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The role of Sustainable Growth Rate in mediating liquidity, profitability, and company size on financial performance

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ABSTRACT

Financial performance has a very strategic importance for the company. This study aims to examine the effect of liquidity, profitability and company size on Sustainable Growth Rate, and the effect of the Sustainable Growth Rate on financial performance for companies. The data used in this study were taken from companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2023 period. This study uses purposive sampling method to obtain relevant samples resulting in a total of 2365 company observations. The results showed that liquidity has a negative effect on the Sustainable Growth Rate, while profitability and company size have a positive effect on Sustainable Growth Rate. While the Sustainable Growth Rate has a positive effect on financial performance, indicating that companies with higher SGR tend to have better financial performance. The results of the study have important implications for management, namely, to increase profitability as an effort to encourage higher SGR, which in turn can improve overall financial performance. This study indicates that companies with high SGR levels may be a more stable investment option, given the positive impact of SGR on financial performance.

Introduction

Financial performance has a very strategic importance for the company. Financial performance analysis allows management to evaluate the effectiveness of resource management, assess the achievement of objectives, and formulate business strategies to achieve sustainable growth. This information is also a key indicator for investors, creditors, and other stakeholders in assessing the competitiveness and prospects for the company's business sustainability (Helmi, 2019). Corporate financial performance has become a major concern in evaluating the impact of corporate sustainability practices, although the relationship between the two has yet to reach a clear consensus (Alshehhi et al., 2018). Financial performance refers to the measurement and analysis of the financial condition of a company during a specific period. It includes analysis of financial ratios such as liquidity, profitability, and company size. Healthy and sustainable financial performance indicates that the company is able to manage its financial resources effectively to achieve business goals (Atul et al., 2022).

The current state of Indonesia's listed companies shows significant stress, with 44% of issuers having substantial opportunities for improvement. In fact, 22% of companies under pressure in 2022 had low balance sheet resilience scores three years earlier, indicating issues with their ability to maintain sustainable growth. The pressures faced by Indonesian issuers are also exacerbated by challenging global economic conditions, with the three most exposed sectors being Metals and Non-Coal Mining, Retail and Transportation, and Infrastructure and Construction, with many companies even expected to enter a prolonged period of economic upheaval in vulnerable financial condition (Safitri, 2024).

This study aims to analyze the factors that influence the company's ability to achieve sustainable growth rate (SGR). Specifically, this study wants to test whether the variables of liquidity, profitability, and company size play a role in determining the company's SGR level. In addition, this study also aims to determine the impact of SGR on the company's overall financial performance. Therefore, this study is expected to provide a deeper understanding of how companies can maintain sustainable growth and its implications on the company's financial condition.

This research refers to several previous studies, such as those conducted by Aqila and Prasetiono (2023), Akhtar (2021), and Rahim (2017). The results of these studies show a significant and positive influence between

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profitability and Sustainable Rate (SGR). However, this study has several differences compared to previous studies. First, this study not only examines the effect of profitability, but also liquidity and company size on SGR, as well as the effect of SGR on financial performance. Previous research only focuses on the relationship between profitability and SGR. Second, this study uses data on companies listed on the Indonesia Stock Exchange (IDX) in the 2019-2023 period, while previous studies may use data from different periods or in other countries. Third, the analytical tools used in this study include multiple regression analysis, mediation tests, and regression assumption tests, which may differ from the analytical techniques used in previous studies.

Most of the existing research focuses on the direct effect on profitability or firm value, without considering SGR as a strategic intermediate variable that reflects a firm's ability to grow organically and sustain long-term performance. In addition, previous studies often treat SGR as an outcome variable without linking it to investor perceptions or strategic signaling. This study addresses this gap by analyzing SGR as a dependent variable (influenced by internal financial capacity) and as a mediating factor affecting financial performance. By applying Signaling Theory, this study provides a theoretical lens through which internal factors such as liquidity and profitability are not just operational data, but also strategic signals that influence stakeholder assessments and future financial sustainability.

The expected contribution of this study is not only on the theoretical aspect, but also on the empirical, practical, and regulatory aspects, which may differ from the focus of previous studies. Previous research directly examined the effect of liquidity, profitability, and company size on Sustainable Growth Rate (SGR) and on financial performance. This study adds the SGR variable as a mediating variable. Most businesses strive for future success. To survive and remain attractive to investors, bankers, and analysts, companies strive to achieve sustainable growth rates. Monitoring the current business situation and operations by observing the sustainable growth rate can help managers do financial planning well.

The results of this study are expected to contribute both theoretically and practically. Theoretically, by using Signalling Theory, this study enriches the literature on how the company's internal capacity such as liquidity, profitability, and company size affects the Sustainable Growth Rate (SGR). This theory explains that information conveyed by the company, including internal financial indicators, can be a signal for investors and other stakeholders in assessing the company's growth prospects.

Practically, this research contributes to company management in formulating more appropriate financial management strategies. The finding that increased profitability has a positive impact on SGR provides strategic guidance that efforts to increase corporate profits not only impact short-term performance but also support sustainable growth. Thus, companies can improve their overall financial performance through optimizing relevant internal aspects.

Literature Review

Signalling Theory

The theory underlying this research is Signalling Theory, which is a theory that explains the interaction between company management and investors. This theory emerged in response to the condition of information inequality between internal parties of the company, such as managers, and external parties such as investors and creditors. This information imbalance is known as asymmetric information, which is a situation when management has information that is not known to investors (Spence, 1973).

Liquidity

Definition of liquidity according to Erawati and Sari (2021) namely the ratio that measures or describes the company's ability to meet its current obligations (debt). Liquidity reflects the company's ability to meet its short-term obligations using its current assets. A high liquidity ratio indicates that the company has enough current assets, such as cash, receivables, and inventories, to pay its short-term debts. However, in the context of Sustainable Growth Rate (SGR), liquidity has more complex implications. SGR describes the maximum growth rate that a company can achieve without having to raise external funding, assuming that the company's financial structure and dividend policy remain constant. According to Ajayi and Lawal (2021) liquidity reflects a firm's ability to meet short-term obligations, and effective liquidity management plays a crucial role in enhancing profitability and ensuring financial stability. It is concluded that if the company is invoiced, the company must be able to fulfill debt payments that have a payment deadline. Liquidity is the ability of an entity to meet its short-term obligations that are due. Liquidity reflects how quickly assets can be converted into cash to pay debts (Junaidi et al., 2019). "The liquidity of a firm is a key determinant of its financial performance." In their research, liquidity was measured using liquidity ratios such as the current ratio and showed a positive and significant relationship with Return on Assets (ROA) and Return on Equity (ROE). This confirms that the higher the liquidity a company has, the greater its ability to meet its short-term obligations, which in turn can improve financial performance. Thus, liquidity plays an

important role in supporting the stability and profitability of a company's operations (Odalo et al., 2016).

According to signaling theory, information conveyed by companies through financial reports can be a signal to investors and other stakeholders regarding the condition and prospects of the company in the future (Spence, 1973). A high level of liquidity can be interpreted as a signal that the company is holding assets in unproductive forms, such as cash, receivables, or inventory, which could have been allocated to investments that generate growth. Based on research findings (Priyanto et al., 2020). who found that in service sector companies, it can be said that liquidity does not have a positive effect on the company's Sustainable Growth Rate (SGR). The higher the LFR, which indicates credit expansion, has a negative impact on sustainable growth (Junaidi et al., 2019). The higher the liquidity level of the company, the lower the Sustainable Growth Rate that can be achieved (Vuković et al., 2022). According to Ferrouhi (2014), liquidity reflects a firm's ability to meet its short-term obligations and is a key factor influencing financial performance. Their research found that the variables that positively affect the sustainable growth rate are profit margin, asset turnover, and leverage, but did not mention any significant effect of liquidity. This indicates that the company's liquidity level does not contribute positively to the company's ability to achieve sustainable growth. So, it can be concluded that liquidity has a negative influence on Sustainable Growth Rate (SGR).

H_1: Liquidity (X1) has a negative effect on Sustainable Growth Rate (SGR) (Z)

Profitability

Return on Assets (ROA) is a financial ratio that measures the level of return a company gets from its assets. ROA shows how efficient the company is in using its assets to earn profits, the higher the ROA, the more efficient the company is in using its assets to earn profits. Profitability is the company's profit on the basis of a measure of the company's performance (Chandradinangga & Rita, 2020). According to Kowalik (2018), profitability is a key indicator for evaluating a company's financial condition, as it reflects managerial effectiveness and the firm's ability to survive and grow in a competitive environment. Profit is the main goal to achieve in a business. High profits make the company gain the trust of the public. Profitability can be measured in various ways. In this study seen through *Return on Asset* (ROA) (Nawasiah & Retno, 2022). The company's ability to make a profit (profitability) is closely related to the availability of internal financing, where companies with high profitability have sufficient internal funding sources to finance their sustainable growth (Wijaya et al., 2021). Furthermore, Sulisnaningrum (2018) explained that although capital structure does not significantly mediate the relationship between profitability and company value, the direct influence of profitability remains a key indicator considered by stakeholders in investment decision-making.

In the perspective of signaling theory proposed by Spence (1973), high profitability is a positive signal to investors and other stakeholders regarding the financial health and long-term prospects of the company. Large and stable profits give confidence that the company is well managed, has a competitive advantage, and is able to face future business challenges. This signal can increase market confidence, facilitate access to external funding, and encourage a better stock price.

Therefore, it is suspected that there is a positive and significant relationship between company profitability and Sustainable Growth Rate. In research that has previously been conducted by Aqila & Prasetiono, (2023) also shows a significant and positive influence between profitability and Sustainable Growth Rate (SGR). This is also in line with several other previous studies such as Akhtar (2021) and (Rahim, 2017).

H_2: Profitability (X2) has a positive effect on Sustainable Growth Rate (SGR) (Z)

Company Size

Company size is a scale that can classify companies into large and small companies according to various ways such as total assets or total assets of the company, stock market value, average sales level, and total sales. Company Size or company size indicates the scale of the company based on the total assets owned, and is often used as a moderating variable in assessing its impact on the risk of financial distress (Erawati et al., 2025). Company size is generally divided into 3 categories, namely large firm, medium firm, and small firm (Sari, 2014). The maturity stage of the company is determined based on total assets, the greater the total assets indicate that the company has good prospects in a relatively long period of time. Company size is a scale to classify the size of a company in various ways, including total assets, total sales, stock market value and so on (Oktavia et al., 2020). The higher this ratio, the more effective the use of an asset in generating profits. This ratio is measured by dividing net profit after tax by total assets reported in the balance sheet Akhtar (2021). According to Rutkowska-Ziarko (2015), the larger the size of a company, the lower the investment risk and profitability fluctuations, making company size an important indicator in assessing financial performance stability.

Based on the signaling theory proposed by Spence (1973), the information conveyed by the company - including the size and scale of its operations - can be a signal to investors about the company's future prospects and risks. Large company size is often perceived as a positive signal regarding the company's internal strength,

competitiveness, and ability to survive and grow in the long term. Previous research, such as (Guliyev & Muzaffarov, 2024). found that financial performance, particularly profitability and capital structure, are key determinants of a firm's ability to achieve sustainable growth without reliance on external funding. This study found that company size has a positive and significant effect on Sustainable Growth Rate (SGR) in companies in the consumer goods industry sector. The larger the size of a company, the higher its ability to maintain sustainable growth. This result is in line with the findings (Saputri et al., 2024) which shows that large companies tend to have higher SGR. Larger company size can provide better access to resources that support long-term growth. This is in line with other research shows that company size has a positive and significant effect on the company's sustainable growth rate. Larger companies tend to have a better ability to maintain sustainable long-term growth.
H_3: Company size (X3) has a positive effect on Sustainable Growth Rate (SGR) (Z)

Sustainable Growth Rate (SGR)

SGR is the growth rate that a company can expect to see in the long term. So far, the measurement of company performance often uses profit growth. But in addition to profit there are other measures, namely SGR. SGR can be used to measure the financial capability of an organization/company (Nawasiah & Retno, 2022). Sustainable Growth Rate is the maximum growth rate that can be achieved by a company without requiring additional external funding (new equity) and while maintaining existing financial policies (Mukherjee, 2018). The relationship between SGR and financial performance can be explained through signaling theory. This theory states that companies convey signals to external parties, such as investors and creditors, to indicate their financial condition and future prospects. A high SGR is a positive signal that the company has the internal strength to finance its growth independently, which reflects good efficiency and profitability. According to Listiani (2007), the sustainable growth rate is the maximum growth a company can achieve without relying on external financing, playing a crucial role in maintaining financial stability and enhancing firm value. sustainable growth rate (SGR) represents the maximum rate at which a company can grow using its own internal resources without relying on external financing (Klotz, 2007).

Previous research has provided strong empirical support for the positive relationship between Sustainable Growth Rate and financial performance. Shelemo (2023) said that the higher the company's ability to grow sustainably without weakening its financial position, the better the financial performance that can be achieved by the company. The results of this study can be a support in understanding the relationship between sustainable business and corporate financial performance. The findings indicate that SGR is an important factor that determines a company's financial performance. Companies that are able to maintain a higher level of sustainable growth will tend to achieve better profitability in the long run. also confirms that in Rahim (2017) indicates that SGR is an important factor that determines the company's financial performance. Companies that are able to maintain a higher sustainable growth rate will tend to achieve better profitability in the long run.
H_4: Sustainable Growth Rate (SGR) (Z) has a positive effect on financial performance (Y)

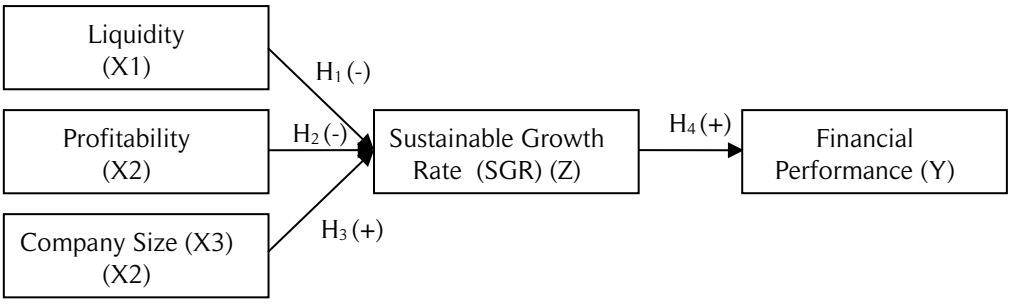

Figure 1. Research Model

Figure 1 is a conceptual model that illustrates the relationship between variables in this study. There are three independent variables, Liquidity (X1), Profitability (X2), and Company Size (X3), which influence one mediating variable, Sustainable Growth Rate (SGR) (Z). The relationship between Liquidity (X1) and Sustainable Growth Rate (SGR) (Z) is indicated by an arrow with a negative hypothesis H1 (-), suggesting that Liquidity (X1) is predicted to have a negative effect on Sustainable Growth Rate (SGR) (Z). Conversely, Profitability (X2) and Company Size (X3) each have a positive relationship with Sustainable Growth Rate (SGR) (Z), represented by hypotheses H2(+) and H3(+). Furthermore, the Sustainable Growth Rate (SGR) (Z) variable influences the dependent variable Financial Performance (Y) through hypothesis H4, which is also positive H4 (+). Thus, this model shows a mediation path where the influence of Liquidity (X1), Profitability (X2), and Company Size (X3) on Financial Performance (Y) is mediated by Sustainable Growth Rate (SGR) (Z), with the direction and strength of the relationship determined by each hypothesis.

Research Methods

Research Design

Manufacturing companies listed on the Indonesia Stock Exchange (IDX) between 2019 and 2023 are the target population of this study. The reason for choosing manufacturing companies as the target of the study is because manufacturing companies have diverse industries and their scope and scale are very broad. This can be generalized so that the testing can be compared between companies. This study uses a purposive sampling method to obtain relevant samples, resulting in a total of 2365 company observations.

Data Collection

Data is presented in the annual financial reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019–2023 using documentation techniques. Financial reports from secondary sources are included in this material, which were previously accessible through the annual reports and financial reports of these companies acquired from www.idx.co.id , their official website.

This study uses a quantitative approach with a population consisting of all manufacturing companies listed on IDX. The research sample was taken from the population. Secondary data from the company's financial statements were used as a source of research data. The use of secondary data was chosen because it is easier to obtain, does not cost much, and is more reliable because it has been audited by an accountant. The reason why this study chooses annual report from 2019-2023 as the target population is because within these 5 years, there was a big momentum such as COVID-19. The researchers want to get comprehensive analysis about financial performance during COVID-19 and the recovery year.

Table 1. Definition and Measurement of Variables

No	Variables	Operational	Measurement	Scale
1.	Financial Performance (Y)	Measurement tool: Return on assets is a mediating variable and can be measured by the following calculation (Chan et al., 2022).	ROA $=\frac{\text{Net Profit after Tax}}{Total\ Aset}$	Ratio
2.	Liquidity (X1)	This study proxies the liquidity of a company with the Current Ratio. Current Ratio is a measure of the liquidity ratio calculated by dividing current assets by current liabilities (Erawati & Sari, 2021).	Current Ratio $\frac{Current\ assets}{Current\ liabilities}$	Ratio
3.	Profitability (X2)	Febiyanti and Anwar (2022) stated that profitability is a metric to evaluate and measure the company's ability, so it must be able to produce profitable results by evaluating the company's efficiency in managing available resources. The formula used is as follows:	NPM $=\frac{Net\ Profit}{Income}$	Ratio
4.	Company Size (X3)	Firm size is usually measured using several indicators, one of the most commonly used is the company's total assets. The formula for calculating company size based on total assets is as follows, (Aulia & Mahpudin, 2020)	Company Size = Ln (Total Assets)	Ratio
5.	*Sustainable Growth Rate* (SGR) (Z)	Gunawan and Leonnita (2015) stated that the concept of sustainable growth rate allows managers and investors to determine the potential growth rate of a realist business based on current labor and business conditions.	SGR= $\frac{RR\ X\ ROE}{1-RR\ X\ ROE}$	Ratio

Table 1 describes the definition and measurement of each variable used in this research. Dependent variable Financial Performance (Y) uses proxy Return on Assets (ROA). ROA is Net Profit After Tax divided by Total Asset. Financial Performance (Y) is measured by using ratio scale. Independent variable Liquidity (X1) uses proxy Current Ratio. Current Ratio is a measure of the liquidity ratio calculated by dividing current assets by current

liabilities. Liquidity (X1) is measured by ratio scale. Independent variable Profitability (X2) uses proxy Net Profit Margin (NPM). NPM is net profit divided by income. Profitability (X2) is measured by ratio scale. Independent variable Company Size (X3) uses proxy company size which is measured by log natural of total assets. Company Size (X3) is measured by ratio scale. Mediating variable Sustainable Growth Rate (SGR) (Z) uses proxy Sustainable Growth Rate (SGR). The SGR is used to calculate how quickly a company can grow internally without the need for additional external financing, assuming that the financial structure and other financial ratios remain unchanged. Retention Ratio (RR) is the retained earnings ratio, which is the proportion of net income that is not distributed as dividends and is retained by the company for investment or expansion. Return on Equity (ROE) is the rate of return on equity, which measures how efficiently a company generates profits from its own capital. Sustainable Growth Rate (SGR) (Z) is measured by ratio scale.

Table 2. Results of Descriptive Statistical Tests

Information	N	Minimum	Maximum	Mean	Std. Deviation
Liquidity	2365	0.03	368.54	3.178	11.018
Profitability	2365	-991.32	1730.00	3.1787	11.01731
Company size	2365	0.07	17.18	5.9951	3.97038
Financial performance	2365	-89.12	94.36	3.6612	11.28299
SGR	2365	-947.81	770.57	6.654	58.069
Valid N (listwise)	2365				

Source: data process, 2024

This study used a sample of 2365 observations. Based on Table 2 data presented, the results of descriptive statistical analysis can be described as follows.

For the liquidity variable, the minimum value obtained is 0.03 and the maximum value reaches 368.54. A very small minimum value approaching zero indicates that there are companies that have almost no liquidity capacity or are in a very low liquidity condition so that they are at risk of defaulting on short-term obligations. Meanwhile, the very high maximum value (368.54) indicates that there are companies with very large excess current assets compared to their current liabilities, so they have an excess level of liquidity. The average liquidity of the sample companies is 3.178 with a standard deviation of 11.018. This shows that there is considerable variation in the level of liquidity between companies.

In the profitability variable, the minimum value reaches -991.32 and the maximum value is 1730.00. A very low minimum value (negative) indicates that a company is experiencing very large losses, while a high maximum value indicates that a company is making significant profits. The average profitability of the sample companies is 3.1787 with a fairly high standard deviation of 11.01731. The negative number on the average profitability indicates an overall poor profitability performance.

For the company size variable, the minimum value is 0.07 and the maximum value reaches 17.18. The average firm size of the sample is 5.9951 with a very large standard deviation of 3.97038. A very small minimum value indicates that there are very small companies (micro or small scale), while the maximum value describes the presence of very large companies in this study sample. The large standard deviation indicates significant differences in the scale of the company, so this study covers companies with a wide variety of scales.

Meanwhile, in the financial performance variable, the minimum value is -89.12 and the maximum value is 94.36. A negative minimum value indicates that some companies experienced a decline in performance or even losses during the observation period. On the other hand, a maximum value approaching one hundred indicates that there are companies with excellent financial performance. The average financial performance of sample companies is 3.6612 with a standard deviation of 11.28299, indicating considerable variation in financial performance between companies.

For the SGR (Sustainable Growth Rate) variable, the minimum value is -947.81 and the maximum value reaches 770.57. A very negative minimum value indicates a company that has the potential to experience a sharp decline in growth, while a high maximum value indicates a company that is capable of growing very rapidly in a sustainable manner.The average SGR of sample companies is 6.654 with a standard deviation of 58.069. This indicates a high diversity in the ability of sample companies to maintain sustainable growth without having to add new debt or capital.

Chow Test and Hausman Test

To determine the appropriate estimation method between the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM), two tests were used, namely the Chow Test and the Hausman Test. These tests were conducted on two regression models:

Model 1: Variables X1, X2, and X3 on M (Mediator)
Model 2: Variables X1, X2, X3, and Z on Y (Dependent variable)

Analysis Results:
Model 1:

The Chow Test shows that the Fixed Effect model is better than the Common Effect model (because $p < 0.05$). However, the Hausman results show that the difference between FEM and REM is not significant ($p > 0.05$), so REM is chosen because it is more efficient.

Model 2:

Similar to the first model, the Chow Test supports FEM, but the Hausman Test shows that REM is more efficient ($p > 0.05$). Therefore, REM is also used in this model.

Sobel Test: SGR Mediation Analysis SGR

The Sobel test is used to determine whether SGR acts as a significant mediator in the relationship between independent variables and financial performance.
Calculation Description:

$$SEab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

Description:
a = coefficient from independent → mediator
b = coefficient from mediator → dependent
Sa = standard error from a
Sb = standard error from b

Sobel Test (Z-score):

$$Z = \frac{a.b}{SEab}$$

Table 3. Mediation Test Results:

Mediation Relationship	Z-Value	Significance	Mediation Conclusion
Liquidity → SGR → Financial Performance	-0.111	Not significant	SGR does not mediate the relationship between liquidity and financial performance.
Profitability → SGR → Financial Performance	3.04	Significant	SGR significantly mediates the effect of profitability on financial performance
Company Size → SGR → Financial Performance	1245.25	Highly significant	SGR strongly mediates the effect of company size on financial performance

Liquidity → SGR → Financial Performance

Z value = -0.111 (smaller than 1.96) → Not significant

According Table 3 this means that SGR does not significantly mediate the relationship between liquidity and financial performance. SGR does not act as a key link when looking at how easily a company can pay its bills and how well it is doing financially, because how steadily a company can grow is not directly tied to how easily it can pay its bills, and it cannot effectively pass on the effects of bill-paying ability to how well it is doing financially. How easily a company can pay its bills shows how well it can handle its short-term financial duties, while SGR is more about how well a company can grow on its own over a longer time without needing outside money. The differences in what these things are like and what they focus on mean that they do not have a strong connection to each other. Also, how well a company is doing financially can come straight from how easily it can pay its bills because it is good at running things or it can pay its debts on time, without needing to grow steadily. So, even if being able to pay bills easily can make a company's finances stronger, it does not always mean it can grow more steadily, so SGR is not a key path between these things.

Profitability → SGR → Financial Performance

Z-value = 3.04 (greater than 1.96) → Significant

According Table 3 SGR acts as a significant mediator in the influence of profitability on financial performance. SGR acts like a key go-between in how making money impacts how well a company does financially, because when

a company makes a lot of money, it can keep growing on its own. If a company can make good profits, it can use that money to grow the business instead of having to borrow from others. This makes the SGR go up, showing that the company can grow using its own money in a good way. That steady growth then helps the company do better overall financially, by making more money, being more efficient, and staying competitive for a long time. So, the SGR is a really important way that making money in a good way leads to a company doing much better financially.

Company Size → SGR → Financial Performance

Z-value = 1245.25 → Highly significant

According Table 3 the mediating effect of SGR is very strong in the relationship between company size and financial performance. The influence of SGR as a go-between is very strong in the connection between a company's size and how well it does financially because bigger companies usually have more resources, steady operations, and better market access, which helps them grow steadily. When a company is large, it can be efficient and beat the competition, which then shows up as a better SGR. In this situation, SGR is a key way to link the benefits of a company's size to doing better financially. Said differently, big companies are not just better in terms of what they own or earn, but they also can keep growing using their own resources. This steady growth is what ultimately makes their financial performance stronger over time, making SGR's role as a go-between very powerful and meaningful in this connection.

Hypothesis Testing t-Test

Intervening on firm value in manufacturing companies listed on the Indonesia Stock Exchange (IDX). Testing using multiple linear regression following the results of hypothesis testing.

Table 4. Hypothesis Test Results

Variable		Hypothesis	Prediction	B	T	Sig	Information
Liquidity (Independent)	S GR (Dependent)	H1	-	-,012	- ,113	0,00	Supported
Profitability (Independent)	SGR (Dependent)	H2	+	,233	,230	0,00	Supported
Company size (Independent)	SGR (Dependent)	H3	+	4,98 1	0.17	0,38	Not Supported
SGR (Independent)	Financial performance (Dependent)	H4	+	,061		0,00	Supported

Discussion

Effect of Liquidity on Sustainable Growth Rate (SGR)

The first hypothesis of company liquidity is proven to have a negative and significant effect on Sustainable Growth Rate (SGR). The sig of 0.00 < 0.05 with a t value of -0.113 shown in Table 4 indicates that the higher the liquidity level of a company, the lower the company's ability to maintain sustainable growth. Companies with high liquidity tend to have excess funds that are not optimally utilized to encourage sustainable growth. In this case, too high liquidity can negatively impact SGR. This is because excess current assets, such as cash or receivables that are not immediately turned over, may indicate that the company is not allocating its resources productively. Funds that sit idle and are not invested in profit-generating projects will lower the efficiency of asset utilization and limit growth potential. In other words, companies that are too conservative in their liquidity management tend to experience slower growth.

High liquidity that is not accompanied by an appropriate investment strategy actually causes inefficiency. Funds that are tied up in cash, accounts receivable, or excessive inventory do not generate optimal returns for the company. This leads to limitations in long-term business development. In the context of signaling theory, excess liquidity can be a negative signal that the company does not have enough investment projects or that management is not aggressive enough in seeking growth opportunities. This situation can also erode investor confidence due to the signal that the company is unable to manage its finances efficiently. Furthermore, companies overly focused on maintaining high liquidity tend to avoid risks, thereby missing out on investment opportunities that could yield high returns. This underscores that overly conservative liquidity management does not always reflect healthy financial performance but can instead hinder sustainable growth.

Information presented by the company through financial statements acts as a signal for investors and other stakeholders in assessing the condition and prospects of the company in the future (Spence, 1973). A high level of liquidity can be interpreted as a signal that the company tends to hold assets in a less productive form, such as cash,

receivables, or inventory, which ideally can be utilized for investments that support growth. Thus, excessive liquidity may reflect an overly cautious attitude or the company's limitations in finding potential investment opportunities, which in turn may lead to negative perceptions from investors. This condition risks reducing the company's sustainable growth rate. Conversely, a company that has an efficiently managed level of liquidity indicates optimal resource utilization, which has the potential to strengthen long-term growth.

The test results of this hypothesis (H1) are supported in line with the research of Priyanto et al. (2020) in service sector companies, it can be said that liquidity does not have a positive effect on the company's Sustainable Growth Rate (SGR). Their research found that the variables that have a positive effect on sustainable growth rates are profit margins, asset turnover, and leverage, but did not mention any significant effect of liquidity. This is also in line with several other previous studies such as Pratama (2018), Mukherjee (2018), Vuković et al. (2022) and Junaidi et al. (2019).

Effect of Profitability on Sustainable Growth Rate (SGR)

The impact of profitability on sustainable growth rate (SGR) is examined in the second hypothesis. company profitability actually has a positive and significant effect on Sustainable Growth Rate (SGR). The sig of 0.00 < 0.05 with a t-value of 2.30 shown in Table 4 indicates that companies with higher profitability levels tend to have a better ability to sustain growth internally without relying on external financing. Companies that are able to generate sustainable profits have a greater opportunity to fund growth from internal sources (internal financing), such as retained earnings, without relying on debt or new equity. This strengthens the company's ability to achieve a stable and sustainable Sustainable Growth Rate (SGR).

Profitability is the main source of cheaper internal funding and does not pose additional risks such as debt. This increases managerial flexibility and the company's resilience to external pressures. Based on signaling theory, high profitability is a positive signal to investors that the company is efficient in using resources and has the ability to generate added value. This signal increases investor confidence and makes it easier for companies to access capital when needed. Additionally, companies that consistently report profits are more capable of reinvesting in R&D, market expansion, or increased production capacity, all of which contribute to sustainable growth. In other words, profitability not only enhances internal financing capacity but also strengthens the company's financial structure and strategic position in the long term.

This finding can be explained through signaling theory, which states that companies send signals to the market through financial information that reflects the prospects and internal conditions of the company. A high level of profitability is a positive signal to investors and creditors that the company has strong performance, is efficient in managing resources, and has promising growth potential. This signal increases market confidence, strengthens the company's position in obtaining resources, and provides flexibility in making investments without relying too much on external financing. Therefore, in the framework of signaling theory, high profitability is seen as a leading indicator that reflects the internal strength of the company and encourages an increase in Sustainable Growth Rate (SGR).

In research that has previously been conducted by Aqila and Prasetiono (2023) also shows a significant and positive influence between profitability and Sustainable Growth Rate (SGR). This is also in line with several other previous studies such as Wijaya et al. (2021), Nastiti et al. (2019), Change (2021) and Rahim (2017).

Effect of Company Size on Sustainable Growth Rate (SGR)

Company size also shows no significant effect on Sustainable Growth Rate (SGR) on the sig of 0.38 > 0.05 with a t-value of 0.17 shown in Table 4 indicates this finding suggests that the size of the company, which is generally measured through total assets, does not always reflect the company's ability to maintain sustainable growth. In the context of signaling theory, firm size is often associated as a positive signal of economic strength and operational stability in the eyes of investors. However, the results of this study indicate that such signals are not strong enough to explain variations in SGR.

Within the framework of signaling theory, large companies are often perceived as stable and financially strong entities. However, in practice, large companies also face challenges such as complex bureaucracy, operational inefficiencies, and difficulties in adapting to market changes. This can limit decision-making speed and innovation capabilities, which have a negative impact on SGR. On the other hand, smaller or medium-sized companies that are more agile and innovative can demonstrate higher growth if they can manage resources efficiently. Thus, company size is not the sole indicator of sustainable growth potential. Factors such as business strategy, operational efficiency, and innovative capability are more relevant in determining the sustainability of a company's growth.

This may occur because sustainable growth depends not only on the scale of operations, but also on how effectively resources are utilized, reinvested, and transformed into value-generating activities. A large company with inefficient management, low innovation, or weak strategic direction may experience stagnant growth despite

its size. Conversely, smaller but more agile firms may achieve higher SGR due to better capital allocation, higher profitability, and stronger internal reinvestment capacity.

Thus, the findings imply that company size alone is not a reliable predictor of sustainable growth, and that investors and decision-makers should consider qualitative and performance-based factors such as profitability, operational efficiency, and reinvestment strategies when evaluating a firm's long-term growth potential. This highlights the limitation of using size as a standalone signal, reinforcing the idea that internal financial and strategic indicators provide a more accurate picture of a company's capacity for sustainable development. In other words, while large firms may signal higher credibility to the market, such signals do not guarantee efficiency in resource management or success in sustaining growth. Instead, investors and stakeholders may pay more attention to other signals related to profitability, operational efficiency, or growth strategy than simply the size of the firm.

The results of this hypothesis test (H3) are not supported in line with the research of Saputri et al. (2024), El Madbouly (2022) and Guliyev and Muzaffarov (2024) which shows a significant positive effect of company size on Sustainable Growth Rate.

The effect of Sustainable Growth Rate on financial performance

The test results of Hypothesis H3 also prove that Sustainable Growth Rate (SGR) has a positive and significant effect on the company's Financial Performance. The sig of 0.00 < 0.05 with a t value of 0.117 shown in Table 4 indicates that companies that are able to maintain sustainable growth tend to have better financial performance. Growth supported by internal sources will have a positive impact on the profitability and operational efficiency of the company. SGR represents the maximum rate at which a firm can grow its sales, earnings, and assets without altering its capital structure or resorting to external financing. A high SGR typically reflects effective internal capital generation, efficient profit reinvestment, and sound financial management. Therefore, firms with strong SGR are better positioned to fund their operations and expansion through retained earnings rather than debt or equity issuance, which can be costly and risk-laden.

A high SGR reflects a company's ability to grow while maintaining a healthy capital structure. This means that the company is able to grow its revenue without relying too heavily on debt or new share issuances, which in the long term maintains the stability of capital costs and financial structure. From a signaling theory perspective, a high SGR signals that the company is managed efficiently and has good growth prospects, thereby increasing its attractiveness to investors. Growth derived from internal sources (retained earnings) tends to be more stable and sustainable than growth dependent on risky external sources. This underscores that SGR is not only an indicator of growth but also reflects the quality of financial management and long-term business strategy.

From the perspective of signaling theory (Spence, 1973), a high SGR serves as a positive signal to investors and other stakeholders regarding the company's internal strength and future prospects. Companies that are able to fund their growth from internal sources, such as retained earnings, signal efficient management practices, profitability, and financial stability. These signals enhance investor confidence, which in turn can improve market perception and financial outcomes. Therefore, sustainable growth not only contributes to better financial performance directly but also strengthens the company's position in the eyes of external parties through positive signaling.

The results of this hypothesis test (H4) are supported in line with the research of Shelemo (2023) and Rahim (2017) shows a significant positive effect of Sustainable Growth Rate on financial performance.

Conclusion

The results of this study provide several important conclusions. First, liquidity (proxied by Current Ratio) has a positive effect on the Sustainable Growth Rate (SGR), indicating that the company's liquidity level does contribute positively to the company's ability to achieve sustainable growth. Second, profitability (proxied by ROA) has a positive and significant effect on Sustainable Growth Rate (SGR), indicating that the higher the level of company profitability, the greater the company's ability to finance internal growth and maintain sustainable growth rates in the long term. Third, company size (proxied by Ln Total Assets) does not have a significant effect on Sustainable Growth Rate (SGR). This result suggests that the scale of a company, whether large or small, does not necessarily determine its ability to achieve sustainable growth. Despite the common assumption that larger companies possess more resources and access to capital, such advantages may not directly translate into higher growth if not accompanied by efficient management and strategic investment. Fourth, Sustainable Growth Rate (SGR) has a positive effect on the company's financial performance (proxied by ROA), indicating that the higher the company's ability to grow sustainably without weakening its financial position, the better the financial performance that can be achieved by the company. Overall, the results of this study provide important implications for company management, namely the need to increase profitability as an effort to encourage higher SGR, which in turn can improve overall financial performance. In addition, companies with high SGR levels can be a more stable investment option, given the positive impact of SGR on financial performance.

This study has several limitations that need to be considered. First, the study only uses data on companies listed on the Indonesia Stock Exchange during the 2019-2023 period, so the results may differ if using data from different periods or countries. Second, the study only tested three factors, namely liquidity, profitability, and company size, while there are still many other factors that may affect the Sustainable Growth Rate (SGR) that have not been studied. Third, the measurement of variables is still limited to certain financial ratios, so the use of other indicators may provide different results. The research period is relatively short (2019-2023), so it has not been able to capture the long-term impact of the variables studied.

Although this research has provided a valuable understanding of the factors that influence Sustainable Growth Rate (SGR) and its impact on financial performance, there are several aspects that can be improved for future research. First, future research can expand the observation period in order to see the long-term trends and impacts of the variables studied. The use of data from a longer period will provide a more comprehensive insight into the dynamics of Sustainable Growth Rate (SGR) and its implications for the company's financial performance.

Second, further research can add other independent variables that are thought to affect the Sustainable Growth Rate (SGR), such as capital structure (debt to equity ratio), operational efficiency (ratio of operating expenses to sales), sales growth, and dividend policy. Testing these additional variables can reveal other factors that contribute to the company's ability to achieve sustainable growth, thus providing a more comprehensive understanding for management in formulating the right strategy. By expanding the research period and adding other relevant variables, it is hoped that future research can produce stronger findings and provide more useful practical implications for companies in managing Sustainable Growth Rate (SGR) and improving financial performance in a sustainable manner.

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