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Determinants of Firm Value: Sustainability, Risk Business, Dividend Policy, Capital Structure, and Profitability in Telecommunication

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ABSTRACT

Objectives: To examine the effects of ESG disclosure, business risk (DOL), dividend policy (DPR), and capital structure (DER) on firm value (PBV), with profitability (ROE) as a mediating variable, in telecommunications companies listed on the Indonesia Stock Exchange.

Methodology: The research employs a Quantitative explanatory research using balanced panel data (2020–2024). Data from 9 telecommunications companies were analyzed using panel data regression with the Random Effect Model, complemented by the Sobel test for mediation.

Findings: The results indicate that ESG disclosure negatively affects firm value, business risk has a weak positive effect, dividend policy negatively affects firm value, and capital structure positively influences firm value. Profitability significantly increases firm value and mediates only the effect of capital structure.

Conclusion: The study concludes that firm value in Indonesia's telecommunications sector is primarily driven by capital structure and profitability. ESG initiatives and dividend payout decisions do not enhance valuation unless aligned with growth and financial performance.

Keywords: ESG; Business Risk; Firm Values.

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INTRODUCTION

Indonesia's telecommunications industry underpins the nation's digital transformation, with internet access reaching 72.78% of the population in 2024. Alongside broad 4G coverage and targeted 5G rollouts, regulators and operators are advancing fixed mobile convergence (FMC) to raise service reliability and user experience in both urban and non-urban markets. Performance data show steady nationwide improvements, even as 5G remains spectrum-constrained and geographically uneven conditions that keep capital allocation and pricing discipline in sharp focus (Direktorat Statistik Keuangan, Teknologi Informasi, dan Pariwisata, 2025).

Despite these structural tailwinds, market valuation is heterogeneous. Price-to-Book Value (PBV) trends for IDX-listed telecoms and towers diverged materially during 2020–2024, reflecting firm-specific fundamentals and strategic execution rather than sectoral

growth alone. Sell-side outlooks projected steady revenue expansion on the back of fixed broadband and FMC, yet equity pricing often decoupled across issuers highlighting the need to identify which internal levers investors reward (IDX Channel, 2024).

On sustainability disclosure (ESG), recent Indonesian evidence indicates that ESG information tends to raise value indirectly by strengthening competitive advantage, rather than through a uniform direct premium. In contrast, a large European panel during the CSRD transition finds a positive direct association between ESG disclosure and firm value after addressing endogeneity. These contrasting results suggest that institutional setting, disclosure quality, and investor clientele shape how markets capitalize ESG in price (Rohendi, 2024).

For capital structure, telecom-specific studies show that leverage is intertwined with profitability, liquidity, growth, and the cost of debt consistent with Pecking-Order dynamics in capital-intensive networks. Evidence from European operators (2009–2020) highlights a negative link between leverage and profitability/liquidity and a positive link with sales growth, while a 62-country telecom sample confirms that financing mix materially affects operating performance, reinforcing the strategic importance of debt capacity, tax shields, and investment timing (Stamenković, 2023).

Dividend policy also features prominently in valuation narratives. Among Indonesian SRI-KEHATI firms, higher payout strengthens the profitability firm value linkage, operating as a pure moderator rather than a standalone driver consistent with signaling intuition that stable dividends convey confidence about cash-flow durability in the presence of information frictions (Akhmadi & Januarsi, 2021).

The business risk dimension for Indonesian telcos encompasses operating leverage, spectrum and regulatory costs, and ambitious 5G/FMC capex cycles. US telecom evidence links higher total liabilities-to-assets to profitability impacts, underscoring risk–return trade-offs around balance-sheet intensity; in Indonesia, policy and industry commentary highlight constraints on spectrum availability and comparatively high regulatory cost burdens, both of which complicate monetization pathways for next-gen services (Habibniya, 2022).

Accordingly, this study investigates how ESG disclosure, business risk, dividend policy, and capital structure relate to firm value (PBV) for IDX listed telecommunications companies, and whether profitability (ROE) mediates these relationships. Using 2020–2024 panel data for nine issuers, we estimate direct and indirect effects via panel regressions and Sobel tests, aiming to reconcile macro digitalization with micro value creation and to offer actionable guidance on financing, payout, and disclosure strategies under Indonesia’s evolving regulatory and technology landscape.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy Theory asserts that organizations must operate in alignment with societal norms and expectations to maintain social acceptance and ensure long-term survival (Ross, 2024). In the telecommunications sector, firms strengthen legitimacy through transparent ESG disclosures that demonstrate accountability for environmental, social, and governance impacts (Sihombing, 2025b) ESG reporting such as emissions, governance structure, and social programs helps companies build trust, improve reputation, and secure competitive advantage

in highly regulated industries (Rohendi, 2024). This legitimacy ultimately contributes to sustaining and enhancing firm value (Desmitaa & Sihombing, 2024a).

Agency Theory

Agency Theory focuses on conflicts of interest between principals (shareholders) and agents (managers), emphasizing the need for mechanisms that reduce agency costs (Jensen, 1976). ESG disclosures and dividend policies serve as control tools that enhance transparency and limit managerial discretion over free cash flow (Nur et al, 2024). In telecommunications companies, consistent dividends and sustainability reporting reduce information asymmetry, strengthen investor confidence, and support firm value (Akhmadi & Januarsi, 2021).

Stakeholder Theory

Stakeholder Theory argues that a firm is accountable not only to shareholders but also to all parties affected by its activities, such as employees, customers, communities, and regulators. Meeting stakeholder expectations through CSR and ESG initiatives enhances social legitimacy and long-term corporate support. Prior studies show that strong stakeholder engagement reduces reputational risks and supports firm value, especially in sectors with high public scrutiny like telecommunications (Asmaranti & Sihombing, 2021).

Signaling Theory

Signaling Theory explains that companies communicate private information to the market through observable managerial actions, especially financial decisions such as profitability announcements, capital structure choices, and dividend distribution (Sihombing, 2025). In the telecommunications sector, where competition and capital requirements are high, firms rely on signaling mechanisms to differentiate themselves and maintain investor confidence. Dividend policy remains one of the strongest signals, as increasing payouts suggest robust cash flow and long-term sustainability, while reductions often lead to negative market reactions (Sihombing, 2023).

Firm Value

Firm value reflects market perceptions of a firm's future performance and is typically measured using Price to Book Value (PBV) or Tobin's Q (Ross et al., 2024). High PBV or Tobin's Q indicates strong growth expectations and profitability, while low values imply underperformance or increased risk (Sihombing, 2023). In the telecommunications industry, capital structure, profitability, and growth opportunities significantly influence firm value, where profitability helps reduce leverage and financial risk (Desmitaa & Sihombing, 2024).

Environmental, Social, and Governance (ESG) Disclosure

ESG Disclosure Theory proposes that transparent reporting of environmental, social, and governance practices enhances investor trust and strengthens a company's market reputation (Global Reporting Initiative, 2021). Empirical findings show that ESG performance can positively affect profitability and firm value (Aydoğmuş, 2022). However, in some contexts ESG impacts firm value only indirectly through competitive advantage or operational efficiency (Gusfriyanto & Sihombing, 2024). For telecommunications companies, comprehensive ESG disclosure is becoming essential due to increasing regulatory and investor expectations.

Business Risk

Business Risk Theory emphasizes that operational uncertainties such as competition, regulatory dynamics, and technological change can reduce earnings stability and ultimately

weaken firm value (Khorin & Krikunov, 2021). High ESG-related risks also negatively affect valuation multiples, indicating that lower risk improves investor perception (Rusdi & Risman, 2025). In capital-intensive sectors like telecommunications, effective risk management is crucial for sustaining profitability and protecting firm value.

Divident Policy

Dividend Policy Theory, rooted in signaling and agency concepts, states that dividends convey information about management's confidence in future earnings and reduce agency conflicts by limiting free cash flow (Kurniasih, 2025). Stable or increasing dividends signal financial strength and often lead to higher firm value, while dividend cuts may suggest weak performance (Akhmadi & Januarsi, 2021). However, the effect of dividends on firm value can vary depending on profitability and investment opportunities.

Capital Structure

Capital Structures Theory examines how firms optimize the mix of debt and equity to maximize firm value (Sihombing, 2025). Under the Trade-Off Theory, debt provides tax benefits but increases financial distress risk, while the Pecking Order Theory states that firms prefer internal financing over external debt (Sihombing, 2023). In telecommunications, leverage supports infrastructure investment but must be balanced to avoid excessive financial risk (Stamenković, 2023). Profitability often reduces reliance on debt, consistent with Pecking Order predictions (Akhmadi, 2022).

Profitability

Profitability Theory underscores profitability as a key driver of firm value and as a mediator linking strategic decisions such as ESG performance, capital structure, and dividend policy to market valuation (Wingsun Li, 2023). High profitability signals operational efficiency and financial strength, attracting investors and raising firm value (Sihombing, 2025). In telecommunications, profitability is crucial due to high capital expenditures and dynamic competition, and often acts as a mediating factor explaining how internal strategies affect firm value (Akhmadi, 2022).

Prior Research

Prior studies consistently support positive links between green leadership and environmental/green outcomes through psychological or organizational mechanisms (Younis & Hussain, 2023), show green competence contributes to environmental performance (Doghan et al., 2024) and provides operational guidance for competence measurement (Wegenberger & Ponocny, 2025), highlight the role of environmental awareness as a mediator across contexts (Tareke, 2024), and indicate culture/capabilities shape green implementation and competitiveness in construction-relevant settings (Susilo, D., 2022)

Hypothesis Development

Theoretical Framework and Conceptual Model

ESG disclosure in telecommunications functions both as a transparency mechanism and a social legitimacy instrument, signaling disciplined governance, environmental stewardship, and inclusive social practices to investors who increasingly price sustainability into valuations (Legitimacy Theory; Stakeholder Theory). While global evidence is mixed, robust disclosure mapped to GRI indicators (e.g., GRI 302, 305, 2–9) can elevate perceived resilience, corporate reputation, and long-term cash-flow visibility channels by which markets reassess multiples such as PBV or Tobin's Q (ESG section & GRI table). Empirical insights compiled

in the thesis show ESG can raise value directly or indirectly via competitive positioning, though sectoral and market-development stages matter (Rohendi, 2024; Mahmood et al., 2025; thesis synthesis).

H1: ESG disclosure has a positive effect on firm value..

Business risk in telecom arises from high capex, tariff competition, technology cycles, and regulatory exposure, heightening cash-flow volatility and discount-rate premia. Theory suggests higher risk can depress valuation if uncertainty dominates expected return, especially when investors penalize unstable EBIT sensitivity (DOL) and regulatory shocks (Risk–return trade-off; Business Risk Theory). Evidence summarized in the thesis indicates ESG-related risk downgrades valuation multiples, consistent with investors preferring lower risk profiles (Khorin & Krikunov, 2021; sector discussion).

H2: Business risk has a negative effect on firm value..

Dividend policy is a market signal of earnings quality and cash-flow robustness (Signaling; Agency). In telecom, where cash needs are material, stable or rising payouts reduce information asymmetry and can anchor investor trust; yet excessive payouts may suggest scarce growth options. The thesis' literature review shows dividends frequently strengthen the profitability–value link and are often read as “good news” by the market (Akhmadi & Januarsi, 2021; event-study notes).

H3: Dividend policy has a positive effect on firm value.

Dividend policy is a market signal of earnings quality and cash-flow robustness (Signaling; Agency). In telecom, where cash needs are material, stable or rising payouts reduce information asymmetry and can anchor investor trust; yet excessive payouts may suggest scarce growth options. The thesis' literature review shows dividends frequently strengthen the profitability–value link and are often read as “good news” by the market (Akhmadi & Januarsi, 2021; event-study notes).

H3: Dividend policy has a positive effect on firm value.

Capital structure embodies the trade-off between tax shields and financial distress. For capital-intensive telecoms, judicious leverage can lower WACC and accelerate network build-out, thus supporting higher value; but over-leverage raises default risk and erodes multiples (Trade-Off; Pecking Order). The thesis documents sector evidence where leverage influences value non-linearly and is conditioned by profitability, growth, and cost of debt (Stamenković, 2023; synthesis).

H4: Capital structure has a positive effect on firm value (within an optimal range).

Through resource efficiency, risk mitigation, and reputational spillovers, ESG practices can enhance margins and ROE/ROA (RBV; Stakeholder; Signaling). The thesis notes mixed evidence: some studies find ESG lifts profitability; others observe short-run cost burdens before benefits materialize consistent with investment-like ESG outlays (portfolio of findings in ESG and prior-study tables).

H5: ESG disclosure has a positive effect on profitability.

Higher operating leverage (DOL) and regulatory/market shocks tend to depress earnings stability and tighten margins, especially when fixed-cost networks meet price wars. The thesis positions risk management as pivotal to protect ROE, noting evidence that leverage-proxied

risk can impair profitability in telecom unless offset by superior execution (risk and profitability sections).

H6: Business risk has a negative effect on profitability.

Dividend decisions discipline free cash flow (Agency) and may correlate with stronger operating performance when management only commits to payouts it can sustain (Signaling). However, high payouts reduce internal funds, potentially constraining profitable reinvestment in spectrum, fiber, and 5G. The thesis synthesizes both views, stressing the importance of payout balance in capex-heavy telecoms.

H7: Dividend policy has a positive effect on profitability.

Within limits, leverage can amplify returns on equity via tax shields and managerial discipline; beyond those limits, interest burden and covenant constraints erode profitability (Trade-Off). Telecom evidence in the thesis shows profitability often co-moves with well-managed leverage, yet highly levered balance sheets can compress margins when revenue growth slows.

H8: Capital structure affects profitability (expected positive within optimal leverage).

Profitability is a first-order driver of valuation: it signals operating efficiency, cash-generating ability, and prospects, thus improving PBV/Tobin's Q (Signaling). Telecom investors prize durable ROE under high-capex regimes, making profitability a central pillar of market value in the thesis' empirical synthesis.

H9: Profitability has a positive effect on firm value.

If ESG strengthens efficiency, reputation, and risk control, it should raise profitability, which then translates into higher valuation (mediation logic). The thesis compiles evidence where ESG's impact on value becomes significant through competitive advantage and operating gains, consistent with full/partial mediation in some contexts.

H10: Profitability mediates the positive effect of ESG disclosure on firm value.

Elevated business risk is expected to weaken profitability, which in turn lowers firm value, implying an indirect (negative) pathway via earnings (mediation). The thesis' framework adopts this classical channel for telecoms facing pricing pressure and regulatory costs, where risk containment supports earnings and, ultimately, valuation.

H11: Profitability mediates the negative effect of business risk on firm value.

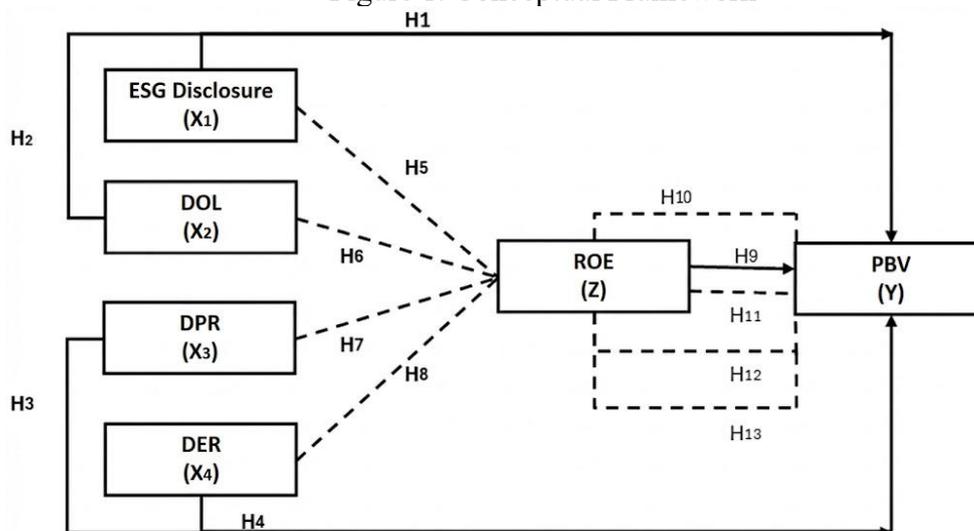
Dividend policy can reinforce operating discipline and signal quality, improving profitability and then lifting firm value; conversely, over-distribution that starves capex may hurt earnings and mute the value channel. The thesis positions profitability as the mechanism that carries dividend information into market valuation (moderated by investment needs).

H12: Profitability mediates the positive effect of dividend policy on firm value.

Optimized leverage reduces capital costs and can raise profitability, which then elevates firm value a canonical mediation consistent with Trade-Off logic for infrastructure-intensive telecoms. The thesis' prior-study synthesis documents cases where DER improves ROA/ROE and, through that route, enhances valuation, while cautioning against distress zones.

H13: Profitability mediates the positive effect of capital structure on firm value.

Figure 1. Conceptual Framework



METHOD

This study employs a quantitative method with a causal research design to examine cause-effect relationships among variables using numerical data analyzed through statistical techniques. The quantitative approach is grounded in the positivist paradigm, emphasizing objective measurement and hypothesis testing (Sugiyono, 2018). The dependent variable is firm value, while the independent variables include Environmental, Social, and Governance (ESG) disclosure, business risk, dividend policy and capital structure with profitability as a mediating variable influencing the relationship among variables.

The research population consists of 10 telecommunication companies listed on the Indonesia Stock Exchange up to 2024. The sample is determined using purposive sampling (Sugiyono, 2018) based on criteria requiring companies to be consistently listed and to provide complete data for the 2020–2024 period, resulting in 9 firms with a total of 45 observations.

Research variables are defined as attributes or characteristics with measurable variation established by the researcher to derive scientific conclusions. In this study, variables are categorized into independent, dependent, and mediating variables, each operationalized through specific definitions and measurement indicators.

Table 1. Variable Definition and Operationalization

Variable	Indicator/Proxy	Scale	Data Source
Y = Firm Value (PBV)	$\text{PBV Ratio} = \frac{\text{Market Share Price}}{\text{Book Value per Share}}$	Ratio	Annual Reports for total equity and outstanding shares; Investing.com for share price data; Market price refers to the closing share price on the last trading day of each year.
	Where: $\text{Book Value per Share} = \frac{\text{Total Equity}}{\text{Outstanding Shares}}$		

Variable	Indicator/Proxy	Scale	Data Source
X ₁ = ESG Disclosure (ESG)	$ESG = \frac{\sum \text{Item ESG}}{\text{Total ESG}} \times 100\%$	Ratio	Annual Reports and Sustainability Reports
X ₂ = Business Risk (DOL)	$DOL = \frac{\% \Delta EBIT}{\% \Delta \text{Sales}} \times 100\%$	Ratio	Annual Reports
X ₃ = Divident Policy (DPR)	$DPR = \frac{\text{Dividen per share}}{\text{Profit per share}} \times 100\%$	Ratio	Annual Reports
X ₄ = Capital Structure (DER)	$DER = \frac{\% \Delta EBIT}{\% \Delta \text{Sales}} \times 100\%$	Ratio	Annual Reports
Z = Profitability (ROE)	$ROE = \frac{\text{Net Income}}{\text{Total Equity}} \times 100\%$	Ratio	Annual Reports

Source: Processed by the author (2025)

The dataset exhibits relatively high volatility, therefore, an outlier detection procedure was first performed, followed by winsorization and natural logarithm transformation to enhance distributional normality and stabilize variance (Sihombing, 2021). The empirical analysis applies panel data regression incorporating three alternative specifications, namely the common effect, fixed effect, and random effect models. The most appropriate estimation model is determined through a sequence of specification tests consisting of the Chow test, Hausman test, and Lagrange Multiplier test. Subsequently, model adequacy and hypothesis testing are evaluated using the Fstatistic, the coefficient of determination (R²), and partial significance tests (ttests) to ensure robustness and statistical validity of the estimated relationships (Ghozali, 2018).

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Table 2. Result Characteristics

Variable	N	Mean	Median	Max	Min	Std Dev	Prob
PBV	45	2.35271	1.76540	6.84670	0.367700	1.524309	0.00010
		1	0	0			2
ESG Disclosure	45	0.76889	0.86670	1.00000	0.200000	0.245598	0.03257
		3	0	0			6
DOL	45	0.83121	0.99510	2.889.90	-4.398700	1.235606	0.00000
		3	0	0			0
DPR	45	0.08056	0.06370	0.92530	0.000000	0.142981	0.00000
		9	0	0			0
DER	45	1.73568	1.19420	5.153.40	0.088300	1.300659	0.19975
		2	0	0			5
ROE	45	0.11920	0.10090	0.66590	-0.048800	0.114667	0.00000
		9	0	0			0

Source: Processed data with E-views13

Descriptive statistics indicate that the average PBV of 2.35 suggests market valuations generally exceed book values across telecommunications issuers, with the minimum of 0.37 and the maximum of 6.85 evidencing wide dispersion in investor assessments of growth prospects and risk. The mean ESG disclosure score of 0.77 (median 0.87) reflects relatively strong sustainability reporting, though the spread from 0.20 to 1.00 points to uneven depth and consistency of disclosure among firms. Business risk, proxied by DOL, averages 0.83 but ranges from -4.40 to 2.89, indicating substantial heterogeneity in operating leverage; the negative extreme implies episodes where operating income moved opposite to sales, consistent with cost-structure rigidity during adverse conditions. Dividend policy (DPR) shows a low average payout of 0.08, spanning 0.00 to 0.93, meaning many firms retained earnings for capex and network expansion while a few distributed a large share of profits capturing divergent payout strategies in a high-investment industry. Capital structure (DER) has a mean of 1.74, with a range from 0.09 to 5.15, indicating that while most firms employ moderate leverage, some operate with very conservative or quite aggressive debt positions to finance infrastructure. Profitability (ROE) averages 0.12, varying between -0.05 and 0.67, which underscores uneven capability to generate shareholder returns from loss-making positions to exceptionally high performance within the sector sample..

Table 3. Panel Data Model Selection

Model Selection Test	Coefficient	Test Result	Explanation
Chow Test	79,577959	0,0000	Fixed Model Effect (FEM)
Hausman Test	3,449423	0,6311	Random Effect Model (REM)
Lagrange Multiplier Test	45,35069	0,0000	Random Effect Model (REM)

The panel model selection results indicate that the Chow Test produces a coefficient of 79.577959 with a p-value of 0.0000, demonstrating strong significance. This means the assumption of a common intercept across firms is rejected, and the Fixed Effect Model (FEM) is initially preferred because it captures firm-specific heterogeneity more accurately.

However, the subsequent Hausman Test, with a statistic of 3.449423 and a p-value of 0.6311, shows no significant difference between FEM and REM estimators. Since the p-value exceeds 0.05, the appropriate model shifts to the Random Effect Model (REM), indicating that firm-specific effects are uncorrelated with the explanatory variables.

Finally, the Lagrange Multiplier (LM) Test reports a coefficient of 45.35069 with a p-value of 0.0000, confirming that REM is superior to the Common Effect Model. This result validates the use of the Random Effect Model as the most efficient specification for analyzing the impact of ESG disclosure, business risk, dividend policy, and capital structure on firm value and profitability in the telecommunications sector.

Panel Regression Estimation Summary

Table 4. Model Summary Results

FStatistic	7,561997
pvalue	0,000048
R ²	0,492254

Source: Processed data with EViews13

Table 6 reports a panel regression summary with an F-statistic of 7.561997 and a p-value of 0.000048, which is well below the 5% significance level, indicating that the regressors are jointly significant in explaining variations in firm value among the Indonesian telecommunications firms analyzed. The R^2 of 0.492254 implies the model accounts for about 49.23% of the variation in the dependent variable (PBV), with the remainder driven by factors outside the specification. In the context of the research, these results support the use of the chosen panel specification to assess how ESG disclosure, business risk (DOL), dividend policy (DPR), capital structure (DER), and profitability (ROE) relate to firm value in the telecom sector.

Table 5. Result

Hypotheses	Variables Relationships	Coefficient	P Values	Explanation
H1	ESG Disclosure → Firm Value (PBV)	-1.011897	0.0366	Negative Significant
H2	Business Risk (DOL) → Firm Value (PBV)	0.188635	0.0584	Positive Significant
H3	Dividend Policy (DPR) → Firm Value (PBV)	-4.037157	0.0422	Negative Significant
H4	Capital Structure (DER) → Firm Value (PBV)	0.809121	0.0001	Positive Significant
H5	ESG Disclosure → Profitability (ROE)	-0.005386	0.8678	Not Significant
H6	Business Risk (DOL) → Profitability (ROE)	-0.002812	0.5454	Not Significant
H7	Dividend Policy (DPR) → Profitability (ROE)	0.640186	0.0019	Positive Significant
H8	Capital Structure (DER) → Profitability (ROE)	-0.000977	0.9661	Not Significant
H9	Profitability (ROE) → Firm Value (PBV)	5.874680	0.0148	Positive Significant
H10	ESG → ROE → PBV (<i>mediation</i>)	-1.6507	0.0988	Not Significant
H11	DOL → ROE → PBV (<i>mediation</i>)	1.5490	0.1214	Not Significant
H12	DPR → ROE → PBV (<i>mediation</i>)	-1.6216	0.1049	Not Significant
H13	DER → ROE → PBV (<i>mediation</i>)	2.0557	0.0398	Positive Significant – Mediation Supported

Discussion

This study set out to explain why firm value varies widely among Indonesian telecommunications firms by examining ESG disclosure, business risk, dividend policy, and capital structure, with profitability as a mediator. The panel results indicate that the model is jointly significant ($F = 7.562$; $p = 0.000048$; $R^2 = 0.492$), implying that the selected factors capture a substantive share of valuation differences in the sample (PBV as proxy).

The evidence challenges a universal “ESG premium.” ESG disclosure shows a negative and significant association with firm value, and no direct effect on profitability. This contrasts with the straightforward expectations of Legitimacy, Stakeholder, and Signaling theories, and suggests that in this setting ESG may function as a costly investment whose benefits (reputation, risk mitigation, operational efficiency) are either delayed or only indirectly priced. In capital-intensive telecoms, near-term ESG spending can depress perceived value when investors prioritize earnings and leverage discipline; this nuance aligns with prior findings that ESG often affects value through competitive advantage rather than directly.

Capital structure emerges as the most consistent driver of value and the only pathway with confirmed mediation through profitability. Leverage (DER) is positively and strongly related to firm value and also improves profitability; the Sobel test confirms ROE mediates the DER→PBV link. This pattern supports Trade-Off Theory—tax shields and debt discipline can enhance performance and be rewarded by the market—while underscoring the importance

of staying within an “optimal leverage” band in high-capex industries. The finding refines what was known by showing that, for Indonesian telecoms in 2020–2024, profitability is the channel through which leverage is priced into market multiples.

Dividend policy sends mixed signals that the market and operations interpret differently. At the market level, higher payout ratios are associated with lower PBV (negative and significant), consistent with investors inferring fewer growth opportunities when cash is distributed rather than reinvested. Operationally, however, dividends correlate positively with profitability, in line with Agency/Signaling views that disciplined cash distribution can coincide with better earnings quality. The absence of mediation (DPR→ROE→PBV not significant in Sobel) suggests that whatever operating discipline dividends induce is not the mechanism by which the market discounts higher payouts; instead, the market appears to prioritize investment capacity over distribution in this sector.

Business risk (DOL) does not behave as a dominant valuation or profitability driver. DOL is only marginally related to PBV and is not significant for ROE, indicating that cross-firm differences in operating leverage were not decisive for either earnings or market value once ESG, dividends, leverage, and profitability were considered. This provides a fresh insight relative to prior expectations: in telecoms, funding structure and earnings power outweighed operating-risk sensitivity in explaining valuation dispersion during the period.

CONCLUSION

This study set out to explain how ESG disclosure, business risk, dividend policy, and capital structure relate to firm value in Indonesia’s telecommunications industry, and whether profitability serves as a channel through which these effects operate. Using panel regression on IDX-listed telecom firms over 2020–2024, the evidence points to a clear hierarchy of value drivers. ESG disclosure is associated with a significant decline in firm value, indicating that, in the near term, the market tends not to reward sustainability reporting in this setting and may even perceive it as adding compliance costs. In contrast, capital structure and profitability each have a significant positive impact on firm value, underscoring that leverage when optimized for a capital-intensive sector and robust earnings performance remain central to how investors price Indonesian telecom equities. Dividend policy exerts a significant negative effect, consistent with the interpretation that higher payouts tighten internal funding for growth capex. Meanwhile, business risk shows only a weak, statistically non-robust positive association with firm value, suggesting that risk signals are secondary once core fundamentals are accounted for.

The mediation tests reinforce these conclusions. Profitability significantly mediates the effect of capital structure on firm value, implying that leverage contributes to valuation particularly when it translates into stronger earnings. By contrast, profitability does not mediate the effects of ESG disclosure, business risk, or dividend policy, pointing to limited indirect pathways from these factors to market value through earnings during the sample period. Taken together, the results highlight profitability as the dominant value driver for listed Indonesian telecom firms, while ESG disclosure currently plays a limited short-term role in market assessments. For managers, the findings argue for disciplined leverage management, preservation of reinvestment capacity in dividend decisions, and sustainability initiatives that are explicitly tied to operational efficiency and financial outcomes. For investors, they emphasize anchoring

valuation in core fundamentals especially profitability while treating ESG signals cautiously until disclosure quality and pricing dynamics converge more convincingly.

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