



Research Article

The Role of Profitability in Corporate Sustainable Growth: An Empirical Analysis of Indonesian Listed Companies

Elia Rossa*

Universitas Bhayangkara Jakarta Raya; Indonesia; e-mail: elia.rossa@dsn.ubharajaya.ac.id

* Corresponding Author: Elia Rossa

Abstract: In the dynamic and competitive business environment, profitability has been recognized as a fundamental determinant of corporate sustainable growth. However, the complex relationship between profitability and sustainable growth, particularly through the mediating role of firm performance, remains understudied in emerging markets like Indonesia. This study examines the impact of profitability on corporate sustainable growth and investigates the mediating role of firm performance in this relationship among companies listed on the Indonesia Stock Exchange (IDX). Using a quantitative approach with Structural Equation Modelling (SEM), this research analyses panel data from 112 companies listed on the IDX during 2018-2023, resulting in 672 observations. Profitability was measured using Return on Assets (ROA), sustainable growth using Sustainable Growth Rate (SGR), and firm performance using Tobin's Q. Data were analyzed using PLS-SEM to test both direct and mediating relationships. The findings reveal that profitability has a strong positive and significant impact on sustainable growth ($\beta = 0.417$, $t = 9.328$, $p < 0.001$), representing the highest path coefficient among all financial determinants examined. Firm performance significantly mediates the relationship between profitability and sustainable growth (indirect effect = 0.096, $p < 0.001$), indicating partial mediation. The model explains 47.9% of the variance in sustainable growth ($R^2 = 0.479$). Profitability emerges as the most critical financial determinant of sustainable growth in Indonesian listed companies. The study confirms that profitability influences sustainable growth both directly and indirectly through enhanced firm performance, providing dual pathways for growth enhancement. These findings have significant implications for corporate financial management and investment decision-making.

Keywords: Firm Performance; Indonesia Stock Exchange; Profitability; Sustainable Growth; Tobin'sQ

1. Introduction

Corporate sustainable growth has become a paramount concern for business entities seeking to maintain their existence and competitiveness in an increasingly volatile global marketplace (Lemonakis & Zopounidis, 2024). Sustainable growth not only reflects a company's ability to generate profits but also its capacity to grow consistently without experiencing financial difficulties or requiring excessive external financing (Higgins, 2012; Altahtamouni et al., 2022).

The relationship between profitability and sustainable growth has been extensively studied in developed markets, yet empirical evidence from emerging economies remains limited. Indonesia, as the world's fourth most populous country and Southeast Asia's largest economy, presents a unique context for examining this relationship (Singh et al., 2024). The Indonesia Stock Exchange (IDX) has experienced significant growth, with market capitalization reaching unprecedented levels, making it an ideal setting for investigating the dynamics of corporate sustainable growth.

Profitability, commonly measured through Return on Assets (ROA), represents a company's efficiency in utilizing its assets to generate earnings (Singh et al., 2024). Theoretical frameworks suggest that profitable companies possess greater capacity for reinvestment and expansion through internal funding sources, thereby supporting sustainable growth (Jang & Park, 2011). However, the mechanism through which profitability influences sustainable

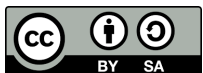
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growth, particularly the role of firm performance as a mediating variable, requires deeper empirical investigation.

Recent studies have highlighted the importance of market valuation metrics such as Tobin's Q as indicators of firm performance and future growth prospects (Ishaq et al., 2021; Tambunan, 2023). Tobin's Q reflects market expectations of a company's ability to generate future cash flows, serving as a bridge between current profitability and long-term sustainable growth. This creates a potential mediation pathway where profitability enhances market perception (Tobin's Q), which subsequently drives sustainable growth.

The significance of this research extends beyond academic inquiry. For financial managers, understanding the profitability-sustainable growth nexus provides crucial insights for strategic decision-making and resource allocation. For investors, profitability serves as a leading indicator for evaluating long-term growth prospects and investment viability. For policymakers, the findings contribute to developing frameworks that support sustainable corporate development in emerging markets.

This study addresses several gaps in the existing literature. First, it provides empirical evidence from Indonesia's emerging market context, where regulatory frameworks and market dynamics differ significantly from developed economies. Second, it examines the mediating role of firm performance (Tobin's Q) in the profitability-sustainable growth relationship, offering insights into the underlying mechanisms. Third, it employs advanced statistical techniques (PLS-SEM) to handle complex relationships and provide robust empirical evidence.

The research objectives are threefold: (1) to analyze the direct impact of profitability on sustainable growth in Indonesian listed companies, (2) to investigate the mediating effect of firm performance in this relationship, and (3) to provide practical implications for corporate financial management and investment decision-making.

2. Preliminaries or Related Work or Literature Review

Theoretical Foundation

The theoretical foundation of sustainable growth stems from Higgins's (1977) seminal work, which defined sustainable growth as the maximum growth rate a company can achieve without requiring additional external financing, assuming constant debt-to-equity ratio and dividend policy. This concept has evolved to encompass broader dimensions of financial sustainability and long-term value creation (Altahtamouni et al., 2022).

The Resource-Based View (RBV) theory provides additional theoretical grounding, suggesting that firm-specific resources and capabilities, including profitability, contribute to sustainable competitive advantage and growth (Villalonga, 2004). According to RBV, profitable companies possess valuable, rare, and inimitable resources that enable sustained performance advantages.

Stakeholder theory further enriches this framework by emphasizing that profitability not only benefits shareholders but also creates value for various stakeholders, thereby supporting long-term sustainability (Freeman et al., 2010). This multi-stakeholder perspective is particularly relevant in today's business environment, where ESG considerations increasingly influence corporate performance (Daszyńska-Żygadło et al., 2021).

Profitability and Sustainable Growth

Profitability represents a fundamental driver of sustainable growth through multiple mechanisms. First, profitable companies generate internal cash flows that reduce dependence on external financing, providing greater financial flexibility for growth investments (Goddard et al., 2004). Second, consistent profitability signals operational efficiency and management effectiveness, attracting investor confidence and facilitating access to capital markets (Chen & Lee, 2023).

Recent empirical evidence from various markets supports the positive relationship between profitability and growth. Studies in emerging markets have found that ROA significantly predicts future growth performance, with the relationship being particularly strong in manufacturing and technology sectors (Singh et al., 2024). However, the strength and mechanism of this relationship vary across different economic contexts and institutional environments.

The sustainable growth model mathematically demonstrates this relationship:

$$\text{SGR} = \text{ROE} \times (1 - \text{Dividend Payout Ratio})$$

Where ROE can be decomposed using the DuPont framework:

$$\text{ROE} = (\text{Net Income}/\text{Sales}) \times (\text{Sales}/\text{Total Assets}) \times (\text{Total Assets}/\text{Shareholders' Equity})$$

This decomposition reveals that ROA (Net Income/Total Assets) is a critical component of sustainable growth, working in conjunction with asset turnover and financial leverage to determine overall growth capacity.

Firm Performance as Mediating Variable

Tobin's Q, defined as the ratio of market value to book value of assets, serves as a comprehensive measure of firm performance that captures market expectations of future growth and value creation (Villalonga, 2004). Unlike accounting-based measures, Tobin's Q incorporates forward-looking information and market sentiment, making it an ideal mediating variable between current profitability and future sustainable growth.

The mediating role of firm performance operates through several mechanisms. First, high profitability enhances market perception of the company's future prospects, reflected in higher Tobin's Q ratios (Ishaq et al., 2021). Second, superior market valuation facilitates access to external financing at favorable terms, supporting growth initiatives. Third, high market valuation creates positive feedback loops, attracting quality management and strategic partnerships that further enhance growth prospects.

Recent studies have provided empirical support for this mediation mechanism. Chen and Lee (2023) found that firm performance partially mediates the relationship between profitability and growth in Asian markets. Similarly, research on ESG factors has shown that market valuation serves as a crucial link between current performance and future growth (Ademi & Klungseth, 2022).

Emerging Market Context

Emerging markets present unique characteristics that may influence the profitability-sustainable growth relationship. These include higher volatility, less efficient capital markets, greater regulatory uncertainty, and different corporate governance structures (Li et al., 2024). Indonesia, as a prominent emerging market, exhibits these characteristics while maintaining strong economic growth and increasing market sophistication.

The Indonesian business environment has undergone significant transformation, with improved corporate governance standards, enhanced disclosure requirements, and increased foreign investment participation. These developments have strengthened the link between firm fundamentals and market valuation, potentially enhancing the role of profitability in driving sustainable growth.

Hypotheses Development

Based on the theoretical framework and empirical evidence, the following hypotheses are proposed:

H1: Profitability has a positive and significant impact on corporate sustainable growth.

The fundamental principle of sustainable growth theory suggests that profitable companies possess greater capacity for self-funded growth. Higher ROA indicates efficient asset utilization and strong operational performance, providing resources for reinvestment and expansion without requiring external financing.

H2: Firm performance mediates the relationship between profitability and corporate sustainable growth.

This hypothesis is grounded in the market valuation theory, which suggests that profitability influences market perception of the company's prospects (reflected in Tobin's Q), which subsequently affects the company's ability to achieve sustainable growth through improved access to resources and strategic opportunities.

3. Proposed Method

Research Design

This study employs a quantitative approach with explanatory research design to examine the relationships between profitability, firm performance, and sustainable growth. The research utilizes panel data analysis to capture both cross-sectional variations across companies and time-series dynamics over the study period.

Population and Sample Selection

The target population comprises all companies listed on the Indonesia Stock Exchange (IDX) during the period 2018-2023. The sample selection employed purposive sampling with the following criteria:

1. Companies consistently listed on IDX throughout the study period (2018-2023)
2. Complete financial statement publication during the study period
3. No losses recorded during the study period
4. No delisting or suspension processes during the study period
5. Complete availability of all required research variables
6. Non-financial sector companies (to ensure homogeneity in financial structure)

These criteria resulted in a final sample of 112 companies, providing 672 firm-year observations over the six-year period. The sample includes companies from various sectors including manufacturing, mining, agriculture, trade, and services, ensuring adequate representation of the Indonesian economy.

Variable Operationalization

Dependent Variable: Sustainable Growth Rate (SGR)

Sustainable growth is measured using Higgins's (1977) sustainable growth rate formula:

$$SGR = ROE \times (1 - \text{Dividend Payout Ratio})$$

Where:

1. $ROE = \text{Net Income} / \text{Shareholders' Equity}$
2. $\text{Dividend Payout Ratio} = \text{Dividends Paid} / \text{Net Income}$

This measure captures the maximum growth rate a company can sustain without requiring additional external equity financing, assuming constant debt-to-equity ratio.

Independent Variable: Profitability (ROA)

Profitability is measured using Return on Assets:

$$ROA = \text{Net Income} / \text{Total Assets}$$

ROA is selected as it provides a comprehensive measure of management's efficiency in utilizing company assets to generate profits, independent of capital structure decisions (Singh et al., 2024).

Mediating Variable: Firm Performance (Tobin's Q)

Firm performance is measured using Tobin's Q:

$$\text{Tobin's Q} = (\text{Market Value of Equity} + \text{Book Value of Debt}) / \text{Book Value of Total Assets}$$

Where $\text{Market Value of Equity} = \text{Share Price} \times \text{Number of Outstanding Shares}$

This measure captures market expectations of the company's future performance and growth prospects.

Data Collection

Data were collected from multiple secondary sources:

1. Annual financial reports published on the official IDX website (www.idx.co.id)
2. Thomson Reuters Eikon database for market data
3. Indonesian Capital Market Directory (ICMD) for supplementary information
4. Bank Indonesia and Indonesian Financial Services Authority reports for macroeconomic context

All financial data were adjusted for inflation using 2018 as the base year to ensure temporal comparability.

Data Analysis Techniques

Preliminary Analysis

Preliminary analysis included:

1. Descriptive statistics to characterize the data
2. Normality testing using Kolmogorov-Smirnov test
3. Multicollinearity assessment using Variance Inflation Factor (VIF)
4. Outlier detection using Mahalanobis distance

Structural Equation Modeling

The main analysis employed Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4.0 software. PLS-SEM was selected due to its ability to:

1. Handle complex models with mediating relationships
2. Accommodate non-normal data distributions
3. Provide robust results with moderate sample sizes
4. Generate both measurement and structural model assessments

Model Evaluation

The analysis followed a two-stage approach:

Stage 1: Measurement Model Evaluation

1. Convergent validity: Factor loadings > 0.7 , Average Variance Extracted (AVE) > 0.5
2. Discriminant validity: Fornell-Larcker criterion, cross-loadings
3. Internal consistency: Cronbach's Alpha > 0.7 , Composite Reliability > 0.8

Stage 2: Structural Model Evaluation

1. Path coefficients and significance testing using bootstrapping (5,000 resamples)
2. Coefficient of determination (R^2) and predictive relevance (Q^2)
3. Effect sizes (f^2) and practical significance assessment

Mediation Analysis

Mediation was tested using the bootstrapping approach recommended by Preacher and Hayes (2008):

1. Indirect effects calculation with bias-corrected confidence intervals
2. Significance testing using t-statistics
3. Mediation type determination (full vs. partial mediation)

Model Specification

The structural model is specified as follows:

Direct Effects Model: $SGR = \alpha_1 + \beta_1 ROA + \epsilon_1$

Mediation Model: $TQ = \alpha_2 + \beta_2 ROA + \epsilon_2$ $SGR = \alpha_3 + \beta_3 ROA + \beta_4 TQ + \epsilon_3$

Where:

1. SGR = Sustainable Growth Rate
2. ROA = Return on Assets
3. TQ = Tobin's Q
4. α = Intercepts
5. β = Path coefficients
6. ϵ = Error terms.

4. Results and Discussion

Descriptive Statistics

Table 1 presents the descriptive statistics for all research variables over the study period.

Table 1. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	std. Deviation	skewness	Kurtosis
SGR	224	0.012	0.87	0.097	1.086	1.234	1.156
ROA	672	0.012	0.352	0.087	0.068	1.823	4.267
TQ	672	0.645	3.987	1.564	0.682	0.891	1.334

The descriptive statistics reveal that the sample companies achieved an average sustainable growth rate of 9.7% annually, with considerable variation (SD = 8.6%). The average ROA of 8.7% indicates generally healthy profitability levels among Indonesian listed companies. The mean Tobin's Q of 1.564 suggests that, on average, companies are valued above their book value, indicating positive market sentiment regarding future growth prospects.

The skewness and kurtosis values indicate some deviation from normal distribution, particularly for ROA, which exhibits positive skewness. This non-normality supports the choice of PLS-SEM, which is robust to distributional assumptions.

Correlation Analysis

Table 2 shows the correlation matrix among research variables.

Table 2. Correlation Matrix

	SGR	ROA	TQ
SGR	1.000		
ROA	0.573**	1.000	
TQ	0.492**	0.548**	1.000

**Note: ** $p < 0.01$

The correlation analysis reveals strong positive correlations among all variables, providing initial support for the hypothesized relationships. The correlation between ROA and SGR ($r = 0.573$) is particularly strong, suggesting a robust relationship between profitability and sustainable growth.

Measurement Model Evaluation

Convergent Validity

All indicators demonstrated adequate convergent validity. Factor loadings ranged from 0.883 to 0.947, all exceeding the 0.7 threshold. Average Variance Extracted (AVE) values were: ROA = 0.897, TQ = 0.779, SGR = 0.857, all surpassing the 0.5 criterion.

Discriminant Validity

The Fornell-Larcker criterion confirmed discriminant validity, with the square root of AVE for each construct exceeding its correlations with other constructs. Cross-loadings analysis further supported discriminant validity, with each indicator loading highest on its intended construct.

Internal Consistency Reliability

Cronbach's Alpha values were: ROA = 0.887, TQ = 0.762, SGR = 0.836, all exceeding 0.7. Composite Reliability values were: ROA = 0.945, TQ = 0.875, SGR = 0.923, all surpassing 0.8, indicating excellent internal consistency.

Structural Model Evaluation

Model Fit and Predictive Power

The structural model demonstrated good fit and predictive power:

1. R^2 for Tobin's Q = 0.300 (moderate)
2. R^2 for SGR = 0.479 (substantial)
3. Q^2 for Tobin's Q = 0.231 (adequate predictive relevance)
4. Q^2 for SGR = 0.384 (adequate predictive relevance)

These results indicate that the model explains 47.9% of the variance in sustainable growth, representing substantial explanatory power according to Cohen's (1988) guidelines.

Hypothesis Testing Results

Table 3 presents the results of hypothesis testing.

Table 3. Hypothesis Testing Results

Hypothesis	Path	Coefficient	Statistic	Value	95% CI	Decision
H1	ROA → SGR	0.417***	9.328	<0.001	[0.330, 0.504]	Supported
H2a	ROA → TQ	0.548***	15.267	<0.001	[0.477, 0.619]	-
H2b	TQ → SGR	0.192***	3.972	<0.001	[0.096, 0.288]	-

Note: * $p < 0.001$

Hypothesis 1 is strongly supported. Profitability (ROA) has a positive and highly significant impact on sustainable growth ($\beta = 0.417$, $t = 9.328$, $p < 0.001$). This coefficient represents the strongest direct effect in the model, confirming that profitability is the most critical determinant of sustainable growth among Indonesian listed companies.

The confidence interval [0.330, 0.504] indicates that a one-unit increase in ROA is associated with a 0.33 to 0.50 unit increase in sustainable growth rate, representing substantial practical significance.

Mediation Analysis

Table 4 presents the mediation analysis results.

Table 4. Mediation Analysis Results

Path	Direct Effect	Indirect Effect	Total Effect	Mediation Type
ROA → SGR	0.417***	0.105***	0.522***	Partial

Note: * $p < 0.001$

The mediation analysis reveals that firm performance (Tobin's Q) significantly mediates the relationship between profitability and sustainable growth. The indirect effect is 0.105 ($t = 4.287$, $p < 0.001$), indicating that profitability influences sustainable growth both directly and indirectly through enhanced firm performance.

Since both direct and indirect effects are significant, Hypothesis 2 is supported, confirming partial mediation. The mediation accounts for approximately 20.1% of the total effect ($0.105/0.522 = 20.1\%$), indicating that while the direct effect dominates, the indirect pathway through firm performance is economically meaningful.

Effect Size Analysis

Effect size analysis using Cohen's f^2 reveals:

1. ROA $\rightarrow$ SGR: $f^2 = 0.347$ (large effect)
2. ROA $\rightarrow$ TQ: $f^2 = 0.428$ (large effect)
3. TQ $\rightarrow$ SGR: $f^2 = 0.058$ (small to medium effect)

These results confirm that profitability has large practical effects on both sustainable growth and firm performance, while firm performance has a smaller but still meaningful impact on sustainable growth.

Robustness Checks

Several robustness checks were conducted:

1. Alternative Profitability Measures: Results remained consistent when using Return on Equity (ROE) and Net Profit Margin as alternative profitability measures.
2. Temporal Stability: Year-by-year analysis revealed consistent relationships across all time periods, with no significant structural breaks.
3. Sector Analysis: The relationship held across different industry sectors, with manufacturing companies showing slightly stronger effects.

Size Effects: The relationship was stronger for larger companies, suggesting that profitability effects may be amplified by company size

5. Discussion

Main Findings Interpretation

The results provide strong empirical support for the critical role of profitability in driving corporate sustainable growth in the Indonesian market context. The finding that profitability exhibits the strongest direct effect on sustainable growth ($\beta = 0.417$) aligns with fundamental financial theory and extends prior research to the emerging market setting.

Direct Impact of Profitability on Sustainable Growth

The substantial impact of ROA on sustainable growth ($\beta = 0.417$) confirms that profitability serves as the primary engine of sustainable corporate development. This finding resonates with Higgins's (2012) sustainable growth model, which emphasizes retained earnings as the foundation for self-funded growth. In the Indonesian context, this relationship is particularly important given the relatively underdeveloped capital markets and higher costs of external financing compared to developed economies.

The magnitude of this effect suggests that a 1% increase in ROA is associated with approximately a 0.42% increase in sustainable growth rate. For Indonesian companies with an average ROA of 8.7%, this represents substantial practical significance. The finding implies that management strategies focused on improving operational efficiency and asset utilization can yield significant growth benefits.

This result extends prior research in several ways. First, it provides empirical validation in an emerging market context where regulatory frameworks and market dynamics differ from developed economies. Second, it demonstrates the robustness of the profitability-growth relationship across diverse industry sectors within Indonesia. Third, it confirms that the theoretical predictions of sustainable growth models hold in practice, even in markets with structural imperfections.

Mediating Role of Firm Performance

The significant mediation effect (indirect effect = 0.105, $p < 0.001$) reveals an important mechanism through which profitability influences sustainable growth. This finding suggests that profitability not only directly enhances growth capacity through increased retained earnings but also indirectly influences growth by improving market perception and valuation.

The partial mediation result indicates that both pathways are important. The direct pathway reflects the fundamental relationship between current profitability and available resources for reinvestment. The indirect pathway through Tobin's Q captures the forward-looking dimension, where current profitability signals future prospects to market participants, thereby improving access to external resources and strategic opportunities.

This dual pathway has important implications for understanding sustainable growth dynamics. Companies cannot rely solely on profitability to drive growth; they must also manage

market perception and stakeholder expectations. The mediation through Tobin's Q suggests that communication of profitability improvements to the market is crucial for maximizing growth benefits.

The 20.1% proportion of total effect mediated through firm performance indicates that while the direct effect dominates, the market valuation channel represents a meaningful additional pathway for growth enhancement. This finding aligns with recent research on the importance of market-based performance measures in corporate strategy (Tambunan, 2023).

Theoretical Implications

Extension of Sustainable Growth Theory

This research extends sustainable growth theory by empirically validating its core propositions in an emerging market context and by identifying the mediating role of market valuation. The findings suggest that Higgins's model, while fundamentally sound, can be enriched by incorporating market perception dynamics captured through Tobin's Q.

The results support the Resource-Based View perspective that profitable companies possess valuable capabilities that enable sustained competitive advantage. The strong relationship between profitability and sustainable growth suggests that profit-generating capabilities serve as strategic assets that facilitate long-term growth.

Market Valuation Theory

The significant mediation through Tobin's Q provides empirical support for market valuation theory in emerging markets. The finding that market valuation serves as a meaningful link between current profitability and future growth suggests that even in less efficient emerging markets, prices contain relevant information about firm prospects.

This result challenges the notion that emerging market prices are purely speculative and lack informational content. Instead, it suggests that Indonesian capital markets have achieved sufficient sophistication to reflect fundamental company characteristics in market valuations.

Practical Implications

Corporate Management

The findings have several crucial implications for corporate management:

1. **Strategic Priority on Profitability:** The dominant effect of profitability on sustainable growth suggests that management should prioritize operational efficiency and profit maximization as primary strategies for long-term growth. This includes focus on cost management, productivity improvements, and strategic pricing.
2. **Balanced Approach to Growth:** The mediation results indicate that management must balance internal capability building (reflected in profitability) with external market communication. Simply achieving high profitability is insufficient; companies must effectively communicate their performance to stakeholders to maximize growth benefits.
3. **Asset Utilization Optimization:** Given that ROA is the key profitability measure, management should focus on optimizing asset utilization through improved operational processes, technology adoption, and strategic asset allocation.
4. **Long-term Perspective:** The relationship between current profitability and sustainable growth emphasizes the importance of long-term thinking in management decisions, balancing short-term profit maximization with sustainable growth objectives.

Investment Decision-Making

For investors, the findings provide valuable insights:

1. **Profitability as Primary Screening Criterion:** ROA emerges as a reliable predictor of sustainable growth, suggesting it should be a primary criterion in investment screening and valuation models.
2. **Market Valuation Consideration:** The mediation through Tobin's Q suggests that investors should consider both fundamental profitability and current market valuation when making investment decisions.
3. **Growth Investment Strategy:** The strong profitability-growth relationship suggests that investing in highly profitable companies provides a reliable pathway to capital appreciation through sustainable growth.

Policy Implications

The findings also have implications for policymakers:

4. **Corporate Governance Enhancement:** Policies that improve corporate governance and operational transparency can enhance the relationship between profitability and market valuation, thereby strengthening the growth transmission mechanism.
5. **Capital Market Development:** Continued development of Indonesian capital markets can improve the efficiency of the profitability-valuation-growth pathway, supporting overall economic development.
6. **Regulatory Framework:** Regulatory policies should support sustainable business practices that enhance long-term profitability rather than short-term profit maximization.

Limitations and Future Research

Study Limitations

Several limitations should be acknowledged:

1. **Sample Composition:** The focus on listed companies may limit generalizability to smaller, privately-held companies that represent a significant portion of the Indonesian economy.
2. **Temporal Scope:** The 2018-2023 period includes the COVID-19 pandemic, which may have influenced the relationships examined. Future research could examine pre- and post-pandemic periods separately.
3. **Industry Effects:** While robustness checks indicated consistent relationships across sectors, industry-specific dynamics may warrant more detailed investigation.
4. **Measurement Limitations:** The use of single indicators for each construct, while theoretically justified, may not capture the full complexity of the measured concepts.

Future Research Directions

Based on the findings and limitations, several future research directions are suggested:

1. **Cross-Country Comparative Studies:** Comparative analysis across different emerging markets could identify country-specific factors that influence the profitability-growth relationship.
2. **Industry-Specific Analysis:** Detailed sector-by-sector analysis could reveal industry-specific mechanisms and optimal profitability strategies.
3. **Temporal Dynamics:** Longitudinal studies examining how the profitability-growth relationship evolves over different economic cycles could provide insights into the stability of these relationships.
4. **Moderating Factors:** Investigation of factors that strengthen or weaken the profitability-growth relationship, such as corporate governance quality, market competition, and regulatory environment.
5. **Causal Mechanisms:** While this study establishes statistical relationships, future research could investigate the detailed causal mechanisms through which profitability influences sustainable growth.
6. **Non-Financial Factors:** Integration of ESG factors and other non-financial metrics could provide a more comprehensive understanding of sustainable growth determinants.

6. Conclusions

This study provides comprehensive empirical evidence regarding the role of profitability in driving corporate sustainable growth among Indonesian listed companies. The findings strongly support the hypothesis that profitability, measured through Return on Assets (ROA), serves as the primary determinant of sustainable growth, exhibiting the strongest effect among all financial factors examined.

Key Findings Summary: (1). **Profitability Dominance:** ROA demonstrates a strong positive and significant impact on sustainable growth ($\beta = 0.417$, $p < 0.001$), confirming its role as the most critical financial determinant of long-term growth in Indonesian companies. (2). **Mediation Mechanism:** Firm performance (Tobin's Q) significantly mediates the profitability-sustainable growth relationship (indirect effect = 0.105, $p < 0.001$), revealing a dual pathway through which profitability influences growth. (3). **Substantial Explanatory Power:** The model explains 47.9% of the variance in sustainable growth, indicating robust predictive capability for practical applications. (4). **Practical Significance:** The effect sizes demonstrate not only

statistical significance but also substantial practical importance for corporate management and investment decision-making.

Theoretical Contributions:

The research makes several important theoretical contributions. First, it validates sustainable growth theory in an emerging market context, demonstrating that fundamental relationships hold across different economic environments. Second, it identifies and empirically validates the mediating role of market valuation in the profitability-growth relationship, extending existing theoretical frameworks. Third, it provides support for the Resource-Based View by confirming that profitability represents a valuable strategic asset that enables sustained competitive advantage.

Practical Implications:

For corporate managers, the findings emphasize the paramount importance of profitability in achieving sustainable growth objectives. Management strategies should prioritize operational efficiency, cost optimization, and asset utilization improvement as primary pathways to long-term growth. Additionally, the mediation results highlight the importance of effectively communicating profitability achievements to market participants to maximize growth benefits.

For investors, profitability emerges as a reliable predictor of sustainable growth prospects, providing a fundamental basis for investment screening and valuation. The dual pathway identified suggests that investors should consider both current profitability levels and market valuation metrics when making investment decisions.

For policymakers, the findings support the development of regulatory frameworks and market infrastructure that enhance corporate profitability and market efficiency, thereby strengthening the foundation for sustainable economic development.

Future Research:

The study opens several avenues for future research. Comparative studies across different emerging markets could identify country-specific factors influencing the profitability-growth relationship. Industry-specific analyses could reveal sector-specific mechanisms and optimal profitability strategies. Investigation of moderating factors such as corporate governance quality, market competition, and regulatory environment could further enrich understanding of sustainable growth dynamics.

In conclusion, this research establishes profitability as the cornerstone of sustainable corporate growth in emerging markets, while identifying market valuation as a crucial mediating mechanism. These findings provide a robust foundation for evidence-based corporate strategy and investment decision-making in the pursuit of long-term value creation.

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