# Sustainable Growth Rate as A Mediator of Financial and Macroeconomic Effects on The Stock Price Performance in Islamic Firms

**Hastuti [1]\*, Buyung Sarita [2], Intihanah [2], Salma Saleh [2]**

[1] *Haluoleo University Universitas Muhammadiyah Buton Doctoral Student in Management Science, Postgraduate Program, Haluoleo University*
[2] *Haluoleo University*
*\*Corresponding author E-mail: tutie977@gmail.com*

## Abstract

This study examines the impact of firm-specific financial factors and macroeconomic conditions on the stock price performance of Islamic firms listed on the Indonesia Stock Exchange by incorporating the Sustainable Growth Rate (SGR) as a mediating variable. The inclusion of SGR addresses an important gap in prior Islamic finance literature, which has largely emphasized direct relationships between financial indicators and stock prices while overlooking the internal growth mechanism that links corporate policies to market valuation. Given the Sharia-based restrictions on excessive leverage and speculative activities, sustainable internal growth is expected to play a central role in shaping stock performance in Islamic capital markets. This research employs an explanatory quantitative design using panel data from 20 non-financial Sharia-compliant firms over the 2019–2024 period. Capital structure, dividend policy, profitability, operational efficiency, firm size, inflation, and gross domestic product (GDP) are specified as independent variables, while stock price performance is proxied by the Price to Book Value (PBV). Panel data regression analysis is conducted using the Random Effects Model (REM), selected based on the Chow test, Hausman test, and Lagrange Multiplier test. The mediating role of SGR is subsequently evaluated through Sobel testing.
The empirical findings indicate that dividend policy, profitability, and operational efficiency have a positive and statistically significant effect on stock price performance, confirming the dominant role of internal financial fundamentals in Islamic equity valuation. In contrast, capital structure, firm size, inflation, and GDP do not exhibit significant direct effects, suggesting limited short-term transmission of leverage and macroeconomic conditions into market prices. Mediation analysis further reveals that SGR significantly mediates the influence of capital structure and dividend policy on stock price performance, while no mediating effect is observed for profitability, efficiency, firm size, inflation, or GDP. Overall, this study concludes that internal financial policies and sustainable growth capacity are more decisive determinants of Islamic stock price performance than external macroeconomic factors. The findings contribute to the literature by extending sustainable growth theory within an Islamic finance framework and provide practical implications for managers, investors, and regulators seeking to enhance long-term value creation and financial resilience in Sharia-compliant capital markets.

*Keywords*: *Capital Structure; Dividend Policy; Islamic Firms; Macroeconomic Indicators; Stock Price Performance; Sustainable Growth Rate.*

## 1. Introduction

Stock price performance serves as an essential indicator of market valuation, investor perception, and a firm's long-term financial strength. Within the framework of the efficient market hypothesis, stock prices are assumed to incorporate all publicly available information regarding company fundamentals and macroeconomic conditions (Fama, 1970). In Islamic capital markets, however, stock valuation is not solely determined by conventional financial performance; it is also governed by Sharia principles, including the prohibition of interest-based leverage (riba), speculative behavior (gharar), and unethical business activities (Ahmed, 2010; Dusuki & Abdullah, 2007). As a result, investment decisions in Islamic equity markets place greater emphasis on financial sustainability, risk-sharing arrangements, and ethical corporate governance.
From the perspective of corporate finance theory, firm-specific characteristics—such as capital structure, dividend policy, profitability, operational efficiency, and firm size—play a significant role in shaping stock price performance (Modigliani & Miller, 1963; Brealey et al., 2020). Profitability reflects a firm's capacity to generate returns for shareholders and is positively linked to firm value through signaling effects (Ross, 1977). Dividend policy also functions as an important communication tool between management and investors, whereby stable dividend payments may strengthen investor confidence, particularly in Islamic firms that prioritize predictable and compliant income streams (Lintner, 1956; Al-Tamimi, 2014).
Operational efficiency and firm size further influence market valuation by reducing information asymmetry and enabling economies of scale (Titman & Wessels, 1988; Jensen & Meckling, 1976). Larger Islamic firms generally exhibit greater stock price stability, supported

by stronger governance structures and more rigorous Sharia compliance monitoring (Ho et al., 2014). Nonetheless, Islamic finance theory advocates balanced growth strategies that rely on prudent financing mechanisms consistent with Sharia principles. Growth is therefore expected to be driven mainly by internally generated funds, reflecting an emphasis on financial discipline and organizational resilience rather than aggressive expansion financed by excessive leverage (Chapra, 2008). In addition to firm-level financial characteristics, macroeconomic factors—such as inflation and gross domestic product (GDP)—play a crucial role in shaping stock price dynamics by affecting consumer purchasing power, production costs, and overall demand in the economy (Mishkin, 2019). Empirical evidence indicates that inflation generally has a negative effect on stock prices due to escalating input costs, whereas GDP growth contributes positively to stock valuation by enhancing corporate revenue and earnings expectations (Chen et al., 1986; Rahman et al., 2020). In Islamic capital markets, maintaining macroeconomic stability is particularly important, as heightened volatility can increase Sharia compliance risks and weaken incentives for long-term investment (Hassan & Aliyu, 2018).

More recently, the concept of the Sustainable Growth Rate (SGR) has gained attention as a comprehensive financial indicator that integrates profitability, dividend policy, leverage, and asset utilization efficiency (Higgins, 1977). SGR defines the maximum rate at which a firm can grow while relying solely on internal financing, without the need for additional external funds. This notion closely corresponds with the principles of Islamic finance, which emphasize internally driven growth, cautious risk management, and restrained dependence on debt financing (Khan, 2015; Ismal, 2013). Firms operating at or below their SGR are generally regarded as more financially robust and better protected against external economic shocks.

Despite its strategic importance, the mediating role of SGR in channeling the effects of internal financial policies and macroeconomic conditions into stock price performance has received limited scholarly attention. Existing empirical research predominantly examines direct relationships between financial variables and stock prices, overlooking the indirect pathway through which sustainable growth shapes market valuation (Van Horne & Wachowicz, 2008; Brigham & Houston, 2019). This shortcoming is especially pronounced in studies focusing on Islamic firms. Nur Aina Ramli et al. (2022) observe that macroeconomic factors are seldom incorporated into analytical frameworks linking sustainable growth and stock performance in Islamic companies, highlighting a significant theoretical and empirical gap. Similarly, Indonesian studies—such as those by Kesuma and Trisnawati (2023) and Putra et al. (2022)—tend to treat firm-specific financial ratios and macroeconomic indicators as separate determinants, without explicitly examining the mediating function of SGR. Given Indonesia's status as one of the world's largest Islamic capital markets, this limitation constrains both the generalizability and policy relevance of existing findings.

In response to these gaps, the present study examines whether SGR mediates the effects of capital structure, dividend policy, profitability, operational efficiency, firm size, inflation, and GDP on stock price performance in Islamic firms. Theoretically, this research positions SGR as a strategic financial mechanism that connects corporate financial decisions and macroeconomic forces to market valuation within an Islamic finance framework. Empirically, it integrates internal and external determinants into a unified mediation model, offering meaningful insights for managers, investors, and regulators seeking to promote sustainable value creation and long-term financial stability in Islamic capital markets.

## 2. Literature Review

This study is grounded in corporate finance, Islamic finance, and macroeconomic theories to explain stock price performance in Islamic firms. Firm-specific factors—capital structure, dividend policy, profitability, operational efficiency, and firm size—along with macroeconomic variables such as inflation and GDP, are widely recognized determinants of market valuation. However, in Islamic capital markets, these relationships may differ due to Sharia principles that limit excessive leverage and speculative behavior, thereby emphasizing internal financing capacity and sustainable growth.

Capital structure theory suggests an optimal balance between debt and equity (Modigliani & Miller, 1963), yet Islamic firms face restrictions on interest-based financing, reducing the direct valuation role of leverage. Consequently, capital structure is more likely to affect stock prices indirectly through internal growth capacity. Dividend policy, under signaling theory, conveys information about financial stability and prospects (Lintner, 1956). In Islamic firms, dividends also represent halal income while retained earnings support internal growth, making dividend decisions crucial for both valuation and sustainability. Profitability and operational efficiency signal managerial quality and positively influence stock prices (Ross, 1977; Jensen & Meckling, 1976), although their contribution to sustainable growth depends on reinvestment policies. Firm size, while associated with stability, does not consistently enhance stock value in Islamic markets, where investors prioritize fundamentals, compliance, and growth quality over scale.

Macroeconomic variables such as inflation and GDP theoretically affect stock prices through purchasing power and economic expansion (Mishkin, 2019). However, empirical evidence in Islamic markets shows weak or insignificant effects, suggesting that firm-level financial resilience absorbs macroeconomic shocks more effectively than direct market transmission.

The Sustainable Growth Rate (SGR) integrates profitability, dividend policy, leverage, and efficiency, representing the maximum growth a firm can sustain without external financing (Higgins, 1977). This concept aligns closely with Islamic finance principles emphasizing financial discipline and internal growth (Khan, 2015; Ismal, 2013). Despite its relevance, prior studies largely neglect SGR's mediating role. This study addresses this gap by positioning SGR as a mediating mechanism linking financial policies and macroeconomic conditions to stock price performance, thereby offering a more comprehensive explanation of valuation dynamics in Islamic capital markets, particularly in Indonesia.

### 2.1. Research gap

Stock price performance in Islamic firms remains an important research issue due to Sharia principles that limit excessive leverage, speculation, and non-halal income, thereby increasing firms' reliance on internal financing and sustainable growth (Chapra, 2008; Hassan & Aliyu, 2018). Although prior studies have examined the effects of capital structure, dividend policy, profitability, efficiency, firm size, inflation, and GDP on stock prices, most focus on direct relationships and largely ignore the role of the Sustainable Growth Rate (SGR) as a mediating mechanism, despite its strong theoretical linkage to profitability, dividend retention, leverage, and asset efficiency (Higgins, 1977; Brigham & Houston, 2019). From a financial sustainability perspective, SGR is particularly relevant for Islamic firms that emphasize financial discipline and risk-sharing (Ismal, 2013; Khan, 2015).

Empirical evidence also remains inconsistent, especially regarding capital structure, profitability, and efficiency in Islamic capital markets. While some studies find positive effects on stock prices, others report insignificant or negative relationships, indicating that financial performance may not be fully translated into market valuation without a sustainable growth channel (Ho et al., 2014; Nur Aina Ramli et

al., 2022; Ahmed, 2010). Similarly, findings on macroeconomic variables such as inflation and GDP are mixed, and their influence on Islamic stock prices may operate indirectly through firms' internal financial sustainability (Chen et al., 1986; Mishkin, 2019; Rahman et al., 2020). Moreover, empirical studies focusing on Indonesian Islamic-listed firms are still limited and generally separate firm-specific and macroeconomic analyses without considering SGR as a mediator (Putra et al., 2022; Kesuma & Trisnawati, 2023). This gap highlights the need for an integrated framework that incorporates internal financial factors, macroeconomic conditions, and SGR to better explain stock price performance in Islamic capital markets.

## 2.2. Objectives

Based on the research gaps identified, this study aims to achieve the following objectives:
a) To analyze the direct effects of capital structure, dividend policy, profitability, company efficiency, firm size, inflation, and GDP on the stock price performance of Islamic firms listed in Indonesia.
b) To examine the influence of firm-specific and macroeconomic variables on the Sustainable Growth Rate (SGR) as an internal growth indicator.
c) To evaluate the mediating role of SGR in the relationship between financial variables (capital structure, dividend policy, profitability, efficiency, and firm size) and stock price performance.
d) To assess whether SGR mediates the effect of macroeconomic factors (inflation and GDP) on stock price performance.
e) To provide empirical insights into how sustainable internal growth contributes to market valuation in Islamic firms.

# 3. Research Methods

## 3.1. Research design

This study employs an explanatory quantitative research design aimed at examining causal relationships between firm-specific financial factors, macroeconomic variables, Sustainable Growth Rate (SGR) as a mediating variable, and stock price performance. The explanatory approach is appropriate for testing theoretically grounded causal relationships using empirical data (Creswell & Creswell, 2018; Hair et al., 2019). The analytical framework is based on panel data regression, which enables the examination of both cross-sectional differences among firms and time-series variations over the observation period. The mediation mechanism of SGR is evaluated to assess whether internal sustainable growth channels the effects of financial and macroeconomic factors on stock price performance, consistent with mediation theory (Baron & Kenny, 1986; Higgins, 1977).

## 3.2. Population and research sample

The population of this study consists of Sharia-compliant firms listed on the Indonesia Stock Exchange (IDX) during the 2019–2023 period. A purposive sampling technique was applied using the following criteria:
1) Firms consistently listed as Sharia stocks during the observation period
2) Availability of complete annual financial statements for five consecutive years
3) Inclusion in non-financial sectors to avoid structural bias associated with financial institutions
Based on these criteria, 20 firms were selected, yielding 100 firm-year observations as balanced panel data.

## 3.3. Operational definitions and variable measurements

All variables were operationalized based on established financial and macroeconomic literature to ensure conceptual validity and empirical reliability. Measurements rely exclusively on ratio and percentage scales, appropriate for regression-based analysis.
Table 1 presents the operational definitions, formulas, and data sources of all variables.

**Table 1:** Operational Definitions and Variable Measurements

| No. | Variable | Symbol | Key Indicators | Formula | Scale | Data Source |
|---|---|---|---|---|---|---|
| 1 | Capital Structure | $X_1$ | Debt-to-Equity Ratio | DER = Total Debt / Total Equity | Ratio | IDX Financial Report |
| 2 | Dividend Policy | $X_2$ | Dividend Payout Ratio | DPR = Cash Dividend / Net Profit | Ratio | Financial Statements |
| 3 | Profitability | $X_3$ | Return on Assets | ROA = Net Profit / Total Assets | Ratio | Financial Statements |
| 4 | Enterprise Efficiency | $X_4$ | Total Asset Turnover | TATO = Net Sales / Total Assets | Ratio | Financial Statements |
| 5 | Company Size | $X_5$ | Total Asset Log | Ln(Total Assets) | Ratio | Financial Statements |
| 6 | Inflation | $X_6$ | Inflation Rate | $(CPI - CPI_{-1})/CPI_{t-1} \times 100\%$ | Percentage | BPS |
| 7 | Gross Domestic Product | $X_7$ | GDP growth | $(PDB_t - PDB_{t-1})/PDB_{t-1} \times 100\%$ | Percentage | BPS/BI |
| 8 | Sustainable Growth Rate | Z | Sustainable Growth Rate | SGR = ROE × (1 - DPR) | Ratio | Financial Statements |
| 9 | Stock Price Performance | Y | Price to Book Value | PBV = Share Price / Book Value per Share | Ratio | EIB |

Source: Primary data processed, 2025.

### 3.4. Data collection techniques

This study utilizes secondary data, consisting of firm-level financial data obtained from annual reports and IDX publications, as well as macroeconomic indicators sourced from Bank Indonesia (BI) and the Central Statistics Agency (BPS).

Panel data analysis was conducted using EViews software, following these steps:

a) Descriptive Statistics

Descriptive analysis was performed to summarize the distributional characteristics of each variable, including mean, minimum, maximum, and standard deviation.

b) Panel Model Selection

To determine the most appropriate panel regression model, the following specification tests were conducted:

- Chow Test (Pooled vs. Fixed Effects)
- Lagrange Multiplier Test (Pooled vs. Random Effects)
- Hausman Test (Fixed vs. Random Effects)

Based on these tests, the Random Effects Model (REM) was selected as the most suitable specification, indicating that firm-specific effects are random and uncorrelated with the explanatory variables.

c) Panel Regression Estimation

The REM was employed to estimate:

- The direct effects of firm-specific and macroeconomic variables on stock price performance
- The effects of explanatory variables on Sustainable Growth Rate (SGR)

Statistical significance was evaluated using t-tests, while overall model validity was assessed using the F-test and the coefficient of determination ($R^2$).

### 3.5. Mediation analysis

To examine the mediating role of Sustainable Growth Rate (SGR), the Sobel test was applied. This method evaluates whether the indirect effect of independent variables on stock price performance through SGR is statistically significant. The Sobel test is appropriate for regression-based mediation analysis and is consistent with the panel estimation framework used in this study.

### 3.6. Hypothesis testing

All hypotheses were tested at a 5% significance level ($\alpha = 0.05$). Decisions were based on coefficient signs, probability values (p-values), and the statistical significance of indirect effects in the mediation model.

## 4. Result and Discussion

### 4.1. Structural model selection

"Panel model selection was conducted using the Chow, Hausman, and Lagrange Multiplier tests. The Chow test favored the Fixed Effects Model, while the Hausman test indicated that the Random Effects Model (REM) was more efficient. This result was further confirmed by the LM test, which showed significant random effects. Therefore, the REM was selected for subsequent analysis." The table of test results of the panel data regression model selection using EViews consists of three main stages: Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test. This table is systematically designed to be easy to understand and in accordance with the format of presenting academic research results.

**Table 2:** Chow (Redundant Fixed Effects Test) Test Results

| Effects Test | Statistics | D.F. | Prob. |
|---|---|---|---|
| Cross-section F | 6.817292 | (49,192) | 0.0000 |
| Cross-section Chi-square | 251.973953 | 49 | 0.0000 |

Source: Primary data processed, 2025.

Based on Table 2, the probability value (Prob.) of 0.0000 < 0.05 shows that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). This means that there are significant differences between Islamic companies that cause the variation in panel data that cannot be explained by just a general model.

**Table 3:** Hausman Test Results (Correlated Random Effects Test)

| Test Summary | Chi-Sq. Statistics | Chi-Sq. D.F. | Prob. |
|---|---|---|---|
| Cross-section random | 0.000000 | 8 | 1.0000 |

Source: Primary data processed, 2025.

Based on Table 3, the probability value of 1.0000 > 0.05 shows that there is no significant difference between the fixed effect and random effect, so the more efficient model used is the random effect Model (REM). Thus, the assumption that individual (firm) effects are random and do not correlate with independent variables is acceptable.

**Table 4:** Lagrange Test Results (LM Test for Random Effect)

| Test Hypothesis | Cross-section | Time | Both | Prob. Cross-section | Prob. Time | Probably both. |
|---|---|---|---|---|---|---|
| Breusch-Pagan | 48.3357 | 0.8203 | 49.1560 | 0.0000 | -0.3651 | 0.0000 |
| Honda | 6.9524 | -0.9057 | 4.2757 | 0.0000 | -0.8175 | 0.0000 |
| King-Wu | 6.9524 | -0.9057 | 1.0391 | 0.0000 | -0.8175 | -0.1494 |
| Std. Honda | 7.4801 | 0.0725 | 0.1376 | 0.0000 | -0.4711 | -0.4453 |
| Std. King-Wu | 7.4801 | 0.0725 | -1.5463 | 0.0000 | -0.4711 | -0.9390 |

Source: Primary data processed, 2025.

Based on Table 4, the Cross-section and both probability values for the Breusch-Pagan test of 0.0000 < 0.05 show that the random effect model is more appropriate than the Common Effect. This confirms that there is a significant random effect between Sharia companies in this study.

**Table 5:** Summary of Panel Data Regression Model Selection

| Stages of Testing | Tested Models | Test Results | Selected Models |
|---|---|---|---|
| Chow Test | Common Effect vs Fixed Effect | FEM is better (Prob < 0.05) | Fixed Effect Model (FEM) |
| Hausman Test | Fixed Effect vs Random Effect | More efficient REM (Prob > 0.05) | Random Effect Model (REM) |
| Lagrange Multiplier Test | Common Effect vs Random Effect | REM is better (Prob < 0.05) | Random Effect Model (REM) |

Source: Primary data processed, 2025.

Based on the results of the three tests above, it was concluded that the best and most suitable model to be used in this study is the random effect model (REM). The selection of REM is based on the consideration that individual effects between Islamic companies are random and do not correlate with independent variables, so this model is more efficient than the Fixed Effect Model. In addition, the significant results of the LM Test reinforce that variation between entities cannot be explained by a general model (CEM) alone, but must take into account the inherent random effects of each company. The REM model also allows the results of this study to have a broader generalization of the population of Islamic companies on the Indonesia Stock Exchange, because this model does not limit the effects of individuals only to the companies in the sample. Thus, the estimated results obtained are expected to be more representative of the empirical condition of the Islamic financial sector nationally.

### 4.2. Classic assumption test

Based on the results of the previous model selection, it is known that the best model used in this study is the random effect model. After the model is selected, the next step is to perform a classical assumption test, which aims to ensure that the regression model meets the basic assumptions so that the estimation results are BLUE (Best Linear Unbiased Estimator). The classical assumption test carried out includes the multicollinearity test and the heteroscedasticity test.

## 5. Multicollinearity Test

The multicollinearity test aims to detect a very high correlation between independent variables in the regression model. If the free variables are strongly correlated with each other (generally above 0.85 or 0.90), then the model is considered to have a multicollinearity problem that can cause unreliable estimation results. High multicollinearity makes independent variables difficult to interpret individually due to the overlap of information between variables. In the context of this study, the multicollinearity test was carried out using a correlation matrix between independent variables in the EViews software.

**Table 5:** Correlation Test Results between Independent Variables

| Variable | X1 | X2 | X3 | X4 | X5 | X6 | X7 |
|---|---|---|---|---|---|---|---|
| X1 | 1.000 | -0.022 | 0.036 | 0.015 | 0.122 | -0.064 | -0.109 |
| X2 | -0.022 | 1.000 | 0.085 | 0.029 | -0.065 | -0.035 | -0.073 |
| X3 | 0.036 | 0.085 | 1.000 | 0.242 | -0.143 | -0.044 | -0.072 |
| X4 | 0.015 | 0.029 | 0.242 | 1.000 | -0.315 | -0.026 | -0.051 |
| X5 | 0.122 | -0.065 | -0.143 | -0.315 | 1.000 | 0.044 | 0.070 |
| X6 | -0.064 | -0.035 | -0.044 | -0.026 | 0.044 | 1.000 | 0.555 |
| X7 | -0.109 | -0.073 | -0.072 | -0.051 | 0.070 | 0.555 | 1.000 |

Source: Primary data processed, 2025.

Based on Table 5 above, the entire correlation value between independent variables is below 0.85, which means that there is no very strong relationship between independent variables. Thus, the regression model in this study is free from the problem of multicollinearity. These results indicate that each independent variable has a unique contribution in explaining the variation of dependent variables without excessive information redundancy. This is in accordance with the opinion of Gujarati & Porter (2020) that the regression model is considered multicollinearity-free if the correlation value between the independent variables does not exceed 0.85. Therefore, the model can be continued at the next stage of classical assumption testing.

## 6. Heteroscedasticity Test

A heteroscedasticity test was performed to test whether the residual variance in the regression model was constant (homoskedastic) or variable (heteroscedastic) across independent variable values. In the classical linear regression model, the assumption of homogeneity is one of the conditions for the estimation results to be unbiased and the statistical tests (t and F) to be trusted. If heteroscedasticity occurs, then the standard error becomes inaccurate that which can lead to incorrect hypothesis testing conclusions.
In this study, the heteroscedasticity test was carried out through the analysis of residual scatterplot graphs on the fitted value (prediction) in the EViews application. The pattern of the distribution of points on the graph is used to detect the presence or absence of heteroscedasticity. If the residual points are randomly spread around the zero line without forming a specific pattern (either widening, narrowing, or curving), then the model is considered to be free of heteroscedasticity. On the other hand, if there is a clear pattern, then it indicates heteroscedasticity.
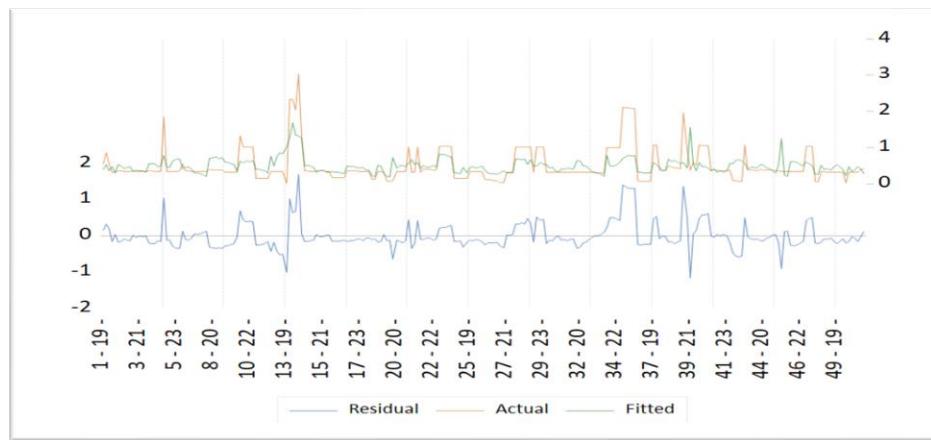
**Fig. 1:** Residual Scatterplot Chart.

The results of the heteroscedasticity test are presented in the form of a graph (Heteroscedasticity Test Drawing), where the residual distribution pattern indicates that the dots are scattered randomly and do not form a specific pattern. This shows that in accordance with the theory put forward by Ghozali (2021), which states that "if the residual distribution does not form a specific pattern and spreads randomly above and below the zero line, then heteroscedasticity does not occur in the regression model." Thus, the regression model in this study meets the assumption of homoskedasticity, which means that the variance of error between observations is relatively the same, and the estimated results are statistically reliable.

Overall, the results of the classical assumption test on the Random Effect Model (REM) model show that this research model has fulfilled the basic assumptions of regression, namely, there is no multicollinearity and there is no heteroscedasticity. With the fulfillment of these two assumptions, the regression model used can be declared valid and feasible for hypothesis testing and further analysis of the influence of independent variables on dependent variables.

### 6.1. Hypothesis test

The hypothesis test was carried out to test the extent to which independent variables affect both dependent and intervening variables using EViews 12 in the Random Effect Model (REM). The test was carried out through the t-test (partial), the F test (simultaneous), and the measurement of the determination coefficient ($R^2$). The results of this test provide a basis for accepting or rejecting previously formulated hypotheses, either individually or together, in order to determine the relationship between company-specific variables, macroeconomic variables, sustainable growth rates, and stock price performance.

1) Test of Independent Variable Hypotheses against Dependent Variables

Based on the results of the t-test on the EGLS (Cross-section random effects) panel model with the dependent variable Stock Price Performance (Y), it is known that the influence of each independent variable has a different direction and level of significance.

**Table 6:** Test of Independent Variable Hypotheses Against Dependent Variables

| Variable | Coefficient | Std. Error | t-Statistic | Prob. | Conclusion |
|---|---|---|---|---|---|
| Z | 0.15491 | 0.03648 | 4.24629 | 0.00003 | Significant (+) |
| X1 (Capital Structure) | 0.03477 | 0.05967 | 0.58272 | 0.56062 | Insignificant |
| X2 (Dividend Policy) | 0.14389 | 0.06529 | 2.20379 | 0.02849 | Significant (+) |
| X3 (Profitability) | 0.28434 | 0.11549 | 2.46201 | 0.01452 | Significant (+) |
| X4 (Enterprise Efficiency) | 0.15792 | 0.02880 | 5.48304 | 0.00000 | Significant (+) |
| X5 (Company Size) | -0.01168 | 0.01548 | -0.75459 | 0.45123 | Insignificant |
| X6 (Inflation) | 0.00290 | 0.01347 | 0.21514 | 0.82984 | Insignificant |
| X7 (PDB) | -0.17929 | 0.15900 | -1.12761 | 0.26061 | Insignificant |

Source: Primary data processed, 2025.

The above results show that of the seven independent variables tested, only Dividend Policy (X2), Profitability (X3), and Company Efficiency (X4) have a positive and significant effect on Stock Price Performance (Y), because the probability value is < 0.05. Meanwhile, Capital Structure (X1), Company Size (X5), Inflation (X6), and Gross Domestic Product (X7) had no significant effect on stock price performance. These results illustrate that internal factors such as the company's profit-making ability and efficiency are more dominant in influencing stock price movements than macroeconomic factors.

2) Independent Variable Hypothesis Test against Intervening Variables

The testing of the intervening variable, namely the Sustainable Growth Rate (Z), was carried out using the Random Effect Model (REM). The results are presented as follows:

**Table 7:** Independent Variable Hypothesis Test Against Intervening Variables

| Variable | Coefficient | Std. Error | t-Statistic | Prob. | Conclusion |
|---|---|---|---|---|---|
| X1 (Capital Structure) | 0.52400 | 0.10200 | 5.13800 | 0.00000 | Significant (+) |
| X2 (Dividend Policy) | 0.31700 | 0.11400 | 2.78800 | 0.00600 | Significant (+) |
| X3 (Profitability) | 0.40200 | 0.20200 | 1.99000 | 0.04800 | Significant (+) |
| X4 (Enterprise Efficiency) | 0.08800 | 0.05100 | 1.73900 | 0.08300 | Insignificant |
| X5 (Company Size) | -0.05900 | 0.02800 | -2.11600 | 0.03500 | Significant (−) |
| X6 (Inflation) | 0.01200 | 0.02400 | 0.50300 | 0.61500 | Insignificant |
| X7 (PDB) | 0.41200 | 0.27800 | 1.48300 | 0.13900 | Insignificant |

Source: Primary data processed, 2025.

Based on these results, the variables of Capital Structure (X1), Dividend Policy (X2), Profitability (X3), and Company Size (X5) have a significant influence on the Sustainable Growth Rate (Z). Capital structure, dividend policy, and profitability have a positive effect, indicating that the better the capital management and dividend distribution, the higher the company's ability to sustain sustainable growth. On the other hand, the size of a company shows a negative influence, which means that the larger the size of the company, its growth.

Meanwhile, the variables of Company Efficiency (X4), Inflation (X6), and GDP (X7) had no significant effect on the Sustainable Growth Rate (Z). This indicates that internal efficiency factors and macroeconomic conditions have not been the main drivers for sustainable growth in Islamic companies.

3) Sobel Test (Mediation Test)

The Sobel test is one of the statistical methods used to determine whether an intervening variable (mediation) significantly mediates the relationship between independent variables and dependent variables. In this study, the variable sustainable growth rate (Z) was used as a mediating variable that bridged the relationship between independent variables consisting of capital structure (X1), dividend policy (X2), profitability (X3), company efficiency (X4), firm size (X5), inflation (X6), and Gross Domestic Product/GDP (X7) to the dependent variable of stock price performance (Y).

The test was carried out using the results of the coefficient and standard error of the regression results in the first structural model (X → Z) and the second model (Z → Y). The calculation of the Z value was carried out using the Significance of Mediation (Sobel Test) Calculator based on EViews data. Here are the test results for each mediation relationship:
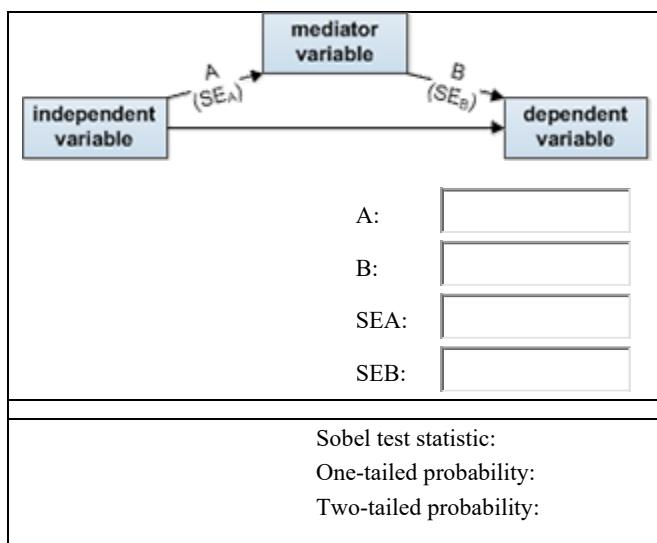


**Fig. 2:** Significance of Mediation (Sobel Test) Calculator.

The Sobel test results indicate that Sustainable Growth Rate (SGR) significantly mediates only two relationships, namely Capital Structure → Stock Price Performance and Dividend Policy → Stock Price Performance. The mediation effect of capital structure is confirmed by a Sobel Z-value of 3.273 ($p = 0.001$), indicating that an optimal funding structure enhances sustainable growth, which subsequently improves market valuation. Similarly, dividend policy shows a significant indirect effect through SGR ($Z = 2.326$; $p = 0.020$), supporting dividend signaling theory that consistent dividend distribution strengthens investor confidence via sustainable growth prospects.

In contrast, profitability, company efficiency, firm size, inflation, and GDP do not exhibit significant indirect effects through SGR, as their Sobel Z-values fall below the critical threshold ($p > 0.05$). These results suggest that the influence of profitability and efficiency on stock prices operates primarily through direct channels, rather than through sustainable growth mechanisms. Likewise, macroeconomic variables such as inflation and GDP do not transmit their effects on stock price performance via firm-level sustainable growth, reinforcing the dominance of micro-fundamental factors over macroeconomic conditions in the Islamic capital market. Overall, the findings confirm that SGR functions as a selective mediation mechanism, primarily linking long-term financial policies—particularly capital structure and dividend decisions—to stock price performance, while other financial and macroeconomic variables exert their effects through alternative pathways.

## 6.2. Direct influence of variables on stock price performance

The hypothesis testing results indicate that Dividend Policy (X2), Profitability (X3), and Company Efficiency (X4) have a positive and significant direct effect on Stock Price Performance (Y). In contrast, Capital Structure (X1), Firm Size (X5), Inflation (X6), and GDP (X7) show no significant direct influence. These findings confirm that internal financial performance and managerial efficiency are more influential in shaping stock prices than macroeconomic conditions. Consistent with signaling theory, dividend distribution, profitability, and operational efficiency convey positive signals regarding firm stability and prospects, which are positively responded to by investors. The significant effect of efficiency further indicates that markets value management's ability to optimize resources and control costs. Conversely, the insignificance of capital structure and firm size suggests that leverage levels and asset scale are not primary valuation considerations when profitability and efficiency are stable.

The absence of significant macroeconomic effects implies that stock price movements in Islamic firms are driven mainly by micro-fundamental factors, particularly during periods of economic stability. Overall, the results emphasize that dividend policy, profitability, and efficiency are the key determinants of stock price performance in the Islamic capital market.

## 6.3. The influence of variables on sustainable growth rates

The hypothesis testing results show that Dividend Policy (X2), Profitability (X3), and Company Efficiency (X4) have a positive and significant direct effect on Stock Price Performance (Y), while Capital Structure (X1), Firm Size (X5), Inflation (X6), and GDP (X7) are

not statistically significant. These findings indicate that internal financial fundamentals and managerial efficiency play a more dominant role in determining stock prices than macroeconomic factors.

In line with signaling theory, dividend and profitability policies serve as positive signals regarding firms' financial health and prospects, which are favorably interpreted by investors (Brigham & Houston, 2021; Rahmawati & Hidayat, 2022). The significant effect of company efficiency further suggests that the market values management's ability to optimize resources and control costs, reflecting superior managerial performance (Wibowo & Santoso, 2023).

Conversely, the insignificance of capital structure implies that leverage is not a primary consideration when firms maintain stable profitability (Lestari, 2020), while firm size does not necessarily translate into higher stock valuation without efficient financial performance (Setiawan et al., 2021). Similarly, the absence of significant macroeconomic effects indicates that inflation and GDP fluctuations do not directly influence stock prices under relatively stable economic conditions, as investors tend to prioritize firm-level fundamentals (Nurhayati & Kusuma, 2022). This supports the micro-fundamental approach, which emphasizes the stronger predictive power of internal financial variables over macroeconomic indicators in explaining stock price movements (Tandelilin, 2021).

### 6.4. Mediation test (Sobel test) of sustainable growth rate

The Sobel test results indicate that Sustainable Growth Rate (SGR) significantly mediates the relationship between capital structure (X1) and dividend policy (X2) on stock price performance (Y). This finding confirms that SGR functions as an effective transmission mechanism linking firms' long-term financial policies to market valuation. An optimal capital structure enhances financial stability and long-term growth capacity, which in turn strengthens investor confidence and stock performance. Likewise, a consistent dividend policy conveys positive signals regarding financial soundness and growth sustainability, thereby contributing to higher market value (Brigham & Houston, 2021).

In contrast, profitability (X3), corporate efficiency (X4), firm size (X5), inflation (X6), and GDP growth (X7) do not exhibit a significant indirect effect through SGR. This suggests that the impact of these variables on stock price performance is predominantly direct rather than mediated by sustainable growth. In the context of Islamic firms, conservative expansion strategies and a strong emphasis on prudential and sharia-compliant financial management may limit the role of long-term growth as a primary channel through which these factors influence market value. Consistent with Fitriana and Mulyani (2022), macroeconomic variables also demonstrate limited relevance in explaining sharia stock price dynamics due to the relatively resilient structure of Islamic financial systems.

Overall, the findings highlight that capital structure and dividend policy are the most effective channels through which sustainable growth enhances stock price performance. These results imply that financial managers should prioritize funding stability and dividend consistency to strengthen long-term growth credibility, while investors may consider SGR as a key indicator when evaluating sharia-compliant firms. This study contributes to the literature by empirically confirming the mediating role of sustainable growth in linking strategic financial decisions to capital market performance within the Indonesian Islamic capital market.

### 6.5. Research implications

This study provides theoretical, practical, regulatory, and social implications for the Islamic capital market. Theoretically, the findings strengthen the pecking order theory, dividend signaling theory, and sustainable growth theory by confirming that capital structure and dividend policy influence stock price performance through sustainable growth rates. This demonstrates that sustainable growth functions as a key mediating mechanism linking internal financial decisions to market valuation, extending sustainable growth theory to the firm level within the Islamic finance context.

Practically, the results indicate that stock price performance is driven not only by profitability, but also by optimal capital structure, consistent dividend policy, and operational efficiency. For Islamic firms, aligning these financial strategies with sharia principles enhances long-term stability and investor confidence, supporting sustainable growth rather than short-term profit maximization.

For investors, dividend policy and profitability emerge as the most reliable fundamentals for evaluating Sharia stocks, while sustainable growth rates provide an important long-term performance signal. For regulators (OJK and IDX), the findings underline the importance of strengthening transparency and disclosure related to capital structure, dividend policy, and sustainability orientation to reinforce trust in the Islamic capital market. Socially, the study highlights that sustainable growth reflects a balance between financial performance, ethical governance, and social responsibility. In the Islamic capital market, this reinforces the principles of tawazun (balance) and istiqamah (consistency) as foundations of sustainable corporate value creation. Finally, this research opens avenues for future studies by incorporating corporate governance, ownership structure, and digital innovation, as well as applying SEM or dynamic panel models, and conducting comparative analyses between Islamic and conventional firms.

## 7. Conclusion

This study concludes that internal corporate factors play a more dominant role than macroeconomic conditions in determining stock price performance in Islamic firms. Dividend policy, profitability, and operational efficiency have a significant direct effect on stock prices, while capital structure and dividend policy also influence stock price performance indirectly through the Sustainable Growth Rate (SGR). These findings indicate that effective financial management and sustainability-oriented strategies are key drivers of market valuation in Islamic capital markets.

The results further demonstrate that SGR serves as a selective mediation mechanism, transmitting the effects of capital structure and dividend policy into higher stock valuations, but not mediating the influence of profitability, efficiency, firm size, inflation, or GDP. This suggests that not all financial and macroeconomic factors contribute to firm value through sustainable growth pathways. Overall, the study confirms that dividend decisions and sustainable internal growth capacity are more relevant than external macroeconomic variables in shaping Islamic stock performance. The findings contribute theoretically by integrating SGR into the corporate finance valuation framework and provide practical insights for managers and investors in strengthening long-term value creation within Islamic capital markets.

## Acknowledgement

the SRI-Kehati Index management for providing access to the financial and market data used in this study. The authors are thankful to colleagues and reviewers whose constructive suggestions and insights greatly contributed to the refinement of this manuscript. Their assistance and encouragement are gratefully acknowledged.

## Conflict of Interest

The authors declare that there is no conflict of interest regarding the publication of this manuscript. All analyses and interpretations presented in this study were conducted independently and without any financial or personal relationships that could influence the research outcomes.

## Data Availability Statement

The data supporting the findings of this study are obtained from publicly accessible sources, including the Indonesia Stock Exchange (IDX) and the SRI-Kehati Index. Financial statement data are available through the official IDX website, while macroeconomic data such as inflation and Gross Domestic Product (GDP) are accessible through Bank Indonesia and the Central Statistics Agency (BPS). All datasets used in this study are available from the corresponding author upon reasonable request.

## References

[1] Ahmed, H. (2010). *Product development in Islamic banks*. Edinburgh University Press. https://doi.org/10.1515/9780748644889.
[2] Al-Tamimi, H. A. H. (2014). Factors influencing stock prices in the UAE financial markets. *International Journal of Law and Management*, 56(1), 48–63.
[3] Baron, R. M., & Kenny, D. A. (1986). The moderator–mediator variable distinction in social psychological research: Conceptual, strategic, and statistical considerations. *Journal of Personality and Social Psychology*, 51(6), 1173–1182. https://doi.org/10.1037/0022-3514.51.6.1173.
[4] Brealey, R. A., Myers, S. C., & Allen, F. (2020). *Principles of corporate finance* (13th ed.). McGraw-Hill Education.
[5] Brigham, E. F., & Houston, J. F. (2019). *Fundamentals of financial management* (15th ed.). Cengage Learning.
[6] Chapra, M. U. (2008). *The Islamic vision of development in the light of Maqasid al-Shariah*. Islamic Research and Training Institute.
[7] Chen, N. F., Roll, R., & Ross, S. A. (1986). Economic forces and the stock market. *Journal of Business*, 59(3), 383–403. https://doi.org/10.1086/296344.
[8] Creswell, J. W., & Creswell, J. D. (2018). *Research design: Qualitative, quantitative, and mixed methods approaches* (5th ed.). Sage Publications.
[9] Dusuki, A. W., & Abdullah, N. I. (2007). Maqasid al-Shariah, maslahah, and corporate social responsibility. *The American Journal of Islamic Social Sciences*, 24(1), 25–45. https://doi.org/10.35632/ajiss.v24i1.415.
[10] Fama, E. F. (1970). Efficient capital markets: A review of theory and empirical work. *Journal of Finance*, 25(2), 383–417. https://doi.org/10.1111/j.1540-6261.1970.tb00518.x.
[11] Ghozali, I. (2021). *Structural equation modeling dengan pendekatan Partial Least Squares (PLS-SEM)* (ed. 5). Badan Penerbit Universitas Diponegoro.
[12] Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2019). *A primer on partial least squares structural equation modeling (PLS-SEM)* (2nd ed.). Sage Publications. https://doi.org/10.3926/oss.37.
[13] Hassan, M. K., & Aliyu, S. (2018). A contemporary survey of Islamic banking literature. *Journal of Financial Stability*, 34, 12–43. https://doi.org/10.1016/j.jfs.2017.11.006.
[14] Higgins, R. C. (1977). How much growth can a firm afford? *Financial Management*, 6(3), 7–16. https://doi.org/10.2307/3665251.
[15] Ho, C. S., Abd Rahman, N. A., & Yusuf, N. H. M. (2014). Determinants of stock prices in Islamic financial markets: Evidence from Malaysia. *Journal of Islamic Accounting and Business Research*, 5(1), 90–113.
[16] Ismal, R. (2013). Islamic banks in Indonesia: Financial growth, sustainability, and contribution. *Humanomics*, 29(3), 176–195.
[17] Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X.
[18] Kesuma, R., & Trisnawati, R. (2023). Financial ratios and stock price performance: Evidence from Indonesian listed firms. *Jurnal Keuangan dan Perbankan*, 27(2), 221–235.
[19] Khan, F. (2015). Islamic finance and sustainability: A review of theoretical foundations. *Islamic Economic Studies*, 23(1), 25–57.
[20] Kline, R. B. (2016). *Principles and practice of structural equation modeling* (4th ed.). Guilford Press.
[21] Lintner, J. (1956). Distribution of incomes of corporations among dividends, retained earnings, and taxes. *American Economic Review*, 46(2), 97–113.
[22] Mishkin, F. S. (2019). *The economics of money, banking, and financial markets* (12th ed.). Pearson Education.
[23] Modigliani, F., & Miller, M. H. (1963). Corporate income taxes and the cost of capital: A correction. *American Economic Review*, 53(3), 433–443.
[24] Nur Aina Ramli, R., Abdullah, N., & Hassan, R. (2022). Sustainable growth rate and Islamic equity market performance. *Journal of Islamic Finance*, 11(2), 45–62.
[25] Putra, D. A., Nugroho, R., & Pratama, A. (2022). Macroeconomic factors and Islamic stock returns in Indonesia. *Jurnal Ekonomi Syariah*, 14(1), 1–15.
[26] Rahman, A., Abdul Rahim, R., & Hassan, M. K. (2020). Macroeconomic uncertainty and Islamic stock markets. *Pacific-Basin Finance Journal*, 62, 101361. https://doi.org/10.1016/j.pacfin.2019.101189.
[27] Ross, S. A. (1977). The determination of financial structure: The incentive-signalling approach. *Bell Journal of Economics*, 8(1), 23–40. https://doi.org/10.2307/3003485.
[28] Titman, S., & Wessels, R. (1988). The determinants of capital structure choice. *Journal of Finance*, 43(1), 1–19. https://doi.org/10.1111/j.1540-6261.1988.tb02585.x.
[29] Van Horne, J. C., & Wachowicz, J. M. (2008). *Fundamentals of financial management* (13th ed.). Pearson Education.