The Role of Liquidity in Moderating the Relationship between Capital Structure and Financial Performance (Empirical Study on Industrial Companies for the Period 2018-2022 Listed on the IDX)

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ABSTRACT: In December 2023, Indonesia recorded a significant surplus thanks to strong export performance, despite facing global challenges. The government's downstream policy encourages this increase. This study analyzes the influence of Capital Structure on the Financial Performance of industrial companies listed on the Indonesia Stock Exchange. With a quantitative approach and Purposive Sampling technique, we collected 120 observational data and used Moderation Regression Analysis (MRA). The results show that Capital Structure, measured by Debt to Equity Ratio (DER), has a significant effect on Financial Performance, measured by Return on Equity (ROE). Liquidity, measured by the Current Ratio (CR), reinforces the influence of DER on ROE. Investors are advised to pay attention to capital structure and liquidity, as these two variables are simultaneously significant in affecting the company's financial performance.

KEYWORDS: Hirilization, Financial Performance, Capital Structure, Liquidity, Industrial.

I. INTRODUCTION

Indonesia posted a trade balance surplus in December 2023, which was the result of strong export performance amid the challenges of the global economic slowdown, commodity price fluctuations, and geopolitical uncertainty. Exports throughout the year reached USD 258.82 billion, exceeding imports by USD 221.89 billion. During January – November 2023, nickel product exports reached a record high of USD 4.5 billion, driven by the government's downstream policy. Focusing on added value in natural resource commodities is the key to accelerating the industrial sector because it is the main driving force for national economic growth. The government not only provides infrastructure, but also aims to increase added value to spur export performance, create jobs, and maintain economic resilience. The government plans to expand the broader ecosystem to support this goal in the future. The Minister of Industry also said that the multiplier effect or multiple impacts of industrial downstream activities that have been proven to be real, among others, are increasing the added value of domestic raw materials, attracting investment into the country, generating large foreign exchange from exports, and increasing the number of labor absorption. (https://www.ekon.go.id/)

One of the main focuses of a company is improving its performance, which is often measured through several financial metrics. According to Fahmi (2015), financial performance refers to an evaluation that is carried out to assess the extent to which a company carries out financial activities by correct and efficient principles. The company's performance reflects the company's financial condition which is analyzed using financial analysis tools, making it possible to evaluate the company's financial condition in a given period. This is crucial to ensure that the company's resources are used optimally in the face of environmental changes (Amelia Harsono & Ary Satya Pamungkas 2020). Several researches on the Company's Financial Performance have been carried out first. (Muhammad Arya Rahman, 2020) linking the Company's Financial Performance with Capital Structure, (Cindy Dahlia, 2018) linking the company's financial performance with the capital structure, company size, and liquidity, (Viriany and Henny Wirianata, 2021) linking the company's financial performance with intellectual capital and leverage.

The industrial sector is a very vital sector for the economy. This sector plays an important role in creating jobs, increasing product-added value, and encouraging economic growth. However, the industrial sector also requires large capital investments to finance its operational activities and business development. One of the options available is through the capital market, which allows companies to obtain the necessary funds for their business operations and development. By leveraging the capital market, companies can expand their activities and support overall economic growth. On the other hand, companies have long-term goals that they want to achieve. To achieve this goal, the company must demonstrate good and competent performance. Strong performance can attract investors to invest in the company (Evan Bayu Kristiawan, 2023).

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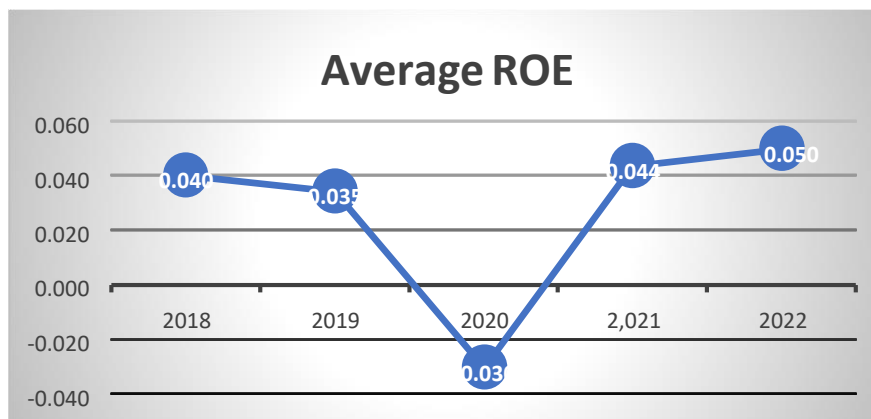

Figure1: Average ROE of Industrial Sector Companies 2018 -2022

Figure 1 shows the average ROE because this study will use Return On Equity (ROE) as an indicator to measure the company's financial performance. In the figure above, it shows that there was a very significant decrease in the average ROE in 2020 to be at 0.03 which means that the company's performance is disrupted so that it can produce an ROE figure that reaches minus (-), by (Saiful, Nurna Aziza, 2021) stating that lower financial performance can be seen from the declining ROE. However, in the following years 2021 and 2022, this figure continues to rise continuously, indicating that companies in this sector can rise again to improve performance which can be seen from the average ROE in 2021 and 2022, which may continue to increase because of the efforts from the government through the hirilization policy which is currently being hotly discussed.

In (Sandra Heliola, et al. 2020) stated that one of the main targets of the company is to increase its return on investment. There are various methods used by companies to assess their investment returns, and one of them is Return on Equity (ROE). ROE is an indicator of profitability that primarily pays attention to the return on investments that have been made by the company's shareholders. (Brealey et.al, 2001). ROE is influenced by a company's ability to manage finances efficiently, which fundamentally starts with efforts to increase sales volume from year to year. (Muhamad Arya Rahman, 2020) emphasized that profitability, especially as measured through the Return on Equity (ROE) ratio, plays an important role in determining a company's financial performance. Financial performance assessment is crucial for management because it affects the perception of funders. Mistakes in financial performance management can reduce investors' interest in investing. Another factor that also affects the company's financial performance is the capital structure. To accelerate sales growth, companies must ensure that they have adequate financing for their productive assets. Therefore, decisions related to financing sources are key to achieving optimal performance. (Sandra Heliola, et all. 2020) also asserts that capital structure has a significant role in financing planning and management, which in turn helps companies achieve predetermined performance goals.

Previous studies on the relationship between capital structure and company performance, explained by (Yessi Pertiwi & Endang Wasitoh, 2022), concluded that an increase in the amount of corporate debt can contribute to an increase in company performance. They argue that companies with capital structures that tend to use more debt tend to achieve better financial performance. This is due to the tendency of companies to rely on debt to support their operations, which often indicates rapid growth and strong financial performance. However, this view is contrary to research conducted by (Eva Yuliani, 2021), that the capital structure measured by the Debt to Equity Ratio, partially hurts financial performance. The interpretation of these findings is that companies that have high levels of debt in their capital structure tend to have difficulties in managing capital, which can ultimately lower financial performance. This result is in line with the results of a study (Ingrid Brigita Jonatan, 2018) which shows that capital structure has a negative relationship with financial performance. The higher the capital structure, the less the company's financial performance.

The difference in results regarding the relationship between the capital structure and the company's financial performance occurred, indicated because of other variables that affect the relationship between the two. A search of several relevant references believes that the liquidity ratio is suspected to be one of the factors that affect it. Research (Mujtahidah and Lily, 2016; Puteri Dwi Lestari, 2021 and Puji Lestari, 2020), proves that liquidity has a negative influence on the company's financial performance. The high level of liquidity reflects the ability of the company's current assets to meet its short-term funding needs, thereby reducing the amount of debt. Research (Renil Septiano, 2023) also proves that the higher the company's liquidity level, but with low current asset quality, the lower its financial performance.

Based on the description of several relevant references, this study aims to re-investigate the relationship between capital structure and financial performance of companies in the industrial sector by including liquidity as a moderation variable. Thus, the study aims to analyze the relationship between capital structure and the company's financial performance, both direct and indirect relationships.

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II. LITERATURE RIVIEW

A. Grand Theory

1. Trade-off Theory

This theory has noticed that the existence of taxes, agency fees, and insolvency that occur are market elements that are inefficient in funding and trade-off costs (Husnul Muamilah & Fachriyatul Jannah, 2022), (Kraus & Litzenberger, 1973) reveals that the trade-off theory shows that the use of debt has benefits for the company. This theory believes that debt can provide profits in a company's financial operations through tax benefits, but conversely, it also incurs costs to the company in the form of interest payments. (Brigham & Houston, 2014) adds that companies benefit from the use of debt through tax exemptions granted by the government, known as the debt tax shield.

2. Agency Theory

The agency theory put forward by (Jensen and Meckling, 1976) highlights the relationship between the owner (principal) and the manager (agent) in a company. This theory states that since the owner cannot directly supervise every action of the manager, there is a need to form a contract that governs the relationship between the two. In this context, the manager is considered an agent acting on behalf of the owner, but sometimes the interests between the two can be out of alignment. Jensen and Meckling underline that the separation between ownership and control of the company could create a conflict of interest between the two. Agency theory aims to solve problems arising from these conflicts, such as incompatibility between the interests of owners and managers. One of the proposed solutions is through institutional ownership, where entities such as the company's board of directors and commissioners own shares in the company (Ratih Partiwi & Herawati, 2022).

3. Signaling theory

Signal Theory, proposed by (Spence, 1973) explains that the party who sends information, such as the management of a company, gives a signal to the receiving party, such as an investor, that describes the condition of the company to provide benefits. This theory describes management's view of the company's current and future developments, which can affect the perception of potential investors. These signals are usually in the form of information about the efforts made by management to achieve the company's goals, which are considered important for investors in making investment decisions. After receiving the information, investors will interpret it to determine whether it is a positive signal (good news) or a negative signal (bad news). Although investors and managers are considered to have the same information about a company's activities, competent managers usually have more detailed information than investors (Rega Ariansyah, et al. 2023).

B. Financial Performance

A company's financial performance is a display of a company's financial condition over a certain period. According to (Yessi Pratiwi & Endang Masitoh, 2022) A company's financial performance is a financial situation that is influenced by management decisions, financial performance is a complex matter because it includes the effectiveness of capital use and the efficiency of the company's activities. In the study (Eva Yuliani, 2021) it is also stated that Financial Performance is an analysis carried out to assess the extent to which a company has applied financial principles correctly, with performance as an indicator of achievement that reflects the state of the company's health in a certain period.

C. Capital Structure

According to Gitman and Zutter (2012), the company's capital structure includes a combination of funds obtained from longterm loans and funds derived from its owners. Capital structure is an important factor in investment considerations because it is directly related to risk and potential income for investors. This is a funding strategy prepared by management to support the investment needed to run the company's operations. In the context of financial management, capital structure has a central role in determining how a company creates and maintains its economic value or wealth. In other words, decisions related to the capital structure are crucial in strengthening the company's overall operational performance and sustainability (Eva Yuliani, 2021).

D. Liquidity

(Eva Yuliana, 2021) stated that Liquidity is a crucial factor in financial analysis because it shows a company's ability to complete its financial obligations smoothly. Liquidity reflects a company's ability to pay bills on time and anticipate sudden cash needs. (Yessi Pertiwi, 2022) also stated that Liquidity is measured by looking at the company's ability to pay its short-term obligations on time. This reflects the company's ability to pay existing bills. Because low liquidity can be an early indicator of financial problems.

E. Hypothesis Development

• The Influence of Capital Structure on Financial Performance

In research conducted by (Dian Islami, et al. 2023), capital structure refers to the way a company allocates its capital holdings, which involves long-term debt and equity capital. High debt levels indicate greater risk associated with potential payment defaults, while low debt levels indicate lower default risks (Anindito, 2015). According to (Ingrid Brigita Jonatan, 2018) the capital structure has a negative influence on financial performance, which means that the higher the capital structure, the lower the financial performance.

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These findings are consistent with the trade-off theory that reveals that the use of debt can increase the value of the company to the optimal leverage limit, but afterward, the use of the debt will decrease the value of the company due to the greater risk of bankruptcy after reaching optimal leverage. (Putu Bayu Pratama, 2021) also stated that the higher debtto-equity ratio (DER) shows that most of the company's capital comes from debt compared to equity. This can cause obstacles in running the company's operations. A high debt burden can hamper the production process, which ultimately negatively impacts the company's sales and profits. As a result, the company's financial performance will be seen to decline in that period. This is in line with research (Ryan Havidhian Putra and Wisnu Mawardi, 2021), which explains that companies with high ROE tend to prioritize the use of internal funds for investment rather than increasing debt or making additional stock offerings. (Eva Yuliana, 2021) also states that a negative capital structure shows that companies have difficulties in managing capital. They have a high level of debt, which can reduce financial performance because they prefer to use external funds rather than internal funds for investment. Another study conducted by (Bayu Wulandari, et al. 2020) stated that partially the capital structure hurts financial performance. From these findings, the first hypothesis was formulated.

H1: Capital Structure Has a Negative and Significant Effect on Financial Performance

• The Effect of Liquidity on Financial Performance
In research conducted by (Nurissilmi Susanti as Shofi, 2023), liquidity refers to a company's ability to meet short-term obligations and how quickly its assets can be converted into cash (Hery, 2018:149). Liquidity is measured based on the amount of current assets that can be quickly converted into cash, such as cash, securities, receivables, and inventory of goods. A high current ratio indicates that the company can pay its short-term obligations. Several studies, such as those conducted by (Mujtahidah and Lily, 2016) and (Puteri Dwi Lestari, 2021), show that liquidity has a negative influence on a company's financial performance. This shows that the high level of liquidity with poor current asset quality reflects the company's small ability to meet its short-term funding needs, thereby reducing the company's financial performance. This supports the signaling theory which states that company management seeks to provide relevant information about financial statements so that they can be understood by external parties, who will then adapt their decisions and understanding. (Renil Septiano, 2023) also stated that the higher the company's liquidity level, the lower its financial performance. Another study conducted (Nabilla Octaviana Dirmansyah, et al. 2022) concluded that there is a negative influence between Current Ratio (liquidity) and ROE (financial performance). These studies are in line with (Puji Lestari, 2020) which states that liquidity has a significant negative effect on financial performance. Based on this information, the second hypothesis is obtained, namely.

H2: Liquidity Has a Negative and Significant Effect on Financial Performance

• The Effect of Capital Structure on Financial Performance Moderated by Liquidity
In research conducted by (Ryan Havidhian Putra & Wisnu Mawardi, 2021) liquidity variables play a strong role in moderation, which means that liquidity variables can affect the relationship between Total Debt to Total Equity (TDTE) and Return on Assets (ROA). Research conducted by (Mulyasari & Subowo, 2020), shows that the procurement and use of external funds must be carefully considered because their non-optimal use can disrupt the stability of the capital structure and potentially cause losses for the company. Research (Teguh Erawati, et al. 2022) explains that companies with high Capital Structure values tend to produce high financial performance. Research (Mujtahidah and Lily, 2016; and Puteri Dwi Lestari, 2021), high liquidity levels with poor current asset quality reflect the company's small ability to meet its short-term funding needs, thereby reducing the company's financial performance. Other relevant research was presented (Renil Septiano, 2023; Nabilla Octaviana Dirmansyah, et all. 2022; and Puji Lestari, 2020) which stated that liquidity has a significant negative effect on financial performance.

H3: Liquidity Moderates the Influence of Capital Structure on Financial Performance

III. RESEARCH DATA & METHODOLOGY
A. Population and Sample
In this study, the population used was 69 companies carried out in Industrial Sector Companies listed on the IDX (Indonesia Stock Exchange) in 2018-2022. The technique used is purposive sampling to obtain the samples needed for research so that a sample of 34 companies that meet the criteria is obtained; (1) Industrial sector companies that are listed and publish financial statements on the Indonesia Stock Exchange during the research period; (2) Industrial sector companies that have a complete ratio during the research period. In collecting data using indirect observation techniques, researchers use the documenter (data history) method. This means that the data is obtained from the records of past events.

B. Operational Variable
In this study, the dependent variable is the company's financial performance which is proxied with return on equity (ROE), which is the ratio between profit after tax and total equity, (Sandra Heliola, et al. 2020). While the capital structure as an independent

variable is proxied with the debt to equity ratio (DER), which is the ratio between total debt and total equity, (Bayu Wulandari, et al. 2020), the study is in line with (Akhmadi, et al. 2018) which uses DER as a proxy for the capital structure. Meanwhile, the liquidity ratio as a moderation variable is proxied with the current ratio (CR), which is the ratio between current activity and current debt, (Bayu Wulandari, et al. 2020; Subowo and Akhmadi, 2017).

C. Data Analysis Methods
• Classical Assumption Test

This study will use a classical assumption test. 4 classical assumption tests will be used in the study. Normality test, According to Ghozali (2013), the normality test is used in regression models to evaluate whether perturbing or residual variables follow normal distributions. There are two commonly used methods to determine whether a residual is normally distributed: graphical analysis and statistical testing. Multicollinearity test, Multicollinearity test, also according to Ghozali (2013), aims to evaluate whether there is a correlation between independent variables in the regression model. Ideally, a good regression model does not show any correlation between independent variables. Hecterokedactivity test, According to Ghozali (2013), the heteroscedasticity test is used to evaluate whether there is a non-uniformity in the variance of the residual between observations in the regression model. If the residual variance remains constant from one observation to the next, this is referred to as homoscedasticity. However, if the residual variance differs between observations, it is referred to as heteroscedasticity. Autocorrelation test, Autocorrelation test, also according to Ghozali (2013), aims to evaluate whether there is a correlation between the perturbrillator error in the current period and the perturbator error in the previous period in the linear regression model. Linearity Test, The fit of the model used is determined through a linearity check, according to Ghozali (2018:167). This involves determining whether the relationship between variables in an empirical study is better described in linear, squared, or cubic. Ideally, quality data will show a linear relationship between dependent and independent variables.

• Regression Equation

In this study, there are 2 independent variables and one dependent variable, so the regression formula is presented as follows:

$$ROE = \alpha + \beta_1 DER + \varepsilon \qquad (1)$$
$$ROE = \alpha + \beta_1 DER + \beta_2 CR + \varepsilon \qquad (2)$$
$$ROE = \alpha + \beta_1 DER + \beta_2 CR + \beta_3 DER*CR + \varepsilon \qquad (3)$$

D. Hyphotesis Testing

$H_0 1$	$= \beta$	> 0	= Capital Structure Does Not Have a Negative and Significant Effect on Financial Performance
$H_a 1$	$= \beta 0$	≤ 0	= Capital Structure Has a Negative and Significant Effect on Financial Performance
$H_0 2$	$= \beta 0$	> 0	= Liquidity Does Not Have a Significant Negative Effect on Financial Performance
$H_a 2$	$= \beta 0$	≤ 0	= Liquidity Has a Significant and Negative Effect on Financial Performance
$H_0 3$	$= \beta 0$	> 0	= Liquidity Does Not Moderate The Influence od Capital Structure on Financial Performance
$H_a 3$	$= \beta 0$	≤ 0	= Liquidity Has a Significant and Negative Effect on Financial Performance

The test uses a significant level of 5%. Criteria for accepting or rejecting H_0 (1) If the t-count > t-table and the p-value < 0.05, then H_1 is accepted and H_0 is rejected which means that the independent variable partially affects the dependent variable significantly, (2) If the t-count < t-table and the p-value > 0.05, then H_1 is rejected and H_0 is accepted which means that the independent variable partially does not affect the dependent variable significantly. Hypothesis testing using Moderated Regression Analysis (MRA). The moderation hypothesis is acceptable if the multiplication variable between the free variable and the moderation variable is statistically significant (Ryan Havidhian Putra & Wisnu Mawardi, 2021).

IV. RESULTS
Descriptive Statistics

Table.1. Descriptive Statistical Output			
	Mean	Std. Deviation	N
ROE	.0387	.35328	170
THE	1.4474	4.27183	170
CR	2.1210	3.84166	170

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The table shows that this study uses a total of 170 samples. The three ratios used in the analysis are Return on Equity (ROE) with an average of 0.038 and a standard deviation of 0.353. In addition, there is also a Debt to Equity Ratio (DER) with an average of 1,447 and a standard deviation of 4,271. The last is the Current Ratio (CR) with an average of 2.121 and a standard deviation of 3.841.

Classical Assumption Test
• Normality Test

Table 2. One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		120
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.10717560
Most Extreme Differences	Absolute	.061
	Positive	.036
	Negative	-.061
Test Statistic		.061
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

Based on the results of the normality test carried out, a significance value of 0.200 > 0.05 was obtained. Thus, it can be concluded that the residual values of the model are distributed normally. This means that the assumption of normality is met so that the results of the analysis conducted using the model can be interpreted more validly.

• **Multicollinearity Test**

Table 3. Multicoleniaritas Test Output								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Say.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	BRIGHT
1	(Constant)	.122	.029		4.181	.000		
	THE	-.066	.015	-.392	-4.472	.000	.939	1.065
	CR	.003	.012	.022	.247	.806	.939	1.065
a. Dependent Variable: ROE								

Based on the table above, the tolerance values of DER and CR results are 0.939 > 0.1, and the VIF values of both are 1.065 < 10. Therefore, it is concluded that in the regression model, there are no symptoms of multicollinearity.

• **Heteroscedasticity Test**

Table 4. Heteroscedasticity Test Output						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Say.
1	(Constant)	.084	.018		4.624	.000
	THE	.011	.009	.116	1.224	.223
	CR	-.005	.008	-.068	-.721	.473
a. Dependent Variable: Abresid						

From the table above, it can be seen that the sig DER > 0.05, which is 0.223 > 0.05, and the CR sig > 0.05, which is 0.473 > 0.05. Therefore, it is concluded that in the regression model, there is no heteroscedasticity.

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- **Autocorrelation Test**

Table 5. Autocorrelation Test Output

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.397a	.158	.144	.10809	1.873

a. Predictors: (Constant), CR, DER
b. Dependent Variable: ROE

In this study, the *Durbin-Watson* test (DW-Test) was used. The test results in the table above the Durbin Watson test are 1.873. The dU value for 120 samples and 2 variables is 1.7361. So the value of 4-dU is 2.2639, so the autocorrelation test results are < d < (4-dU), which is 1.7361 < 1.873 < 2.2639. This means that in the regression model, there is no autocorrelation.

- **Linearity Test**

			Deviation from Linearity	1.060	76	.014	1.907	.012
			Within Groups	.307	42	.007		
			Total	1.623	119			

Table 6. Linearity Test Output

			Sum of Squares	df	Mean Square	F	Say.
CR * THE	Between Groups	(Combined)	1.316	77	.017	2.336	.002
		Linearity	.256	1	.256	34.961	.000

It can be seen that the table above obtained the results of linearity significance 0.022 < 0.05, it can be interpreted that the regression model is linear.

Regression Models

Based on the output of the influence of capital structure on the financial performance of the company, both direct and indirect relationships (Tables 7, 8, and 9), the following regression equation is produced:

Table 7. Equation Output 1

Unstandardized Coefficients		Standardized Coefficients	t
B	Std. Error	Beta	
.129	.015		8.664
-.067	.014	-.397	-4.698

a. Dependent Variable: ROE

Table 8. Equation Output 2

Model	Unstandardized Coefficients		Standardized Coefficients	t	Say.
	B	Std. Error	Beta		
1 (Constant)	.122	.029		4.181	.000
THE	-.066	.015	-.392	-4.472	.000
CR	.003	.012	.022	.247	.806

a. Dependent Variable: ROE

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Table 9. Output Equation 3					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Say.
	B	Std. Error	Beta		
1 (Constant)	.162	.029		5.555	.000
THE	-.211	.038	-1.250	-5.488	.000
CR	-.055	.018	-.396	-2.998	.003
Moderation	-.140	.035	-.915	-4.042	.000
a. Dependent Variable: ROE					

ROE = 0,129 - 0,067 DER + e   (1)

ROE = 0,122 - 0,066 DER – 0,003 CR + e   (2)

ROE = 0,162 – 0,211 DER – 0,055 CR - 0,140 DER*CR + e   (3)

Explanation:

- 0.129 is the ROE value if the DER value is 0 or very low. A coefficient value of 0.067 DER means that every 1% change in DER causes a change in ROE of 0.067%.
- 0.122 is the ROE value if the DER and CR are 0, or very low. A coefficient value of 0.066 DER and 0.003 CR means that every 1% change in DER & CR causes a change in ROE of about 0.066% and 0.003%.
- 0.162 is the ROE value if the DER, ROE, and DER and ROE interaction are 0 or very low. Coefficient values of 0.211 DER and 0.055 CR, as well as an interaction of 0.140 DER and CR, mean that every 1% change in DER & CR causes a change in ROE of about 0.211% and 0.055%, as well as 0.140%.

Hyphothesis Testing

- The Influence of Capital Structure on the Financial Performance

  The test yielded a t-table value = -4.698 with a sig value = 0.000 < of a significant level of 0.05 so H_0 was rejected. The results show that the capital structure that is proxies with DER has a significant negative effect on the financial performance that is proxies with ROE (table 7). The results are by the proposed hypothesis. The results show that the increase in the capital structure ratio has an impact on the decline in the company's financial performance. The existing debt ratio is too burdensome a financial burden than the benefits in the form of tax savings arising from the debt policy. Thus, every policy to increase the debt ratio will further reduce the company's financial performance.

- The Effect of Liquidity on the Financial Performance

  Testing the liquidity ratio as a moderating variable as an independent variable produces a t-table value = -4.472 with a sig value = 0.000 < from a significant level of 0.05 so H_0 is rejected. The results show that the liquidity ratio that is proxied to CR has a significant negative effect on the financial performance that is proximate to ROE (Table 8). The results show that the increase in the liquidity ratio has an impact on the decline in the company's financial performance. An increase in the liquidity ratio with good current asset quality, or not easy to turn into cash (not liquid), will hinder the company's operational efficiency due to limited working capital and hampered sales targets. In the end, it will suppress the company's ability to increase profitability.

- The Effect of Liquidity Moderation on the Influence of Capital Structure on the Financial Performance

  The test of the liquidity ratio as a moderating variable when interacting with the capital structure produces a value of t table = 4.042 with a value of sig = 0.000 < of a significant level of 0.05 so H_0 is rejected. The results show that the liquidity ratio that is proxies with CR moderates the influence of the capital structure that is proxies with DER on the financial performance that is proxies with ROE. Observing the results in equation 2 where liquidity is significant as an independent variable (equation 2) and also significant when liquidity interacts with the capital structure (equation 3), then the moderation is quasi (Table 9). The results of the study are to the proposed hypothesis. The results of the study show that increasing liquidity with the quality of liquid current assets provided and accompanied by the tendency of management to improve its debt policy, will further reduce the company's financial performance. Poor liquidity and increased debt will further burden the company's finances. Liquidity with less liquid current assets hinders the availability of adequate working or operating capital. The increased debt ratio will further burden the company's finances in the form of interest and installment payment obligations. The accumulation of all of this is that the company's operations are not efficient, it has an impact on the company's increasing ability to generate or increase its profits, resulting in a decline in the company's financial performance.

CONCLUSIONS

The existing debt ratio is too burdensome a financial burden than the benefits in the form of tax savings arising from the debt policy. So that it will further reduce the company's financial performance. An increase in the liquidity ratio with the quality of liquid current

assets will hinder the efficiency of the company's operations due to limited working capital, thereby hindering the improvement of the company's financial performance, because it suppresses the company's ability to increase profitability.

Liquidity with less liquid current assets hinders the availability of adequate working capital or operating capital, and an increased debt ratio will further burden the company's finances in the form of interest and installment payment obligations, resulting in a decline in the company's financial performance, because it reduces the company's ability to generate or increase its profits.

The results of this study cannot be generalized due to limitations in the scope of the research, the variables observed and the proxies used. Therefore, further research should expand the scope of the research, increasing the number of variables and proxies used.

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