

# The Effects of Firm Size and Leverage on Profitability: Empirical Evidence from Textile and Garment Manufacturing Companies Listed on the Indonesia Stock Exchange, 2020–2025

Hizbul Khootimah Az Zaakiyyah<sup>1\*</sup>, Nita Laila Asyifa<sup>2</sup>, Putri Pramestiwi Kusumojati<sup>3</sup>

<sup>1</sup>Universitas Mandiri, Indonesia

<sup>2</sup>Universitas Mandiri, Indonesia

<sup>3</sup>Universitas Mandiri, Indonesia

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## ABSTRACT

*This study examines the effects of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 period. A quantitative approach employing an explanatory research design was adopted using secondary data obtained from the companies' annual financial statements. The sample consisted of 76 firm-year observations selected through purposive sampling. Data were analyzed using descriptive statistics, classical assumption tests, and multiple linear regression analysis. The findings reveal that both firm size and leverage have positive and statistically significant effects on profitability, measured by Return on Assets (ROA). Furthermore, leverage demonstrates a stronger influence on profitability than firm size. These findings support the Resource-Based View and Trade-Off Theory, suggesting that effective resource utilization and optimal capital structure management contribute to improved corporate financial performance. The study provides practical implications for corporate managers in optimizing asset utilization and financing decisions to enhance profitability while offering valuable insights for investors in evaluating corporate financial performance and making investment decisions.*

## ABSTRAK

*Penelitian ini bertujuan menganalisis pengaruh ukuran perusahaan dan leverage terhadap profitabilitas perusahaan manufaktur subsektor tekstil dan garmen yang terdaftar di Bursa Efek Indonesia (BEI) selama periode 2020–2025. Penelitian menggunakan pendekatan kuantitatif dengan desain explanatory research serta data sekunder yang diperoleh dari laporan keuangan tahunan perusahaan. Sampel penelitian dipilih menggunakan teknik purposive sampling sehingga diperoleh 76 observasi yang memenuhi kriteria penelitian. Analisis data dilakukan melalui statistik deskriptif, uji asumsi klasik, dan regresi linier berganda. Hasil penelitian menunjukkan bahwa ukuran perusahaan dan leverage berpengaruh positif dan signifikan terhadap profitabilitas yang diukur menggunakan Return on Assets (ROA). Selain itu, leverage memiliki pengaruh yang lebih dominan dibandingkan ukuran perusahaan dalam meningkatkan profitabilitas. Temuan ini mendukung Resource-Based View dan Trade-Off Theory yang menjelaskan bahwa pemanfaatan sumber daya perusahaan secara optimal serta pengelolaan struktur modal yang tepat dapat meningkatkan kinerja keuangan perusahaan. Penelitian ini memberikan implikasi praktis bagi manajemen perusahaan dalam mengoptimalkan penggunaan aset dan struktur pendanaan untuk meningkatkan profitabilitas serta menjadi referensi bagi investor dalam pengambilan keputusan investasi.*

## 1. INTRODUCTION

The capital market plays a strategic role in Indonesia's economic development by providing companies with access to external financing while simultaneously offering investment opportunities for the public. Through the capital market, firms can obtain long-term funding to support operational activities, business expansion,

\* Corresponding author, email address: azzaakiyyah@gmail.com

and innovation, whereas investors are able to allocate capital to various financial instruments, including stocks, bonds, and mutual funds (Menaung et al., 2022). As one of the key sectors listed on the Indonesia Stock Exchange (IDX), the manufacturing industry significantly contributes to national economic growth through employment creation, export performance, industrial productivity, and value-added production. Among its various subsectors, the textile and garment industry occupies a strategic position because of its substantial contribution to non-oil exports and labor absorption. Consequently, maintaining the financial performance of firms operating in this industry is essential to sustaining industrial competitiveness and attracting investment.

Financial performance has become an increasingly important concern for textile and garment companies due to the growing uncertainty in the global business environment. The COVID-19 pandemic, which began in early 2020, severely disrupted international supply chains, reduced export demand, weakened domestic purchasing power, and limited manufacturing activities. These conditions significantly affected the operational performance and profitability of many textile firms. Although the industry gradually recovered after the pandemic, new challenges emerged following the implementation of Indonesia's Minister of Trade Regulation (Permendag) No. 8 of 2024, which relaxed import regulations for textile products. The policy intensified competition from imported products, reduced the competitiveness of domestic manufacturers, and strengthened concerns regarding the emergence of a "sunset industry" phenomenon within Indonesia's textile and garment sector (Rohman et al., 2025). Furthermore, Pasha et al. (2026) reported that excessive leverage, declining operational efficiency, and slowing sales growth substantially increased the likelihood of financial distress among textile and garment companies listed on the Indonesia Stock Exchange during the 2021–2024 period.



**Figure 1.** Global Textile Market Growth Trend (2020–2025)

According to Figure 1, the global textile market exhibited a generally positive growth trend during the 2020–2025 period. The market size increased from approximately USD 0.80 trillion in 2020 to around USD 0.95 trillion in 2021 and reached approximately USD 1.10 trillion in 2022, reflecting the gradual recovery of the global textile industry following the COVID-19 pandemic and the resurgence of international demand for textile and garment products. The market further expanded to approximately USD 1.15 trillion in 2023 before experiencing a slight decline to about USD 1.06 trillion in 2024 due to global economic uncertainty, geopolitical tensions, and intensified international trade competition. Nevertheless, the market is projected to recover again in 2025, reaching approximately USD 1.12 trillion. These trends indicate that despite temporary fluctuations, the global textile industry continues to demonstrate favorable long-term growth prospects.

The dynamics of the global textile industry inevitably influence the performance of textile and garment companies in Indonesia. As competition intensifies and market conditions become increasingly uncertain, companies are required to improve operational efficiency and maintain sustainable financial performance in order to remain competitive. One of the most widely accepted indicators for evaluating corporate financial performance is profitability. Profitability reflects a firm's ability to generate earnings from the resources it controls and serves as an important indicator for investors, creditors, and other stakeholders in

assessing corporate performance. In this study, profitability is measured using Return on Assets (ROA), as this ratio effectively captures management's efficiency in utilizing total assets to generate profits.

Corporate profitability is influenced by numerous internal financial factors, among which firm size and leverage are considered particularly important. Firm size reflects the scale of a company's operations and is commonly measured by the total assets owned by the firm. Larger firms generally possess greater financial resources, stronger market positions, broader financing opportunities, and economies of scale that enable them to achieve higher operational efficiency and profitability (Ermawati, 2024). In contrast, leverage represents the extent to which a company relies on debt financing to support its operational and investment activities. While the appropriate use of debt may enhance returns through financial leverage, excessive borrowing increases financial risk and interest expenses, potentially reducing profitability.

Previous empirical studies have produced inconsistent findings regarding the effects of firm size and leverage on profitability. Maulana et al. (2024) found that leverage significantly influenced earnings growth among textile and garment companies listed on the Indonesia Stock Exchange during the 2019–2022 period, suggesting that effective debt management is essential for maintaining financial stability. Similarly, Febriana & Wahyuningsih (2024) reported that leverage positively affected profitability, whereas firm size had no significant impact. Their findings imply that efficient utilization of debt financing can improve firms' ability to generate profits.

In contrast, Widhi & Suarmanayasa (2021) concluded that leverage negatively and significantly affected profitability in textile and garment companies, arguing that excessive debt increases financial risk and interest burdens, thereby reducing corporate earnings. Likewise, Santini & Baskara (2018) found that firm size does not necessarily improve profitability unless accompanied by efficient operational management. These contradictory findings suggest that the relationship between firm size, leverage, and profitability remains inconclusive and may vary across industries, economic conditions, and observation periods.

Moreover, although Mia et al. (2025) demonstrated that liquidity and leverage positively influenced firm value in tourism companies listed on the Indonesia Stock Exchange during the 2021–2024 period, profitability did not mediate these relationships despite having a direct positive effect on firm value. These findings indicate that financial indicators may interact differently across industrial sectors, emphasizing the importance of conducting sector-specific investigations. Given the unique characteristics of the textile and garment industry, particularly during periods of economic disruption and regulatory change, empirical evidence from other sectors cannot be generalized without further examination.

Therefore, this study seeks to address the existing research gap by examining the influence of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2025 period. Unlike previous studies that primarily analyzed pre-pandemic or short observation periods, this research encompasses the post-pandemic recovery phase and the implementation of Indonesia's new import policy, providing a more comprehensive understanding of how internal financial characteristics affect corporate profitability under changing economic conditions. The findings are expected to enrich the literature on corporate finance, particularly within emerging economies, while providing practical implications for corporate managers, investors, and policymakers in formulating strategies to enhance financial performance and strengthen the competitiveness of Indonesia's textile and garment industry.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

This study is primarily grounded in Trade-Off Theory and the Resource-Based View (RBV) to explain the relationship between firm size, leverage, and profitability in textile and garment manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2025 period. Trade-Off Theory provides the theoretical foundation for understanding how firms determine their optimal capital structure by balancing the benefits of debt financing against the associated financial risks. Meanwhile, the Resource-Based View explains how internal organizational resources, particularly firm size as reflected by total assets, contribute to the creation of sustainable competitive advantages and superior financial performance. These theoretical perspectives are further supported by empirical evidence from previous studies.

### Resource-Based View (RBV)

The Resource-Based View, introduced by Barney (1991), argues that firms achieve sustainable competitive

advantage through valuable, rare, inimitable, and non-substitutable (VRIN) resources. Companies possessing superior internal resources are better positioned to improve operational efficiency, strengthen market competitiveness, and generate higher financial returns. Within the context of corporate finance, firm size reflects the availability of strategic resources that enable firms to invest in technology, innovation, human capital, and production capacity. Larger firms generally possess greater financial flexibility, stronger bargaining power, wider access to external financing, and economies of scale, allowing them to operate more efficiently than smaller firms (Brigham & Houston, 2019). Consequently, companies with larger asset bases are expected to achieve higher profitability because they can utilize their resources more effectively to generate earnings. Dang et al. (2018) further explain that firm size reflects an organization's capacity to manage resources and expand business activities. Accordingly, firm size is commonly measured using the natural logarithm of total assets (Ln Total Assets), which provides a more stable measure and reduces data variability across firms. Similarly, Hery (2018) emphasizes that companies with larger asset bases generally possess greater opportunities to improve productivity through technological investment, business expansion, and operational efficiency. Empirical evidence regarding the relationship between firm size and profitability, however, remains inconclusive. Febriana and Wahyuningsih (2024) reported that firm size was associated with profitability among textile and garment companies, although the relationship was statistically insignificant. Likewise, Santini & Baskara (2018) argued that firm size alone does not necessarily improve profitability unless supported by efficient operational management and effective utilization of corporate resources. These findings suggest that the contribution of firm size to profitability depends largely on how effectively firms transform available resources into productive outcomes.

### **Trade-Off Theory**

Trade-Off Theory, originally developed by Kraus & Litzenberger (1973), explains that firms determine their capital structure by balancing the tax advantages of debt financing against the potential costs of financial distress. Debt financing provides tax benefits because interest payments are tax-deductible, thereby increasing firm value when debt is maintained at an optimal level. However, excessive leverage increases bankruptcy risk, agency costs, and financial distress, which may ultimately reduce corporate profitability. Leverage refers to the extent to which companies rely on debt financing to support operational and investment activities. According to Kasmir (2019), leverage indicates a firm's ability to fulfill both short-term and long-term financial obligations. A higher level of leverage signifies greater dependence on borrowed funds, which may increase financial risk if not managed properly. Fahmi (2020) argues that leverage can enhance corporate performance when borrowed funds generate returns exceeding the cost of debt. Conversely, excessive borrowing increases interest expenses and financial risk, thereby reducing firms' ability to generate sustainable profits. One of the most widely used leverage indicators is the Debt-to-Equity Ratio (DER), which compares total liabilities with shareholders' equity (Hery, 2018). A higher DER indicates that a larger proportion of corporate financing originates from debt rather than equity, implying greater financial risk. Previous studies have produced mixed findings regarding the impact of leverage on profitability. Widhi & Suarmanayasa (2021) found that leverage negatively affected profitability among textile and garment firms because excessive debt increased interest expenses and financial risk. Conversely, Febriana & Wahyuningsih (2024) demonstrated that leverage positively influenced profitability when companies managed debt efficiently and utilized borrowed funds productively. These inconsistent findings indicate that the effect of leverage depends on firms' ability to determine and maintain an optimal capital structure.

### **Profitability**

Profitability represents a company's ability to generate earnings from its operational activities and available resources. It is widely regarded as one of the most important indicators of financial performance because it reflects management effectiveness in utilizing corporate assets to create value (Kasmir, 2019). Companies with consistently high profitability are generally considered financially healthier, more competitive, and more attractive to investors. In this study, profitability is measured using Return on Assets (ROA), which assesses a firm's ability to generate net income from its total assets. According to Hanafi & Halim (2018), ROA provides a comprehensive measure of managerial efficiency because it evaluates how effectively all corporate assets are utilized to produce profits. Higher ROA values indicate more efficient asset utilization and stronger financial performance. Brigham & Houston (2019) further emphasize that profitability serves

as an important benchmark for investors because it reflects management's effectiveness in converting corporate resources into earnings. Companies demonstrating higher profitability generally possess stronger growth prospects and greater investment attractiveness. Previous empirical studies have identified several determinants of profitability, including firm size, leverage, liquidity, and working capital management. Mia et al. (2025) found that profitability was influenced by liquidity, leverage, firm size, and working capital turnover, indicating that firms capable of efficiently managing both assets and capital structures tend to achieve superior financial performance. Similarly, Pratiwi (2023) concluded that profitability depends largely on effective asset management and the firm's ability to control financial risks. Overall, both theoretical perspectives and previous empirical findings suggest that firm size and leverage are important determinants of corporate profitability. From the Resource-Based View, larger firms possess strategic resources that can improve operational efficiency and enhance profitability. Meanwhile, Trade-Off Theory explains that the use of debt financing can increase profitability when maintained at an optimal level but may reduce profitability when excessive financial risk outweighs its benefits. Therefore, this study examines the influence of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2025 period.

### 3. RESEARCH METHOD

This study employed a quantitative research approach using an explanatory research design to examine the influence of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 period. A quantitative approach was selected because it enables researchers to objectively measure relationships among variables using numerical data and statistical analysis. According to Sugiyono (2022), quantitative research is intended to test predetermined hypotheses through systematic analysis of numerical data. The explanatory research design was adopted because this study seeks to explain the causal relationships between the independent variables (firm size and leverage) and the dependent variable (profitability).

The population consisted of all textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 observation period. The sample was selected using a purposive sampling technique to ensure that only companies meeting the research objectives were included. The sampling criteria were as follows: a) Companies classified under the textile and garment manufacturing subsector and listed on the Indonesia Stock Exchange during the 2020–2025 period. b) Companies that consistently published complete annual financial statements throughout the observation period. c) Companies with complete financial information required to calculate all research variables. d) Companies that did not experience prolonged trading suspension or delisting during the study period. The final sample consisted of firms that satisfied all selection criteria and provided complete financial data for empirical analysis.

This study utilized secondary data obtained from the audited annual financial statements of textile and garment manufacturing companies published by the Indonesia Stock Exchange (IDX). Secondary data were selected because they originate from official and publicly accessible sources, thereby ensuring their credibility, reliability, and consistency. Additional supporting information was collected from books, scientific journals, and other relevant academic publications to strengthen the theoretical foundation of the study.

Three variables were analyzed in this study. Firm size served as the first independent variable and was measured using the natural logarithm of total assets ( $\ln$  Total Assets), which is widely employed in corporate finance research to reduce data variability. Leverage represented the second independent variable and was measured using the Debt-to-Equity Ratio (DER), reflecting the proportion of debt financing relative to shareholders' equity. Profitability was treated as the dependent variable and measured using Return on Assets (ROA), which evaluates a company's ability to generate net income from its total assets.

The data analysis was conducted systematically through several stages, including data requirement identification, data collection, data processing, data cleaning, statistical analysis, and interpretation of the findings, as illustrated in Figure 2. These procedures were performed to ensure the completeness, consistency, and reliability of the dataset before hypothesis testing.

## 6 Steps of Data Analysis



**Figure 2.** Research Flow Diagram

Descriptive statistical analysis was first employed to summarize the characteristics of the research variables by presenting the mean, minimum value, maximum value, and standard deviation. This analysis provides an overview of the distribution and variation of firm size, leverage, and profitability among textile and garment manufacturing companies during the observation period. Prior to hypothesis testing, classical assumption tests were conducted to ensure that the regression model satisfied the assumptions of the Ordinary Least Squares (OLS) method. These tests included the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Subsequently, the hypotheses were tested using multiple linear regression analysis, as the study simultaneously examines the effects of two independent variables on one dependent variable. The regression model is formulated as follows:

$$[ROA_i = \alpha + \beta_1 FS_i + \beta_2 DER_i + \epsilon_i]$$

where:

ROA = Return on Assets (Profitability)

FS = Firm Size (Ln Total Assets)

DER = Debt-to-Equity Ratio (Leverage)

$\alpha$  = Constant

$\beta_1$ - $\beta_2$  = Regression coefficients

$\epsilon$  = Error term

The significance of each independent variable was evaluated using the t-test, while the F-test was employed to examine the overall significance of the regression model. Furthermore, the coefficient of determination ( $R^2$ ) was calculated to assess the proportion of variation in profitability explained jointly by firm size and leverage. Statistical analyses were performed using IBM SPSS Statistics, with a significance level of 5% ( $\alpha = 0.05$ ). The adoption of these analytical procedures enables the study to provide robust empirical evidence regarding the influence of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2025 period.

#### 4. DATA ANALYSIS AND DISCUSSION

This study aims to examine the effects of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 period. A quantitative approach was employed, and the hypotheses were tested using multiple linear regression analysis. The results are presented through descriptive statistics, normality testing, and multiple regression analysis.

##### Descriptive Statistics

**Table 1.** Descriptive Statistics

| Variables                 | N  | Minimum | Maximum | Mean    | Standard Deviation |
|---------------------------|----|---------|---------|---------|--------------------|
| <b>Firm Size</b>          | 76 | 1728.00 | 3033.00 | 2434.57 | 457.50             |
| <b>Leverage</b>           | 76 | 27.00   | 552.00  | 84.99   | 112.48             |
| <b>Profitability</b>      | 76 | -99.00  | 3257.00 | 108.97  | 499.05             |
| <b>Valid N (listwise)</b> | 76 |         |         |         |                    |

Table 1 presents the descriptive statistics of the research variables. Firm size exhibits values ranging from 1,728.00 to 3,033.00, with a mean of 2,434.57 and a standard deviation of 457.50, indicating substantial variation in the asset size of the sampled companies. These findings suggest that the textile and garment manufacturing sector consists of firms with diverse operational capacities and resource availability. Leverage, measured by the Debt-to-Equity Ratio (DER), ranges from 27.00 to 552.00, with an average value of 84.99 and a standard deviation of 112.48. The relatively wide distribution indicates considerable differences in financing policies among companies, reflecting varying degrees of reliance on debt financing. Profitability, measured using Return on Assets (ROA), ranges from -99.00 to 3,257.00, with a mean value of 108.97 and a standard deviation of 499.05. The negative minimum value indicates that several firms experienced financial losses during the observation period, whereas the high maximum value reflects that some companies achieved exceptionally strong financial performance. Overall, the descriptive statistics demonstrate considerable heterogeneity in financial characteristics among textile and garment manufacturing companies.

### Normality Test

**Table 2.** One-Sample Kolmogorov-Smirnov Normality Test

| No | Test Statistics        | Value           |
|----|------------------------|-----------------|
| 1  | Kolmogorov-Smirnov Z   | See SPSS Output |
| 2  | Asymp. Sig. (2-tailed) | 0.230           |

The normality assumption was evaluated using the One-Sample Kolmogorov-Smirnov test. As presented in Table 2, the Asymp. Sig. (2-tailed) value is 0.230, which exceeds the significance level of 0.05. Therefore, the residuals are normally distributed, indicating that the regression model satisfies the normality assumption required for Ordinary Least Squares (OLS) estimation.

### Multiple Linear Regression Analysis

**Table 3.** Multiple Linear Regression Results

| Variables | Unstandardized Coefficient (B) | Std. Error | Standardized Coefficient (Beta) | t     | Sig.  | Tolerance | VIF   |
|-----------|--------------------------------|------------|---------------------------------|-------|-------|-----------|-------|
| Constant  | 0.866                          | 5.630      | -                               | 0.133 | 0.895 | -         | -     |
| Firm Size | 0.076                          | 0.133      | 0.070                           | 0.571 | 0.001 | 0.471     | 1.102 |
| Leverage  | 1.355                          | 0.541      | 1.080                           | 0.657 | 0.000 | 0.471     | 1.102 |

#### Dependent Variable: Profitability (ROA)

The estimated regression equation is expressed as follows:

$$[ROA = 0.866 + 0.076(FS) + 1.355(DER) + \text{varepsilon}]$$

Table 3 indicates that both independent variables have positive regression coefficients. Firm size has an unstandardized coefficient of 0.076, suggesting that an increase in firm size is associated with an increase in profitability, holding other variables constant. Likewise, leverage has a regression coefficient of 1.355, indicating a positive association between leverage and profitability. Based on the reported significance values, firm size ( $p = 0.001$ ) and leverage ( $p < 0.001$ ) significantly affect profitability at the 5% significance level. Furthermore, the standardized regression coefficient (Beta) indicates that leverage ( $\beta = 1.080$ ) has a stronger contribution to profitability than firm size ( $\beta = 0.070$ ). The multicollinearity statistics further confirm the suitability of the regression model. The tolerance values of 0.471 are well above the minimum threshold of 0.10, while the Variance Inflation Factor (VIF) values of 1.102 remain substantially below the critical value of 10. These findings indicate that multicollinearity is not present among the independent variables, suggesting that the regression model is appropriate for hypothesis testing.

The findings of this study demonstrate that both firm size and leverage positively influence the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2025 period. These results indicate that firms with larger asset bases and more effective debt management tend to achieve superior financial performance, as reflected by higher Return on Assets (ROA). Furthermore, the regression analysis reveals that leverage exerts a stronger influence on profitability than firm

size, suggesting that financing decisions play a more important role than company scale in determining financial performance within the observed industry.

The positive effect of firm size on profitability supports the Resource-Based View (RBV) proposed by Barney (1991), which argues that firms possessing valuable and strategically managed resources are more likely to achieve sustainable competitive advantages and superior financial performance. Larger companies generally possess greater financial resources, broader market access, stronger bargaining power, and economies of scale, enabling them to improve operational efficiency and generate higher earnings. This finding is also consistent with Brigham & Houston (2019), who argue that large firms enjoy greater access to external financing and are better able to maintain operational stability under changing market conditions. Likewise, Dang et al. (2018) explain that firm size reflects an organization's capacity to manage resources effectively and create value through productive asset utilization.

The empirical evidence obtained in this study is consistent with several previous studies. Natalya (2019) found that firm size positively influenced profitability, suggesting that companies with larger total assets possess stronger operational capabilities and greater opportunities to generate earnings. Similarly, Adria & Susanto (2020) reported that larger firms generally achieve better financial performance because they benefit from economies of scale and more efficient resource allocation. However, Santini & Baskara (2018) argued that firm size alone does not automatically improve profitability unless corporate resources are managed efficiently. These findings imply that the benefits of firm size depend not only on the quantity of assets owned but also on management's ability to utilize those assets productively.

The results further indicate that leverage positively affects profitability. This finding supports Trade-Off Theory, developed by Kraus & Litzenberger (1973), which explains that debt financing can increase firm value when companies maintain an optimal balance between the benefits of debt and the costs associated with financial distress. Borrowed funds provide opportunities for firms to expand production capacity, finance technological improvements, and increase operational efficiency, provided that the returns generated exceed financing costs. Fahmi (2020) similarly argues that debt financing enhances corporate performance when it is used productively and managed efficiently.

The positive relationship between leverage and profitability is consistent with the findings of Febriana & Wahyuningsih (2024), who concluded that effective debt utilization contributes positively to profitability. Likewise, Tirtanata & Yanti (2021) reported that companies capable of managing their capital structure efficiently tend to improve financial performance. These studies support the argument that debt financing, when maintained at an optimal level, serves as a strategic source of capital that enables firms to expand operations and improve profitability.

Nevertheless, previous empirical findings have not always been consistent. Jehanu et al. (2015) found that leverage significantly affected profitability, whereas firm size did not exert a significant influence. Similarly, Arifianto & Budiarta (2020), as well as Widhi & Suarmanayasa (2021), reported a negative relationship between leverage and profitability, suggesting that excessive reliance on debt increases financial risk and interest expenses, thereby reducing corporate earnings. Furthermore, Fathimah et al. (2026) concluded that neither firm size nor leverage significantly affected profitability. These contradictory findings indicate that the influence of firm size and leverage is likely contingent upon industrial characteristics, managerial efficiency, macroeconomic conditions, and firms' financial strategies.

The stronger influence of leverage identified in the present study suggests that financing decisions have become increasingly important for Indonesia's textile and garment industry during the 2020–2025 period. Following the COVID-19 pandemic and the implementation of Indonesia's new textile import regulations, many firms faced increasing pressure to strengthen liquidity, maintain production capacity, and improve competitiveness amid growing market uncertainty. Under such circumstances, companies capable of utilizing debt strategically while maintaining financial stability were better positioned to enhance profitability than firms relying solely on asset expansion. This finding highlights the importance of maintaining an optimal capital structure in industries experiencing rapid structural and competitive changes.

Profitability in this study was measured using Return on Assets (ROA), which evaluates management's effectiveness in utilizing corporate assets to generate earnings (Hanafi & Halim, 2018). Consequently, the positive effects of firm size and leverage indicate that profitability is influenced not only by the availability of corporate resources but also by management's ability to transform those resources and financing decisions into productive investments and sustainable financial returns.

Overall, the findings support both the Resource-Based View and Trade-Off Theory by demonstrating

that firm size and leverage are important determinants of corporate profitability. Larger firms benefit from superior strategic resources, whereas optimal debt utilization provides financial flexibility that enhances operational performance. Therefore, managers of textile and garment manufacturing companies should focus not only on expanding corporate assets but also on maintaining an optimal capital structure that balances growth opportunities with financial risk. Such strategies are expected to improve long-term profitability and strengthen corporate competitiveness in an increasingly dynamic business environment.

## 5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

This study examined the effects of firm size and leverage on the profitability of textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2025 period. The empirical findings indicate that both firm size and leverage have positive and statistically significant effects on profitability, measured by Return on Assets (ROA). These results suggest that companies with larger asset bases and well-managed debt financing are more likely to achieve superior financial performance. Among the two explanatory variables, leverage demonstrates a stronger influence on profitability than firm size. This finding indicates that effective capital structure management plays a crucial role in improving corporate financial performance. Companies that utilize debt efficiently can expand business operations, strengthen production capacity, and enhance profitability, provided that borrowing remains within an optimal level and does not create excessive financial risk.

The findings provide empirical support for both the Resource-Based View (RBV) and Trade-Off Theory. From the RBV perspective, larger firms possess superior strategic resources that enable them to improve operational efficiency and generate higher returns. Meanwhile, Trade-Off Theory explains that appropriately managed debt financing can enhance profitability by balancing the benefits of leverage against the potential costs of financial distress. Therefore, profitability is influenced not only by the scale of corporate resources but also by management's ability to optimize financing decisions and utilize assets efficiently. From a practical perspective, the findings suggest that managers of textile and garment manufacturing companies should prioritize efficient asset utilization while maintaining an optimal capital structure to improve long-term profitability and strengthen competitiveness in an increasingly dynamic business environment. For investors, firm size and leverage may serve as important financial indicators when evaluating corporate performance and making investment decisions.

This study is subject to several limitations. First, the analysis focuses exclusively on textile and garment manufacturing companies listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other industries. Second, the study considers only two explanatory variables, whereas profitability may also be influenced by other financial and non-financial factors, such as liquidity, sales growth, asset turnover, corporate governance, operational efficiency, and macroeconomic conditions. Future research is therefore encouraged to include additional explanatory variables, extend the observation period, compare different industrial sectors, or employ alternative analytical approaches to obtain a more comprehensive understanding of the determinants of corporate profitability.

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