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The Role of Investment Opportunity Set in Earnings Growth

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Abstract: This study aims to determine the effect of capital structure on earnings growth with Investment Opportunity Set as a moderating variable. The population of this study consists of Consumer Cyclicals and Non-Cyclicals companies listed on the Indonesia Stock Exchange from 2020 to 2022, totaling 255 companies. The sample of this study used 131 Consumer Cyclicals and Non-Cyclicals companies with the data collection method using purposive sampling. Financial data processed as many as 393 of the 131 companies. This study conducted outlier data because it was not normal, the remaining data to be processed was 271 financial data. This research analysis technique uses linear regression with SPSS 24. The results of this study indicate that the capital structure variable has no effect on earnings growth. Investment Opportunity set variable has no effect on earnings growth. Then the Investment Opportunity Set variable as a moderating variable is not able to moderate the effect of capital structure on earnings growth. The capital structure is financial in nature, while profit growth comes from operational and strategic activities. Even if a company has high leverage, if its operations are poor, profits will not grow. This is what makes the capital structure irrelevant. To increase profit growth, companies need an Investment Opportunity Set to support smooth operations and strategies. However, the Investment Opportunity Set cannot moderate this because this variable has too strong a direct effect on profit growth.

Keywords: consumer cyclical and non-cyclical firm, moderating effect, debt to equity ratio.

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INTRODUCTION

A company that is able to increase its net profit compared to the previous year's profit indicates that the company is experiencing profit growth. The comparison of net profits across years allows for an evaluation of business trends and sustainability. If profits continue to increase consistently, it can be said that the company is experiencing sustainable growth (Hamid & Zakiyah, 2023). Therefore, profit growth serves as an indication of a company's good performance. Consequently, if the company shows positive indicators, it will have an impact on the company's profits, namely by increasing the profit earned by the company.

To determine a company's growth or success, it can be analyzed through the company's net profit. Profit is the main objective in providing company information to external parties, including investors, where such information can serve as a reference for investors in deciding whether or not to invest. Therefore, the

percentage increase in a company's profit indicates that the company has good performance, which in turn will attract more investors to invest their shares or capital.

Based on the annual reports published on the Indonesia Stock Exchange (IDX), the net profits of companies in the consumer cyclicals and non-cyclicals sectors have shown unstable fluctuations. Over the past three years, some companies have alternately experienced increases and decreases in profit, with some even recording negative profits or incurring losses.

Several companies in the consumer cyclicals and non-cyclicals sectors have experienced a decline in profit, such as PT Sunson Textile Manufacturer Tbk., whose net profit in 2021 was IDR 56.8 billion but dropped to IDR 6 billion in 2022 (turning from positive to a loss). PT Chitose Internasional Tbk. saw its net profit fall from IDR 98.9 billion (2021) to IDR 9.1 billion (2022), showing slight improvement but still reflecting significant losses. PT Tempo Inti Media Tbk. recorded a decrease in net profit from IDR 4.8 billion (2021) to IDR 3.4 billion in 2022. PT Indofood CBP Sukses Makmur Tbk. experienced a decline in net profit from IDR 6.39 trillion in 2021 to IDR 4.59 trillion in 2022, a drop of 27.8%. PT Unilever Indonesia Tbk.'s net profit decreased from IDR 5.758 trillion (2021) to IDR 5.365 trillion (2022), a decline of approximately 6.8%. PT Hanjaya Mandala Sampoerna Tbk. saw a significant drop in net profit from IDR 7.137 trillion (2021) to IDR 6.324 trillion (2021), or 11.4%. PT Mulia Boga Raya Tbk. recorded a 31.55% decline in net profit from IDR 117.37 billion in 2022 to IDR 80.34 billion in 2022, driven by weakening sales and rising cost of goods sold (IDN Financials, 2024).

Based on the above phenomenon, it can be explained that profit growth among several consumer cyclicals and non-cyclicals companies is fluctuating. Some companies show an increase in profit in one year but experience a decline in the following year, even recording negative profits or incurring losses. Conversely, there are also companies that initially suffered losses but managed to record profit growth in the subsequent period. One of the factors that can influence profit growth is capital structure. Capital structure is a financial assessment that compares equity, long-term liabilities, and short-term liabilities in carrying out the company's activities (Mamangkay et al., 2021). If a company can optimize its debt-based funding sources effectively, it will have a positive impact on the company, namely by increasing its profit.

Investment Opportunity Set is able to influence profit growth. Investment Opportunity Set is an opportunity for companies to invest their capital which can affect the assets of a company (Widmasari et al., 2019). So that the Market Value to Book Value of Assets Ratio is one of the assessments to assess the level of Investment Opportunity Set. If the Investment Opportunity Set proxied by the Market Value to Book Value of Assets Ratio produces a high value, it can be concluded that the business entity has a high growth opportunity, so it can be said that these results have an impact on increasing company profits.

Researchers who prove DER has an influence on earnings growth (Firman & Salvia, 2021). In line with these researchers who suggest that Liquidity is proxied using DER has an effect on earnings growth (Hendarwati & Syarifudin, 2021). Other researchers confirm that DER as a proxy for Liquidity has affected earnings growth (Surya et al., 2020).

In contrast to the research mentioned above, researchers who determine the capital structure assessed using DER have no impact on earnings growth (Hayati, 2019). Other researchers explain that the DER measure of capital structure has no effect on earnings growth (Mamangkay et al., 2021). In line with this research, which proves that indicators of debt measured using DER have no effect on earnings growth (Atika et al., 2019).

Previous research on Investment Opportunity Set has a positive effect on earnings growth conducted by Chasanah et al. (2017), Pamungkas (2024) and Sudiyatno, et al. (2023). But it is inversely proportional to

researchers who show that the Investment Opportunity Set has a negative impact on earnings growth conducted by Purwanti et al. (2019) and Azhari et al. (2022).

Based on previous research findings, there is an indication of inconsistency in the existing results. Therefore, the author aims to examine the effect of capital structure on profit growth. The researcher chose activity ratio and capital structure as independent variables because the findings from previous studies were inconsistent, which sparked the researcher's interest in conducting a further study.

This study differs from previous research. The differences lie in the year and the company sectors analyzed. In this study, the researcher uses a broader range of sectors, namely companies in the consumer cyclicals and non-cyclicals sectors. These sectors were chosen because they make a significant contribution to Indonesia's Gross Domestic Product. The researcher also intends to add Investment Opportunity Set as a moderating variable, which serves as a novelty in this research. Considering the importance of profit growth for the sustainability of a company, the objective of this study is to examine the effect of capital structure on profit growth with Investment Opportunity Set as a moderating variable

Capital structure is a financial assessment that compares equity, long-term liabilities, and short-term liabilities when carrying out company activities (Mamangkay et al., 2021). This means that the capital structure is a valuable condition for business entities because it can be used as information for a manager who is used to determine the ownership of the funding structure.

Capital structure is assessed using Liquidity on the basis of wanting to detect how much debt the entity has in controlling the company's equity (Al-Vionita & Asyik, 2020). This means that the value that has been generated from the assessment of the level of Liquidity has a relationship with investors as users of financial statements, namely to find out information on the capital structure of the business entity. The Liquidity value is used as a signal for investors on the condition of the business entity that occurs. Hayati (2019) explains that Liquidity has a use to measure the company's prospects in a good or even bad condition. So that companies that have good or profitable prospects, the company must avoid issuing shares. Because if the company has issued shares, investors see that the company is already in a poor performance condition due to the difficulty of obtaining funds from outside parties or debt.

According to Agustin et al. (2020) that to assess the level of Liquidity can be divided into several ratios, namely Debt to Assets Ratio (DAR), Debt to Equity Ratio (DER), Long Term Debt to Equity Ratio, Times Interest Earned, and Fixed Charge Coverage. Of these ratios, one of the programmes studied in this study is the Debt to Equity Ratio (DER) which is used as a signal for investors. Debt that comes from outside sources and with the company's ability identified through equity is a use of the DER ratio (Fatihah & Triyonowati, 2018). This means that the Debt to Equity Ratio (DER) is able to describe the company's ability to pay its long-term liabilities. The company can determine how much debt it can manage by applying the Debt to Equity Ratio.

If the Debt to Equity Ratio (DER) produces a high value, it can be said that the business entity's operations are heavily funded with loans or debt (Rahayu & Sitohang, 2019). So it can be concluded that a business entity that has a high level of Liquidity can have a negative impact. This impact can discourage investors from investing in a business entity because investors do not want a big risk on themselves. In addition, the business entity can be taken over by creditors.

Investment Opportunity Set is an opportunity for business entities to invest their capital which can affect the assets of a business entity (Widmasari et al., 2019). Investments are made by business entities if there is an opportunity to do so and have sufficient capital. Investment Opportunity Set as an investment choice in the future with the hope of getting a reward, namely with a greater return so that it can provide benefits for

business entities in the future. was the first to use the term "Investment Opportunity Set" and has explained that the company consists of real assets and the ability to invest capital in the future (Fathussalmi et al., 2019). This means that Myers (1977) is the originator of the term Investment Opportunity Set, which was once known as future investment options.

According to Fathussalmi et al. (2019) that the Investment Opportunity Set is divided into three proxies, namely price-based proxies, investment-based proxies, and variance-based measures. Of the three proxies, one of the programmes studied in this research is measured using price-based proxies. The reason is because most of the expectations of a business entity to grow are expressed in stock prices (Al-Vionita & Asyik, 2020). Market Value to Book Value of Assets Ratio is one of the assessments to assess the level of Investment Opportunity Set whose measurement is based on price proxies. Its usefulness is to assess the prospects for the progress of a business entity for all assets owned by the company in running its business (Yuliza, 2020).

If the Investment Opportunity Set proxied by the Market Value to Book Value of Assets Ratio produces a high value, it can be concluded that the business entity has a high growth opportunity (Chasanah et al., 2017). It can be concluded that the resulting value tends to be high, it will have a positive impact on business entities, namely by increasing company profits in the future. With increasing profits, it will provide a greater response to the market, besides that the company's market price will also increase.

A business entity certainly has a main goal in running a business, which is to get a maximum profit for the survival of the company and can win competition with other companies. Which profit is obtained by the company for the results of the company's operational activities. So that profit is blood for companies, owners, managers, employees, creditors, the government even for tax collection and for company development because with profit all company life runs normally (Fatihah & Triyonowati, 2018).

According to Hendarwati & Syarifudin (2021) profit growth is the addition of profit owned by a business entity compared to the previous year's profit. That way, it can be said that profit growth is used to measure how much profit the company will generate each year. The greater the profit growth, the better the business entity, so that it can improve and maintain its financial condition.

Hayati (2019) explains that the increase or decrease in profit each period can be observed through the income statement prepared by a business entity in a certain period. Thus, the income statement can be used as a consideration for decisions to be made in the future. In addition, business entities can also determine whether the strategies they have implemented are good or bad.

Earnings growth is an important picture for some users of company financial statements such as investors to predict the prospects for the results of the business that a business entity has done and its future financial position (Chasanah et al., 2017). So that financial statement is a report that provides very important information for other parties outside the company such as investors, because knowing the company's profit growth through the financial statements can be used as a benchmark for investors when making decisions on the actions to be taken.

A financial manager is required to be able to obtain maximum profit by managing the company as effectively and efficiently as possible (Indah, 2022). That way, good profit growth can also be used by companies as a measurement of management efficiency to determine the company's future prospects which can dominate the company's funding provisions and for potential investors who want to invest in a business entity.

Business entities will distribute cash dividends to shareholders if the business entity has profits on profits that have been generated after financing acceptable investment opportunities (Hendarwati & Syarifudin, 2021). So, for the consideration of investors in investing in a business entity that has high profits, it is expected that they will get high stock profits as well.

METHODS

This study employs a quantitative approach with a positivist paradigm. The positivist paradigm is an approach that uses inductive methods, which involve re-testing theories on the phenomena being studied and examining cause-and-effect relationships through manipulation and observation (Sekaran & Bougie, 2016). This research takes the form of causal associative research, as it aims to explain the cause-and-effect relationship between variables, specifically testing the effect of capital structure on profit growth with investment opportunity set as a moderating variable. This study includes control variables, namely firm size, Liquidity, and profitability. The purpose of adding control variables is to ensure that the results of this study are influenced solely by the independent variables being examined, rather than by other uncontrolled factors. By controlling for other variables, the researcher can be more confident that the observed relationship between the independent and dependent variables reflects a true causal relationship.

The population of this study includes companies in the consumer cyclicals and non-cyclicals sectors listed on the Indonesia Stock Exchange for the years 2020, 2021, and 2022, totaling 255 companies. The population list was accessed through the website www.idx.co.id. The reason for selecting companies in the consumer cyclicals and non-cyclicals sectors is due to their significant contribution to Indonesia's gross domestic product. The sample was selected using a purposive sampling technique, with the expectation that the data obtained would be more representative and supportive of the research. The criteria for selecting the sample are as follows:

Table 1 Sampling Criteria for Manufacturing Companies

No	Criteria	Total
1.	Consumer cyclicals and non-cyclicals listed on the Indonesia Stock Exchange (IDX) in 2020–2022.	255
2.	For 2020 to 2022, Consumer Cyclicals dan non-cylicals that did not publish consecutive annual financial reports	(24)
3.	Consumer Cyclicals and non-cylicals that do not present their financial statements in Rupiah.	(32)
4.	Consumer cyclicals dan non-cyclicals companies that do not have consecutive positive profits during the period 2020–2022.	(65)
5.	Consumer cyclicals and non-cyclicals companies that did not submit complete data during the period 2020–2022.	(7)
Number of samples		131
Total sample over three years (78 x 3)		393

Source: Data processed (2024)

Based on Table 1, the results of the sample selection criteria show that the sample used in this study consists of 131 companies, with a total of 393 financial reports analyzed.

Capital structure is a financial assessment between equity, long-term liabilities, and short-term liabilities for the implementation of business entity activities (Mamangkay et al., 2021). This means that the capital structure is a very important thing for business entities on the grounds that it can be used as information by managers to determine the funding structure owned by the company. One of the measures used in this study to evaluate the company's capital structure is the Debt to Equity Ratio (DER). The ratio has a use to examine how far a business entity is funded by loans or outside parties on the capacity of a business entity predicted through

capital (Fatihah & Triyonowati, 2018). This means that the Debt to Equity Ratio (DER) can provide an overview of the company's ability to pay its long-term debt.

If the Debt to Equity Ratio (DER) produces a high value, it can be said that the business entity's operations are heavily funded with loans or debt (Rahayu & Sitohang, 2019). So it can be concluded that a business entity that has a high level of Liquidity can have a negative impact. This impact can discourage investors from investing in a business entity because investors do not want a big risk on themselves. In addition, the business entity can be taken over by creditors.

Based on previous researchers, the formula used to measure capital structure is (Anggrainy & Priyadi, 2019):

$$Debt\ to\ Equity\ Ratio = \frac{Total\ Liabilities}{Total\ Equity}$$

Earnings growth is an increase in profit owned by the company compared to the previous year's profit (Hendarwati & Syarifudin, 2021). That is, the profit growth of a company whose profit has grown from the current year period compared to the previous year period. For investors, profit growth is the main assessment for investing their capital (Nasution et al., 2022). That way, profit growth is a very important clue for the company or other parties.

A financial manager is required to be able to obtain maximum profit by managing the company as effectively and efficiently as possible (Indah, 2022). That way, good profit growth can also be used by business entities as a measurement of management efficiency to determine the company's future prospects which can dominate the funding provisions of business entities and for potential investors who want to invest in a business entity. According to Indrasti (2020) the formula that can be used to evaluate profit growth is as follows.

$$\text{Earnings Growth} = \frac{(Year\ t\ profit) - (Year\ t\ profit - 1)}{Year\ t\ profit - 1}$$

Description:
Year t profit: Net profit for the period
Year t profit–1: Net profit for the previous year

Myers was the first to use the term "Investment Opportunity Set" (IOS) and has explained that the company consists of real assets and the ability to invest in the future (Fathussalmi et al., 2019). With this investment choice, the company hopes to have rewards in the form of higher returns so that it can provide profits for the company in the future.

One of the methods used in this study to determine the assessment of the investment opportunity set (IOS) is MVBVA (Market Value to Book Value of Assets Ratio). This ratio is used as an assessment of the growth prospects of a company for all assets owned by the company in running its business (Yuliza, 2020).

If the Investment Opportunity Set (IOS) proxied by MVBVA produces a high value, so it can be concluded that the company already has a relatively high growth opportunity, it can be said that this can increase company profits (Chasanah et al., 2017). The following is the calculation formula for Investment Opportunity Set (IOS) according to Al-Vionita & Asyik (2020):

$$MVBVA = \frac{Total\ Assets - Total\ Equity + (Vibrating\ Stocks \times Closing\ Price)}{Total\ Assets}$$

Company size is measured based on the total assets owned by the company. The following formula:

Firm Size = Ln (total assets)

Measurement of liquidity variables aims to assess the company's ability to fulfil its short-term obligations using current assets owned by the company. The following is the formula:

$$\text{Current Ratio} = \frac{\text{current assets}}{\text{current liabilities}}$$

Profitability

Measurement of profitability variables aims to determine the company's ability to generate profits from operational activities and the use of its resources. The following is the formula:

$$\text{Return on Assets (ROA)} = \frac{\text{net profit}}{\text{total assets}}$$

This research data analysis technique uses descriptive statistical tests, classical assumption tests which include (normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test) multiple regression analysis with T test and moderated regression analysis (MRA) with the help of SPSS software version 24. MRA is a statistical method used to assess whether the effect of an independent variable on a dependent variable changes when moderated by another variable. In this study, MRA is used to analyze the role of the Investment Opportunity Set as a moderating variable in the relationship between capital structure and earnings growth.

RESULTS AND DISCUSSION

This study uses secondary data in the form of annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2020-2022. Based on data obtained from the website www.idx.co.id, a population of 197 companies with annual reports from 2020–2022 was obtained. After the purposive sampling method, a sample of 78 companies was obtained and 234 observation data. This study uses outlier techniques to get normal data. The existence of outliers makes the observation data decrease from 234 to 198 observation data.

Based on the results in Table 2, it can be seen that the amount of data (n) is 272. The following is a descriptive statistical explanation of the minimum, maximum, mean, and standard deviation values of each variable in this study:

1. The capital structure variable has a minimum value of 0.005 and a maximum value of 1.868 with an average value of manufacturing companies of 0.64124 and a standard deviation of 0.454282.
2. The earnings growth variable has a minimum value of -0.963 and a maximum value of 1.456 with an average value of manufacturing companies of 0.08567 and a standard deviation of 0.499578.
3. The Investment Opportunity Set variable has a minimum value of 0.374 and a maximum value of 3.877 with an average company value of 1.59650 and a standard deviation of 0.922755.
4. The firm size variable has a minimum value of 25.10 and a maximum value of 32.85, with an average firm size of 28.7634 and a standard deviation of 1.45367.
5. The Liquidity variable has a minimum value of 0.653 and a maximum value of 6.302, with an average of 2.1025 and a standard deviation of 1.20342.
6. The profitability variable has a minimum value of -0.122 and a maximum value of 0.345, with an average of 0.0913 and a standard deviation of 0.07234.

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Capital Structure	272	.005	1.868	.67124	.454282
Earnings Growth	272	-.963	1.456	.08567	.499578
Investment Oppoertunity Set	272	.374	3.877	1.59650	.922755
Firm Size	272	25.10	32.85	28.7634	1.45367
Liquidity	272	0.653	6.302	2.1025	1.45357
Profitability	272	-0.122	0.345	0.0913	0.07234
Valid N (listwise)	272				

Source: SPSS 24 Output (2024)

Normality Test

Based on the test results in Table 3 using the Kolmogrov-Smirnov test, the result of Asymp. Sig (2-tailed) result of 0.067. This value is more than 0.05. So it can be concluded that the research model has a normal distribution of residual values, so the normality assumption is met.

Table 3 Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		272
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.48995357
Most Extreme Differences	Absolute	.067
	Positive	.066
	Negative	-.032
Test Statistic		.066
Asymp. Sig. (2-tailed)		.067[c]

Source: SPSS 24 Output (2023)

Multicollinearity Test

Based on the multicollinearity test results in Table 4, it shows the correlation between the independent variables. Where the test results show that the tolerance value of each independent variable shows the results> 0.10 and the VIF value <10. So it can be concluded that this study does not have a correlation between independent variables or there is no multicollinearity.

Table 4 Multicolinearity Test Result

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	Capital Structure	.973	1.013
	Investment Opportunity Set	.931	1.053
	Firm Size	.941	1.072
	Liquidity	.937	1.082
	Profitability	.952	1.031
a. Dependent Variable: Earning Growth			

Source: SPSS 24 Output (2024)

Heteroscedasticity Test

Based on Table 5, it shows that all variables have a significance value> 0.05, so this can be stated in this study that the regression model does not have heteroscedasticity problems.

Table 5 Glejser Test Result

Coefficients		
Model		Sig.
1	(Constant)	.000
	Capital Structure	.296
	Investment Opportunity Set	.325
	Firm Size	.343
	Liquidity	.421
	Profitability	.334
a. Dependent Variable: Abs_Res		

Source: SPSS 24 Output (2024)

Autocorrelation Test

Based on Table 6, the results of the autocorrelation test output show that the Durbin Watson (DW) value is 2.153. The dU and dL values can be obtained through the Durbin Watson statistical table. With n = 272, and k = 6, the value of dL = 1.7124 and dU = 1.7846 is obtained. From these results, it is obtained that DW is greater than the upper limit (dU) and greater than the lower limit (dL). With one of the conditions for free autocorrelation is if dU < D < 4-dU. So it can be concluded that this regression model has no positive or negative autocorrelation.

1. Capital Structure

The t-count value of the capital structure variable is -1.355 with a negative direction and the t-table is 1.97425 or it can be said that the t-count is smaller than the t-table. Then the significant level of 0.321 is smaller than 0.05 (Table 7). So it can be concluded that the capital structure variable has no effect on earnings growth.

2. Investment Opportunity Set

The t-value of the Investment Opportunity Set variable is 2.124 with a positive direction, while the t-table value is 1.97425, indicating that the t-value is greater than the t-table value. Furthermore, the significance level is 0.028, which is less than 0.05. Therefore, it can be concluded that the Investment Opportunity Set variable has a significant positive effect on earnings growth.

3. Control Variable

The control variables consisting of firm size, Liquidity and profitability have a significant value below 0.05 and a t table value above 1.97425, this indicates that the variables of company size, Liquidity and profitability have a significant positive effect on earnings growth.

4. Investment Opportunity Set as moderating variable

In Table 8 of this study for the capital structure variable with Investment Opportunity Set as a moderating variable based on the test obtained a t-count value of 1.152 with a significance level of 0.323> 0.05, this means that the capital structure variable has no effect on earnings growth with Investment Opportunity Set as a moderator. Thus it can be said that Investment Opportunity Set cannot moderate the relationship between capital structure and earnings growth.

Table 6 Autocorrelation Test Result

Model Summary	
Model	Durbin-Watson
1	2.153
a. Predictors: (Constant), Investment Opportunity Set, Capital Structure	
b. Dependent Variable: Earnings Growth	

Source: SPSS 24 Output (2024)

Table 7 T Test Result

Coefficients[a]			
Model		T	Sig.
1	(Constant)	.540	.5814
	Capital Structure	-1.355	.321
	Investment Opportunity Set	2.124	.028
	Firm Size	2.341	.012
	Liquidity	2.953	.011
	Profitability	2.234	.23
a. Dependent Variable: Earnings Growth			

Source: SPSS 24 Output (2024)

Table 8 MRA Test Result Coefficients[a]

Model		T	Sig.
1	(Constant)	1.669	.097
	Capital Structure *Investment Opportunity Set	1.152	.323
a. Dependent Variable: Earnings Growth			

Source: SPSS 24 Output (2024)

Coefficient of Determination R^2

Table 9 Test Results of the Coefficient of Determination R^2

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.182[a]	.232	.045	.492315

Source: SPSS 24 Output (2024)

Based on Table 9, the result of the coefficient of determination (R^2) is 0.232, the percentage of the capital structure and Investment Opportunity Set variables that affect the dependent variable earnings growth means 23.2%. While the remaining percentage of 76.8% (100%–23.2%) on the profit growth variable is influenced by variables other than the variables discussed in this study.

Based on the results of SPSS testing, it shows that capital structure has no effect on earnings growth. This indicates that the capital structure owned by business entities has been dominated by debt. Which, if a business entity cannot optimise funding sources originating from debt properly, it will have an impact on the survival of the business entity by decreasing the profit earned.

Capital structure measured by DER has a negative direction on profit growth, meaning that if a business entity has a high DER value, it will reduce the profit earned by the business entity. Vice versa, if the business entity has a low DER value, the profit of the business entity will actually increase.

Modigliani & Miller theory states that under perfect market conditions, capital structure does not affect earnings growth. That is, whether the company is financed by debt or equity will not affect earnings. In practice, although the market is not perfect, capital structure is still not the main factor driving earnings growth. This is because profits are more influenced by operational performance, management efficiency, and market strategy, not just financing.

Capital structure is financial in nature, while profit growth comes from operational and strategic activities. Therefore, even though a company has high leverage, if its operations are poor, profits will still not grow. According to the Pecking Order theory, companies prefer to use internal capital (retained earnings) rather than debt, because the cost of internal capital is cheaper, does not pose a risk of bankruptcy and avoids close supervision from creditors. As a result, debt is not used for profit growth, because the company does not rely on it too much.

The results of this study are in line with research conducted by Hayati (2019), Ahmed et al. (2023), and Alghifari et al. (2022) which states that the capital structure as measured by the Debt to Equity Ratio (DER) has no influence and is not significant to profit growth. The results of this study are also supported by Mamangkay et al. (2021) and Atika et al. (2019).

Based on the results of SPSS testing, it shows that Investment Opportunity Set has a significant positive effect on Earnings Growth. This means that the greater the Investment Opportunity Set of a company, the higher its profit growth will be. The effect of IOS on earnings quality is because the investment opportunity set can imply the value of assets and the value of the company's opportunity to grow in the future. Companies with high investment opportunity set levels tend to have high company growth prospects in the future. The existence of growth opportunities characterised by the existence of investment opportunities causes future corporate profits to increase. The growth opportunity factor seen from the investment opportunity set is usually observed by investors who have a long-term perspective to get the interest rate from the investment they make.

In microeconomic theory and corporate finance, the more projects or investment opportunities that are positive NPV (Net Present Value), the greater the opportunity for the company to generate higher returns. High investment opportunity indicates that the company is able to identify and evaluate investment opportunities well, is able to absorb external capital to fund expansion and is ready to make quick decisions on market changes. The result is increased profits from new projects.

According to agency theory, a high investment opportunity set puts more pressure on managers to take advantage of available opportunities. This encourages more aggressive and productive managerial performance. In signalling theory, investment opportunity set reflects investors' belief that the company has a bright future. This creates a positive reputation and increases the company's access to cheap funds, encouraging earnings expansion. The research results are in line with Warianto & Rusiti (2013), Chasanah et al. (2017), and Ghoffar & Yuyetta (2023) which state that Investment Opportunity Set has an effect on earnings growth.

Investment Opportunity Set cannot moderate the relationship between capital structure and earnings growth. meaning that business entities that have the opportunity to invest their capital cannot affect the relationship between the funding structure of business entities in generating profit growth. The high value of DER supported by the high value of Investment Opportunity Set has no influence on earnings growth. because, when the company's capital structure is more dominated by debt than capital and business entities have the opportunity to invest their assets, business entities need more capital that is large enough to sustain the operations of business entities. That way, the business entity will increase debt again for the company's capital in carrying out its operations. So it can be said, Investment Opportunity Set cannot moderate the relationship between capital structure and earnings growth.

Research in developing countries (e.g. Indonesia) often shows that the variability of investment opportunity set among businesses is relatively small. This is because markets are not fully efficient, there is limited access to long-term investment projects and limitations in funding and innovation. Since the level of investment opportunity set does not vary significantly, the role of investment opportunity set as a moderator becomes ineffective or even undetectable statistically.

Ideally, if a firm has a high investment opportunity set, the capital structure (especially debt) is used to fund these projects, which can affect earnings. But in reality, many companies do not use leverage for investment expansion, funds from debt are used to pay old debt, operational needs, or fixed costs, not for growth projects. This means that there is no interaction between capital structure and investment opportunity set in influencing earnings growth, so moderation of investment opportunity set does not occur.

CONCLUSION

Based on the results of research data testing and discussion, it can be concluded that the capital structure variable measured by the Debt to Equity Ratio (DER) has no influence and is not significant on Profit Growth. The Investment Opportunity Set variable has a significant positive effect on profit growth. The Investment Opportunity Set variable is unable to moderate the effect of capital structure on profit growth. Capital structure is financial in nature, while profit growth stems from operational and strategic activities. Even if a company has high leverage, if its operations are poor, profits will still not grow. This is why capital structure has no effect. To increase profit growth, there needs to be an Investment Opportunity Set to support the smooth running of the company's operational and strategic activities. However, the Investment Opportunity Set cannot moderate because this variable has a direct and strong influence on profit growth. Additionally, this study also tested control variables, showing that company size, liquidity, and profitability have a positive impact on profit growth.

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