THE EFFECT OF FINANCIAL LEVERAGE ON FINANCIAL PERFORMANCE TOWARDS FIRMS SIZE

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ABSTRACT

This research aim is to observe the effect of financial leverage on financial performance with firms performance as a moderation variable, using a purposive sampling method to determine the selected samples; analysis use a multiple linear regression tests using the SPSS 24.0 software, the results show that there are 186 firms s meet the population set target, the results of multiple linear analysis test with 5% significance level, concludes that: (1) debt ratio affects ROE, (2) debt to equity ratio affects ROE, (3) firms size influences ROE, (4) firms size strengthens the influence of debt ratio on ROE, (5) firms size weakens the influence of debt equity ratio on ROE.

 Keywords: debt ratio, debt to equity ratio, financial leverage, firms size, ROE

INTRODUCTION

Financial Accounting Standards (FAS) No.1, 2009, "the financial statements are a structured display of the financial position and performance of an entity", purpose to provide data and statistics about the financial position, financial performance, cash flow of the entity and financial statements also demonstrate management's accountability in using the resources entrusted.

Prasnanugraha (Yudiartini & Dharmadiaksa, 2016) states that "one of the objectives of financial reporting is to provide data to stakeholders for decision making", refer to Bank Indonesia regulation number: 3/22 / PBI / 2001 concerning "the transparency of bank financial conditions", banks are required to prepare and present financial statements in a form and scope as stipulated, which consists of publishing of annual report and/or financial statements in monthly or quarterly basis.

Financial leverage is an evaluation of how many firms use equity and debt to finance their assets, where firms can fund investments using debt, equity and the interest rate capital of debt regardless of the rate of return on firm's assets. Financial leverage is to aim of obtaining fixed costs and which the burden of the firms, the bigger is the firm's debt so that leverage the bigger.

Financial leverage is related to funding sources and can be measured by leverage ratio, then measures how much of the debt is used to fund its investment, this research uses the size of the firm's financial performance in the form of profitability ratios namely return on assets, the leverage ratio used is the debt ratio, debt to equity ratio and interest coverage ratio, suppose the firm's sales or revenue increases, it is believed that the firm's financial performance will also increases. However, that belief is not always true as there are other factors that must be considered before assessing the extent of the firm's performance, especially in financial terms. To assess the firm's financial performance ideally, Weston & Copeland (2007: 237) stated that there are three groups of measures of corporate financial performance, namely profitability ratios, growth ratios and valuation measures.

Damouri, et. al., (2013) states that leverage ratios contribute in measuring the risk of using equity costs and very important steps in capital structure based on book or market value, actions based on adjusted market value, financial leverage has an impact on earnings after tax or earnings per share and the effect of both leverage can be important enough for available income for ordinary shareholders (Pandey, 2010).

Previous studies mostly explored the direct relationship between leverage and performance, while there are also several articles adding moderating variables (Jermias, 2008) & O'Brien, 2003) researching strategy and competitiveness, Simerly & Li, (2000) explore environmental dynamism and McConnell & Servaes, (1995) argue for growth opportunities as potential moderators for corporate leverage-performance relationships, there is one area which has not been given much attention and can potentially moderate leverage-performance relationships.

This research objective is to explore the effect that financial leverage has on financial performance and the update is to add a firm's size moderating variable to see if the size of the firms can strengthen or weaken the relationship between financial leverage and financial performance. The benefits for academics of this research is expected to be an added value in the development of accounting science and broaden the horizons of financial performance and this results are aimed to support further opportunities in conducting research related to financial performance and investors, this research is expected to help them in investing strategies.

LITERATURE REVIEW AND HYPOTHESIS
AGENCY THEORY
Jensen & Meckling (1976), agency theory explains that agency relations arise when one or more principals hire other agents to provide service and subsequently give decision-making authority to the agent. The action of boosting a firm's value will bring

about a conflict of interest between managers and shareholders, which is often called the agency problem and often the manager of the firms has other goals and interests that are contrary to the main objectives of the firms; furthermore, ignore the interests of shareholders.

This difference in interests between managers and shareholders results in conflicts that are commonly known as an agency conflict, because managers prioritize personal interests, whereas shareholders do not like the personal interests of managers as what they do will increase costs for the firms and ultimately cause a decrease in the firm's profit and impact the stock price, thus decreasing the value of the firms (Jensen & Meckling, 1976).

Agency theory explains the relationship between a shareholder, who is handing over the management, and a professional, who better understand and skilled in carrying out daily operations. The firm's management is expected to be able to obtain the maximum possible profit with minimum costs, the firms is divided into two groups (shareholders and agents), whom respectively have rights and obligations. Shareholders have the right to get maximum dividends and establish a board of commissioners to supervise the firm's administration managed by agents and develop an incentive system for management; furthermore, an agent has the right to get incentives and is tasks with running business processes in accordance with the firm's interests (Rachman et. al., 2015).

Managers have a duty to maximize the well-being of shareholders who are interested in maximizing their welfare; the agency problem continues to worsen, even though the managers have received compensation. But, the change in managers' prosperity is much smaller compared to the change in shareholders' (Jensen & Mackling 1976). Efforts made to overcome or reduce agency problems will cause agency costs to be endured by the principal and agent. This agency cost includes supervision costs by shareholders, costs incurred by management sector to produce transparent reports, including independent audit fees and internal controls, as well as costs due to a decrease in shareholder ownership value as a "bonding expenditures" given to management in the form of options and various benefits for the purpose of aligning management interests with shareholders.

Pecking Order Theory (POT)
Myers & Majluf (1984) put a POT, which explains why a firms determines the most preferred source of funding hierarchy, where an investment will be funded using internal funds first or retained earnings, followed by the issuance of new debt and lastly the issuance of new equity (Widiyanti & Elfina, 2015), (Frank & Goyal, 2005), POT has not been able to explain these preferences, a possible explanation to the occurrence of asymmetric information has a problem that is quite difficult to analyze in each firms .

Husnan & Pudjiastuti (2012: 275), POT explains why firm's s with high profit level can have a low debt level, this low level of debt is not because the firms have a low target level of debt, but because they do not need external funds, internal funds are enough to meet investment needs.

The theory does not indicate the target capital structure that is generally used in firm's s and only explains the order of funding preferences and it's assumed that the financial manager does not consider the optimal level of debt. The need for pure funds is only determined by investment needs, POT can explain why firm's s with high profit level can have low level of debt because such firm's s have a lot of internal cash flow surpluses that can be used as a source of funding later.

Financial Leverage
Sjahrial (2010: 147), leverage is the use of assets and sources of funds by firm's s that have a fixed cost, such as interest expense to increase the potential profit to shareholders. Syamsuddin (2009: 89), leverage is a term used to define a firm's ability to utilize fixed cost assets or funds to maximize the level of income. Financial leverage refers to the use of funds with a fixed burden with the hope that will increase revenue per share (Kamaludin & Indriani, 2012: 98).

Firms s that have low leverage ratios are at a low risk of loss if economic conditions are declining, but also have lower returns suppose the economic conditions improve. Conversely, firm's s with high leverage ratios carry a large risk of loss but earn high profits. The process of high returns is always desirable, but investors generally refuse to take the risk and to use leverage therefore must balance higher returns to increased risk (Weston et. al., & Isbanah, 2015).

Performance is defined as the work achieved by an organization in a certain period by referring to the standards set (Vidyanata et. al., 2016). The results of measuring the firm's financial performance are needed by three groups (shareholders, creditors and firm's management), each of which has a different purpose. The shareholders need information about the firm's financial performance to prevent the risk of losses in the stock portfolio to assess whether credit will be granted based on firm's performance, while management takes various decisions by looking at the firm's financial performance in the previous period (Vidyanata et. al., 2016).

Isbanah (2015) defines performance as a measure of how individuals and organizations can achieve goals effectively and efficiently, firm's performance measures the success of managers in running firms. Information about the firm's performance is needed by those with an interest in the firms, such as shareholders, creditors, the government and the public. This information is used to determine the suitability of the firm's objectives with the results of firm's management by the manager.

Financial Performance
Financial performance is an outcome of the financial position of the formal business that has been carried out by the firms within a period of time. Financial performance is a description of the firm's financial condition in a certain position concerning aspects

of fund collection and distribution which is usually measured by indicators of capital adequacy, liquidity and profitability (Jumingan, 2011: 239). Financial performance is a result, achievement or condition that has been achieved by firms during a certain period (Helfert 2008).

Ujiyantho & Pramuka (2007) may analyze a firms 's financial statements to assess a firms 's performance and in this research was measured using ROE (ROE) and refers to the rate of return achieved by the firms on the total equity held, which is measured using a comparison of net income per total equity.

Firms Size
Firms size is a measure of how big or small a firms is, shown or assessed from the total assets, total sales, total profits, tax expense and others (Brigham & Houston, 2016). Meanwhile, Rudangga & Sudiarta (2016), a firm's size can be expressed by the total assets owned by the firms. There are three variables that can determine how big or small a firm is, such as total assets, sales or market capitalization and these variables that can determine the firm's size.

A firm's size can be measured by calculating the total assets, sales, or capital of the firms. One benchmark that shows how big or small the firms is the size of the assets itself. Firms s that have large assets in total show that the firms has progress to the stage of maturity, where the firm's flow of cash is positive and is considered to have good prospect going forward in a long period of time and also reflects that the firms is more secured and able to generate more profits compared to firm's s with smaller assets in total (Kasmir, 2014).

Previous Research
Rajkumar (2014), "Impact of Financial Leverage on Financial Performance: Special Reference to John Kells Holdings PLC in Sri Lanka", found that financial leverage affects financial performance and Enekwe et. al., (2014), "The Effect of Financial Leverage on Financial Performance: Evidence of Quoted Pharmaceutical Firms s in Nigeria", found that financial leverage affects financial performance.

Isbanah (2015), "The Effect of ESOP, Leverage and Firms Size on the Firms' Financial Performance at the Indonesia Stock Exchange", found that leverage affects the firm's performance, Vidyanta et. al., (2016) found that debt ratio has a significant effect on ROE whereas debt to equity ratio does not have a significant effect on ROE.

There are many financial ratios that can be used to determine the risk in relation to firm's s that use leverage in their capital structure. One of them is the total debt to total asset ratio. Debt Ratio measures the assets of a firms financed by creditors. A low debt ratio shows that only a small fraction of the firm's assets is funded by debt, conversely a higher ratio means that the leverage of the firms will be greater (Sartono, 2011: 54).

Modigliani-Miller & Sartono (2011: 236) has a different assumption, with a condition that there is an income tax; leveraged firms will be valued higher than firms that have no leverage. The increase in the value of the firms is due to interest payments on debt, which is referred to tax deductions. Therefore, the operating profit that flows to investors becomes even greater, with a condition that taxation is presents; the firms will get better when using increasingly large debt and this research, the assumption taken is that with a greater debt, the firms will perform better, as the debt value increases, the value of the firm's assets will increase so that it is able to fund all business activities and aim to increase the firm's profit.

Framework – Figure 1
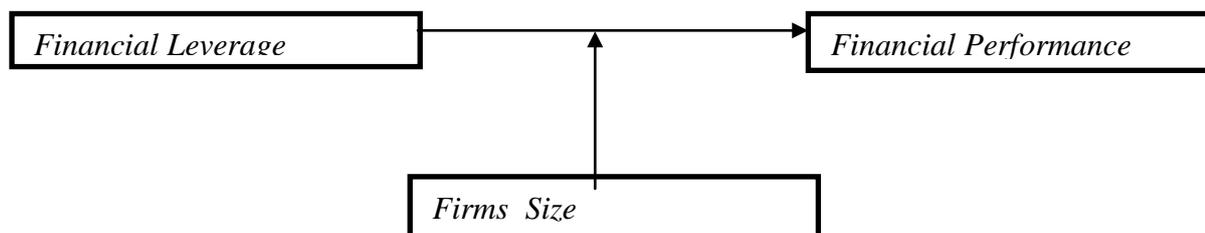
Hypothesis Formulation
Influence of Financial Leverage on Financial Performance
Horne & Wachowisz (2009: 59) explains that the higher the debt ratio and the greater the financial risk, the increased risk in question is the possibility of default, because the firms are using too much debt to fund a lot of assets. Based on the POT, the higher the debt ratio, the firms will endure a greater cost to fulfill its obligations and can reduce the profitability (ROE) owned by the firms. The bigger the ratio, the larger the amount of loan capital used for the capital to generate profits for the firms. A large ratio indicates a rise in creditors' risk in the form of the firm's incapability to pay all its obligations. The shareholders, the bigger the ratio, the higher the interest payments, which will eventually reduce dividend payments and then the effect between debt ratio and ROE are negative, Vidyanata et. al., (2016) the debt ratio affects ROE.

POT, firm's s with growing profits have profitable opportunities to fund their investments internally so that the firms avoids attracting funds from outside and seeks the right solution to solve problems associated with its debt. A firm's performance is badly impacted by debt, because a higher level of debt shows that the interest expense will be greater, which means a reduced in

profit. The firm's s with a higher DER will show a greater of its burden on outsiders, which is inclined to decrease the firm's performance. Vidyanata et. al., (2016) debt to equity ratio affects ROE, these hypotheses are formed;

H1:   Financial Leverage Affects Financial Performance

Influence of Firms Size on Financial Performance

Firms size is one of the determinants in obtaining funds from investors and explains that a larger firms promises better performance than a smaller size firms. Firm's size shows the amount of experience and ability to manage the level of investment risk provided by shareholders to improve prosperity (Mahaputeri & Yadnyana, 2014). Firm's with large assets reflects the establishment of the firms, large firms size is expected to increase economies of scale and reduce the cost of collecting and processing information. The information is at the same time becoming material for the need of information disclosure to external parties such as investors and creditors; it does not require a large additional cost to carry out broader disclosures (Mahaputeri & Yadnyana, 2014).

Larger firm's size shows how the firm's competitiveness is stronger than its main competitors, which increases the value of the firms due to the positive responses from investors. Wright et. al., (2009) & Isbanah (2015) firms size affects financial performance, the research hypothesis is as follows:

H2: Firms Size Affects Financial Performance

Firms Size Moderates the Influence of Financial Leverage on Financial Performance

Small-sized firm's s has loans of debt can greatly affect profits; whereas to large-sized firm's this adverse effect is found to be insignificant. It is said that small-sized firms have more irregular information with low and volatile returns, which causes debt loans to be costlier. On the contrary, large-sized firms have better accessibility to debt markets with less irregular information, allowing them to spread debt at a comparatively lower cost. Qamar et. al., (2016) in general the slope of the debt ratio displayed negative results, although the marginal effects of large firms were found to be positive and its evident that firm's s have overleveraged in pursuit of optimal levels to lower net profits.

In addition, leverage-performance relationships are also found to be not proportional for medium-sized and large-sized firm's s, whereas for small-sized firm's they are proportional and negative in nature. Thus, debt financing will always have a negative impact on small-sized firm's s. However, for medium and large-sized firms, debt financing will initially have a positive impact to a certain extent and afterwards profit begins to decline.

H3:   Firms Size Moderates the Influence of Financial Leverage on Financial Performance

RESEARCH METHODS

Data and Samples

The samples used are manufacturing firm's s and has been listed on Indonesia Stock Exchange (IDX) during 2013-2015 periods, using a purposive sampling and meets following criteria;

1. Manufacturing firm's listed and published.
2. Manufacturing firms that issue financial statements or yearly published.
3. Manufacturing firms that did not suffer losses.
4. Manufacturing firms that uses Rupiah units in financial statement.

Research Model

This research aim is to determine the effect of financial leverage and financial performance that is moderated by firm's size, financial performance is measured using ROE to prove the hypotheses and the regression model is as follows;

$$ROE = \beta_0 + \beta_1 DR_{it} + \beta_2 DER_{it} + \beta_3 SIZE_{it} + \beta_4 DR*SIZE_{it} + + \beta_5 DER*SIZE_{it} + \varepsilon_{it}$$

Where;
ROE = Financial Performance (return on equity)
DR = Financial Leverage (debt ratio)
DER = Financial Leverage (debt to equity ratio)
SIZE = Firms Size

Variables and Measurement

Financial Performance

In this research, a firm's financial performance is ROE and describes the firm's ability to generate net income after tax by using the firm's own capital (Sudana, 2009: 26).

$$ROE = \frac{Net\ Profit}{Total\ Equity}$$

Independent Variables

Financial Leverage

Debt Ratio (DR)

This ratio is a comparison between the total debt and total assets and tells us the extent in which debt can be covered by assets. Samir (2009: 13) debt ratio by definition means a ratio that illustrates the proposition between the obligations that are owned and all the wealth owned and with formula as follows;

$$Debt\ Ratio\ (DR) = \frac{Total\ Liability}{Total\ Assets}$$

Debt to Equity Ratio (DER)
DER is the ratio used to calculate the amount of total capital that is funded by total debt (Brigham & Houston, 2016: 98). Fahmi (2014: 73) with formula as follows:

$$\text{Debt to Equity Ratio (DER)} = \frac{\textit{Total Long Term Loan}}{\textit{Total Own Equity}}$$

Moderating Variable
Firms Size
Data Analysis Method
In this research, data used is obtained from audited financial statements and annual reports that can be obtained by accessing through IDX website or respective firms s, using Microsoft excel 2007 application program and SPSS 24 software and multiple linear regressions as a processing method.

RESULTS AND DISCUSSION
Sample Selection Results

The sample used are manufacturing firm's s listed and published on IDX during 2013-2015 periods, financial report data obtained using purposive sampling method and the sample selection process as described;

Table 1. – Sample Criteria

DESCRIPTION	Amount
Manufacturing firms listed and published.	152
Manufacturing firms that does not issued financial statements in yearly published.	(30)
Manufacturing firms that suffered losses.	(45)
Manufacturing firms that do not use Rupiah (IDR) currency.	(15)
Number of firms sampled per year	**62**
Number of firms sampled (3 years x 62 firms)	**186**

Descriptive Statistics
The below table 2 illustrates the results of descriptive statistics from 186 observations of firms samples, firm's performance that is measured by using ROE shows an average value of 0.1793, which means that the firm's profit averages 17.93% of total equity, DR ratio shows that the average debt that can be paid using assets owned by the firms is 40.66%. The average debt that can be paid with owner's capital or DER ratio is 23.19% and the average firm's size is 28.4499, as follows;

Table 2 - Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROE	186	.00	1.44	.1793	.21926
DR	186	.07	1.05	.4066	.18402
DER	186	.00	1.83	.2319	.27941
SIZE	186	25.62	33.13	28.4499	1.64324
Valid N (listwise)	186				

Data Analysis
Normality Test
Normality test is a test held to evaluate the distribution of statistics in a data group or variables, regardless the distribution of data is normal or not, the normality test will be helpful to determine which statistics has been collected normally distributed and the results is;

Table 3 - Normality Test
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		186
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.20538894
Most Extreme Differences	Absolute	.164
	Positive	.164
	Negative	-.120
Test Statistic		.164
Asymp. Sig. (2-tailed)		.1989

The above table 3 it's evident that the significant value of the regression model is greater than alpha 5% (0.198) and thus the analyzed regression model can be concluded to be normally distributed.

Multicollinearity Test
Multicollinearity is a linear relationship that is equally strong between the independent variables in the multiple regression model equation. The existence of multiple collinear causes the estimation of the coefficient to be unstable, a data in the analysis model is said to not occur multicollinearly if the VIF value is smaller than 10 and on the contrary, a data is said to occur multicollinearly if the VIF value is greater than 10, multicollinearity testing result of the regression model are;

Table 4 - Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.655	.273		-2.399	.017		
	DR	.394	.108	.331	3.648	.000	.592	1.689
	DER	-.299	.072	-.380	-4.139	.000	.577	1.734
	SIZE	.026	.010	.197	2.714	.007	.927	1.078
	DR_SIZE	.001	.004	.013	.135	.893	.566	1.768
	DER_SIZE	-.002	.003	-.055	-.596	.552	.565	1.770

a. Dependent Variable: ROE

Table 4 results displays the VIF value of each independent variable (regression model) is smaller than 10 and thus a conclusion can be made that there is no correlation or no multicollinearity between the independent variables, the regression model and the testing of the hypothesis can be continued.

Heteroscedasticity Test
Heteroscedasticity test aims to identify suppose the regression model tested shows a residual variation of inequalities between one's to another observation, this research use the Glesjer test is used to examine the heteroscedasticity of the regression models that are going to be analyzed and table 5 results show the significant value of the regression model is greater than alpha 5% (sig.> 0.05) and can be concluded that the regression model to be analyzed does not have heterogeneous data or no heteroscedasticity.

Autocorrelation Test
This research, autocorrelation testing through the Durbin Watson (DW) method will be used, autocorrelation test aims to find out if there is an error within the current period in contrast with previous period and the tabulated result is;

Table 5 - Heteroscedastisity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.241	.184		-1.310	.192		
	DR	.516	.073	.598	1.278	.200	.592	1.689
	DER	-.250	.049	-.439	-.133	.730	.577	1.734
	SIZE	.008	.007	.081	1.202	.231	.927	1.078
	DR_SIZE	.001	.003	.029	.336	.737	.566	1.768
	DER_SIZE	-.002	.002	-.105	-1.218	.225	.565	1.770

a. Dependent Variable: abs

Table 6 - Autocorrelation Test Result

Number of Independent Variables	DL	DU	4-DU	4-DL	DW Value	Decision
3	1,706	1,760	2,240	2,294	1,850	There is no autocorrelation

The above data shows the DW value in the regression model to be analyzed at 1.850 and value is within the range of 1.760 - 2.240 (dU - 4-dL), where the interval of the DW value in the area shows no autocorrelation and its can be concluded that between years of observation on the dependent variable (financial performance) does not show a correlation or no autocorrelation and concluded that the testing the hypothesis can be continued.

Determination Coefficient Test
The percentages displayed on table 7 below reflected how much of an influence the five independent variables have on financial performance and can be seen in the coefficient of determination.

Based on the calculation results shows that the coefficient of determination is 0.598, indicates that the ability of the independent variable (DR and DER) in explaining or influencing the fluctuation of data on the ROE variable is 59.8% and the remaining is 40.2% (100% - 59.8%) shows there are still other variables that may have a large impact on financial performance. The coefficient of determination of 59.8% is evidently a large value (more than 50%), which shows how great of an influence it is.

Table 7 - Test Result
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.750[a]	.623	.598	.20822	1.850

a. Predictors: (Constant), DER_SIZE, SIZE, DR, DER, DR_SIZE
b. Dependent Variable: ROE

Table 8 – Result of Regression Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-.655	.273		-2.399	.017		
	DR	.394	.108	.331	3.648	.000	.592	1.689
	DER	-.299	.072	-.380	-4.139	.000	.577	1.734
	SIZE	.026	.010	.197	2.714	.007	.927	1.078
	DR_SIZE	.001	.004	.013	1.135	.023	.566	1.768
	DER_SIZE	-.002	.003	-.055	-1.596	.042	.565	1.770

a. Dependent Variable: ROE

Results Analysis and Interpretation
Effect of Financial Leverage on Financial Performance
The above table 8, the DR ratio regression coefficient is positive, which is 0.331 at a 5% level of significance; meanwhile, the regression coefficient of the DER is negative, which is -0.380 at a 5% level of significance. Thus, hypothesis 1 stated that financial leverage influences financial performance, has been proven, therefore, *hypothesis 1 is accepted.*

Horne & Wachowisz (2009: 59) explains that the higher the DR ratio, the greater the financial risk, the increased risk in question is the possibility of default, because the firms have been used too much debt to financing the assets, based on the POT, the higher DR ratio and firm's will endure a greater cost to fulfill its obligations.

This can reduce the profitability (ROE) owned by the firms, the bigger the ratio, the larger the amount of loan capital used for the capital to generate profits for the firms. A large ratio indicates a rise in creditors' risk in the form of the firm's incapability to pay all its obligations. The shareholders stated the bigger is the ratio, the higher is the interest payments and will eventually reduce dividend payments.

However, from this research resulted that its noted that the debt ratio has a positive effect on ROE and its explains that a higher DR ratio will cause an increase in ROE and also explains how a large debt owned by the firms shows that the firms has loan capital from external parties, which are used to run the firm's operational activities, thus, the firm's opportunity to increase profit is bigger.

POT firms with growing profits have profitable opportunities to financing its investments internally so the firm's may avoid attracting funds from external and seeks the right solution to solve problems associated with its debt. A firm's performance is badly impacted by debt, because a higher level of debt shows that the interest expense will be greater, which means a reduced in profit. The firms with a higher DER will show a greater of its burden on outsiders and it's inclined to decrease the firm's performance. Vidyanata et. al., (2016) debt to equity ratio influences ROE, meanwhile, the firms size of the regression coefficient is positive with a value of 0.197 at 5% level of significance. Thus, Hypothesis 2 stated that firms size affects financial leverage, has been proven and *Hypothesis 2 is accepted.*

These results explain that firms with large assets reflect the establishment of the firms, large-sized firms are expected to increase economic scale and reduce the cost of collecting and processing information and at the same time becoming material for the need for information disclosure to external parties such as; investors and creditors, it's does not require a large additional cost to carry out broader disclosures (Mahaputeri & Yadnyana, 2014). Larger firms size shows how the firm's competitiveness is stronger than its main competitors, which increases the firm's value due to the positive responses from investors. Wright et. al., (2009) & Isbanah (2015) firms size affects financial performance and the regression coefficient of firm's size in moderating the DR ratio is positive with a value of 0.013 at a 5% level of significance. Meanwhile, firms size in moderating the debt equity ratio is negative with a value of -0.055 at a 5% level of significance, this result explains firms size strengthens the influence of financial leverage proxies by debt ratio to financial performance. The larger firms are the larger the amount of assets owned, making it easier for them to obtain debt with the guarantee it's owns assets and this is to ensure that the firms have sufficient capital to run operations with funds obtained from loans.

Small-sized firms that have loans of debt can greatly affect their profits, whereas to large-sized firm's s this adverse effect is found to be insignicant and it's said that small-sized firm's s have more irregular information with low and volatile returns, which causes debt loans to be costlier. On the contrary, large-sized firms have better accessibility to debt markets with less irregular information, allowing them to spread debt at a comparatively lower cost. Qamar et. al., (2016) in general the slope of the debt ratio displayed negative results, although the marginal effects of large firms were found to be positive and It's evident that firms have overleveraged in pursuit of optimal levels to lower net profits.

Meanwhile, firms size weakens the influence of debt equity ratio on financial performance proxies by ROE and it's explain that the larger the firms, the greater the assets owned so that the firm's can improve its operational performance by seeking loans from external parties. A high capital loan will reduce financial performance and decreased profitability due to greater dividend distribution is to be expected by shareholders.

CONCLUSION & PROPOSES

The purpose of this research is to explore the effect of financial leverage on financial performance with firm's size as a moderating factor and succeeded in finding the effect of financial leverage proxies by debt ratio and debt equity ratio on financial performance proxies by ROE, DR ratio displays a positive influence on ROE because a large debt owned by the firms shows that it has loan capital from external parties, which are used to run the firm's operational activities. Thus, the opportunity for firms to increase profits is higher and this result does not match with Vidyanata et. al., (2016) debt ratio negatively affects ROE.

Meanwhile, DER ratio negatively affects ROE and matches with the POT and it's explain that a firm's performance is badly impacted by debt, due to a higher level of debt shows that the interest expense will be greater and decreasing profit, the firms with a higher DER will show a greater of its burden on outsiders, which is inclined to decrease the firm's performance. Vidyanata et. al., (2016), stated that DR ratio influences ROE.

This research also found that firms size has a beneficial impact on financial performance and it's explained that firm's s with large assets reflect the establishment. Large-sized firms are expected to increase economic scale and reduce the cost of collecting and processing information and at the same time becoming material for the need for information disclosure to external parties such as investors and creditors, so that it does not require a large additional cost to carry out broader disclosures (Mahaputeri & Yadnyana, 2014), these *results match* Wright et. al., (2009) & Isbanah (2015) states firms size affects financial performance.

It's shows that firm's size strengthens the effect of debt ratio on financial performance, meanwhile, firm's size weakens the influence of debt to equity ratio on financial performance and it's explains that firms size strengthens the influence of financial leverage proxies by debt ratio to financial performance. The larger the firm's shows the amount of assets owned by the firm's, making it easier for the firm's to obtain debt with the guarantee of it owns assets and the firm's s has sufficient capital to run its operations from loans. Small-sized firms with loans of debts greatly affect its profits, whereas to large-sized firm's s this effect is found to be insignificant.

Meanwhile, firms size weakens the influence of debt equity ratio on financial performance proxies by ROE and it's explain that the larger the firms, the greater the assets owned so that the firms can improve its operational performance by seeking loans from external parties by using its capital, the higher the capital loan will reduce financial performance and decreasing profitability due to greater dividend distribution expected by Shareholders.

This research implication that financial leverage can maximize financial performance and firms size can help improve firm's performance. In addition, the size of firms has a greater opportunity to improve financial performance; firm's size can also help influence financial leverage on financial performance and may be used as a consideration for firm's management in determining decisions to borrow capital from external parties.

In addition, we proposed to investors should pay attention to factors of financial leverage and firms size because both can improve the firm's performance and benefits for investors. This research is inseparable from the limitations of study. Therefore, it is hoped that further studies can minimize and improve the limitations, this research uses only one financial performance proxy (ROE) and suggestions for further research is expected to be able to use and find out other proxies beside financial performance and mix industries.

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