

Financial Determinants, Company Performance, and Tax Rate on Sustainable Growth

Financial
Determinants and
Company Performance

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ABSTRACT

Sustainable company growth has increasingly become a strategic priority in the post-pandemic era, where businesses must balance profitability with Environmental, Social, and Governance (ESG) responsibilities. While previous studies have focused on the direct impact of financial determinants, limited research in emerging markets has explored the mediating role of company performance and the moderating influence of tax rates in shaping sustainable growth. This study investigates the mediating effect of company performance and the moderating effect of tax rate on the relationship between financial determinants and company sustainable growth. Using Structural Equation Modeling (SEM) with Partial Least Squares approach, the study analyzed 672 observations from Indonesian Stock Exchange-listed companies during 2018-2024. Financial determinants include capital structure, liquidity, profitability, and company size, while company performance is measured by Tobin's Q and tax rate by effective tax rate. Results reveal that profitability has the strongest positive influence on sustainable growth, while capital structure shows significant indirect effect through company performance mediation. Tax rate significantly moderates the relationship between capital structure and profitability on sustainable growth. The study provides comprehensive understanding of complex relationships in corporate finance, contributing to strategic financial management and policy formulation in emerging markets.

Keywords: Company Performance, Financial Determinants, Sustainable Growth, Tax Rate.

ABSTRAK

Pertumbuhan perusahaan yang berkelanjutan semakin menjadi prioritas strategis di era pascapandemi, di mana bisnis harus menyeimbangkan profitabilitas dengan tanggung jawab lingkungan, sosial, dan tata kelola (ESG). Sementara penelitian sebelumnya telah berfokus pada dampak langsung dari penentu keuangan, penelitian terbatas di pasar negara berkembang telah mengeksplorasi peran mediasi kinerja perusahaan dan pengaruh moderasi tarif pajak dalam membentuk pertumbuhan berkelanjutan. Penelitian ini bertujuan untuk mengetahui efek mediasi kinerja perusahaan dan efek moderasi tarif pajak terhadap hubungan antara determinan keuangan dan pertumbuhan berkelanjutan perusahaan. Menggunakan Structural Equation Modeling (SEM) dengan pendekatan Partial Least Squares, penelitian ini menganalisis 672 observasi dari

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perusahaan-perusahaan yang terdaftar di Bursa Efek Indonesia selama periode 2018-2024. Determinan keuangan meliputi struktur modal, likuiditas, profitabilitas, dan ukuran perusahaan, sedangkan kinerja perusahaan diukur dengan Tobin's Q dan tarif pajak diukur dengan tarif pajak efektif. Hasil penelitian menunjukkan bahwa profitabilitas memiliki pengaruh positif terkuat terhadap pertumbuhan berkelanjutan, sementara struktur modal menunjukkan efek tidak langsung yang signifikan melalui mediasi kinerja perusahaan. Tarif pajak secara signifikan memoderasi hubungan antara struktur modal dan profitabilitas terhadap pertumbuhan berkelanjutan. Penelitian ini memberikan pemahaman komprehensif tentang hubungan kompleks dalam keuangan korporat, berkontribusi pada manajemen keuangan strategis dan formulasi kebijakan di pasar berkembang.

Kata kunci: Kinerja Perusahaan, Penentu Keuangan, Pertumbuhan Berkelanjutan, Tarif Pajak.

INTRODUCTION

A company sustainable growth has become a primary focus for every business entity in efforts to maintain existence and competitiveness in the global market. Recent research emphasizes that sustainable growth not only reflects a company's ability to generate profit but also its capacity to grow consistently while addressing Environmental, Social, and Governance (ESG) concerns (Gajić & Vuković, 2022; Erawati et al., 2025). In a dynamic and uncertain economic context, particularly following the COVID-19 pandemic and increasing ESG requirements, understanding the factors that influence a company's sustainable growth becomes extremely important.

Financial determinants such as capital structure, liquidity, profitability, and company size have been extensively studied as factors influencing a company's sustainable growth. However, recent studies in emerging markets demonstrate that these relationships have evolved significantly, particularly in the post-pandemic era, where companies face new challenges, including supply chain disruptions, changing consumer behaviors, and increased regulatory scrutiny (Vuković et al., 2022; Khan et al., 2024). Previous research has tended to examine the direct relationship between financial determinants and sustainable growth without considering the role of intervening or moderating variables that might influence this relationship.

Contemporary research in emerging markets reveals that the sustainable growth paradigm has expanded beyond traditional financial metrics to incorporate broader stakeholder considerations (Ramli et al., 2022). Company performance, as a reflection of operational efficiency and strategic effectiveness, can serve as a mediator in the relationship between financial determinants and sustainable growth. This perspective aligns with stakeholder theory and the growing emphasis on sustainable finance practices in emerging economies (Gratcheva et al., 2022). The external regulatory environment, particularly tax policies, has become increasingly complex in the current global landscape (Raman et al., 2025). High tax rates can reduce net profit and affect a company's ability to reinvest, while tax incentives can encourage growth through increased investment capacity. Recent studies highlight the importance of understanding how fiscal policies moderate the influence of financial determinants on sustainable growth, especially as governments worldwide implement new sustainability-focused tax regimes (Fu & Li, 2023).

Although financial determinants of company sustainable growth have been widely studied, most prior research has focused on direct effects and overlooked the potential mediating role of company performance and the moderating role of tax rates. Moreover, in the post-pandemic context marked by evolving ESG requirements, supply chain disruptions, and regulatory changes, there is limited empirical evidence from emerging markets that integrates these factors into a comprehensive model. Addressing this gap is crucial as companies in emerging economies face heightened pressure to achieve sustainable growth while navigating complex fiscal environments and rising ESG expectations. Understanding the interplay between financial determinants, performance,

and tax policies will provide actionable insights for policymakers and business leaders to formulate strategies that enhance competitiveness and resilience in the global market. This study examines how financial determinants affect company sustainable growth, with company performance as a mediator, tax rate as a moderator, and their interaction within this relationship. This research was expected to provide the following benefits: enriching the literature in the fields of financial management and business strategy by providing empirical evidence on the complex relationships between financial determinants, company performance, tax rates, and company sustainable growth.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

Company Sustainable Growth

Company sustainable growth has evolved significantly in recent academic discourse to encompass both financial sustainability and broader ESG considerations (Chen & Zhao, 2021). The traditional Higgins model, while still relevant, has been enhanced by researchers who recognize that sustainable growth must account for environmental and social factors alongside financial performance (Mettler & Rohner, 2022). Recent research demonstrates that sustainable growth rates vary significantly across emerging markets, with factors such as institutional quality, regulatory frameworks, and access to sustainable finance playing crucial roles (Zahoor et al., 2022). The mathematical formulation remains: $g = ROE \times b$, where ROE is Return on Equity and b is the retention rate. However, contemporary studies suggest that this formula should be interpreted within broader sustainability frameworks that consider long-term value creation beyond purely financial metrics (Sun & He, 2023). Post-COVID research reveals that sustainable growth patterns have been significantly impacted by pandemic-related disruptions, leading to new insights about the resilience factors that enable companies to maintain growth trajectories during crisis periods (Safraz et al., 2023).

Research from Vietnam and other ASEAN countries shows that companies with moderate debt levels (debt-to-equity ratios below 1.5) tend to achieve better sustainable growth rates, while excessive leverage constrains growth, particularly during economic uncertainty (Le & Nguyen, 2023). ESG considerations increasingly influence the relationship between capital structure and sustainable growth, as companies with better ESG ratings tend to have access to lower-cost debt financing (Alghifari et al., 2022). Recent research on liquidity management in emerging markets emphasizes the critical balance between maintaining adequate liquidity for operational flexibility and avoiding excessive cash holdings that reduce returns (Nguyen et al., 2024). Studies from Indonesian and Vietnamese markets demonstrate that companies maintaining current ratios between 1.5-2.5 times achieve optimal sustainable growth rates, while excessive liquidity (above 3.0 times) may indicate inefficient capital allocation (Aprilia & Oktaviannur, 2022). The profitability-growth relationship has been strengthened by digitalization trends, with companies successfully implementing digital transformation showing superior ability to convert profitability into sustainable growth (Rahman et al., 2024). ESG-focused research reveals that companies with strong environmental and social performance achieve higher profitability margins and subsequently better sustainable growth rates (Fakher et al., 2021). Recent research on company size effects reveals complex non-linear relationships with sustainable growth (Lee & Chang, 2023). While larger companies continue to benefit from economies of scale and better access to capital markets, studies from emerging markets show that medium-sized companies (with assets between \$100 million-\$1 billion) often achieve superior sustainable growth rates due to their optimal balance of resources and flexibility (Ahmad & Kumar, 2024).

H1a: Capital structure has a significant effect on the sustainable growth rate.

H1b: Liquidity has a significant effect on the sustainable growth rate.

H1c: Profitability has a significant effect on the sustainable growth rate.

H1d: Company size has a significant effect on sustainable growth rate.

H1e: Company performance has a significant effect on the sustainable growth rate.

Company Performance

Recent capital structure research in emerging markets has revealed significant heterogeneity in optimal leverage levels across different countries and institutional contexts (Ndruru & Ananda, 2025). The traditional trade-off theory and pecking order theory continue to provide theoretical foundations, but empirical evidence from emerging markets shows that institutional factors, government ownership, and market development significantly influence optimal capital structure decisions (Nazarova & Budchenko, 2020). COVID-19 pandemic studies demonstrate that companies in emerging markets adjusted their capital structures differently compared to developed markets, with greater reliance on government support and more conservative leverage approaches (Prakash et al., 2023). The COVID-19 pandemic highlighted the importance of liquidity buffers, with companies maintaining higher cash reserves showing better resilience and ability to maintain growth during crisis periods (DeAngelo et al., 2020). However, post-pandemic research suggests that companies are gradually reducing excess liquidity as operational conditions normalize, seeking to optimize the trade-off between liquidity and profitability (Suharna & Kurniasih, 2024). Contemporary research consistently identifies profitability as the most critical determinant of sustainable growth across emerging markets (Erawati et al., 2025). Studies using large datasets from Asian markets demonstrate that ROA improvements of 1% typically translate to sustainable growth rate increases of 3-5%, with the relationship being stronger for companies operating in technology-intensive sectors (Mukherjee & Sen, 2022). Previous studies have found that debt ratio (DR) and firm size negatively affect financial performance, suggesting that higher leverage and larger scale may constrain a firm's efficiency and profitability (Badar et al., 2025). However, some studies report that company size (firm size) and capital structure (DER) do not have a significant effect on ROA, indicating that these factors may not directly impact profitability in certain contexts (Herawati & Sumiati, 2025). Digital transformation has somewhat reduced traditional size advantages, enabling smaller companies to achieve scale economies through technology platforms and digital business models (Stoiljković et al., 2024).

H2a: Capital structure has a significant effect on company performance.

H2b: Liquidity has a significant effect on company performance.

H2c: Profitability has a significant effect on company performance.

H2d: Company size has a significant effect on company performance.

Company Performance as Mediator

Contemporary performance measurement has evolved beyond traditional financial metrics to incorporate market-based measures such as Tobin's Q and ESG performance indicators (Cardao-Pito, 2022). Recent research challenges some traditional uses of Tobin's Q, suggesting that it may capture debt levels rather than just intangible assets and growth opportunities, which has important implications for its use as a mediating variable (Cardao-Pito, 2022). Studies from emerging markets demonstrate that companies with Tobin's Q ratios between 1.2 and 2.0 typically show optimal mediation effects, where good financial fundamentals translate into market recognition and subsequently support sustainable growth (Ishaq et al., 2021). However, research from South Korean markets suggests that the relationship between Tobin's Q and performance may have threshold effects, with different implications for companies with different risk profiles (Lim & Mali, 2023). ESG-enhanced performance measures are increasingly recognized as important mediating factors, with companies scoring highly on ESG metrics demonstrating superior ability to translate financial strengths into sustainable growth (Singh & Kumar, 2023).

H3a: Company performance mediates the effect of capital structure on sustainable growth rate.

H3b: Company performance mediates the effect of liquidity on sustainable growth rate.

H3c: Company performance mediates the effect of profitability on sustainable growth rate.

H3d: Company performance mediates the effect of company size on sustainable growth rate.

Tax Rate as Moderator

Recent research on corporate taxation and growth reveals increasingly complex relationships, particularly in emerging markets where tax policies are often used as development tools (Do et al., 2023). The traditional trade-off theory predictions regarding tax shield benefits are validated by recent studies, but with important caveats regarding the interaction between tax rates and other institutional factors (Chen et al., 2021). Emerging market research demonstrates that effective tax rates above 25% tend to significantly constrain the positive relationship between profitability and sustainable growth, while optimal tax rates for growth appear to be in the 15-22% range (Zhang & Liu, 2024). However, these relationships are highly context-dependent, with factors such as tax system quality, enforcement mechanisms, and availability of tax incentives playing crucial moderating roles (Raman et al., 2025). Recent policy research suggests that sustainability-focused tax incentives (such as carbon tax credits and green investment deductions) can significantly enhance the positive relationship between ESG performance and sustainable growth (Safraz et al., 2023).

H4a: Tax rate moderates the effect of capital structure on sustainable growth rate.

H4b: Tax rate moderates the effect of liquidity on sustainable growth rate.

H4c: Tax rate moderates the effect of profitability on sustainable growth rate.

H4d: Tax rate moderates the effect of company size on sustainable growth rate.

H4e: Tax rate moderates the effect of company performance on sustainable growth rate.

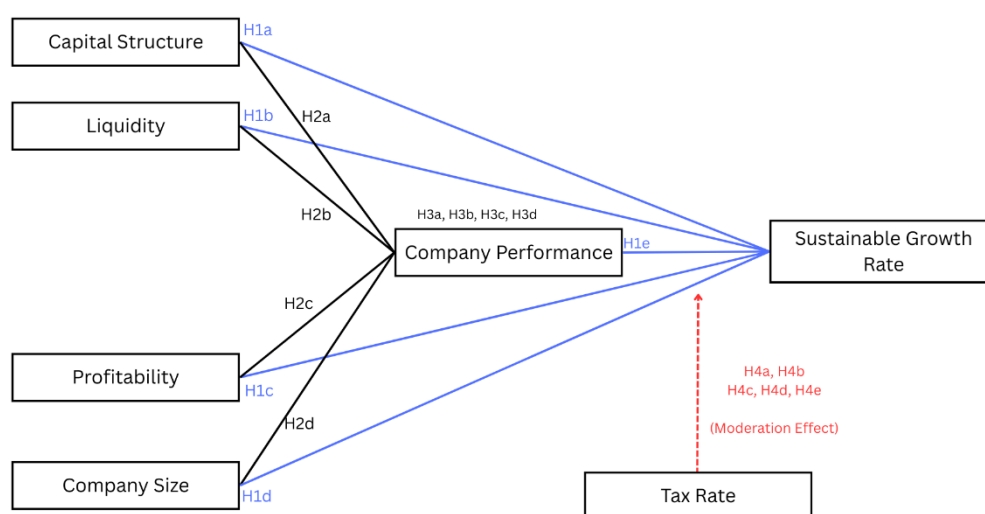


Figure 1. Research Framework

This research, in the framework of Figure 1, illustrates the relationship between financial determinants, including capital structure, liquidity, profitability, and company size, and the Sustainable Growth Rate (SGR) through three main pathways. First, the direct effect pathway, where each financial determinant is assumed to contribute directly to SGR. Second, the indirect effect pathway, with Tobin's Q (TQ) serving as a mediating variable representing company performance; in this pathway, financial determinants influence TQ, which in turn affects SGR. Third, the moderation pathway, where the Effective Tax Rate (ETR) acts as a moderator that can strengthen or weaken the effects of both financial determinants and TQ on SGR. By integrating aspects of company performance and the regulatory tax context, this framework provides a more

comprehensive understanding of the dynamic influence of financial factors on a company's sustainable growth.

RESEARCH METHODS

This study employed a quantitative approach with an explanatory research design to test hypotheses regarding the relationships between financial determinants, company performance, tax rates, and sustainable growth rate (SGR). The primary analysis technique was Structural Equation Modeling (SEM) using the Partial Least Squares (PLS-SEM) approach, which is suitable for examining complex models that include both mediating and moderating effects. The population consisted of all companies listed on the Indonesia Stock Exchange (IDX) during the 2018–2024 period. The purposive sampling method was applied with strict criteria: (1) companies consistently listed on the IDX throughout the study period, (2) complete financial reports available for the entire period, (3) no recorded losses during the observation years, (4) not undergoing delisting or suspension, and (5) complete data for all research variables.

The data collection relied entirely on secondary data obtained from multiple credible sources: annual financial reports from the official IDX website, databases such as Bloomberg, Thomson Reuters, and the Indonesian Capital Market Directory (ICMD), as well as official company websites for supplementary information. To provide a general overview of the dataset, descriptive statistics were calculated, including minimum, maximum, mean, and standard deviation values. Prior to hypothesis testing, classical assumption tests were conducted to ensure the model satisfied the Best Linear Unbiased Estimator (BLUE) requirements, covering normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

The SEM-PLS analysis followed a structured process. The measurement model (outer model) was first evaluated through convergent validity (loading factor, Average Variance Extracted), discriminant validity (Fornell-Larcker criterion, cross-loadings), and reliability tests (Cronbach's Alpha, Composite Reliability). Next, the structural model (inner model) assessment included the R-square coefficient, Q-square predictive relevance, path coefficients with significance testing, and effect size (f^2) analysis. Mediation effects were examined using Baron & Kenny's approach, the Sobel test, and bootstrapping for indirect effects. Moderation effects were tested through the product-indicator approach, two-stage approach, and orthogonalizing approach. Furthermore, a Multi-Group Analysis (MGA) was performed to assess differences in effects between groups categorized by tax rate levels.

By combining rigorous sampling criteria, robust statistical techniques, and comprehensive validity and reliability assessments, this research design ensures a methodologically sound evaluation of the interplay between financial determinants, company performance, taxation, and sustainable growth in the post-pandemic economic landscape. The empirical models in this research could be formulated as follows:

Model 1: Direct Influence of Financial Determinants on Sustainable Growth

$$\text{SGR} = \alpha + \beta_1\text{DER} + \beta_2\text{CR} + \beta_3\text{ROA} + \beta_4\text{SIZE} + \varepsilon$$

Model 2: Mediating Effect of Company Performance

$$\text{TQ} = \alpha + \beta_5\text{DER} + \beta_6\text{CR} + \beta_7\text{ROA} + \beta_8\text{SIZE} + \varepsilon$$

$$\text{SGR} = \alpha + \beta_9\text{DER} + \beta_{10}\text{CR} + \beta_{11}\text{ROA} + \beta_{12}\text{SIZE} + \beta_{13}\text{TQ} + \varepsilon$$

Model 3: Moderating Effect of Tax Rate

$$\begin{aligned} \text{SGR} = & \alpha + \beta_{14}\text{DER} + \beta_{15}\text{CR} + \beta_{16}\text{ROA} + \beta_{17}\text{SIZE} + \beta_{18}\text{ETR} + \beta_{19}(\text{DER} \times \text{ETR}) \\ & + \beta_{20}(\text{CR} \times \text{ETR}) + \beta_{21}(\text{ROA} \times \text{ETR}) + \beta_{22}(\text{SIZE} \times \text{ETR}) + \varepsilon \end{aligned}$$

Model 4: Combination of Mediating and Moderating Effects

$$\begin{aligned} \text{TQ} = & \alpha + \beta_{23}\text{DER} + \beta_{24}\text{CR} + \beta_{25}\text{ROA} + \beta_{26}\text{SIZE} + \beta_{27}\text{ETR} + \beta_{28}(\text{DER} \times \text{ETR}) \\ & + \beta_{29}(\text{CR} \times \text{ETR}) + \beta_{30}(\text{ROA} \times \text{ETR}) + \beta_{31}(\text{SIZE} \times \text{ETR}) + \varepsilon \end{aligned}$$

$$\begin{aligned} \text{SGR} = & \alpha + \beta_{32}\text{DER} + \beta_{33}\text{CR} + \beta_{34}\text{ROA} + \beta_{35}\text{SIZE} + \beta_{36}\text{TQ} + \beta_{37}\text{ETR} + \\ & \beta_{38}(\text{DER} \times \text{ETR}) + \beta_{39}(\text{CR} \times \text{ETR}) + \beta_{40}(\text{ROA} \times \text{ETR}) + \beta_{41}(\text{SIZE} \times \text{ETR}) \\ & + \beta_{42}(\text{TQ} \times \text{ETR}) + \varepsilon \end{aligned}$$

Where :
SGR : Sustainable Growth Rate
DER : Debt to Equity Ratio
CR : Current Ratio
ROA : Return on Assets
SIZE : Ln (Total Assets)
TQ : Tobin's Q
ETR : Effective Tax Rate
 α : Constant
 β : Regression coefficient
 ε : Error term

RESULTS

Based on Table 1, the average Sustainable Growth Rate (SGR) of sample companies during the research period was 9.7% with a standard deviation of 8.6%. The minimum SGR value was -12.4%, and the maximum value was 48.7%. The variation in SGR values indicated differences in sustainable growth capacity among companies in the sample. For independent variables, the average Debt to Equity Ratio (DER) of sample companies was 1.247 times, indicating that, on average, companies had liabilities 1.247 times their equity. The average Current Ratio (CR) of companies was 2.136 times, indicating the ability of companies to meet their short-term obligations with their current assets. The average Return on Assets (ROA) was 8.7%, showing management efficiency in using assets to generate profit. Company size (SIZE), measured by the natural logarithm of total assets, had an average of 15.873 with a standard deviation of 1.754.

Table 1. Descriptive Statistics of Research Variables

Variable	N	Minimum	Maximum	Mean	Std. Deviation
SGR	672	-0.124	0.487	0.097	0.086
DER	672	0.104	3.846	1.247	0.673
CR	672	0.682	4.935	2.136	0.894
ROA	672	0.012	0.352	0.087	0.068
SIZE	672	11.842	20.635	15.873	1.754
TQ	672	0.645	3.987	1.564	0.682
ETR	672	0.137	0.329	0.219	0.037

For the mediating variable, the average Tobin's Q value was 1.564, indicating that, in general, the market value of sample companies was higher than the book value of their assets (value > 1). Meanwhile, for the moderating variable, the average Effective Tax Rate (ETR) of companies was 21.9%, showing the effective tax burden borne by companies relative to their profit before tax.

Table 2. Convergent Validity Test Results

Construct	Indicator	Loading Factor	AVE
Capital Structure	DER	0.935	0.874
Liquidity	CR	0.902	0.814
Profitability	ROA	0.947	0.897
Company Size	SIZE	0.921	0.848
Company Performance	Tobin's Q	0.883	0.779
Tax Rate	ETR	0.908	0.825
Sustainable Growth	SGR	0.926	0.857

The convergent validity test results in Table 2 showed that all indicators had loading factors above 0.7 and Average Variance Extracted (AVE) values for all constructs above

0.5. This indicated that the indicators used in the research were valid in measuring the intended constructs.

Table 3. Discriminant Validity Test Results (Fornell-Larcker Criterion)

Construct	1	2	3	4	5	6	7
Capital Structure	0.935						
Liquidity	-0.482	0.902					
Profitability	-0.163	0.235	0.947				
Company Size	0.276	-0.129	0.186	0.921			
Company Performance	-0.208	0.275	0.548	0.143	0.883		
Tax Rate	0.095	-0.083	-0.147	0.102	-0.094	0.908	
Sustainable Growth	-0.135	0.192	0.573	0.211	0.492	-0.182	0.926

Based on Table 3, the results indicate strong construct validity and distinctiveness among the study variables. Each construct shows high loading on its own dimension (ranging from 0.883 to 0.947) and low cross-loadings with other constructs, suggesting clear separation between capital structure, liquidity, profitability, company size, company performance, tax rate, and sustainable growth. This confirms that the measurement model reliably captures the intended concepts and that the constructs are empirically distinct.

Table 4. Reliability Test Results

Construct	Cronbach's Alpha	Composite Reliability
Capital Structure	0.857	0.933
Liquidity	0.792	0.898
Profitability	0.887	0.945
Company Size	0.827	0.918
Company Performance	0.762	0.875
Tax Rate	0.803	0.904
Sustainable Growth	0.836	0.923

The reliability test results in Table 4 showed that all constructs had Cronbach's Alpha values above 0.7 and Composite Reliability above 0.8. This indicated that the measurement instruments used in this research had good internal consistency and were reliable.

Table 5. R-Square Value

Endogenous Variable	R-Square	R-Square Adjusted
Company Performance (TQ)	0.382	0.371
Sustainable Growth (SGR)	0.479	0.463

Based on Table 5, the R-Square value for the company performance variable (Tobin's Q) was 0.382, which meant that the variability of company performance could be explained by financial determinants (capital structure, liquidity, profitability, and company size) by 38.2%, while the rest (61.8%) was explained by other variables outside the model. For the Sustainable Growth Variable (SGR), the R-Square value of 0.479 indicated that 47.9% of the variability in sustainable growth could be explained by financial determinants and company performance, while the rest (52.1%) was explained by other variables outside the model. According to Chin's (1998) criteria, an R-Square value > 0.33 falls into the moderate category, so this research model had relatively good predictive power.

Based on Table 6, the results indicate that profitability ($\beta = 0.417$, $p < 0.001$), liquidity ($\beta = 0.086$, $p < 0.05$), and company size ($\beta = 0.154$, $p < 0.001$) significantly positively influence sustainable growth rate (SGR), while capital structure ($\beta = -0.075$, $p = 0.053$) has no significant effect. For market performance (Tobin's Q), capital structure ($\beta = -0.129$, $p < 0.01$), liquidity ($\beta = 0.147$, $p < 0.01$), and profitability ($\beta = 0.498$, $p < 0.001$) are significant predictors, whereas company size ($\beta = 0.072$, $p = 0.059$) is not.

Additionally, Tobin's Q positively affects SGR ($\beta = 0.192$, $p < 0.001$), highlighting its mediating role in the relationship between financial factors and sustainable growth.

Table 6. Direct Effect Testing Results

Hypothesis	Path	Path Coefficient	t-Statistics	p-Values	Conclusion
H1a	Capital Structure \rightarrow SGR	-0.075	1.937	0.053	Rejected
H1b	Liquidity \rightarrow SGR	0.086	2.163	0.031**	Accepted
H1c	Profitability \rightarrow SGR	0.417	9.328	0.000***	Accepted
H1d	Company Size \rightarrow SGR	0.154	3.751	0.000***	Accepted
H1 e	TQ \rightarrow SGR	0.192	3.972	0.000***	Accepted
H2 a	Capital Structure \rightarrow TQ	-0.129	2.681	0.008***	Accepted
H2 b	Liquidity \rightarrow TQ	0.147	3.075	0.002***	Accepted
H2 c	Profitability \rightarrow TQ	0.498	10.536	0.000***	Accepted
H2 d	Company Size \rightarrow TQ	0.072	1.894	0.059	Rejected

Note: ** significant at 0.05 level; *** significant at 0.01 level

Table 7. Mediation Effect Testing Results

Hypothesis	Path	Indirect Effect	t-Statistics	p-Values	Conclusion
H3a	Capital Structure \rightarrow TQ \rightarrow SGR	-0.025	2.124	0.034**	Accepted
H3b	Liquidity \rightarrow TQ \rightarrow SGR	0.028	2.341	0.020**	Accepted
H3c	Profitability \rightarrow TQ \rightarrow SGR	0.096	3.815	0.000***	Accepted
H3d	Company Size \rightarrow TQ \rightarrow SGR	0.014	1.679	0.094	Rejected

Note: ** significant at 0.05 level; *** significant at 0.01 level

Based on Table 7, the mediation analysis shows that Tobin's Q significantly mediates the effects of capital structure (indirect effect = -0.025, $p < 0.05$), liquidity (indirect effect = 0.028, $p < 0.05$), and profitability (indirect effect = 0.096, $p < 0.001$) on Sustainable Growth Rate (SGR). However, the mediating effect of Tobin's Q for company size (indirect effect = 0.014, $p = 0.094$) is not significant.

The results in Table 8 indicate that tax rate (ETR) significantly moderates the effects of capital structure ($DER \times ETR$, $\beta = 0.112$, $p < 0.05$) and profitability ($ROA \times ETR$, $\beta = -0.154$, $p < 0.001$) on sustainable growth rate (SGR), as well as the effect of Tobin's Q ($TQ \times ETR$, $\beta = -0.103$, $p < 0.05$). However, the moderating effects of ETR on liquidity ($CR \times ETR$, $\beta = -0.089$, $p = 0.061$) and company size ($SIZE \times ETR$, $\beta = 0.065$, $p = 0.125$) are not significant, suggesting that tax rate influences growth primarily through debt, profitability, and market performance channels.

Table 8. Moderation Effect Testing Results

Hypothesis	Path	Path Coefficient	t-Statistics	p-Values	Conclusion
H4a	$DER \times ETR \rightarrow$ SGR	0.112	2.457	0.014**	Accepted
H4b	$CR \times ETR \rightarrow$ SGR	-0.089	1.874	0.061	Rejected
H4c	$ROA \times ETR \rightarrow$ SGR	-0.154	3.275	0.001***	Accepted
H4d	$SIZE \times ETR \rightarrow$ SGR	0.065	1.536	0.125	Rejected
H4e	$TQ \times ETR \rightarrow$ SGR	-0.103	2.218	0.027**	Accepted

Note: ** significant at 0.05 level; *** significant at 0.01 level

DISCUSSION

Profitability has the strongest positive impact on sustainable growth ($\beta = 0.417$, $p < 0.001$), highlighting its key role in generating internal funds, reducing external financing needs, and signaling efficiency to stakeholders. Company size also positively affects growth ($\beta = 0.154$, $p < 0.001$), reflecting economies of scale through market power, better

capital access, and operational efficiency, with the coefficient indicating a meaningful practical effect.

Liquidity has a positive but modest effect on sustainable growth ($\beta = 0.086$, $p < 0.05$), showing that effective working capital management supports but does not drive growth. Adequate liquidity offers flexibility and responsiveness to opportunities, while excessive cash may signal inefficiency. This balance reflects the precautionary and efficiency motives for liquidity, enabling firms to meet obligations, maintain supplier relations, and invest in growth without constraints.

Capital structure shows no significant direct effect on sustainable growth ($\beta = -0.075$, $p = 0.053$), indicating that its influence operates mainly through indirect mechanisms rather than direct pathways. While the negative coefficient aligns with pecking order theory, conservative leverage levels in the sample (average DER of 1.247) and varied strategic uses of debt may dilute direct impacts. The near-significance level suggests potential effects mediated or moderated by other factors, highlighting the importance of examining interaction mechanisms. This finding aligns with recent research showing profitability as the dominant driver of sustainable growth ($\beta = 0.417$) in emerging markets (Erawati et al., 2025), particularly post-pandemic, when operationally efficient companies exhibited stronger resilience and growth capacity (Vuković et al., 2022). It also supports evidence that emerging market firms tend to maintain conservative leverage to avoid financial distress costs (Prakash et al., 2023), a trend reinforced in the post-COVID era as companies prioritize financial flexibility over leverage optimization (DeAngelo et al., 2020).

Company performance (Tobin's Q) mediates the link between financial determinants and sustainable growth, translating internal financial strategies into market-recognized value. For profitability, a strong mediation effect (indirect effect = 0.096, $p < 0.001$) shows a dual growth pathway: reinvestment from retained earnings and higher market valuation enabling external financing, explaining its dominant direct and mediated impacts.

The results show that capital structure negatively mediates growth through company performance (-0.025 , $p < 0.05$), indicating that high leverage can lower market valuation (Tobin's Q) and constrain long-term growth by signaling financial risk and limiting managerial flexibility. In contrast, liquidity positively mediates growth via performance (0.028 , $p < 0.05$), demonstrating that effective working capital management enhances market perceptions of operational efficiency and strategic flexibility, signaling sustainable performance and lower financial distress risk.

The results indicate that company size does not significantly mediate growth through performance (0.014 , $p=0.094$), suggesting that while size provides operational advantages, market perceptions value effective scale utilization over size alone, consistent with "size discount" effects and highlighting the influence of information asymmetries in emerging markets (Lim & Mali, 2023; Rahman et al., 2024). Meanwhile, the positive moderation of tax rate on the capital structure–growth relationship ($\beta = 0.112$, $p < 0.05$) supports trade-off theory, showing that higher taxes can mitigate leverage's growth constraints through tax shield benefits, emphasizing the need for firms in high-tax environments to align debt strategies with tax planning while maintaining financial flexibility.

The results show that high tax rates significantly constrain the growth benefits of profitability ($\beta = -0.154$, $p < 0.001$) by reducing reinvestment capacity, particularly affecting highly profitable firms, while non-significant moderation for company size and liquidity indicates that tax mainly influences debt and profitability decisions rather than scale or working capital strategies. Additionally, the negative interaction between performance and tax rate ($\beta = -0.103$, $p < 0.05$) suggests that strong market performance translates less effectively into growth in high-tax environments, highlighting the importance of tax policies that support reinvestment and sustainable growth for productive companies (Do et al., 2023).

The interaction between mediating and moderating effects highlights that firms should adopt integrated, context-sensitive, and dynamic financial strategies, considering both performance and tax environments to optimize growth. Theoretically, this study extends sustainable growth theory by showing that incorporating performance mediation (Tobin's Q) and tax rate moderation provides a more comprehensive and realistic framework for understanding corporate growth dynamics.

CONCLUSION

Based on the findings, sustainable growth in companies listed on the Indonesia Stock Exchange is primarily driven by liquidity, profitability, and company size, with profitability being the strongest determinant. Capital structure showed no direct significant effect, indicating that debt alone does not guarantee long-term growth. Company performance mediates the effects of financial factors on sustainable growth, with full mediation for capital structure and partial mediation for liquidity and profitability, while company size's effect is not significantly mediated, suggesting that operational scale does not automatically translate into performance gains.

Tax rate moderates these relationships in nuanced ways: higher taxes reduce the growth benefits of profitability and partially offset the negative effects of capital structure, whereas liquidity and company size remain largely unaffected. The combined mediation and moderation analysis further shows that the positive impact of company performance on sustainable growth weakens under higher tax burdens, emphasizing the importance of strategic tax planning.

This study contributes to understanding sustainable growth in emerging markets by highlighting the interplay between financial metrics, market-based performance, and regulatory contexts. A limitation is the focus on select financial and market variables, potentially overlooking organizational, institutional, or behavioral factors. Practically, managers should focus on operational efficiency, profitability management, and alignment with tax environments, while policymakers should design tax policies that consider firm heterogeneity to avoid restricting growth for highly productive companies. Future research could expand the model by including corporate governance, innovation, or macroeconomic variables and test these relationships across different emerging market settings to enhance generalizability.

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