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The Effect of Capital Structure and Liquidity on Earnings Growth with Dividend Policy as A Moderating Variable

Alfiana Aqila[1], Saifhul Anuar Syahdan[2], Gemi Ruwanti[3], Soelistijono Boedi[4]
Accounting Department, Institute of Business and Technology, Kalimantan, Indonesia

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ABSTRACT

This study aims to analyze the effect of capital structure and liquidity on profit growth with dividend policy as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange for the 2021–2023 period. This research uses a quantitative approach. The type of data used is secondary data in the form of audited annual financial statements. The sampling technique used is purposive sampling based on certain criteria, resulting in 38 companies as the sample with a research period of 3 years, so the total sample used in this study is 114. The data analysis technique used is Moderated Regression Analysis (MRA) with the assistance of SPSS software. The results of the study indicate that capital structure has a negative effect on profit growth, while liquidity does not affect profit growth. In addition, dividend policy moderates the effect of capital structure on profit growth. However, dividend policy does not moderate the effect of liquidity on profit growth.

1. INTRODUCTION

Earnings growth in general is the increase in net profit generated by a company over a certain period. This concept is important in assessing the financial health and long-term prospects of a company because increasing profits can be an indicator of operational efficiency, effective business strategies, and good management. According to Kieso in Setyaningdiyah (2023), earnings growth describes the extent of profit changes experienced by a company in a certain period, whether in the form of an increase or decrease. This indicator is very crucial in assessing business sustainability because profit is the main benchmark used by users of financial statements in evaluating the performance and financial condition of a company. Therefore, understanding earnings growth is important for stakeholders in assessing the performance and sustainability prospects of the company. Earnings growth not only reflects healthy financial conditions but also illustrates the company's ability to face future challenges and opportunities.

Corresponding Author.
*Email: alfianaaqiilla@gmail.com

In line with the importance of earnings growth, the Indonesian manufacturing sector has become the main driver of the national economy during 2021–2023, contributing significantly despite facing external challenges such as the COVID-19 pandemic and geopolitical tensions. According to the Ministry of Industry (2021), in the second quarter of 2021, the manufacturing sector grew by 7.07%, contributing 1.35% to the national GDP. Some subsectors that experienced the highest growth included the transportation equipment industry with an increase of 45.70%, basic metals 18.03%, machinery and equipment 16.35%, rubber and plastic 11.72%, and chemicals, pharmaceuticals, and traditional medicine 9.15%. In 2022, the manufacturing sector grew by 5.01%, with the basic metals subsector growing by 20.16%. Minister of Industry Agus Gumiwang Kartasasmita (2022) highlighted the success of the downstreaming policy, which contributed to increasing the added value of domestic products and supporting exports in the basic metals subsector. In 2023, the manufacturing sector grew by 4.64%, with the transportation equipment and basic metals subsectors continuing to show double-digit growth. Agus Gumiwang Kartasasmita (2024) also revealed that the manufacturing sector's contribution to national GDP in the first quarter of 2023 rose to 16.77%, making it a main pillar in national economic growth.

The manufacturing sector shows good overall performance, but there is a gap between subsectors. Although the basic metals and transportation equipment subsectors grew rapidly, other subsectors, such as other processing and the furniture industry, recorded declines of -2.1% and -2.04% respectively. These differences in performance between subsectors indicate challenges in managing capital structure and liquidity that affect earnings growth in several subsectors. More equitable management is needed so that all subsectors can contribute optimally to the growth of the manufacturing sector. On the other hand, global economic pressures such as inflation, interest rate hikes, and disruptions in international trade have further exacerbated the challenges faced by several subsectors. These conditions require manufacturing companies to have better financial management strategies, including the optimization of capital structure and liquidity management. In addition, dividend policy, which is often considered an indicator of a company's financial stability, has not been fully utilized to moderate the relationship between capital structure, liquidity, and earnings growth. Therefore, further research is needed to understand the role of dividend policy in supporting the earnings growth of manufacturing companies amid global economic uncertainty.

Company earnings growth is influenced by several important factors, one of which is capital structure, which is the balance between equity and debt in operational financing. Trade-Off Theory, a development of the Modigliani-Miller theory, explains the importance of balancing debt and equity to achieve an optimal capital structure. According to Brigham and Houston (2019), companies must consider the tax advantages of debt as well as the risk of bankruptcy. The optimal debt ratio is achieved when the benefits of additional debt outweigh its costs and remain within risk limits. Companies with high levels of profitability are advised not to rely too heavily on debt financing to avoid potential financial risk. Therefore, companies need to establish an optimal capital structure to reduce funding costs and maintain financial stability. Research by Anggraeni and Lestari (2024) states that capital structure has a negative effect on earnings growth. On the other hand, Widiasari and Amanah (2023) state that capital structure with an optimal composition of debt has a positive effect on earnings growth.

Liquidity plays a significant role in company earnings growth. Kasmir (2021) defines liquidity as the company's ability to meet its short-term obligations. An adequate level of liquidity reflects the availability of current assets to pay off short-term debt, which is essential for operational continuity. Maintained liquidity provides flexibility to take advantage of opportunities and increase earnings growth. Conversely, low liquidity can hinder operations and negatively affect profits. Therefore, balanced liquidity management is the key for companies to survive and grow significantly. Anggraeni and Lestari (2024) suggest that liquidity can have a negative effect on earnings growth, especially if the company's liquidity is

too high. Conversely, Atika et al. (2019) found that liquidity has a positive effect on earnings growth.

Dividend policy is also relevant in measuring earnings growth, indicating how the company manages profit distribution or reinvests it. Signalling Theory explains the company's motivation to convey financial information to external parties to reduce information asymmetry. According to Brigham and Houston (2019), a signal is a company action that provides clues regarding management's view of business prospects. Since the company has a deeper understanding of its future than external parties, information imbalances can create uncertainty. To reduce this, companies provide signals through annual reports containing financial information and relevant data for report users, which also function as promotions to attract investor interest and increase profits. Widiasari and Amanah (2023) state that dividend policy has a significant and positive effect on earnings growth. Research by Asti Subakti (2021) found that dividend policy does not have a significant effect on earnings growth. This phenomenon shows that the relationship between capital structure, liquidity, dividend policy, and earnings growth requires further research to obtain a deeper understanding.

The inconsistent research results motivate researchers to conduct further studies. This study replicates and develops Anggraeni and Lestari's (2024) research by adding dividend policy as a moderating variable based on Widiasari and Amanah's (2023) research. Dividend policy is a company decision in distributing profits to shareholders in the form of dividends, including determining the amount of profit to be distributed or retained for investment with the aim of achieving a balance between the interests of shareholders and company needs (Kasmir, 2021).

The manufacturing sector on the IDX was chosen because of its contribution reaching around 20% to Indonesia's GDP (BPS, 2022). This sector often faces challenges in managing capital structure and liquidity which affect earnings growth. Dividend policy is important because it can influence profit management strategies and attract investor attention. This study aims to analyze the effect of capital structure on earnings growth, the effect of liquidity on earnings growth, and how dividend policy moderates the effect of capital structure and liquidity on earnings growth.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Earnings Growth

Earnings growth is an important indicator for assessing the financial health and long-term prospects of a company. According to Brigham and Houston (2019), earnings growth is a key indicator in assessing the overall performance of a company. Consistent earnings growth indicates the company's ability to manage resources and generate sustainable profits. Kasmir (2021) states that earnings growth is a ratio used to measure the increase in a company's net income from one period to the next. Positive earnings growth indicates good company performance, resulting from effective income and expense management.

This section contains theoretical underpinnings and literature referenced about previous research that is related to the topic, and also highlights a research gap. It is highly recommended that the literature referenced is published no more than ten years. Also, it is suggested to prioritize the literature in the following order: reputable international journals, accredited national journals, national journals, international symposiums, national symposiums, and textbooks.

The Effect of Capital Structure on Earnings Growth

Capital structure is an important factor that influences the company's earnings growth. According to Brigham and Houston (2019), optimal capital structure is achieved when the company balances the tax benefits of debt with the risk of bankruptcy. An efficient capital structure helps minimize capital costs and increase profits through appropriate funding sources. Trade-Off Theory suggests that there is a positive relationship between capital structure and earnings growth. Based on this theory, companies with a well-planned capital structure can use optimal debt without increasing the risk of bankruptcy, ultimately encouraging earnings growth. The study by Atika et al. (2019) empirically found that capital structure has a positive effect on company profit growth, meaning that the more optimal the capital structure used, the greater the potential for the company to increase profits. A similar finding was presented by Setyaningdiyah and Adiwibowo (2023), who also concluded that capital structure has a positive effect on profit growth, as the right financing structure can improve the effectiveness of fund utilization in supporting the company's operational activities.
H1: *Capital structure has a positive effect on earnings growth.*

The Effect of Liquidity on Earnings Growth

Liquidity is a company's ability to meet short-term obligations using current assets. Adequate liquidity provides financial flexibility to maintain operational continuity and take advantage of investment opportunities. According to Kasmir (2021), companies with good liquidity ratios can avoid the risk of bankruptcy and support net profit growth. Research by Magfirah and Wati (2024) states that liquidity has a positive effect on profit growth. Companies with a high level of liquidity are considered capable of meeting short-term obligations optimally and maintaining operational stability, thereby driving profit growth. Setyaningdiyah and Adiwibowo (2023) also show a positive influence of liquidity on profit growth. High liquidity reflects the ability to manage current assets and short-term liabilities efficiently. This condition supports the company's operational effectiveness and contributes to stable profit growth.
H2: *Liquidity has a positive effect on earnings growth.*

The Effect of Capital Structure on Earnings Growth Moderated by Dividend Policy

Dividend policy refers to the company's decision on how much profit will be distributed to shareholders and how much will be reinvested. According to Brigham and Houston (2019), dividend policy can give a positive signal to investors about the company's financial performance prospects. A stable dividend policy can moderate the effect of capital structure on earnings growth by providing adequate funding sources. Signalling Theory explains that consistent dividend policies indicate financial stability that enhances a company's appeal to investors. Research by Magfirah and Wati (2024) and Widiasari and Amanah (2023) found that dividend policy has a significant positive effect in moderating the influence of capital structure on earnings growth.
H3: *Dividend policy moderates the effect of capital structure on earnings growth.*

The Effect of Liquidity on Earnings Growth Moderated by Dividend Policy

Adequate liquidity indicates that the company is capable of meeting short-term obligations which reflects financial stability. However, excessive liquidity levels may indicate inefficient asset utilization. In this context, dividend policy functions as a moderating variable, with consistent dividend policies indicating the company's ability to distribute profits without

compromising operations. A stable dividend policy can increase investor confidence and attract interest in the company's shares, contributing to earnings growth. According to Signalling Theory (Brigham and Houston, 2019), companies that consistently pay dividends give positive signals about stable liquidity and earnings, increasing investor confidence and facilitating access to funding. Research by Magfirah and Wati (2024) and Nurfalah (2024) found that dividend policy plays a positive role in moderating the effect of liquidity on earnings growth.

H4: *Dividend policy moderates the effect of liquidity on earnings growth.*

3. RESEARCH METHOD

Population and Sampling Technique

This study uses a population of manufacturing companies listed on the Indonesia Stock Exchange for the 2021–2023 period, consisting of 193 companies engaged in the basic industry, chemicals, consumer goods, and miscellaneous industry sectors. The sample was selected using the purposive sampling method based on the following criteria: 1) Manufacturing companies listed on the Indonesia Stock Exchange during the 2021–2023 period, 2) Companies that consistently publish audited annual financial statements, 3) Companies that earned net profits during the 2021–2023 period, 4) Companies that use the rupiah currency in their financial statements, and 5) Companies that have complete data regarding the research variables. This study uses a sample of 38 companies that meet the predetermined criteria. The total data analyzed in this study amounted to 114 observations obtained from 38 companies over three years of observation. The data used is secondary data sourced from annual reports and financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX). All data was accessed through the official IDX website (http://www.idx.co.id) and the official websites of the respective companies.

Research Variables and Operational Definitions

Dependent Variable

Earnings Growth

Earnings growth reflects the increase in net profit obtained by the company from one period to the next, which indicates the company's success in sustainably increasing its profitability using the formula (Darminto, 2019):

$$\text{Earnings Growth} = \frac{\text{Current Year Net Profit} - \text{Previous Year Net Profit}}{\text{Previous Year Net Profit}} \times 100\ \%$$

Positive earnings growth indicates an increase in the company's profitability, which can attract more investors and demonstrate the company's financial stability.

Independent Variables

Capital structure (X1) reflects the balance between debt and equity used by the company to finance its operations. Capital structure is measured using the Debt to Equity Ratio (DER), which shows the proportion of debt to equity of the company and determines the company's financial risk. This ratio is calculated using the formula (Darminto, 2019):

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

A higher DER indicates greater use of debt, which has the potential to increase profit but also financial risk.

Liquidity (X2) is a company's ability to meet short-term obligations. Liquidity is measured using the Current Ratio (CR), which is the ratio of current assets to current liabilities (Darminto, 2019):

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{}$$

Current Liabilities

A high CR indicates that the company has sufficient assets to cover its obligations that are due soon, although excessively high liquidity may also indicate that assets are not being optimally utilized for productive investments.

Moderating Variable

Dividend Policy (Z)

Dividend policy refers to the company's decision regarding the distribution of profits to shareholders. This variable is measured using the Dividend Payout Ratio (DPR), which is the ratio of dividends per share to earnings per share, with the formula (Darminto, 2019):

Dividend Payout Ratio (DPR) = Dividend per Common Share

Earnings Per Share

Dividend per Common Share Dividend policy as a moderating variable is intended to examine whether profit distribution to shareholders influences the relationship between capital structure, liquidity, and company earnings growth.

Data Analysis Technique

In this study, the data analysis techniques used include multiple linear regression analysis to test the influence of independent variables on the dependent variable, as well as Moderated Regression Analysis (MRA) to assess the role of the moderating variable in moderating the relationship between independent and dependent variables. Before conducting multiple linear regression and MRA, classical assumption tests are performed including normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. Data analysis uses SPSS (Statistical Package for the Social Sciences) software to support the data testing used in this study.

4. RESULTS

Table 1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Structure	35	.07	3.93	.7566	.93680
Liquidity	35	.55	9.95	2.8046	1.96088
Earnings Growth	35	-.20	.23	.0591	.09479
Dividend Policy	35	.06	1.49	.5440	.32258
Valid N (listwise)	35				

Source: Processed data, 2025

Based on the results presented in Table 1 of the descriptive statistical analysis, it is known that the number of samples over the three periods amounts to 35 research observation data. This number was obtained after the elimination of 79 outlier data points using the Casewise Diagnostics test, from an initial total of 114 research observation data. According to Ghozali (2018), an outlier is a data point with unique characteristics that differ from other observations, typically appearing as extreme values in one or more variables. To detect outliers, the Casewise Diagnostics method in regression analysis can be used. Once outliers are identified, the next step is to re-test the descriptive statistics after removing the outliers.

The results of the descriptive statistical analysis show that the capital structure variable, measured using the DER ratio, has the highest (maximum) value of 3.93 recorded by PT. Unilever Indonesia Tbk (UNVR) in 2023 and the lowest (minimum) value of 0.07 recorded by PT. Supreme Cable Manufacturing & Commerce Tbk (SCCO) in 2021. The average (mean) capital structure is 0.7566 with a standard deviation of 0.93680.

The results of the descriptive statistical analysis show that the liquidity variable, measured using the CR ratio, has the highest (maximum) value of 9.95 recorded by PT. Wilmar Cahaya Indonesia Tbk (CEKA) in 2022 and the lowest (minimum) value of 0.55 recorded by PT. Unilever Indonesia Tbk (UNVR) in 2023. The average (mean) liquidity is 2.8046 with a standard deviation of 1.96088.

The results of the descriptive statistical analysis show that the profit growth variable has the highest (maximum) value of 0.23 recorded by PT. Ultrajaya Milk Industry & Trading Company Tbk (ULTJ) in 2023 and the lowest (minimum) value of -0.20 recorded by PT. Unilever Indonesia Tbk (UNVR) in 2021. The average (mean) profit growth is 0.0591 with a standard deviation of 0.09479.

The results of the descriptive statistical analysis show that the dividend policy variable, measured using the DPR ratio, has the highest (maximum) value of 1.49 recorded by PT. Indocement Tunggal Prakarsa Tbk (INTP) in 2021 and the lowest (minimum) value of 0.06 recorded by PT. Sariguna Primatirta Tbk (CLEO) in 2023. The average (mean) dividend policy is 0.5440 with a standard deviation of 0.32258.

Classical Assumption Tests

Normality Test

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		35
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.63753197
Most Extreme Differences	Absolute	.166
	Positive	.166
	Negative	-.112
Test Statistic		.082
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Processed data, 2025

Based on Table 2, it shows that the Asymp. Sig. (2-tailed) The value is 0.200, which means the data is normally distributed as indicated by the comparison 0.200 > 0.05.

Multicollinearity Test

Table 3. Multicollinearity Test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.124	.031		4.045	.000		
	Capital Structure	-.031	.014	-.309	-2.210	.035	.627	1.594
	Liquidity	.012	.006	.243	1.865	.072	.723	1.384
	Dividend Policy	-.137	.036	-.466	-3.826	.001	.828	1.207

Source: Processed data, 2025

Based on Table 3, the tolerance values for capital structure, liquidity, and dividend policy are all > 0.1, and the VIF values are < 10. Therefore, it can be concluded that there is no multicollinearity in the regression model.

Heteroscedasticity Test

Table 4. Heteroscedasticity Test – Glejser Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.065	.016		4.017	.000
	Capital Structure	.000	.007	.003	.014	.989
	Liquidity	-.003	.003	-.203	-.987	.331
	Dividend Policy	-.014	.019	-.145	-.752	.458

Source: Processed data, 2025

Based on Table 4, the significance values of all independent variables are > 0.05, indicating that heteroscedasticity is not present in the regression model.

Autocorrelation Test

Table 5. Autocorrelation Test

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	**Durbin-Watson**
1	.787[a]	.619	.582	.06127	**2.221**

Source: Processed data, 2025

Based on Table 5, the Durbin-Watson statistic is 2.221. Referring to the Durbin-Watson table for 35 samples and 3 independent variables with a 5% confidence level, the values are: dL = 1.2833, dU = 1.6528, 4 – dU = 2.3472. Because the Durbin-Watson value falls between dU and 4 – dU (1.6528 < 2.221 < 2.3472), it can be concluded that there is no autocorrelation in the regression model.

Hypothesis Testing

Multiple Linear Regression Analysis

Table 6. Multiple Linear Regression Analysis – Hypotheses 1 and 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.065	.032		2.054	.048
	Capital Structure	-.051	.016	-.504	-3.235	.003
	Liquidity	.012	.008	.240	1.542	.133

Source: Processed data, 2025

Based on Table 6, the regression model obtained is as follows:
$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$
Earnings Growth = 0.065 − 0.051 X 1 + 0.012 X 2 + ε

Coefficient of Determination (R^2)

Table 7. Coefficient of Determination – Hypotheses 1 and 2

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Model
1	.663[a]	.439	.404	.07317	1

Source: Processed data, 2025

Based on Table 7, the Adjusted R^2 value of 0.404 indicates that the independent variables (capital structure and liquidity) contribute 40.4% in explaining earnings growth. The remaining 59.6% is influenced by other factors outside the model.

Model Feasibility Test (F Test)

Table 8. F Test – Hypotheses 1 and 2

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.134	2	.067	12.527	.000[b]
	Residual	.171	32	.005		
	Total	.305	34			

Source: Processed data, 2025

Based on Table 8, the simultaneous F test result shows a significance value of 0.000. Since this value is less than 0.05, capital structure and liquidity are considered feasible and have a significant effect on earnings growth.

Individual Parameter Significance Test (t Test)

Table 9. t Test – Hypotheses 1 and 2

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.065	.032		2.054	.048
	Capital Structure	-.051	.016	-.504	-3.235	.003
	Liquidity	.012	.008	.240	1.542	.133

Source: Processed data, 2025

The test result for capital structure shows a coefficient of -0.051 with a significance level of 0.003 (< 0.05) and a negative t-value of -3.235. Therefore, H1 is rejected, indicating that capital structure has a negative and significant effect on earnings growth. The result for liquidity shows a coefficient of 0.012 with a significance level of 0.133 (> 0.05) and a t-value of 1.542. Therefore, H2 is rejected, indicating that liquidity does not significantly affect earnings growth.

Moderated Regression Analysis (MRA)

Table 10. (MRA) – Hypotheses 3 and 4

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.104	.024		4.432	.000
	Capital Structure*Dividend Policy	-.068	.013	-.702	-5.324	.000
	Liquidity*Dividend Policy	-.006	.013	-.067	-.507	.615

Source: Processed data, 2025

Regression Model:

$Y = \alpha + \beta_1 X_1 * Z + \beta_2 X_2 * Z + \varepsilon$

Earnings Growth = 0,104 – 0,068 X_1*Z – 0,006 X_2*Z + ε

The test results of the interaction variable between capital structure and dividend policy show that the regression coefficient for the interaction between capital structure and dividend policy is -5.324 with a significance value of 0.000 (< 0.05). This indicates that dividend policy, as a moderating variable, can moderate (weaken) the effect of capital structure on profit growth, so the third hypothesis (H3) is accepted.

The test results of the interaction variable between liquiditydividend policy show that the regression coefficient for the interaction between liquidity and dividend policy is -0.507 with a significance value of 0.615 (> 0.05). This indicates that dividend policy, as a moderating variable, is not able to moderate (either strengthen or weaken) the effect of liquidity on profit growth, so the fourth hypothesis (H4) is not accepted or is rejected.

Table 11. Hypothesis Testing Results

No	Hypothesis	Sig	Conclusion
H_1	Capital structure has a positive effect on earnings growth	0,003	Rejected
H_2	Liquidity has a positive effect on earnings growth	0,113	Rejected
H_3	Dividend policy moderates the effect of capital structure on earnings growth	0,000	Accepted
H_4	Dividend policy moderates the effect of liquidity on earnings growth	0,615	Rejected

DISCUSSION

The Effect of Capital Structure on Earnings Growth

Based on the research results, it is stated that capital structure has a negative effect on earnings growth. This indicates that capital structure affects earnings growth with a negative direction. In other words, the higher the proportion of debt in the capital structure, the more likely the earnings growth of manufacturing companies will decrease. The results show that the use of capital structure dominated by debt is not able to encourage earnings growth, instead putting pressure on the company's profits. This is supported by the regression

coefficient results showing a negative direction, so it can be concluded that suboptimal capital structure leads to earnings growth not reaching expected levels. Descriptive statistical analysis over the last three periods shows that the capital structure of manufacturing companies is relatively unstable, with a tendency to decline. This decline is caused by several external factors such as a reduced number of clients and investors as well as unstable and generally increasing raw material prices. These rising prices affect market demand, which ultimately leads to decreased company revenue. In such situations, the high interest burden from debt becomes one of the dominant factors that hinders profit growth.

According to research conducted by Anggraeni and Lestari (2021), a high proportion of debt in the capital structure results in greater financial burdens, which in turn reduces the company's ability to increase profits. Companies with a capital structure overly dominated by debt will struggle to maintain earnings growth, especially in unstable economic conditions.

These findings align with the Trade-Off Theory put forward by Brigham and Houston (2019), which states that companies will consider a balance (trade-off) between the benefits of using debt such as tax shields and the risks that arise from excessive use of debt, such as bankruptcy costs and financial distress. In this study, it is proven that manufacturing companies with capital structures dominated by debt experience pressure on earnings growth due to high interest burdens, such that the tax shield benefits of debt cannot cover the burden.

This study supports the concept of the Trade-Off Theory as proposed by Megawati et al. (2021), who found that capital structure negatively affects earnings growth. The larger the proportion of debt in the capital structure, the heavier the financial burden borne by the company, so the resulting profit does not reach optimal levels. Companies with high leverage levels tend to experience difficulty maintaining earnings growth, especially amid fluctuating economic conditions.

Widiasari and Amanah (2023) in their study found that capital structure does not have a significant effect on earnings growth in manufacturing companies. In other words, the size of the debt proportion in the capital structure is not the main determinant of the company’s earnings growth. Other factors, such as operational efficiency, marketing strategies, and market condition fluctuations, may have more significant impacts. Thus, even if a company has high leverage, it can still maintain earnings growth if it efficiently manages operations and controls other costs. These findings differ from this study, which proves that the use of debt exerts pressure on company earnings growth. These differences indicate that the relationship between capital structure and earnings growth is contextual, depending on how the company manages its debt and the current industrial and economic conditions.

The Effect of Liquidity on Earnings Growth

Based on the research results, it is stated that liquidity does not affect earnings growth. The ratio that reflects the company's ability to meet short-term obligations—excluding inventory—does not contribute to earnings growth because external parties do not consider liquidity a key factor in assessing the company.

This finding is consistent with research conducted by Widiasari and Amanah (2023), who stated that liquidity does not have a significant positive effect on earnings growth. Liquidity is a comparison between current assets and short-term liabilities; however, in this study, the increase in liquidity did not show a significant effect because its contribution to earnings growth was relatively low. Companies with high current assets do not always guarantee smooth operations, especially if unsold inventories merely increase liquidity without directly contributing to earnings growth.

These findings also align with Rahmadyah and Indrabudiman (2024), who concluded that liquidity has a positive but not statistically significant effect on earnings growth. This shows that although increased liquidity is generally accompanied by increased profit, the relationship is not strong enough to be considered statistically significant. Liquidity is therefore not the main factor in determining earnings growth, as other factors may have a greater impact.

This study contrasts with the findings of Setyaningdiyah and Adiwibowo (2023), who stated that liquidity positively affects earnings growth. Liquidity represents a company's ability to meet its short-term obligations. A high liquidity level indicates that the company is more capable of paying off short-term debts, thereby minimizing default risk. Avoiding default can reduce the potential for penalties, which in turn contributes to increased earnings.

Furthermore, this study differs from Anggraeni and Lestari (2024), who stated that liquidity negatively affects earnings growth. In their case, the instability of the company's liquidity was due to a yearly decrease in investor numbers and unstable fluctuations that reduced interest and investment. Due to reduced capital, companies were forced to borrow to maintain operations, thereby increasing debt and affecting the company's financial performance.

The Effect of Dividend Policy in Moderating Capital Structure on Earnings Growth

This study shows that dividend policy plays a role as a moderating variable that can strengthen or weaken the relationship between capital structure and earnings growth. The interaction test value shows a negative result, indicating that dividend policy provides a moderation (weakening) or reduces the influence of capital structure on earnings growth. This means that even though a company has an optimal capital structure, high dividend payments can hinder the company's ability to increase profits.

This study aligns with the findings of Erawati and Bulu (2024), who revealed that dividend policy serves as a moderating variable that weakens the influence of capital structure on earnings growth. High dividend payments, especially those measured through the dividend payout ratio, tend to reduce the accumulation of internal funds in the form of retained earnings, which should ideally be allocated for investment or operational development. This causes the company to have limitations in internal funding, ultimately hampering optimal earnings growth.

The results of this study are not in line with Signalling Theory by Brigham and Houston (2019), which states that dividend policy is seen as a means to send positive signals to investors about business prospects and company performance stability. However, based on empirical results, dividend policy in fact provides a negative moderating effect on the relationship between capital structure and earnings growth. In other words, high dividend distribution tends to weaken the role of capital structure in increasing company earnings growth. This condition reflects that although dividends function as a market confidence communication tool, dividend policy implementation that is not proportional to internal funding needs can result in limited funds for investment and operations. Therefore, dividend policies that do not balance investor interests with internal company needs can become obstacles to achieving sustainable earnings growth.

The Effect of Dividend Policy in Moderating Liquidity on Earnings Growth

This study states that dividend policy does not serve as a moderating variable that affects the relationship between liquidity and earnings growth. This is due to the fact that dividend policy does not always influence the relationship between liquidity and earnings growth, as other factors such as operational effectiveness, marketing strategies applied, and market condition changes also play a role. Even for large companies, these factors often offset the influence of dividend policy on earnings growth. These findings contradict Signalling Theory according to Brigham and Houston (2019), which states that dividend policy can moderate the influence of liquidity on earnings growth.

5. CONCLUSION

Based on the results of analysis and hypothesis testing that have been carried out, the following conclusions can be drawn: First, capital structure has been proven to have a significant negative effect on earnings growth in manufacturing companies. This finding

indicates that an increase in the proportion of debt in the company's capital structure can actually reduce the rate of earnings growth. This may occur because suboptimal use of debt poses a risk of high interest expenses, thus limiting the company's ability to improve its profitability. Second, liquidity does not have a significant effect on company earnings growth. This means that the company's ability to meet its short-term obligations is not strong enough to directly influence the increase or decrease in earnings growth. Third, dividend policy has been proven to moderate (weaken) the influence between capital structure and earnings growth. That is, when the company distributes dividends, the negative effect of capital structure on earnings growth becomes stronger. This may be due to the allocation of profits being more focused on dividends rather than strengthening the company's capital structure. Fourth, dividend policy is not able to moderate the relationship between liquidity and earnings growth. In other words, regardless of the company's level of liquidity and the dividend policy applied, there is no significant effect on company earnings growth. For future research, it is recommended that the data coverage be expanded in terms of both the observation period and the industry sectors studied so that the results become more representative. Adding other variables such as company size, inflation rate, or profitability as moderating or mediating variables could also provide a more comprehensive picture. In addition, a qualitative approach such as interviews with financial managers or dividend policy decision-makers may offer deeper insights that are not reflected in financial data alone.

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