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Research Article

Bigger Is Not Always Better? The Moderating Role of Firm Size on the Relationship between Profitability, Activity Ratio, and Earnings Growth: An Agency Theory Perspective

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Abstract - *This study investigates the effect of profitability and activity ratios on earnings growth, with firm size as a moderating variable, under the framework of agency theory. The research focuses on companies in the consumer non-cyclicals sector listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The sample was determined using a purposive sampling approach, yielding 74 firms with 222 firm-year observations. Data were analyzed using EViews 13 software through multiple linear regression and moderated regression analysis (MRA). The empirical results reveal that ROA does not significantly influence earnings growth, whereas the TATO exhibits a significant positive impact. Furthermore, the interaction between firm size and ROA (FS*ROA) is statistically insignificant, while the interaction between firm size and TATO (FS*TATO) demonstrates a significant negative moderating effect. These findings suggest that higher asset utilization efficiency contributes to improved earnings growth; however, this relationship tends to weaken in larger firms, possibly due to heightened agency conflicts and the complexity of managerial decision-making in resource allocation. The study provides both theoretical and practical implications, emphasizing the need for effective monitoring mechanisms in large corporations to mitigate agency problems and sustain profitability- driven growth.*

Keywords - *Earning Growth, Return on Asset, Total Asset Turnover, Firm Size, Agency Theory.*

I. INTRODUCTION

A. Research Background

Global economic growth and capital market developments increasingly require companies to be able to maintain healthy, stable, and sustainable financial performance (Akhtar et al., 2022). Investors and other stakeholders judge a company not only by the profits earned in a given period, but also by the consistency and sustainability of future profits (Osazefua Imhanzenobe, 2020). One of the important indicators to describe the sustainability of this performance is earning growth. Earning growth provides an overview of a company's ability to increase its profitability on a sustainable basis, which in turn will affect investor confidence, stock price, and company value (Ionita & Dinu, 2021). Earning growth is a contributing factor in the capital market since it is one of the primary indicators used to ascertain the value of the business and investment direction (Carp et al., 2020). The investors would be more willing to invest in those companies that have a consistent performance of earnings and good growth opportunities. This is consistent with the signaling theory according to which financial information, in particular the growth in earnings is a signal to investors to make investment decisions.

Thus, the variables affecting the growth of earnings are interesting theoretical and practical objects to study (Mysaka and Derun, 2021). The non-cyclical sector is one of the industries that are worth investigating with regard to the growth of earnings. Companies in this sector deal with primary consumer goods (consumer non-cyclicals), healthcare and utilities whereby the demand of goods and services is likely to be stable even when the economy goes through a low and high cycle. Non-cyclicals firms are classified under defensive category owing to the fact that their demand sustainability is not very sensitive to macroeconomic situations. For example, the needs of food, household products, medicines, and utility services are still needed by consumers even during

economic crises. This condition makes the non-cyclical sector relatively more stable than cyclical sectors such as property, automotive, or tourism which are very sensitive to changes in the economic cycle. However, internal factors such as profitability, operational efficiency (activity ratio), and company size remain the main determinants in maintaining consistent earning growth (Hanani et al., 2024)

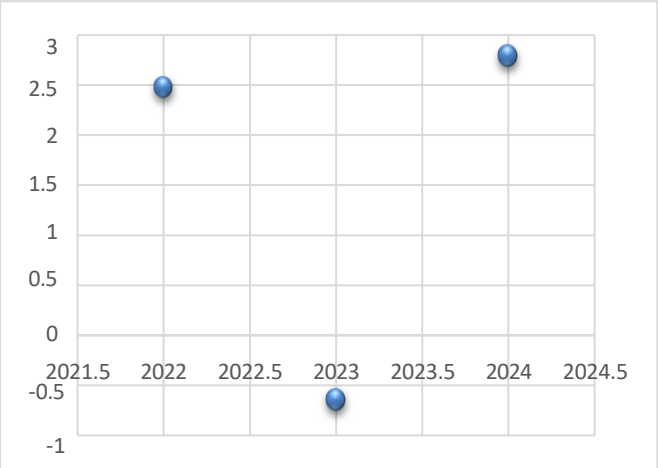

Figure 1. Average Earning Growth
Source: IDX data processed, (2025)

Figure 1 explains that in 2022 non-cyclicals companies were able to record positive earning growth of 2.48%. This achievement was largely driven by the post-COVID-19 pandemic economic recovery which increased people's purchasing power, especially for basic necessities, health, and household consumption goods. However, in 2023, the average earnings growth will actually decrease to -0.64%. This decline was caused by inflationary pressures, rising production costs, and a global economic slowdown that affected the company's operational efficiency. However, in 2024 the non-cyclical sector will again show recovery with an average earning growth of 2.79%. This recovery reflects the resilience of the non-cyclical sector in the face of external challenges as well as the ability of some large companies to adjust their business strategies and manage resources to continue to generate positive earning growth.

These fluctuations show that although the non-cyclicals sector is known to be stable and defensive, internal factors such as profitability, activity ratio, and company size still strongly determine the ability to maintain consistent earning growth. In other words, sector stability does not automatically guarantee sustainable earning growth for the entire company, so an in-depth analysis of internal financial variables is very important. One of the main factors believed to affect earning growth is profitability. Profitability refers to a company's ability to manage resources to generate profits (Alarussi & Gao, 2023). A high level of profitability is often an indicator that a company is able to increase profits in the future (Diana & Maria, 2020). However, the reality is that not all companies with high profitability are able to maintain consistent earning growth. This can be influenced by reinvestment policies, management efficiency, and expansion strategies carried out by the company. Thus, the relationship between profitability and earning growth still needs further study (Endri et al., 2020). (Kalsum, 2023; Lim & Rokhim, 2021; Makris et al., 2021) conclude that profitability affects earning growth meanwhile (Budiharjo et al., 2024; Juliar & Wahyudi, 2023; Siregar et al., 2024) conclude profitability has no effect on earning growth. Besides profitability, activity ratio also plays a significant part in determining the growth of earnings. Activity ratio determines the degree to which an organisation can use assets effectively in the running of its operations. Even the use of assets that include inventory turnover, receivables and fixed assets will be used effectively and enhance the cash turnover and operational efficiency which will eventually lead to higher profits. A company with high activity ratio tends to sustain growth in earnings, more often than those companies with less capacity to utilize their assets (Machmud et al., 2024). It is concluded that TATO affects the growth in earnings (Idi et al., 2021; Machmud et al., 2024; Stoica et al., 2020), and it is concluded that TATO does not affect the growth in earnings (Manurung and Siagian, 2023; Santoso and Karisma, 2021; Suherman and Sofiani, 2024). Nevertheless, the effect of profitability and activity ratio on the growth of the earnings cannot be regarded as a

direct relationship. The relationship can be moderated by other factors including the firm size. The large-sized companies possess some features, including a greater access to funding, a more stable network in the market and a solid reputation among investors and creditors. This situation enables big businesses to be more flexible to ensure profit sustainability and grow more in the future. Small companies, on the contrary, may have fewer capital, increased risk, and reduced market penetration, which means that growth in earnings is usually more unstable. Hence, the size of the companies should be regarded as a moderation factor that can either enhance or weaken the impact of profitability and activity ratio on the growth of earnings (Khafid et al., 2024).

The novelty of this study lies in the testing of company size as a moderation variable in the relationship between profitability and activity to earnings growth ratio in non-cyclical companies in Indonesia. Most previous studies have only analyzed the direct influence of profitability or activity ratio on earning growth without paying attention to the role of company size. By adding firm size as a moderation variable, this study is expected to provide new findings on how differences in company size play a role in strengthening or weakening the influence of financial variables on earning growth. The main motivation for this research is to contribute both academically and practically. Academically, the research adds value to the existing literature on corporate finance by offering a more detailed model of the analysis, that is, incorporating a moderation variable that is the company size. Practically, this study is relevant in ensuring that investors know what factors actually matter in the growth of earnings so that it can be the foundation of investment decision-making particularly in the non-cyclical sector that is relatively stable and is usually an investment decision in case of economic uncertainty.

The urgency of this research is even higher considering the dynamic conditions of the Indonesian capital market and the need for investors for companies with sustainable profit prospects. To the management, the research can serve as a guide when developing strategies that will enhance operational efficiency, financial structure and size of the company to ensure earnings continue to grow. In the meantime, to investors, this research could offer an insight into the types of financial variables that can be considered as a benchmark when determining the growth of the earnings of non-cyclical firms. Therefore, the findings of this study can not only be applicable to the academic community, but also to the business and investment practices directly in Indonesia.

B. Literature Review and Hypothesis Development

a. Agency Theory

In this study, Agency Theory was used as a theoretical foundation. This theory explains the relationship between the principal and the management (agent), where the management is trusted to manage the company's resources in order to provide optimal profits for the shareholders. However, conflicts of interest are also common as the management is likely to act according to his or her interests, which may not necessarily be aligned with the interests of shareholders, which is retaining position or getting a bonus. Important indicators in measuring the performance of management include profitability, activity ratio and earning growth. This study will use the firm size as a moderation variable to determine how firm size can either enhance or weaken this relationship. This applies since the investors and regulators are likely to exercise greater supervision over large firms and thus the likelihood of agency conflicts can be reduced (Meckling and Jensen, 1976).

b. Profitability, Earning Growth, Firm Size

In the perspective of Agency Theory, profitability reflects the success of management in managing resources to generate profits which is the basis for earning growth (Kontesa et al., 2021). A high profitability is a positive indicator to shareholders that the management is working in their best interest by ensuring that the company is maximizing its value (Mrabure & Abhulimhen-Iyoha, 2020). Yet, the ability of the relationship between profitability and earnings growth may be impacted by the size of the firm. Large corporations tend to be larger and more intricate in their structure, have broader access to capital, and are more controlled by investors and regulators (Sahlman, 2022). This can strengthen the influence of profitability on earning growth, because the profits generated can be more optimally used to support expansion and increase growth (Andriani et al., 2021). On the other hand, in small companies, limited resources and weak supervision can make profitability not always directly proportional to increased earning growth (Ikbal et al., 2020).

H1: Profitability has a positive and significant effect on earning growth

H3: Firm size strengthens the relationship between profitability and earning growth

c. Activity Ratio, Earning Growth, Firm Size

In the perspective of Agency Theory, management is obliged to manage the company's assets efficiently for the benefit of shareholders (Naz et al., 2022). This efficiency can be measured through Total Asset Turnover (TATO), which is the activity ratio that shows how effectively a company's assets are being used to generate sales (Miswanto & Oematan, 2020). The higher the TATO, the better the management in optimizing assets, so that it has the potential to increase profits and encourage earning growth (Hakim et al., 2025). On the other hand, a low TATO indicates managerial inefficiency, which can reduce the company's ability to increase earning growth. However, the influence of TATO on earning growth is not always uniform in all companies. Firm size plays a role as a moderation factor that can strengthen or weaken the relationship (Setyawan et al., 2023) . In large companies, with a higher economic scale, wide access to capital, and strict supervision, the asset efficiency reflected in TATO will significantly increase earning growth. Meanwhile, in small companies, limited resources and weak supervision make TATO's influence on earning growth less optimal (Tora & Nyang'au, 2023).

H2: Activity ratio has a positive and significant effect on earning growth

H4: Firm size strengthens the relationship between activity ratio to earnings growth

II. MATERIALS AND METHODS

This study uses a quantitative approach with the aim of examining the influence of profitability and activity ratio on earning growth as well as the role of company size as a moderation variable. The data used is secondary data in the form of annual financial statements of non-cyclical sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2022 – 2024. According to Sugiyono (2018:23), population is understood as a generalized area consisting of objects or subjects with certain characteristics that have been determined by researchers to study and draw conclusions. In other words, population is not just the number of objects or subjects observed, but also includes the entirety of the properties and characteristics inherent in that object or subject. In this study, the observed population is non-cyclical consumer sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2022–2024, with a three-year observation scope. The determination of samples in this study uses the purposive sampling method, which is a sample selection technique that is carried out non- randomly with certain goals or targets according to criteria relevant to the research. The criteria used in determining the sample are: (1) non-cyclicals consumer sector companies listed on the IDX in the 2020–2024 period, (2) non-cyclicals consumer sector companies that have been listed on the IDX consistently since 2020–2024, and (3) companies that continuously publish annual financial statements during the 2022–2024 period. With these criteria, the selected sample is expected to be able to represent the real condition of companies in the consumer non-cyclical sector in Indonesia, so that the results of the study can more accurately describe the relationship between profitability, activity ratio, company size, and earning growth.

Table 1. Research Sampling Criteria

Number	Criteria	Total
1	Non-cyclicals consumer sector companies listed on the IDX until 2024	129
2	Non-cyclicals consumer sector companies that have not been listed since 2022 - 2024	-51
3	Non-cyclical consumer sector companies that do not publish financial statements between 2022 - 2024	-4
Number of research samples		74
Research Year		3
Amount of research data used		222

Source: IDX data processed, (2025)

The operationalization of the variables in this study are: dependent variable earning growth measured by net earning growth (previous ΔEarnings/Earnings), independent variables in the form of profitability proxied by Return on Assets (ROA) and activity ratio with Total Assets Turnover (TATO) proxies, and moderation variables,

namely firm size measured by the natural logarithm of total assets. These variables were processed quantitatively to see the direct influence and role of firm size moderation on earning growth. This study uses the EViews 13 application to process panel data. The analysis was carried out with several stages of testing, namely the Chow test to determine the Common Effect or Fixed Effect model, the Hausman test to choose between Fixed Effect and Random Effect, and the Lagrange Multiplier (LM) test to compare Random Effect with Common Effect. After the best model was obtained, a classical assumption test (normality, heteroscedasticity, multicollinearity, autocorrelation) was carried out and followed by a panel regression test and a hypothesis test (t-test, F test, and coefficient of determination/R^2) to measure the influence of independent variables and the role of firm size moderation on earning growth.

III. RESULTS AND DISCUSSION

A. Results

a. Description

Table 2. Descriptive Analysis

	EC	ROA	TATO	FS
Mean	1.537	438.955	1.458	22.253
Median	0.009	0.043	1.049	22.419
Maximum	192.537	93827.841	24.511	31.023
Minimum	-38.217	-0.825	0.000	13.164
Std. Dev.	18.661	6300.879	1.974	5.664
Observations	222	222	222	222

Source: Data processed with EVIEWS 13, (2025)

Based on the results of descriptive statistical analysis, the Earning Growth (EG) variable has an average value of 1.537 with a standard deviation of 18.661, indicating considerable variation between companies. The maximum value of EG is 192,537 and the minimum is -38,217, which means that there are companies with very high earning growth and there are also those that experience a significant decrease in profit. A median of 0.009 indicates that most companies have relatively little or close to zero earning growth. The Return on Assets (ROA) variable has an average value of 438,955 with a very large standard deviation of 6,300,879, indicating a very high data spread between companies. The maximum ROA value reached 93,827,841 and the minimum value was -0.825, indicating an extreme difference in profitability performance among the samples.

A median ROA of 0.043 indicates that most companies have a relatively low rate of return on assets. Meanwhile, the Total Asset Turnover (TATO) variable has an average value of 1.458 with a standard deviation of 1.974. The maximum value of TATO is 24.511 and the minimum value is 0.000, which indicates a considerable difference in asset use efficiency between companies. A median of 1,049 indicates that most companies are able to generate revenue of about one time of the total assets they own.

For the Firm Size (FS) variable, the average value of 22.253 with a standard deviation of 5.664 indicates a company size that varies but is not as extreme as other variables. The maximum FS value is 31.023 and the minimum is 13.164, with a median of 22.419, indicating that most of the companies in the sample are medium-to-large-sized companies. Overall, these results show that the data have a fairly high level of variation, especially in the ROA and EG variables, which indicates a significant difference in financial performance between firms in the study sample.

b. Normality Testing

Based on the results of the normality test on the residual histogram above, it can be seen that the residual data forms a pattern resembling a bell curve that shows a distribution close to normal. The mean and median values that are very close to zero, skewness of 0.090692, and kurtosis 3.212969 indicate that the residual is evenly distributed and does not deviate significantly from the normal distribution. The result of the Jarque-Bera test of

0.306504 with a probability of 0.857913 (>0.05) confirms that the residual is normally distributed. Thus, the regression model has met the assumption of normality and is suitable for use for further analysis.

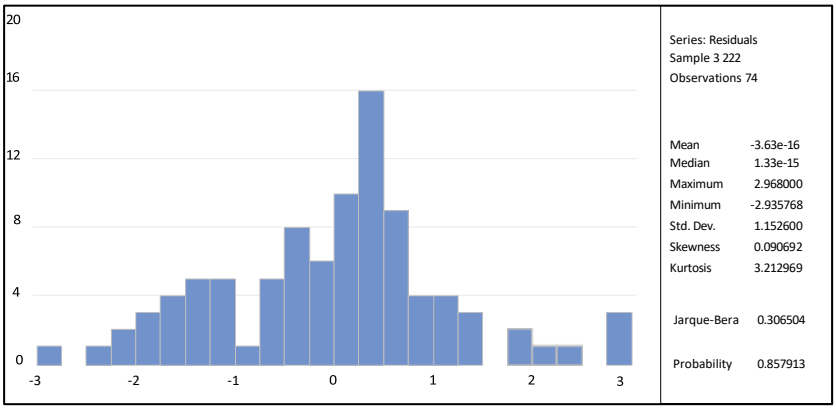

Figure 2. Normality Test Results
Source: IDX data processed, (2025)

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c. Multicollinearity Testing

Table 3. Multicollinearity Test Results

Variable	Variance	VIVID
ROA	0.000	1.699
TATO	0.017	1.764
FS*ROA	0.022	1.770
FS*TATO	0.109	1.818

Source: Data processed with EVIEWS 13, (2025)

Based on the results of the multicollinearity test in the table above, it is known that the Variance Inflation Factor (VIF) value for all independent variables is below 10, namely: ROA = 1,699, TATO = 1,764, FS*ROA = 1,770, and FS*TATO = 1,818. A VIF value that is well below the 10 threshold (or even the conservative limit of 5) indicates that there is no problem of multicollinearity between variables in the regression model. Thus, the relationships between independent variables do not influence each other excessively, so the regression model can be considered stable and feasible for use in advanced analysis.

d. Heteroscedasticity Testing

Table 4. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
F-statistic	0.7484	Prob. F(11,82)	0.6892
Obs*R-squared	8.5766	Prob. Chi-Square(11)	0.6609
Scaled explained SS	7.2216	Prob. Chi-Square(11)	0.7809

Source: Data processed with EVIEWS 13, (2025)

Based on the results of the Breusch-Pagan-Godfrey heteroscedasticity test in the table above, the Prob value was obtained. F(11.82) = 0.6892, Prob. Chi-Square(11) = 0.6609, and Prob. Chi-Square (Scaled Explained SS) = 0.7809. All of these probability values are greater than the significance level of $\alpha = 0.05$, thus failing to reject H_0

which states that the data is homoskedastic. Thus, it can be concluded that there are no symptoms of heteroscedasticity in this regression model. This means that the variance of the residual is constant between observations, so the regression model used meets the classical assumption of homogeneity and is suitable for use in subsequent analysis.

e. Hypothesis Testing

Table 5. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.2936	0.9366	3.5164	0.0006
ROA	0.0000	0.0000	-0.6149	0.5395
TATO	0.2757	0.1297	2.1260	0.0350
FS*ROA	0.1289	0.1469	0.8769	0.3818
FS*TATO	-1.0587	0.3298	-3.2098	0.0016
R-squared	0.5455			
Prob(F-statistic)	0.0000			

Source: Data processed with EVIEWS 13, (2025)

Based on the regression results with the dependent variable Earning Growth (EG) in the table above, an R-squared value of 0.5455 was obtained, which means that the independent variables ROA, TATO, FS*ROA, and FS*TATO were able to explain the variation in Earning Growth of 54.55%, while the remaining 45.45% was explained by other factors outside the model. The value of Prob(F-statistic) = 0.0000 < 0.05 shows that simultaneously, all independent variables have a significant effect on Earning Growth.

Partially, the TATO variable has a coefficient of 0.2757 with a Prob value = 0.0350 < 0.05, which means that Total Asset Turnover has a positive and significant effect on Earning Growth. This shows that the more efficient the company is in utilizing its assets to generate sales, the higher the earning growth obtained. Meanwhile, the FS*TATO interaction variable has a coefficient of –1.0587 with a Prob = 0.0016 < 0.05, which indicates that the size of the company reinforces the influence of TATO on Earning Growth, or in other words, in larger companies, asset efficiency has a greater influence on earning growth. In contrast, the variables ROA (Prob = 0.5395) and FS*ROA interaction (Prob = 0.3818) had no significant effect on Earning Growth, so the level of profitability and interaction with the size of the company was not strong enough to explain earning growth.

B. Discussion

The regression results show that ROA has no significant effect on Earning Growth. This indicates that the level of profitability of a company is not always followed by significant earning growth. In the context of agency theory (Jensen & Meckling, 1976), this condition can be explained by the existence of a conflict of interest between managers and shareholders. Although the company has a high rate of return on assets, managers may focus more on personal goals such as expanding assets or increasing compensation, rather than on increasing the earning growth that shareholders expect (Mastroianni et al., 2021). Thus, the effectiveness of profit management by agents (management) has not been optimal in increasing Earning Growth, even though financial performance in terms of profitability looks good (Rusydi, 2021). The TATO variable shows a positive and significant influence on Earning Growth. This means that the more efficient the company is in utilizing its assets to generate sales, the higher the earning growth achieved (Purba et al., 2025). In the framework of agency theory, it illustrates that managers (agents) are able to carry out their responsibilities effectively to maximize the company's value through efficient use of assets (Al-Faryan, 2024). This efficiency shows the alignment of interests between managers and shareholders, where the improvement of the company's operational performance (as reflected in TATO) has a direct impact on the increase in earning growth (Earning Growth). These results also confirm that when managers act in accordance with the principal's interests, agency conflicts can be minimized and the goal of increasing the company's value can be achieved (Angwaomaodoko, 2025).

The test results show that FS*ROA has no significant effect on Earning Growth. This means that company size does not strengthen or weaken the relationship between profitability (ROA) and earning growth. Based on

agency theory, it can be explained that in large companies, the supervisory mechanism for managers tends to be more complex so that good financial performance (high profitability) is not necessarily in line with increased profits in the future (Kasbar et al., 2023). Large companies may face greater agency problems due to information asymmetry between management and owners, where managers have more control over operational decisions without fully considering the interests of shareholders (Pokhodun, 2021). Thus, the effect of company size moderation is not strong enough to affect the relationship between ROA and Earning Growth (Wahyudi, 2023).

The FS*TATO variable has a negative and significant effect on Earning Growth. These results show that the size of the company weakens the influence of asset use efficiency on earning growth. In the context of agency theory, this illustrates that the larger the size of the company, the higher the potential for conflicts of interest and managerial inefficiency (Huu Nguyen et al., 2020). Large companies typically have complex organizational structures and lengthy bureaucracies, so operational efficiency decreases and the impact of asset efficiency on earning growth becomes smaller (Orishede et al., 2020). In addition, managers in large companies tend to have more opportunities to engage in opportunistic actions, such as overinvestment or unproductive use of assets, as oversight from shareholders becomes more difficult (Njoku & Lee, 2025). Therefore, this negative relationship shows that in large companies, agency control mechanisms need to be strengthened so that asset efficiency remains to make an optimal contribution to earning growth (Barros et al., 2021).

IV. CONCLUSION

The results of the study show that ROA does not have a significant effect on Earning Growth, indicating that profitability has not been followed by an increase in profit due to the potential conflict of interest between managers and shareholders according to the agency's theory. On the other hand, TATO has a significant positive effect on Earning Growth, showing that asset efficiency is able to increase earning growth and reflects the alignment of objectives between agents and principals. The FS*ROA interaction had no significant effect, indicating that the size of the company did not strengthen the relationship between profitability and earning growth due to the complexity of supervision in large companies. Meanwhile, FS*TATO has a significant negative effect, which indicates that the larger the company, the weaker the asset efficiency in driving earning growth due to the increased potential for agency conflicts and managerial inefficiencies.

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