | | **(Prob t-stat)** | **(Prob t-stat)** | **(Prob t-stat)** |
| SIZE | + | -0.956 | -0.956 | -0.960 |
| | | (0.000) | (0.000) | (0.000) |
| **Moderating Variable** | | | | |
| EP | +/- | | -0.083 | -0.082 |
| | | | (0.288) | (0.289) |
| **Interaction** | | | | |
| SIZE*EP | + | | | -0.010 |
| | | | | (0.746) |
| **Control Variable** | | | | |
| Leverage | +/- | -1.345 | -1.345 | -1.340 |
| | | (0.337) | (0.337) | (0.339) |
| SG | +/- | 0.000 | 0.000 | -0.000 |
| | | (0.541) | (0.541) | (0.276) |
| Age | +/- | -0.828 | 0 (omitted) | 0 (omitted) |
| | | (0.288) | | |
| Cons | | 28.731 | 26.431 | 0.727 |
| | | (0.000) | (0.000) | (0.195) |
| N | | 155 | 155 | 155 |
| $R^2$ | | 0.951 | 0.951 | 0.951 |
| F-stat | | 4406.99*** | 4406.99*** | 7674.37*** |

*p<0.1, **p<0.05, ***p<0.001

**Source:** *STATA 17 (2025)*

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Table 3 presents the results of the regression analysis using financial performance measured by ROA as the dependent variable. Models 1 to 3 show that firm size (SIZE) consistently has a negative and significant impact on ROA, with a coefficient of approximately -0.956 and a p-value less than 0.001. Meanwhile, the interaction variable between firm size and external pressure (SIZE*EP) did not show a significant effect on ROA (p greater than 0.1). Control variables such as leverage, sales growth (SG), and firm age (Age) also did not show a significant effect in the tested models. An $R^2$ value of 0.951 indicates that 95.1% of the variation in financial performance can be explained by the independent and control variables included in the model. A significant F-statistic value (p less than 0.001) indicates that the overall regression model is meaningfully significant.

## DISCUSSION

### Effect of Firm Size on Financial Performance

The findings of this study indicate that firm size has a negative and significant impact on financial performance as measured by Return on Assets (ROA). In other words, the larger the firm size in the hotel, restaurant, and tourism subsector, the lower its profitability compared to smaller companies. This result contradicts the initial hypothesis, which stated the possibility of a positive influence, as explained in the Resource-Based View (RBV) by Barney (1991), who argued that large companies have more and more valuable resources, enabling them to create a competitive advantage. However, in the context of this research, the economic downturn caused by government efficiency policies led large companies to face high fixed operating costs, complex managerial structures, and inflexibility in decision-making, making large scale a constraint on profitability. This finding is consistent with other empirical research results Renfiana & Ardana (2021), Susanti et al. (2023) and Agustina & Usman (2023) which also report a negative relationship between firm size and financial performance. This finding is supported by the perspective of Agency Theory, which explains that the size of assets can lead to complex agency problems and increase monitoring and operational costs, which in turn puts pressure on net profit. Additionally, the size of assets can indicate the presence of unproductive fixed assets (such as property and equipment) that actually incur high depreciation and maintenance costs without making a significant contribution to increased profit. Therefore, the results of this study strengthen the empirical evidence that large companies do not always exhibit better financial performance, particularly in unstable economic situations. The size of the assets can lead to inefficiencies, high cost burdens, and agency problems that reduce the effectiveness of resource utilization. In the context of the hotel, restaurant, and tourism subsectors, which are highly responsive to government policies and demand fluctuations, the ability to adapt and operational efficiency become more important than simply the size of the company.

### The Moderating Role of External Pressure

Regression analysis shows that Hypothesis 2 is not accepted because the interaction between Firm Size and External Pressure (EP) does not have a significant impact on Financial Performance (ROA). This finding contradicts the assumptions of Contingency Theory, which posits that the effectiveness of the relationship between internal characteristics and performance must depend on adaptation to external factors. However, this insignificant

result actually emphasizes an important point: the decline in performance observed in large companies is not caused by the government's efficiency policies, which are an External Pressure variable. Conversely, this confirms that the main issue of profitability lies in the inherent inefficiencies and high costs of large-scale companies themselves, making it a crucial (or unconditional) factor. This finding aligns with previous studies Suriyanti & Binangkit (2019) which also reported that government policies did not significantly mediate the main relationships, especially for established businesses with stable market shares a context that is relevant considering the sample companies in this study are, on average, over 28 years old, indicating an internal buffer against short-term external pressures. Therefore, the absence of this moderating effect is a positive finding to support government efficiency regulations, as the policy was not proven to be a major cause of performance decline. The implication is that the tourism sector, particularly large companies, must view this pressure as a driver to innovate and improve operational efficiency internally, so that external pressure from efficiency regulations does not negatively impact performance, but rather becomes a momentum to strengthen competitiveness and resilience.

## CONCLUSION

This research offers new insights into how internal and external elements interact to influence a company's financial performance in the tourism sector. The study results indicate that the challenges in achieving profitability in large companies are more due to internal organizational inefficiencies than to external policy pressures. This highlights the importance of managerial capabilities in adapting, innovating, and cost-efficiency to maintain company performance amidst the government's proposed efficiency policies. From a theoretical perspective, this research strengthens the argument from contingency theory, which states that the environment does not always alter the relationship between a company's internal characteristics and its performance. From a practical standpoint, the findings of this study encourage companies to view external pressure as an opportunity for self-improvement, rather than an obstacle. The limitations of this study lie in the relatively short observation period and the focus on financial indicators only. Future research is suggested to extend the analysis period and also include non-financial indicators, such as innovation capability or service quality, to provide a more complete picture of how companies respond to external pressures.

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