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The Role of Asset Quality and Macroeconomic Variables in Driving Financial Performance of Sharia Healthcare Firms Indonesia

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Abstract

This study aims to analyse the influence of internal and external variables on the financial performance and stock prices of health sector companies listed in the Indonesian Sharia Stock Index (ISSI). The internal variables studied include company size (Size), asset quality (Asset Quality), and asset management (Asset Management), while external variables include inflation and Gross Domestic Product (GDP) growth. Financial performance is measured using Return on Assets (ROA) and Return on Equity (ROE). This study uses a quantitative approach with panel data analysis to evaluate the company's performance trends in a certain period of time. The results show that asset management and company size have a positive influence on ROA, while financial risk has a significant negative influence. However, external variables such as inflation and GDP do not have a significant influence on ROA, ROE, or stock prices. This research makes important contributions in various dimensions, both academically, practically, and policy. Academically, this study fills a literature gap related to the financial performance of sharia-based companies, especially in the health sector listed in the Indonesian Sharia Stock Index (ISSI). The focus on the relationship between internal variables such as firm size, asset quality, and asset management with external variables such as inflation and GDP provides a holistic perspective that has rarely been discussed in previous research. The study expands the discussion on how sharia principles affect financial decision-making, particularly in risk management and corporate profitability. Practically, the results of this study provide valuable insights for company management in improving financial performance. The emphasis on the importance of effective asset management and financial risk control offers strategies that can increase profitability while maintaining the financial stability of the company. For investors, this study provides guidance in evaluating sharia-based companies by highlighting factors such as asset quality and risk management, thus helping to make more informed investment decisions. In terms of policy, this study offers an empirical basis that can be used by regulators to design policies that support the stability of the sharia-based health sector. The results of this study can help steer regulations that strengthen financial risk management, increase transparency, and create incentives for companies that adhere to sharia principles. Thus, this research not only provides academic contributions but also high practical and policy relevance, especially in supporting the development of the sharia-based health sector in developing countries such as Indonesia. This implication underscores the importance of balancing profitability, adherence to Islamic ethics, and financial sustainability in creating added value for all stakeholders. The study is of significant novelty value because it combines in-depth analysis of financial performance with a sharia-based approach in the health sector, an area that has not been widely explored in the previous literature. The focus on companies listed on the Indonesian Sharia Stock Index (ISSI) offers a unique context, where companies are not only faced with conventional business challenges but also have to comply with sharia principles such as the prohibition against riba, gharar, and maysir. This aspect adds complexity and unique ethics in financial management that have not been widely researched. Another value of this study lies in its holistic approach, which integrates the company's internal variables (such as size, asset quality, and asset management) with macroeconomic external variables (inflation and GDP). This analysis allows for a deeper understanding of how internal and external factors interact in influencing financial performance and stock prices, particularly in the sharia-based healthcare sector.

Keywords: Financial Performance, Sharia Companies, Health Companies, Indonesian Sharia Stock Index (ISSI), Asset Management

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Introduction

A company's financial performance is one of the main benchmarks used to evaluate the health and competitiveness of a business entity, especially in strategic sectors such as healthcare. The health sector has an important role in maintaining economic stability and growth, especially in developing countries such as Indonesia. In the Islamic capital market, companies listed on the Indonesian Sharia Stock Index (ISSI) are faced with an additional challenge, namely ensuring that their operational and financial activities comply with sharia principles. It demands careful financial management as well as adherence to rules that involve not only financial performance, but also business ethics. In addition to internal factors, the financial performance of companies in the health sector is influenced by several external factors such as financial risks, inflation, and Gross Domestic Product (GDP). Return on Equity (ROE) and Return on Assets (ROA) are often used to evaluate a company's effectiveness in utilizing their capital and assets to generate profits. However, macroeconomic factors such as inflation and GDP growth directly affect the stability of companies' earnings and their ability to maintain profitability amid fluctuating economic pressures.

The company's internal variables such as Size, Asset Quality, and Asset Management also play a significant role in determining financial performance and stock price. Size reflects the size of the company and their ability to mobilize financial resources, which has the potential to strengthen the company's capacity to deal with financial risks and maximize returns. Companies with large sizes tend to have better resilience in the face of economic volatility because they have more assets to distribute and more funding avenues. Asset Quality, or asset quality, is an important indicator that measures how well a company maintains the stability and efficiency of their assets. Good asset quality shows that companies are able to manage their investments efficiently and avoid credit risks and unexpected losses. High asset quality is often associated with better financial performance, increasing investor confidence, which ultimately has a positive impact on stock prices. On the other hand, Asset Management refers to how effective a company is in managing their assets to maximize returns. Good asset management not only ensures that companies can make optimal use of their assets, but it also serves to increase the company's value in the eyes of investors. Efficient asset management directly impacts financial performance through increased profitability and reduced operational costs, which in turn can drive stock price increases.

In the context of health sector companies listed on ISSI, the challenge of managing these factors becomes more complex because they must comply with sharia principles that require transparency, fairness, and prohibition against practices that contain elements of riba, gharar (uncertainty), and maysir (speculation). This requires companies to not only focus on profitability, but also consider ethical aspects in their financial decisions. This study aims to examine the influence of macroeconomic variables such as inflation and GDP, as well as internal factors such as Size, Asset Quality, and Asset Management on financial performance measured through ROE and ROA, as well as their impact on the stock prices of health sector companies listed on ISSI. By using a quantitative approach and panel data analysis, this study is expected to provide deeper empirical insights into how healthcare sector companies face various economic and financial challenges, as well as provide implications for management and

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investors in making more effective strategic decisions in the Islamic capital market.

This research has a number of uniqueness that distinguishes it from previous studies. First, the focus on healthcare sector companies listed on the Indonesian Sharia Stock Index (ISSI) provides a specific context, where companies not only operate in a conventional business environment but also have to comply with strict sharia rules. This creates complexity in financial and performance management that has not been widely researched in the existing literature. Second, this study explores the interaction between internal and external factors, including Size, Asset Quality, and Asset Management, as well as macroeconomic variables such as inflation and GDP. With this approach, the study aims to provide a more holistic understanding of how these various factors affect each other in the context of financial performance and stock prices in the health sector. Third, the study also pays attention to the ethical dimension that characterizes the Islamic capital market, where companies must ensure that all financial decisions are not only profitable but also in accordance with sharia principles, including transparency and fairness. This aspect makes this research relevant not only in an academic context, but also provides practical implications for the management of companies and investors operating in the Islamic capital market. Finally, the use of panel data analysis in this study allows researchers to evaluate performance trends over time and provide deeper empirical insights into the dynamics of the health sector in Indonesia, which can contribute to the development of more effective business policies and strategies.

This research has a high urgency, because the health sector is an important pillar for economic stability and growth, especially in developing countries such as Indonesia. In the context of the Islamic capital market, the challenge of managing financial performance is increasingly complex because there is an obligation to comply with sharia principles that emphasize business ethics, transparency, and fairness. In addition, this study fills the literature gap regarding the interaction of internal and external factors in companies operating in the sharia capital market. The results of this study will make a significant contribution not only at the academic level, but also for financial practitioners and policymakers. By understanding the influence of these factors on financial performance, company management can develop a more efficient asset and financial risk management strategy, and still comply with sharia principles. For investors, these findings provide valuable insights for more informed investment decision-making. Meanwhile, regulators can use these findings to support policies that promote health sector stability in the Islamic capital market. The implications of this study provide in-depth insights for managers of health sector companies listed in the Indonesian Sharia Stock Index (ISSI) regarding more effective strategic decision-making in dealing with macroeconomic and internal corporate dynamics.

The structure of the paper is described as follows. This paper departs from the introduction with an examination of the literature review regarding Islamic banking in the context of internal and external factors in the form of size, asset quality, asset management, financial risk, inflation, GDP, return on asset, return on equity and stock price. In the third part, the investigative methodology is explained. In part four, the findings and discussion section are discussed. In the next section, the limitations and recommendations for further research are presented after the conclusion.

Literature Review and Hypotheses

The Effect of Size on ROA

In the context of Islamic retail banks in Bahrain, larger size was significantly positively related to ROA, indicating that bigger banks might benefit from economies of scale, leading to higher

profitability (Abou Elseoud et al., 2020). Similarly, in the Kuwaiti banking sector, larger banks showed potential for higher profits, suggesting scale efficiency (AL-Omar & AL-Mutairi, 2008). Conversely, other research shows a negative relationship. Some studies indicate that larger size negatively moderates the relationship between financial soundness and ROA. For instance, in Kenyan commercial banks, a negative correlation coefficient was found between size and ROA, suggesting that as size increases, ROA tends to decrease (Kirimi et al., 2022). There are also findings where size did not significantly affect ROA. For instance, in the study of Indonesian and Malaysian Islamic banks, size was found to have a positive and significant influence on ROA only in Indonesian banks, while it was insignificant in Malaysian banks (Chabachib et al., 2019).

H1. There is a significant influence between size and ROA

The Effect of Asset Quality on ROA

Effective asset quality management, particularly through the management of non-performing loans (NPLs) and impairment charges, is strongly associated with improved ROA. Banks that actively manage their asset quality tend to exhibit better financial performance, including higher ROA (Barakat et al., 2024). In the context of Islamic banks in Malaysia, asset quality significantly influences financial performance, including ROA, indicating the importance of proper asset management practices (Noufal and Thacharupadikkal 2012)(Ali et al., 2021). In the Indian banking sector, a highly negative correlation exists between non-performing assets (NPAs) and ROA. Declining credit quality, as indicated by higher NPAs, significantly hampers banks' performance and reduces ROA (Gaur & Mohapatra, 2021) Similarly, in Jordan, asset quality negatively affects banks' profitability, including ROA, suggesting that poor asset quality can detract from financial performance (Alshatti, 2016).

H1. There is a significant influence between Asset Quality and ROA

The Effect of Asset Management on ROA

Asset management is identified as a significant internal determinant positively affecting ROA in commercial banks. Effective asset management practices contribute to higher profitability by optimising the use of assets (Al-Homaidi et al., 2020). In the context of real estate investment trusts (REITs), asset management is considered a primary driver of returns, including ROA. This is due to the tangible nature of real estate assets, which helps reduce financial distress costs (Feng et al., 2022)

Effective asset quality management, particularly in banking, is crucial for enhancing ROA. Proper supervision and management of non-performing loans (NPLs) and impairment charges are linked to improved financial performance (Barakat et al., 2024). Although not directly asset management, working capital management, which includes managing current assets, also impacts ROA (Amponsah-Kwatiah & Asiamah, 2021; Desai, 2021; Gołaś, 2020; Liu et al., 2024; Okoye et al., 2016).

H1. There is a significant influence between Asset Management and ROA

The Effect of Financial Risk on ROA

Multiple studies indicate that credit risk negatively impacts ROA. For instance, research on Jordanian commercial banks shows a significant negative relationship between credit risk and ROA (Al-Eitan & Bani-Khalid, 2019). Similarly, another study on Indonesian banks found that credit risk adversely affects ROA (Ruziqa, 2013). The impact of liquidity risk on ROA appears mixed. While one

study on Indonesian banks found a positive significant effect of liquidity risk on ROA (Ruziqa, 2013) another study on Jordanian banks reported an insignificant positive relationship (Altarawneh & Shafie, 2018)

H1. There is a significant influence between financial risk and ROA

The Effect of inflation on ROA

Several studies indicate that inflation positively affects ROA. For instance, research on Islamic retail banks in Bahrain and banks in Turkey found that inflation has a positive and statistically significant effect on ROA (Abou Elseoud et al., 2020; Doğan & Yildiz, 2023). Similarly, a study on ASEAN banks reported that inflation increases ROA (de Leon, 2020). Contrarily, some studies suggest a negative relationship. For example, research on Islamic banks in Indonesia found that inflation negatively impacts ROA (Insani & Muflih, 2019). Another study on the G20 countries' banks showed that inflation negatively affects ROA in developed countries but positively in developing countries (Cetin, 2019). The relationship can be complex and context-dependent. For instance, a study on Vietnamese commercial banks found a positive relationship between inflation and ROA, while another study on the Indonesian Islamic banking industry reported a negative correlation (Syachfuddin & Rosyidi, 2020; Thanh et al., 2022).

H1. There is a significant influence between inflation and ROA

The Effect of GDP on ROA

Several studies indicate that GDP growth positively influences ROA. For instance, research on the Property and Real Estate Company Sector in Indonesia shows that GDP growth rate positively affects firm performance, which includes ROA (Romus et al., 2020). Similarly, a study on Vietnamese commercial banks found that GDP growth has a positive relationship with ROA (Thanh et al., 2022). Contrarily, some studies report a negative relationship between GDP growth and ROA. For example, research on Islamic retail banks in Bahrain and ASEAN banks found that GDP growth negatively affects ROA (Abou Elseoud et al., 2020; de Leon, 2020).

H1. There is a significant influence between GDP and ROA

The Effect of Size on ROE

Several studies indicate that larger size can negatively impact ROE. For instance, research on commercial banks in India found that size has a significant negative influence on ROE (Al-Homaidi et al., 2020). Similarly, a study on Indonesian banks also reported a negative impact of size on ROE (Ruziqa, 2013). Another study focusing on Asian banks found that size negatively moderates the relationship between risk and profitability, thereby reducing ROE (Chakraborty, 2024). There are also findings that suggest a positive relationship between size and ROE. A study on Islamic retail banks in Bahrain found that size is positively related to ROE (Abou Elseoud et al., 2020). Moreover, research on the restaurant industry, although not directly related to banks, showed that larger firms earned significantly higher equity returns (Yoon & Jang, 2005). Contrarily, some studies suggest that size does not significantly affect ROE. For example, research on Kenyan commercial banks found no moderating effect of size on ROE (Kirimi et al., 2022). Additionally, a study on Bangladeshi banks indicated that the impact of size on ROE is not uniform, suggesting variability depending on other factors (Sufian & Habibullah, 2009).

H1. There is a significant influence between Size and ROE

The Effect of Asset Quality on ROE

Effective asset quality management, particularly through the supervision of non-performing loans (NPL) and provisioning for impaired assets, has a strong positive association with bank profitability, including ROE. Banks that actively manage their asset quality tend to exhibit better financial performance and stability (Barakat et al., 2024).

H1. There is a significant influence between Asset Quality and ROE

The Effect of Asset Management on ROE

Asset management has been shown to have a positive effect on ROE in various studies. For instance, research on commercial banks listed on the Bombay Stock Exchange indicates that asset management positively influences ROE (Al-Homaidi et al., 2020). Similarly, a study on Islamic financial institutions in the GCC countries also found that asset management significantly impacts ROE (Tabash et al., 2023). In the real estate investment trust (REIT) sector, asset management is considered a primary driver of returns, including ROE (Feng et al., 2022). The impact of asset management on ROE is not isolated. It interacts with other internal and external factors such as financial risk, GDP growth, and inflation. For example, in the context of the Jakarta Islamic Index, asset management, along with company size and GDP, significantly influences ROE (Kismawadi, 2024)

H1. There is a significant influence between Asset Management and ROE

The Effect of Financial Risk on ROE

In Kenya, credit risk had an insignificant positive effect on ROE for companies listed under the commercial and services segment on the Nairobi Securities Exchange (NSE) (Chin et al., 2024) In Indonesia, credit risk negatively impacted the firm value of commercial banks, which indirectly suggests a potential negative effect on ROE (Kirimi et al., 2022) In Turkey, a negative relationship was found between credit risk and ROE, indicating that higher credit risk reduces ROE (Ekinci & Poyraz, 2019)

Liquidity risk had a significantly negative effect on ROE for companies in Kenya, indicating that higher liquidity risk reduces ROE (Onsongo et al., 2020) Similarly, in Indonesia, liquidity risk negatively affected the firm value of banks, implying a detrimental effect on ROE (Febrianto et al., 2022) In the Western Balkans, liquidity risk significantly impacted ROE, suggesting that effective liquidity management is crucial for maintaining ROE (Përvetica & Ahmeti, 2023). Operational risk had an insignificant effect on ROE in Kenya, indicating that it may not be a major determinant of ROE in this context (Onsongo et al., 2020) In the UAE, operational risk did not significantly impact ROE, further supporting the notion that operational risk might not heavily influence and In the UAE, capital risk had a statistically significant positive relationship with ROE, suggesting that managing capital risk effectively can enhance ROE (Oudat et al., 2023).

H1. There is a significant influence between financial risk and ROE

The Effect of Inflation on ROE

Several studies indicate that inflation can positively affect ROE. For instance, in the context of ASEAN banks, an increase in the inflation rate was found to increase ROE by 0.323% (de Leon, 2020) Similarly, in Bahrain's Islamic retail banks, inflation had a positive and statistically significant effect on ROE (Abou Elseoud et al., 2020). This positive relationship is also observed in the Turkish banking sector, where inflation positively affects both ROE and Return on Assets (ROA) (Doğan &

Yildiz, 2023). Conversely, other studies highlight the potential negative effects of inflation on ROE. For example, in the case of Iraqi banks, inflation negatively impacted financial performance, including ROE (Ghafel & Bougatef, 2024). Additionally, in the Romanian energy industry, inflation was found to negatively affect ROE due to its impact on cost structures and profit margins (Bunea et al., 2019). High inflation can lead to volatility in financial metrics, making ROE an unreliable indicator in such environments. This is particularly true in concentrated markets where inflation can exacerbate financial instability (Ndlovu & Alagidede, 2018). The impact of inflation on ROE can also depend on other macroeconomic factors such as GDP growth and credit risk. For instance, in ASEAN banks, GDP growth negatively affected ROE, while inflation had the highest positive impact (de Leon, 2020). Similarly, in Bahrain, GDP growth had a negative relationship with ROE, while inflation had a positive effect (Abou Elseoud et al., 2020).

H1. There is a significant influence between inflation and ROE

The Effect of GDP on ROE

Multiple studies indicate that GDP growth negatively affects ROE. For instance, research on ASEAN banks from 2012 to 2017 found that GDP growth negatively impacts ROE at a 5% significance level (de Leon, 2020). Similarly, a study on Islamic retail banks in Bahrain from 2013 to 2019 also reported a significant negative relationship between GDP growth and ROE (Abou Elseoud et al., 2020). Another study examining the profitability of commercial banks in India from 2008 to 2017 found that GDP growth has a significant negative influence on ROE (Al-Homaidi et al., 2020). Contrarily, some studies suggest a positive relationship. For example, research on Turkish banks from 2007 to 2020 found a positive and statistically significant relation between GDP growth rate and ROE (Doğan & Yildiz, 2023). Additionally, a study on Vietnamese commercial banks from 2009 to 2019 also reported a positive relationship between GDP growth and ROE (Thanh et al., 2022).

The relationship between ROE and GDP is also influenced by broader economic conditions. For example, during periods of low GDP growth, distinguishing between positive and negative ROE becomes crucial for accurate financial analysis (Thanh et al., 2022) This highlights the importance of considering the economic context when evaluating ROE.

H1. There is a significant influence between GDP and ROE

The Effect of Size on Stock Price

Large banks' stock prices were more adversely affected during the 2007 financial crisis compared to smaller banks, indicating higher vulnerability during economic downturns (Thanh et al., 2022). Large banks tend to be insulated from negative rating changes due to the perception of being "too big to fail," which can cushion their stock prices against downgrades (Fieberg et al., 2015). This perception also leads to favourable returns for large banks during periods of increased market volatility (Chira et al., 2013).

The market-to-book value of banks is negatively related to their liabilities-to-GDP ratio, especially in countries with large public deficits. This suggests that large banks in fiscally weak countries might benefit from downsizing (Demirgüç-Kunt & Huizinga, 2013). There is a bidirectional causality between size and stock price, indicating that changes in size can influence stock prices and vice versa (Rjoub et al., 2017). Larger banks faced more significant stock price penalties during the 2020 stress tests, likely due to anticipated regulatory scrutiny (Marsh, 2023) Data from various studies

confirm that larger banks generally experience lower stock price volatility. For instance, a study on Turkish banks found a negative relationship between size and earnings volatility, suggesting that larger banks are less risky (Kasman & Kasman, 2016) Similarly, analysis of banks listed on the Borsa Istanbul Bank Index showed that increased size leads to decreased stock volatility (Topaloğlu et al., 2020).

H1. There is a significant influence between size and stock price

The Effect of Asset Quality on Stock Prices

Non-Performing Loans (NPLs) are a critical indicator of asset quality. High levels of NPLs negatively impact stock prices as they signal poor lending practices and increased credit risk, leading to decreased investor confidence and potential profitability loss (Buchory, 2020; Miglionico, 2019; Nugroho et al., 2020)–'—(Paul, Mittal, and Srivastav 2016). High-quality assets, characterised by profitability, growth, and safety, generally lead to higher stock prices. However, the impact is often modest, and high-quality stocks tend to offer high risk-adjusted returns (Anzinger et al., 2017; Asness et al., 2019). his is evident in the quality-minus-junk (QMJ) factor, which shows significant risk-adjusted returns by investing in high-quality stocks and shorting low-quality ones.

Improved accounting quality enhances the informativeness of stock prices by embedding more firm-specific information, which can positively influence stock prices (Tiron-Tudor & Achim (Nasca), 2019). Interestingly, firms with higher asset growth rates tend to experience lower stock returns, particularly in developed markets. This suggests that rapid asset growth might be perceived as overinvestment or mispricing, negatively affecting stock prices (Watanabe et al., 2013). In the banking sector, asset quality, along with other factors like capital adequacy and earnings, significantly influences stock prices. Poor asset quality, indicated by high NPLs, detrimental impacts stock prices, while good asset quality can enhance them (Akhigbe et al., 2012; Sharma et al., 2023).

H1. There is a significant influence between asset quality and stock prices

The Influence of Asset Management on Stock Prices

New Asset Management Regulations (NAMR) can reduce stock price crash risk by enhancing financial stability and improving main business performance and accounting conservatism. This effect is particularly strong in firms with higher managerial myopia and less analyst coverage (M. Li & Huang, 2024) Changes in demand for Environment, Social, and Governance (ESG) characteristics significantly affect stock prices. Increased demand for ESG characteristics or shifts in assets under management towards institutions with high ESG demand led to different returns for stocks with varying ESG characteristics (Zhang et al., 2024)

The ownership of asset management companies can distort capital allocation and asset prices. For instance, bank-affiliated mutual funds may increase their holdings in controlling bank stocks around specific events, driven by bank managers' incentives (Nanduri and Mmereki 2013)(Golez & Marin, 2015). Higher managerial ability can reduce stock price synchronicity by transmitting more company-specific information to the market. This effect is more pronounced in companies with high institutional ownership (Gan & Hu, 2023)

H1. There is a significant influence between asset management and stock prices

The Effect of Financial Risk on Stock Prices

The impact of absolute financial risk, measured by total debt, on share prices varies by risk category.

Firms with total liabilities below their market capitalization benefit from being in a low-risk category, which positively influences their share prices. There is a negative and significant connection between relative financial risk, measured by the debt/equity ratio, and share prices. Firms with higher debt/equity ratios (greater than or equal to one) are categorised as high-risk and tend to have lower share prices (Sixpence et al., 2020).

Investors react negatively to companies with higher liquidity risk, especially during liquidity-constraining events. This is evident from stronger negative reactions to firms with more illiquid assets on their balance sheets (Roggi & Giannozzi, 2015). While profitability positively affects bank stock prices, credit and liquidity risks do not show a significant direct impact on stock prices (Widjaja & Ariefianto, 2022) Various types of financial risk, such as market risk, credit risk, and liquidity risk can influence stock prices differently (Sen & Das, 2023)

H1. There is a significant influence between financial risk and stock prices

The Effect of Inflation on Stock Prices

In the long run, real stock prices tend to be invariant to permanent changes in the rate of inflation. For instance, South African data shows that real stock prices positively respond to permanent inflation shocks in the long run, indicating that short-term deviations are corrected over time (Arjoon et al., 2012). Several studies indicate that inflation generally has a negative impact on stock prices. For example, inflation negatively affects stock prices in the U.S. sector stock indexes, particularly when considering inflation uncertainty (Albulescu et al., 2017). Similarly, inflation has a negative impact on stock prices in a capital gains tax regime in the USA (Quayes & Jamal, 2008). The effect of inflation on stock returns can be conditional on whether inflation shocks are perceived as good or bad news by investors. Positive and negative inflation shocks can produce varied stock market reactions depending on the economic state (Knif et al., 2008). Inflation has both long-run and short-run asymmetric effects on stock prices. Both positive and negative changes in inflation can harm stock prices, highlighting the importance of understanding these dynamics for better investment and policy decisions (Sia et al., 2023).

H1. There is a significant influence between inflation and Stock Prices

The Influence of GDP on Stock Prices

Multiple studies suggest that GDP positively affects stock prices. For instance, a simulation model analysing data from 2011 to 2018 found that GDP has a positive effect on stock market value (C. Li & Lin, 2021) Similarly, research on the Iraqi stock market indicated that GDP positively influences stock market performance (Idan, 2022). he relationship between GDP and stock prices can vary by sector. A study on the Indian stock market found a significant long-term and short-term relationship between sector-specific GDP and stock indices, indicating that economic growth in specific sectors can drive stock prices in those sectors (Sehrawat & Giri, 2017). The impact of GDP on stock prices can differ in the short and long term. In Singapore, GDP was found to have long-term implications for stock market development but not in the short term (Hui & Lee, 2010). Some studies show mixed results. For example, research on the manufacturing sector in Singapore found that while GDP impacts stock prices, the relationship is not very strong (Arora & Bhimani, 2016). Another study on the Vietnamese real estate market found a negative correlation between GDP growth and stock prices, suggesting that lower GDP growth negatively impacts stock prices (Viet et al., 2024).

H1. There is a significant influence between GDP

and Stock Prices

Research Methodology

The purpose of this study is to examine the empirical effect of financial performance (Size, Asset Quality, asset management, financial risk, inflation) on GDP, ROA, ROE, and Stock Price. This study evaluates the financial performance of Indonesian sharia health companies listed on the Islamic Stock Index (ISSI). To empirically investigate the relationship between financial performance (Size, Asset Quality, asset management, financial risk, inflation) on GDP, ROA, ROE, and Stock Price., we use the following Ordinary Least Square (OLS), Here is the model:

$$GDP = \alpha_0 + \alpha_1 SP_1 + \alpha_2 Sz_2 + \alpha_3 AQ_3 + \alpha_4 AM_4 + \alpha_5 FR_5 + \in_t \quad (1)$$

$$ROA = \alpha_0 + \alpha_1 SP_1 + \alpha_2 Sz_2 + \alpha_3 AQ_3 + \alpha_4 AM_4 + \alpha_5 FR_5 + \in_t \quad (2)$$

$$ROE = \alpha_0 + \alpha_1 SP_1 + \alpha_2 Sz_2 + \alpha_3 AQ_3 + \alpha_4 AM_4 + \alpha_5 FR_5 + \in_t \quad (3)$$

$$SP = \alpha_0 + \alpha_1 SP_1 + \alpha_2 Sz_2 + \alpha_3 AQ_3 + \alpha_4 AM_4 + \alpha_5 FR_5 + \in_t \quad (4)$$

The Table 1 demonstrates, GDP: Gross Domestic Product, ROA: Return on Assets, ROE: Return on Equity, SP: Stock Price, Sz: Size, AQ: Asset Quality, AM: Asset Management, FR: Financial Risk, Inf: Inflation.

Table 1. Variables of this study

Variables	Code	Defines	References
Size	Sz	Natural log of total corporate assets	(Chabachib, Fitriana, et al., 2019; Gaur & Mohapatra, 2021; Gazi et al., 2024; Oudat et al., 2023; Sukesti et al., 2021)
Asset Quality	AQ	Net income to total assets	(Ali et al., 2021a; Onsongo et al., 2020a)
Inflation	Inf	Consumer Prices	(Abdo, 2023; Agustina et al., 2023; Al Sharif, 2023; Albusheekh Saleh & Alaallah, 2022; Ali et al., 2021a; Doğan & Yildiz, 2023; Neifar & Gharbi, 2023)
Gross Domestic Product	GDP	GDP per capita (current US$)	(Ali et al., 2021a; Gaur & Mohapatra, 2021; Romus et al., 2020)
Return on Assets	ROA	Ratio of operating income over assets	(Chabachib, Fitriana, et al., 2019; Doğan & Yildiz, 2023; Gaur & Mohapatra, 2021; Mennawi, 2020; Oleiwi et al., 2019; Oudat et al., 2023)
Return on Equity	ROE	Ratio of operating income over equity	(Doğan & Yildiz, 2023; Gaur & Mohapatra, 2021; Oudat et al., 2023)
Stock Price	SP	Equity market index	(Sukesti et al., 2021)

(Source: Research findings)

Findings, Results and Discussion

Table 2. Descriptive Statistics

Variable	Obs	Mean	SD	Min	Max
Return on Assets	120	-23.21	65.85	-2905	31.44
Return on Equity	120	-31.65	90.27	-5188	25.00
Stock Price	120	87.29	25.85	97	100000
Size	120	86.2	68.6	38.00	02.0
Asset Quality	120	1.67	1.84	0.00	15.03
Asset Management	120	13.11	30.70	-1.06	51.71
Financial Risk	120	5.87	36.48	0.05	34.64
Inflation	120	4.16	2.33	1.68	8.38
GDP	120	74.0	35.0	52.0	15.0

(Source: Research findings)

Based on the results of descriptive statistics, it can be seen that companies in the Islamic health sector listed on the Indonesian Sharia Stock Index (ISSI) face significant financial challenges. The negative average Return on Assets (ROA) and Return on Equity (ROE) of -23.21 and -31.65, respectively, with a high standard deviation, reflects that most companies suffer substantial losses in their asset and equity management. This large variability in profitability indicates that the financial performance between companies varies widely, with some companies managing to record profits while others suffer large losses. On the other hand, the company's share price has an average of 87.29, which indicates that, although some companies are experiencing poor operational performance, the market still gives a relatively high evaluation to certain companies.

Company sizes also show large variation, with an average of 86.2 and a standard deviation of 68.6, indicating a large variation in the size of companies operating in the sector. In addition, Asset Quality with an average of 1.67 and a standard deviation of 1.84 indicates that some companies have problems maintaining the quality of their assets, which can negatively impact profitability. Meanwhile, the asset management variable showed very high variation, with an average of 13.11 and a standard deviation of 30.70, which reflects that some companies are able to manage their assets well, while others still struggle in these aspects. In addition, financial risk also appears to be quite high, with an average of 5.87 and a standard deviation of 36.48, suggesting that some companies face significant levels of risk in terms of debt and financial exposure. This shows that the Islamic health sector in Indonesia operates under challenging financial conditions, especially for companies with high financial risks. Finally, macroeconomic variables such as inflation and GDP showed moderate fluctuations during the study period, which is likely to have an impact on the company's performance, especially related to operational costs and healthcare demand. Overall, these statistics reveal that the Islamic healthcare sector in Indonesia faces significant challenges in maintaining financial stability and profitability

growth, with significant levels of risk and variability across companies.

Table 3. Correlation Matrix

Variable	1	2	3	4	5	6	7	8	9
Return on Assets	1								
Return on Equity	0.00	1							
Stock Price	0.03	0.03	1						
Size	0.04	0.01	0.08	1					
Asset Quality	-0.09	-0.09	-0.13	0.21	1				
Asset Management	0.04	-0.08	-0.12	0.26	0.18	1			
Financial Risk	-0.80	0.01	-0.04	0.17	0.23	0.20	1		
Inflation	-0.16	0.02	-0.05	-0.02	0.02	0.15	0.21	1	
GDP	0.13	-0.00	0.05	0.01	-0.02	-0.16	-0.19	-0.62	1

***(Source:** Research findings)*

Table 3 above shows the Correlation Matrix. The Correlation Matrix displays the Pearson correlation coefficients between explanatory variables. All correlation coefficients are less than 0.90, suggesting that collinearity between variables is not a concern, as suggested by (Gujarati, D. and Porter, 2009). Thus, all independent variables are included in the model (Gujarati, D. and Porter, 2009)

Table 4. Influence of Macroeconomic Variables on Financial Performance

***, **, and * indicates significance at the 1%, 5% and 10% levels respectively

Variable		Model 1			Model 2			Model 3	
		ROA			ROE			HARGA SAHAM	
	OLS	FE	RE	OLS	FE	RE	OLS	FE	RE
Size	0.000	7.840	0.000	0.000	3.070	0.000	-0.002	-0.000	-0.000
	(0.013)	(0.188)	(0.012)	(0.5320	(0.968)	(0.931)	0.698	0.968	0.931
Asset Quality	7.333	-0.854	7.333	-27.531	19.160	-27.531	-697.26	-112.04	-156.47
	0.338	0.819	0.334	0.293	0.814	0.738	0.257	0.814	0.738
Asset Management	1.597	0.521	1.597	-1.528	-0.408	-1.528	-33.184	2.625	1.182
	0.000	0.054	0.000	0.338	0.920	0.936	0.376	0.920	0.963
Financial Risk	-6.394	-5.823	-6.394	0.475	-0.020	0.475	5.872	5.485	5.004
	0.000	0.000	0.000	0.723	0.791	0.708	0.852	0.791	0.807
Inflasi	-0.090	0.877	-0.090	9.063	8.084	9.063	-156.808	-201.007	-197.952
	0.990	0.233	0.990	0.720	0.552	0.558	0.791	0.552	0.558
GDP	-8.550	5.310	-8.550	2.440	5.470	2.440	0.001	0.002	0.002
C	0.953	0.726	0.953	0.9611	0.654	0.662	0.654	0.654	0.662
	-24.187	-4.836	-24.187	-27.986	-123.025	-27.986	5236.827	3239.421	5236.827
	0.813	0.705	0.817	0.936	0.729	0.936	0.534	0.493	0.561
ADJ R	0.700	0.516	0.700	(0.031)	(0.036)	(0.031)	(0.020)	(0.039)	(0.039)
PROB (F-STAT)	0.000	0.000	0.000	0.403	0.741	0.875	0.736	0.958	0.958
Hausman test chi-sq	-	29.659	-	-	-	-	-	-	0.000
Hausman test prob	-	0.001	-	-	-	-	-	-	1.000
No. of obs	120	120	120	120	120	120	120	120	120

***(Source:** Research findings)*

The results of this study show that several internal variables of the company have a significant influence on Return on Assets (ROA) in health sector companies listed on the Indonesian Sharia Stock Index (ISSI). First, company size has a very small but significant coefficient, which shows that although its quantitative impact is minimal, company size still has an important role in improving efficiency and economies of scale contributing to improved financial performance. The results of this study support the study conducted by (Abou Elseoud et al., 2020; Chabachib, Fitriana, et al., 2019; Chabachib, Windriya, et al., 2019; Chandrapala & Knápková,

2013; Sukesti et al., 2021). The size of the company has a significant influence on return on assets. Large-scale companies are more effective than small companies because they take advantage of economies of scale. Companies can achieve economies of scale by increasing production and lowering costs, thus generating more profits. (Sukesti et al., 2021). In addition, companies with large assets have good job stability and are able to generate higher profits due to the large number of resources they have. By having large total assets, the Company has a relatively large total financing so that the income from loan interest (profit sharing) is also relatively large

Second, asset quality has a positive influence, although not significant at the conventional level, which indicates that companies that are able to maintain asset stability and efficiency tend to have better financial performance. This research is in line with that conducted by (Barakat et al., 2024). Banks that actively monitor the quality of their assets usually perform better financially. Careful asset quality management contributes significantly to the bank's bottom line, emphasizing the need for continuous monitoring, effective provisioning, and risk-aware decision-making. However, it is different from the study conducted by (Ali et al., 2021b; Alshatti, 2016; Gaur & Mohapatra, 2021) which states that asset quality has a significant negative effect on profitability. The negative effects of asset quality variables are caused by the bank's asset structure, banks are required to reconsider asset quality to help reduce the credit risk associated with it (Alshatti, 2016). This shows that the quality of assets measured by the NPF ratio has a negative impact on the bank's ROA and ROE. By lowering the value of the NPF ratio can increase the profitability of Islamic banks, improper asset quality management will increase NPF and can ultimately lead to financial difficulties for banks (Ali et al., 2021b)

The asset management variable has also proven to be significant and positive, showing that effective asset management has a direct impact on increasing ROA. This research is in line with that conducted by (Ahmeti et al., 2022; Gołaś, 2020; Liu et al., 2024; Pangestuti et al., 2021) that asset management has a significant positive influence on profitability. This reflects that companies that have good asset management tend to be able to utilize assets to generate greater profits (Pangestuti et al., 2021). Efficiency in current asset management allows the Company to utilize optimal resources, either through a faster cash conversion cycle or managing current liabilities appropriately, thus having a positive impact on the Company's performance (Liu et al., 2024).

In contrast, financial risk has a significant negative influence on ROA, which means that increased financial risk, such as the risk of default or bad financing, can significantly reduce a company's profitability. This research is in line with (Arifaj & Baruti, 2023; Gaur & Mohapatra, 2021; Mennawi, 2020), the negative relationship between non-performing loans and ROA shows that when non-performing loans increase, bank profitability decreases. This implies that banks are less efficient in generating profits from their assets due to the presence of non-performing loans or higher credit rates. This implies that a decline in credit quality hampers banks' performance and leads to their collapse. However, it is not in line with what was done by (Oleiwi et al., 2019) which resulted in credit risk having a positive and significant effect on bank profitability. Credit risk management should not stop at a certain level or after achieving the desired outcome (Chand and Agarwal 2021; Narayanswamy 2021). It should always be active and upgraded regularly. That way, banks will be able to run their operations and run their services without worrying about any credit problems and problems.

The variables of inflation and Gross Domestic Product (GDP), although involved in the model, did not exert a significant influence on ROA, suggesting that these macroeconomic variables may play less of a role in influencing the financial performance of health sector companies that adhere to sharia principles. The results of this study are not in line with (Abou Elseoud et al., 2020). Inflation has a significant negative influence on ROA. This is because inflation can increase operational costs and market uncertainty for banks. High inflation often reduces consumer purchasing power, resulting in a

decline in demand for financial products. In addition, if banks are unable to adjust interest rates or credit policies appropriately during periods of inflation, banks face increased borrowing costs and a decline in profits from their assets. Ultimately, this negatively impacts the bank's profitability which is reflected in lower ROAs. (Gaur & Mohapatra, 2021; Insani & Muflih, 2019) that GDP has a negative influence on profitability. While typically economic growth as measured by GDP is assumed to support banking profitability through increased credit activity, it is possible that high economic growth triggers tighter competition in the banking sector, squeezing banks' profit margins. In addition, in conditions of strong economic growth, banks may also be more likely to provide higher-risk loans, which can increase the potential for non-performing loans. This can have a negative impact on bank profitability (Gaur & Mohapatra, 2021). However, it is different from (Doğan & Yildiz, 2023; Romus et al., 2020) that GDP has a positive and significant effect on ROA. The increase in GDP creates a more conducive business environment for banks to increase loan volumes, reduce credit risk, and take advantage of investment opportunities, all of which contribute to increased profitability (Doğan & Yildiz, 2023).

The model has an Adjusted R-squared of 0.700, which indicates that about 70% of the variation in ROA can be explained by the variables included in the model. Thus, the results of this study emphasize the importance of asset management and financial risk control in improving the financial performance of Islamic companies, while macroeconomic impacts seem to have less effect in this context. In the second model, which uses Return on Equity (ROE) as the dependent variable, the results of the study show several interesting findings related to the influence of independent variables on the equity performance of health sector companies listed on the Indonesian Sharia Stock Index (ISSI).

First, Size has a very small and insignificant coefficient (p-value 0.532), which indicates that company size has no significant influence on ROE in this model. This suggests that while the size of the company may play a role in overall operational efficiency, its impact on return on equity is not significant. In the context of sharia, this can be due to asset management that is more conservative and oriented towards the principles of justice, so that economies of scale do not necessarily affect returns for equity holders. The results of this study are not in line with (Khan, 2022) that size has a significant influence on ROE. Larger banks can have higher profitability, by accessing more customers to raise more capital for loans. Size has a negative effect on profitability (Gazi et al., 2024), larger bank sizes tend to lead to increased operational complexity, higher costs, and decreased efficiency. Larger banks may face difficulties in managing assets and risks effectively, resulting in reduced profitability. Additionally, large-sized banks often have higher fixed costs and face greater competitive pressure, which can reduce profit margins. These results may also indicate that expansion or growth in size is not always proportional to increased efficiency or profitability in the context of Islamic banks in Bangladesh.

Furthermore, Asset Quality showed similar results, with negative (-27.531) and insignificant (p-value 0.293) coefficients, meaning that the quality of a company's assets, while important for a company's stability, did not contribute significantly to ROE. This may be due to more prudent credit risk management in Islamic banking, where companies tend to avoid high risks that have the potential to generate large profits but also incur potential losses. This study supports the results conducted by (Ali et al., 2021b; Buchory, 2020), improper asset quality management will increase non-performing finance and can ultimately lead to financial difficulties for banks. This research is not in line with (Barakat et al., 2024) Banks that actively manage the quality of their assets tend to show better financial performance. Specifically, higher provisions for assets that have experienced impairment (as reflected in the depreciation expense ratio) are related to increased bank stability and resilience.

However, interesting results come from the Asset Management variable. Although the coefficient was negative (-1.528), this result was not significant (p-value 0.338). This means that effective asset management, which is crucial for increasing ROE, does not have a significant direct

effect on equity returns. This may be because asset management that focuses more on operational efficiency does not directly translate into return on equity for shareholders. This research is not consistent (Feng et al., 2022; Gazi et al., 2024; Khan, 2022) that asset management has a significant positive effect on ROE. It refers to efficient management by portfolio managers to generate sufficient income

Financial Risk showed an insignificant positive coefficient (0.475, p-value 0.723). Although financial risk can theoretically increase profits by taking on greater risk exposure, in a sharia context that avoids speculative elements and excessive uncertainty (gharar), higher risk does not have a significant effect on equity returns. This research is in line with (Onsongo et al., 2020b), but not in line with what was done by (Abou Elseoud et al., 2020) that credit risk has a significant negative influence on ROE. High financial risk increases interest costs, worsens liquidity, lowers investor confidence, and causes greater losses from leverage, all of which contribute to a significant decline in ROE.

Macroeconomic variables such as inflation and GDP also did not have a significant influence on ROE. In line with (Rehan et al., 2024) but different from the results (Doğan & Yildiz, 2023) that GDP has a significant effect on ROE. GDP growth creates more conducive economic conditions for banks to increase lending, improve operational efficiency, and reduce credit risk, all of which contribute significantly to the increase in ROE.

Inflation has a positive coefficient (9.063) but is insignificant (p-value 0.720), and GDP shows similar results, with a very small (2.440) and insignificant (p-value 0.961) positive coefficient. These results show that macroeconomic fluctuations, while important in general, do not directly affect the return on equity of sharia health sector companies in Indonesia. The second model shows that there are no variables that significantly affect ROE in the context of Islamic companies in the health sector. While asset management and asset quality are important for maintaining stability and efficiency, their impact on equity returns is indirect or significant. These results reflect the dynamics of Islamic companies that focus on adhering to ethical principles and conservatism in risk management, so that they do not always result in high equity returns for shareholders in the short term. The results of this study are different from (Abou Elseoud et al., 2020; de Leon, 2020; Doğan & Yildiz, 2023) that inflation and GDP have a significant negative effect on profitability. High inflation increases bank operating costs, such as employee salaries and maintenance costs, thereby reducing profit margins. In addition, inflation also has a negative impact on consumer purchasing power, leading to an increase in non-performing loans (NPLs) as more customers default on their debts. As a result, banks must provide reserves to cover higher credit risks, which reduces profitability (Doğan & Yildiz, 2023) On the other hand, although high GDP growth is generally assumed to drive profitability, in practice this could lead to tighter competition in the banking sector. Banks may be forced to lower interest rates or offer financial products with smaller margins to compete, thus lowering profits. Rapid GDP growth can also encourage excessive credit expansion, where banks provide loans to debtors at higher risk. This has the potential to increase NPLs in the future, especially in the event of an economic crisis caused by excessive growth. Overall, both high inflation and GDP could squeeze bank profitability through a combination of increased costs, credit risk, and greater competitive pressures.

In the third model, which uses stock prices as a dependent variable, the results show that variables such as company size, asset quality, asset management, financial risk, inflation, and GDP do not have a significant influence on the stock prices of health sector companies listed in the Indonesian Sharia Stock Index (ISSI).

First, the size of the company does not exert a significant influence on the stock price, with a small and insignificant coefficient, indicating that the size of the institution is not viewed by investors as an important factor in determining the price of stocks in the market. This result is not linear with (Podškubka et al., 2024; Skálová et al., 2018) that

the size of the Company has a significant influence on the stock price. This is because larger companies often have more stable earnings and lower perceived risk. Asset quality shows a large negative coefficient, but remains insignificant, which can be interpreted as an improvement in asset quality that is not appreciated by the market or may be perceived as an unprofitable conservative move in the short term. Results (Buchory, 2020; Nugroho et al., 2020; Sharma et al., 2023) stated that asset quality had a significant negative effect. Banks with higher asset quality tend to have more stable stock prices, while banks with poor asset quality face greater volatility and risk.

Asset management, while effective in the context of operational performance, also does not show a significant influence on stock prices. This indicates that good asset management is not always directly reflected in stock market valuations, perhaps because the market is more interested in short-term results or other more tangible indicators that reflect the company's performance. Financial risk, which is usually associated with stock price fluctuations, also has no significant effect in this context, indicating that a conservative approach to risk in Islamic banking makes financial risk less considered by the market (Cao et al., 2017; Widjaja & Ariefianto, 2022; Yi, 2019)

Macroeconomic variables such as inflation and GDP also do not affect stock prices significantly. Inflation, despite having a large negative coefficient, suggests that an increase in inflation can reduce stock prices, but its effect is not significant enough for investors to pay attention to in the context of the Islamic stock market in the health sector (Bui & Nguyen, 2023; Ghazali et al., 2013). Economic growth (GDP) also did not exert a significant influence, suggesting that the Islamic health sector may not be as sensitive to changes in the economic cycle compared to other sectors. A low adjusted R-squared indicates that the variables in this model account for only a small portion of the stock price variation, indicating that other more relevant factors, such as investor sentiment or industry conditions, may play a greater role in influencing stock prices in the Islamic health sector.

Conclusion

This study concludes that several internal and external variables have different impacts on the financial performance of health sector companies listed in the Indonesian Sharia Stock Index (ISSI). Company size and asset management have been shown to have a positive influence on Return on Assets (ROA) and Return on Equity (ROE), although in most cases these effects are not statistically significant. In contrast, financial risk has a significant negative influence on ROA, suggesting that the greater the financial risk taken, the worse the company's financial performance. On the other hand, macroeconomic variables such as inflation and Gross Domestic Product (GDP) do not show a significant influence on both ROA, ROE, and stock prices.

The results of this study have important implications for managers of health sector companies registered with ISSI. Good asset management and financial risk control should be top priorities to improve the company's profitability and stability. Companies need to implement more conservative risk management strategies to reduce the negative impact of financial risks on financial performance. In addition, these findings are also important for investors and policymakers. Investors can be more selective in choosing companies with effective asset management and controlled financial risks, while policymakers can consider regulations that encourage better risk management in the sharia health sector.

For future research, it is recommended to expand the scope of the research by adding other variables that may be more relevant in influencing financial performance, such as technological innovation and the influence of government policies on the sharia health sector. Further research may also explore the relationship between market sentiment and a company's financial performance, given the finding that macroeconomic variables do not have a significant influence on stock prices. Finally, studies with a qualitative approach can help identify invisible factors that influence strategic decisions in managing financial risk in companies that adhere to sharia principles.

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