

*Research Article*

## What Drives Firm Value in Emerging Markets? Evidence from Indonesian Telecom Firms

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### Abstract

This study analyzes the effects of sustainability (ESG disclosure), business risk, dividend policy, and capital structure on firm value, with profitability as a mediating variable in telecommunications companies listed on the Indonesia Stock Exchange during 2020–2024. Although prior research has explored firm value determinants, findings on ESG disclosure and financial policies remain inconsistent, particularly in emerging markets, and few studies integrate these variables within a mediation framework. Using panel data analysis, the results indicate that ESG disclosure and dividend policy have a significant negative impact on firm value, suggesting that the market has not fully valued sustainability initiatives and views higher dividend payouts as limiting reinvestment opportunities. Conversely, capital structure and profitability show significant positive effects, emphasizing the importance of effective leverage management and strong earnings performance in influencing investor perceptions. Business risk has a positive but insignificant relationship with firm value. Mediation testing reveals that profitability mediates the relationship between capital structure and firm value, but does not mediate the effects of ESG disclosure, business risk, or dividend policy. These findings highlight the conditional role of profitability in linking financial decisions to firm value and suggest that ESG disclosure has not yet produced short-term valuation benefits in emerging markets.

Keywords: ESG Disclosure, Business Risk, Dividend Policy, Capital Structure, Firm Value, Profitability, Panel Data Regression, Telecommunication Industry.

JEL Classification: M14, D24, L96

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### 1. Introduction

In recent years, Indonesia's telecommunications sector has played a crucial role in supporting the growth of the national digital economy. The development of 5G technology, fixed-mobile convergence (FMC), and the expansion of fiber-optic networks have driven increased public demand for fast, stable, and affordable communication services. Major operators such as Telkomsel, Indosat Ooredoo Hutchison, XL Axiata, and Smartfren continue to invest heavily to expand their service reach, in line with the increasing demand for internet access driven by digitalization across sectors, from e-commerce and digital financial services to technology-based education (IDX Channel, 2024).

The telecommunications sector has a very significant contribution to the Indonesian economy and is a key foundation for accelerating the national digital economy. Data from the Central Statistics Agency (BPS) shows that internet access among Indonesians will reach 72.78% in 2024, up from 69.21% in 2023, reflecting the strategic role of telecommunications infrastructure in expanding connectivity and boosting economic productivity across sectors. This increase in internet penetration not only drives digital transformation across the trade, public services, and education sectors but also serves as an indicator of a nation's economic readiness to navigate the digital era. (Directorate of Statistics, Finance, Information Technology, and Tourism, 2025).

Furthermore, a study by the Demographic Institute of the Faculty of Economics and Business, University of Indonesia (FEB UI) shows that Telkomsel's internet services will directly contribute 1.6% to Indonesia's Gross Domestic Product (GDP) in 2023, confirming that telecommunications have a significant macroeconomic impact through increased connectivity, digital business integration, and market expansion for businesses. Telecommunications infrastructure has also been shown to improve regional prosperity, with a 100 TB increase in Telkomsel data traffic increasing per capita GRDP by Rp 1.7 billion in the region, strengthening its role as a driver of regional economic growth. Therefore, telecommunications is not only a supporting sector but also the backbone of Indonesia's digital economy, creating a multiplier effect on investment, workforce, business efficiency, and national competitiveness.

However, if we look at the Price-to-Book Value (PBV) data for telecommunications firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period, we see significant fluctuations, reflecting the dynamics of firm value amid a changing business environment. PBV is an indicator that shows how the market values a firm relative to its book value. A high PBV indicates positive market expectations for the firm's prospects, while a low or negative PBV indicates pressure on performance or increased business risk.

A similar phenomenon was observed at Telkom Indonesia (TLKM), which saw a decline in PBV from 2.7124 to 1.6522, despite its large scale and dominant market share. Meanwhile, Tower Bersama Infrastructure Tbk (TBIG) recorded a PBV spike of 6.8467 in 2022, before dropping to 4.9107 in 2024. Centratama Telekomünikasyon Indonesia Tbk (CENT) even experienced extreme conditions, with a negative PBV in 2022 (-1.6844), indicating negative equity and serious problems with the capital structure.

These fluctuations raise fundamental questions: why are firm values in the telecommunications sector unstable, even declining for some issuers? Factors such as sustainability, business risk, dividend policy, and capital structure are thought to play a significant role in influencing market perceptions. Furthermore, profitability is a key mediating variable that can influence the effect of these factors on firm value. Companies with strong profitability tend to maintain high PBVs, while declining profits can lower valuations even with relatively healthy capital structures (Paramadhina, AC, and Buanaputra, S, 2024).

However, despite promising growth prospects, several challenges affect the value of firms in this sector. First, sustainability issues are increasingly under scrutiny. Global investors are demanding greater transparency in the disclosure of Environmental, Social, and Governance (ESG) aspects. Although most telecommunications firms have published sustainability reports, the quality and depth of the information they present remain inconsistent. This creates a gap between firms' claimed sustainability commitments and investors' perceptions of their impact on firm value (Albao & Baylon, 2025).

This phenomenon underscores the need for research examining how sustainability, business risk, dividend policy, and capital structure influence firm value, and the extent to which profitability acts as a mediator. The research findings are expected to contribute to corporate management's strategy formulation to maintain firm value and attract investors amidst competition and changes in the telecommunications industry.

Despite extensive research on firm value, several gaps remain. First, findings on ESG disclosure are inconsistent, especially in emerging markets, where its impact on firm value is still debated. Second, prior studies often examine financial policies separately, without integrating sustainability and business risk in a unified framework. Third, the mediating role of profitability is still limited, particularly in sector-specific studies. Fourth, empirical evidence from the Indonesian telecommunications sector remains scarce, despite its strategic importance.

Therefore, this study aims to analyze the effect of sustainability, business risk, dividend policy, and capital structure on firm value, with profitability as a mediating variable. This research contributes by providing an integrated model, testing profitability as a mediator, and offering empirical evidence from the Indonesian telecommunications industry.

The urgency of this research is further heightened because firm value is a crucial indicator for investors in assessing an issuer's long-term prospects. A decline in a telecommunications firm's stock price could indicate fundamental issues, such as profitability, business risk, dividend policy, capital structure, or sustainability disclosures.

## 2. Literature Review and Hypothesis

### Legitimacy Theory

Sihombing (2025) showed that the Covid-19 pandemic negatively affected the value of construction firms. However, firms that maintained legitimacy through transparency and policy adaptation still gained greater investor trust. The same holds for telecommunications: during the pandemic, firms that maintained the quality of internet services and supported people's digital activities gained greater legitimacy, thereby boosting firm value.

### Firm Values

Ross et al. (2024) generally proxied firm value using Price-to-Book Value (PBV), the ratio of the stock price to the book value per share. A high PBV indicates that the market views the firm as having good growth and profitability prospects, while a low PBV may indicate undervaluation or suboptimal performance (Santosa et al., 2022). According to Corporate Financial Management by Sihombing (2023), the PBV ratio is quite significant in predicting future stock returns.

### Sustainability (ESG)

Rohendi (2024) states that in stakeholder theory, ESG disclosure serves as a means to meet stakeholder expectations, which increasingly demand responsible business practices. Meanwhile, according to signaling theory, ESG disclosure serves as a positive signal to the market that a firm has a sustainable long-term strategy, thereby increasing investor confidence and the firm's reputation.

### Business Risk

Khorin and Krikunov (2021), published in the international, Scopus-indexed journal "ESG-Risk Factors and Value Multiplier of Telecommunications Companies," highlighted how ESG risks affect the valuation of telecommunications firms. This study, using the Damodaran model, found that ESG Risk Rating had a significant negative effect on EV/EBITDA, meaning that the lower the ESG risk (the more "green" and responsible), the higher the firm's value.

### Dividend Policy

Akhmadi and Januarsi (2021), published in the journal Economics, assert that dividend policy does not always directly impact firm value but rather acts as a moderator, strengthening the influence of profitability on firm value. This study used a sample of firms included in the SRI-KEHATI index in Indonesia, which is relevant to the telecommunications sector because both are within the capital market, which emphasizes sustainability (Santosa et al., 2020).

### Capital Structure

Sihombing (2025), in his study "Financial Performance and Capital Structure on Firm Value with Commodity Prices as a Moderating Variable," defines capital structure as the composition of a

firm's funding, derived from debt and equity, used to fund operational and investment activities. Optimal capital structure management aims to minimize the cost of capital and maximize firm value (Albart et al., 2020).

### **Profitability**

Wingsun Li (2023) and Santosa, (2020) states that profitability is not only an indicator of financial performance but also acts as a mediating variable linking strategic factors such as sustainability, capital structure, and dividend policy with firm value. This suggests that these variables influence firm value indirectly by affecting profitability. In an increasingly complex economic context, profitability is a key driver of firm value.

### **Hypothesis Development**

#### **The Impact of Sustainability (ESG Disclosure) on Firm Value**

Legitimacy Theory holds that firms seek social legitimacy through sustainability practices. Signaling Theory supports that ESG disclosures positively signal a firm's long-term commitment, thereby increasing investor confidence. Recent international research by Metwally (2025) in the International Journal of Financial Studies found that ESG disclosures have a significant positive effect on firm value.

Furthermore, Saini (2025) stated that ESG (Environmental, Social, and Governance) disclosure significantly improves firm performance and market value. ESG transparency provides a positive signal to investors and regulators, lowers the cost of capital, and improves firm value indicators such as Tobin's Q. Febrianti and Parasetya (2025) found that ESG disclosure scores have a positive and significant effect on firm value. ESG disclosure increases investor confidence and strengthens market perceptions of a firm's long-term prospects, in line with signaling theory.

**H1: Sustainability (ESG disclosure) has a positive effect on firm value.**

#### **The Influence of Business Risk on Firm Value**

The risk-return trade-off theory explains that the higher the risk, the higher the return investors expect. However, in the context of firm value, high business risk can undermine investor confidence due to uncertainty about future cash flows. The telecommunications sector, characterized by high capital expenditure, intense competition, and technological volatility, is particularly vulnerable to business risk, negatively impacting firm value (Khorin & Krikunov, 2021).

A recent international study by Necib (2025) in the International Journal of Economics and Business Administration found that business risk significantly impacts firm value. This study used data from real estate and construction firms in the FTSE 100 (2020–2023) and found that fluctuations in business risk can reduce investors' positive perceptions of firm value. However, other factors, such as intellectual capital, can offset this effect. Furthermore, research by Arjuna et al. (2025) conducted on mining firms in Indonesia showed that business risk has a significant negative impact on firm value. The higher the level of business risk, as reflected in profit volatility and operational uncertainty, the lower the firm's value. This is due to rising investor uncertainty, which reduces market confidence and investment interest.

**H2: Business risk negatively affects firm value.**

#### **The Effect of Dividend Policy on Firm Value**

According to Signaling Theory, dividend policy is an important signal for investors. Stable or increasing dividends are perceived as a sign that a firm has healthy cash flow prospects. Agency Theory also explains that dividends can reduce free cash flow that is vulnerable to managerial misuse, thereby lowering agency costs and increasing firm value (Kurniasih & Heliantono, 2025).

Recent international research by Singh (2025) in the International Journal of Research Publications and Reviews shows that dividend policy has a positive effect on firm value. This study analyzed various dividend strategies (constant, residual, and reinvestment) in multinational firms and found that dividend policies that align with market conditions and corporate strategy can increase shareholder value and strengthen investor perceptions of corporate stability.

Furthermore, research by Abdullah et al. (2025) and Sihombing (2024) conducted on financial sector firms listed on Bursa Istanbul found that dividend policy has a positive and significant impact on firm value. This study highlights that a clear and regular dividend policy is believed to increase investor confidence, strengthen market perception, and drive share price increases, thereby increasing firm value. These findings support signaling theory, which holds that dividends signal management's confidence in the firm's future performance.

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

#### **The Influence of Capital Structure on Firm Value**

Trade-Off Theory and Modigliani & Miller state that an optimal capital structure can maximize firm value. Proportional debt usage increases value through tax savings, but excessive debt increases the risk of bankruptcy (Ridayanti et al., 2025).

A recent international study by Said (2025) in the Open Access Library Journal examined 40 firms listed on the Egyptian Stock Exchange and found that capital structure significantly impacts firm performance and value. The results indicate that the long-term debt ratio (LTD) and the debt-to-equity ratio (DE) negatively affect Tobin's Q. In contrast, the short-term debt ratio (STD) positively affects it. These findings support the trade-off theory, which holds that a balance between debt and equity is crucial for maximizing firm value.

Furthermore, research by Jahangir & Sangmi (2025), conducted on 262 firms listed on the Bombay Stock Exchange, shows that capital structure, particularly leverage, has a positive and significant impact on firm value. This study supports the trade-off theory, which states that strategic use of debt can provide tax benefits and lower the weighted average cost of capital (WACC), thereby increasing firm value. These findings emphasize that firms in developing countries can maximize value by optimally managing the combination of debt and equity.

**H4: Capital structure has a positive effect on firm value.**

#### **The Impact of Sustainability (ESG Disclosure) on Profitability**

The Resource-Based View (RBV) states that sustainability can improve operational efficiency and profitability. Sustainability practices reduce energy costs and enhance corporate image. Recent international research by Ali (2025) in the journal sustainability examined 100 non-financial firms in Saudi Arabia (2019–2023) and found that ESG disclosure had a significant positive effect on profitability (measured by ROA). This study emphasized that ESG transparency increases investor confidence, strengthens risk management, and drives operational efficiency, in line with stakeholder theory.

Research by Mora (2025) conducted on manufacturing firms in Indonesia shows that ESG disclosure has a positive and significant impact on profitability, as measured by Return on Assets (ROA). This study emphasizes that ESG disclosure increases corporate transparency and accountability, thereby strengthening investor and stakeholder trust. This positive impact is reflected in operational efficiency and improved risk management, ultimately increasing corporate profits. These findings support signaling theory, which holds that ESG disclosure signals a firm's commitment to sustainability, thereby driving better financial performance.

**H5: ESG Sustainability (Disclosure) has a positive effect on profitability.**

#### **The Impact of Business Risk on Profitability**

High business risk can impact profit stability and profitability. Sound risk management is essential to maintain financial performance. International research by Habibniya et al. (2022) in the journal Risks (MDPI) examined the telecommunications industry in the United States using panel data from 2012 to 2020. This study found that the total liabilities to total assets ratio (TLsTAs), which reflects financial risk, significantly affects profitability (ROA). These results indicate that increasing business risk through high leverage can reduce profitability, so telecommunications firms need to maintain a stable capital structure to manage risk.

Musyimi's (2025) research on non-financial firms listed on the Nairobi Securities Exchange shows that business risk negatively and significantly affects profitability. This study explains that the higher the level of business risk, as reflected in revenue volatility and operational uncertainty, the lower the firm's ability to generate profits. Furthermore, Rutkowska and Ziarko's (2020) research, discussed in Profitability Ratios in Risk Analysis, emphasizes that business risk, as measured by the volatility and semi-volatility of profitability ratios (ROA and ROE), negatively affects a firm's earnings stability.

**H6: Business risk has a negative effect on profitability**

#### **The Effect of Dividend Policy on Profitability**

A firm's dividend policy influences its capital structure and cash flow, which in turn affect profitability. Stable dividends can be a positive signal to investors and reduce agency costs. International research by Sanusi (2022) in the Proceedings of the International Colloquium on Business and Economics examined the telecommunications industry in Indonesia (2016–2020). The results showed that dividend policy had a positive and significant effect on the relationship between profitability and firm value. Telecommunication firms with consistent dividend policies improve investor perceptions and support profitability.

Research from the Central University Faculty of Business and Communication, Department of Business Administration and Management Accounting and Finance (2025), conducted in the technology industry in Japan, highlights the role of dividend policy in relation to profitability. The study found that an appropriate dividend policy can moderate the relationship between working capital management and profitability. Although the study revealed that excessively high dividend payouts can depress profitability in sectors with high investment needs, the main finding emphasizes that a balanced dividend policy sends a positive signal to the market and supports financial performance. This suggests that firms that manage dividend policies strategically can maintain profitability while maintaining investor confidence.

**H7: Dividend Policy has a positive effect on profitability**

#### **The Influence of Capital Structure on Profitability**

An optimal capital structure can reduce the cost of capital and increase profitability. The Trade-Off Theory supports that proportional use of debt increases efficiency. An international study by Rizal Ahmad Fauzi (2022) in the International Journal of Finance & Banking Studies analyzed 62 countries and found that capital structure significantly influences telecommunications firm performance, as measured by Return on Assets (ROA). This study used a dynamic panel method and showed that the debt-to-total-asset ratio affects profitability in both developed and developing countries.

According to a study titled "Evaluating the Impact of Capital Structure on Firm Performance" by Rahman and Mehnaz (2024), a balanced capital structure can increase profitability, as measured by ROA, ROE, and EPS. Optimal use of debt helps firms take advantage of tax benefits and increase profits, but excessive reliance on debt can increase financial risk and reduce profitability.

**H8: Capital structure affects profitability.**

#### **The Influence of Profitability on Firm Value**

Signaling theory holds that high profitability signals to investors, increasing stock prices and firm value. International research by Sugeng Haryanto (2025) in the International Journal of Research in Humanities and Social Sciences examined telecommunications firms in Indonesia (2015–2024) and found that profitability (ROA) had a significant positive effect on firm value (PBV). This study emphasized that, in the capital-intensive telecommunications industry, profitability is a stronger indicator of investor perceptions and market valuation than leverage.

Research by Karmudiandri (2025) examined the influence of leverage, profitability, and dividend policy on firm value in non-financial firms in Indonesia. The results showed that profitability positively influences firm value, indicating that higher profitability is associated with greater firm value in investors' eyes. This study confirms that profitability is a key indicator of financial

performance that influences market perception and stock prices, leading high-profit firms to achieve better valuations.

**H9: Profitability has a positive effect on Firm Value.**

**Profitability Mediates the Effect of Sustainability on Firm Value**

Mediation occurs when an independent variable influences a mediating variable, which in turn influences the dependent variable. In this context, sustainability increases efficiency, which in turn increases profitability and firm value. An international study by Albao & Baylon (2025) in the Review of Integrative Business and Economics Research examined telecommunications firms in the Asia Pacific and found that ESG (sustainability) influences profitability, which in turn impacts firm value. This study showed that although some ESG pillars negatively affect ROA, the aggregate ESG score positively affects profitability, thereby strengthening firm value.

**H10: Profitability mediates the effect of Sustainability on Firm Value.**

**Profitability Mediates the Effect of Business Risk on Firm Value**

Mediation occurs when an independent variable influences a mediating variable, which in turn influences the dependent variable. In this context, business risk influences profitability, which in turn influences firm value. Research by Habibniya (2022) in the journal Risks (MDPI) examined telecommunications firms in the United States and found that leverage (an indicator of business risk) negatively affected profitability (ROA), which, in turn, affected firm performance. This study supports the notion that profitability can mediate the relationship between business risk and firm value.

**H11: Profitability moderates the relationship between dividend policy and firm value so that the relationship becomes stronger.**

**Profitability Mediates the Effect of Dividend Policy on Firm Value**

Dividend policy influences cash flow and capital structure, which, in turn, impact profitability and ultimately firm value. International research by Sanusi (2022) in the Proceedings of the International Colloquium on Business and Economics examined telecommunications firms in Indonesia and found that profitability mediated the effect of dividend policy on firm value. This study shows that a consistent dividend policy increases profitability, thereby strengthening a firm's value in the eyes of investors.

**H12: Profitability mediates the effect of Dividend Policy on Firm Value.**

**Profitability mediates the influence of Capital Structure on Firm Value.**

Capital structure influences the cost of capital and profitability, which, in turn, impacts firm value. The Trade-Off Theory states that proportional use of debt can increase efficiency and profitability, but excessive leverage increases the risk of bankruptcy, thus reducing firm value. International research by Habibniya (2022) in the journal Risks (MDPI) examined telecommunications firms in the United States using panel data from 2012 to 2020. This study found that the total liabilities to total assets ratio (TLsTAs) significantly affects profitability (ROA), which, in turn, affects firm value. These findings support the view that profitability can mediate between capital structure and firm value, suggesting that telecommunications firms must balance debt and equity to sustain performance and market valuation.

**H13: Profitability mediates the effect of Capital Structure on Firm Value.**

### 3. Data and Method

#### Research Design

This study uses balanced panel data, which consists of several units of analysis (firms) observed consistently over a specific time period (2020–2024). This approach offers the advantage of controlling for individual heterogeneity between firms, improving the accuracy of model parameter estimates, and providing dynamic information about changes in variables over time.

The reason researchers chose the telecommunications sector is that it is a strategic sector that makes a significant contribution to the national economy, has dynamic, technology-intensive business

characteristics, tends to have high exposure to sustainability and corporate governance issues, and provides relatively complete and publicly accessible financial and ESG data.

### Research Population and Sample

The population of this study was 14 telecommunications firms listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. The telecommunications sector was selected based on its strategic role in Indonesia's digital economy, its high level of competition, and the intensity of capital and investment requirements that affect sustainability, business risk, dividend policy, and firm value.

The sample was determined using purposive sampling, a sampling technique based on specific considerations or criteria relevant to the research objectives. Using the sample selection criteria above, nine of the 14 (fourteen) stock issuers in the population data were selected.

### Method of collecting data

This study employed documentation and literature review as data collection methods. The analytical methods employed included descriptive statistics, panel data regression analysis, and the Sobel test. The Sobel test was used to determine whether the intervening variable had a significant effect. The entire analysis and testing process was conducted using EViews software.

## 4. Results

### Panel Data Regression Analysis Results

#### Regression Model 1

**Table 1. Results of the 1st Regression Model**

Test	Criteria	Statistics	Results Testing	Conclusion
Chow	Cross-section Chi-Square	37.287425	0.0000	FEM is better than CEM
Hausman	Cross-section Random	4,181001	0.3821	REM is better than FEM
Lagrange Multiplier	Cross-SectionPagan Breuch	10,80617	0.0010	REM is better than CEM

Source: Data Processing (2025)

Based on the results of the panel data regression model selection, the Chow test indicates that the Fixed Effect Model (FEM) is superior to the Common Effect Model (CEM), as the p-value is  $<0.05$ . However, the Hausman test produces a probability  $>0.05$ , so the Random Effect Model (REM) is more appropriate than the FEM. Furthermore, the Lagrange Multiplier test also shows a p-value  $< 0.05$ , indicating that the REM is better than the CEM. Thus, the most appropriate model for the first equation is the Random Effect Model (REM).

#### 2nd Regression Model

**Table 2. Results of the 12th Regression Model**

Test	Criteria	Statistics	Results Testing	Conclusion
Chow	Cross-section Chi-Square	79.577959	0.0000	FEM is better than CEM
Hausman	Cross-section Random	3.449423	0.6311	REM is better than FEM
Lagrange Multiplier	Cross-SectionPagan Breuch	45,35069	0.0000	REM is better than CEM

Source: Data Processing (2025)

The results of the panel data regression model selection indicate that the Chow test yields a p-value < 0.05, indicating that the Fixed Effect Model (FEM) is better than the Common Effect Model (CEM). However, the Hausman test shows a probability >0.05, indicating that the Random Effect Model (REM) is more appropriate than the FEM. Furthermore, the Lagrange Multiplier test yields a p-value < 0.05, indicating that the REM is better than the CEM. Thus, it can be concluded that the most appropriate model to use in the first equation is the Random Effect Model (REM).

**Sobel Test Results**

**Table 3. Sobel Test Results**

Mediation Path	Z Sobel (t)	Z Table	p-value	Decision	Direction of Indirect Effects
ESG > ROE > PBV	-1.6507160	1.96	0.09879657	Mediation is not significant.	Negative
DOL > ROE > PBV	1.54895666	1.96	0.12139214	Mediation is not significant.	Positive
DPR > ROE > PBV	-1.62156400	1.96	0.10489674	Mediation is not significant.	Negative
DER > ROE > PBV	2.05567993	1.96	0.03981338	Significant mediation	Positive

Source: Data Processing (2025)

The Sobel test results show a Z value of 2.05567993, greater than 1.96 (p-value = 0.03981338). This result indicates a significant mediation. The direction of the indirect effect is positive, meaning that an increase in DER significantly increases PBV through ROE. This indicates that ROE acts as a significant mediator in the relationship between DER and PBV.

**Direct Effect Test Results**

**Table 4. Results of the Direct Effect Test**

Independent Variables	Dependent Variable	Coefficient Direction	t-Test Results
ESG	PBV	Negative (-)	Significant
DOL		Positive (+)	Significant
DPR		Negative (-)	Significant
DER		Positive (+)	Significant
ROE		Positive (+)	Significant
ESG	ROE	Negative (-)	Not Significant
DOL		Positive (+)	Not Significant
DPR		Negative (-)	Significant
DER		Positive (+)	Significant

**Table 5. Results of the Indirect Effect Test**

Independent Variables	Mediating Variables	Dependent Variable	Sobel Test Results
ESG	ROE	PBV	Not Mediating
DOL			Not Mediating
DPR			Not Mediating
DER			Significant Mediating

## 5. Discussion

### **The Impact of Sustainability (ESG Disclosure) on Firm Value**

The research results show that ESG disclosure negatively impacts firm value (PBV). This finding is not entirely consistent with the theory. Major theories such as Legitimacy Theory, Stakeholder Theory, and Signaling Theory generally predict that ESG disclosure will increase firm value by increasing public trust, legitimacy, and signaling quality. However, these negative results remain plausible when viewed in the context of an emerging market like Indonesia. Several recent studies have found that ESG disclosure has not been positively valued by the market, and even tends to have a negative or zero impact, for several reasons:

The cost of ESG implementation and compliance is quite high, thus suppressing short-term profitability. The quality and consistency of ESG disclosure in Indonesia are not yet evenly distributed, leading the market to respond with skepticism. There is a gap between disclosure and value relevance, where investors do not yet see ESG as a factor that adds value.

Overall, although the results of this study are not in line with classical theory, which predicts a positive direction, the results are consistent with recent empirical evidence showing that the impact of ESG is highly contextual, especially in developing countries where transparency, reporting quality, and investor perceptions of ESG are still in a transitional stage.

### **The Influence of Business Risk on Firm Value**

The initial hypothesis states that business risk negatively impacts firm value. Theoretically, the higher the operational risk, the more unstable the firm's cash flow, which makes it less attractive to investors. Research trends for 2025 also suggest that business risks are becoming increasingly complex and interconnected, particularly in sectors dependent on technology and third parties. Although business risk increases, its impact on market value is not always significant, particularly when firms have robust risk mitigation systems in place.

### **The Effect of Dividend Policy on Firm Value**

Based on the initial hypothesis (H3), it states that Dividend Policy has a positive effect on Firm Value. In theory, a stable and increasing dividend policy is considered a positive signal (Signaling Theory) because it indicates strong cash flow and good performance prospects for investors. The results indicate that Dividend Policy (DPR) has a positive and significant effect on Firm Value, thereby supporting H3. This finding indicates that the market responds to dividend payments as an indicator of a firm's financial health and stability, thereby increasing the firm's perceived value. These results are in line with several studies in 2025. Study found that dividends serve as a signal that enhances firm value, as investors view them as a reflection of good long-term performance and prospects.

Showed that dividend policy has a positive and significant impact on firm value, particularly in the banking sector, which emphasizes stability and investor confidence. Thus, both empirical research findings and the latest evidence from 2025 consistently support the view that dividend policy is a crucial factor in increasing firm value through signaling mechanisms and market perception.

### **The Influence of Capital Structure on Firm Value**

Based on the initial hypothesis (H4), capital structure, as measured by the Debt-to-Equity Ratio (DER), positively affects firm value. This finding overlaps with several studies in 2025. Found that the Debt-to-Equity Ratio (DER) did not have a significant effect on firm value in the industrial and mining sectors in Indonesia, suggesting that capital structure is not the main determinant of market value. Overall, the results of this study are consistent with empirical evidence from 2025 that the effect of capital structure on firm value is not always positive, and in many cases in the Indonesian market, it is weak or even negative.

### **The Impact of Sustainability on Profitability**

Based on the initial hypothesis (H5), ESG disclosure positively impacts profitability because sustainability disclosure is considered to improve operational efficiency, reputation, and

stakeholder trust. However, the research results show that ESG disclosure actually has a negative and significant impact on profitability, thus disproving H5. This finding illustrates a situation in which ESG implementation or reporting may increase compliance, implementation, and operational expenses, thereby suppressing short-term profitability. This phenomenon is consistent with several recent studies.

Showed that the impact of ESG disclosure on financial performance is not always consistent, and, in some dimensions, such as governance disclosure, it can even have a negative effect due to perceived risk or increased implementation costs. Therefore, the research findings align with the empirical trend observed in 2025, which suggests that ESG disclosure does not always increase profitability, especially when implementation costs outweigh short-term financial benefits.

#### **The Impact of Business Risk on Profitability**

The initial hypothesis (H6) stated that business risk negatively impacts profitability, as higher operational risk increases the potential for revenue and cost instability, ultimately depressing profitability. However, the research results show that business risk actually has a positive and significant impact on profitability, thus disproving H6.

These findings indicate that, in the context of the firms studied, higher operational risk may be accompanied by aggressive strategies or greater operational capacity, thus increasing profit potential. This pattern aligns with the risk–return trade–off, where firms with higher risk levels tend to pursue projects or activities with higher profit potential.

Risk trends for 2025 also show that the business risk landscape is increasingly complex and interconnected, particularly in sectors adopting technology and third-party ecosystems. The Operational Risk Horizon 2025 report confirms that firms face increasing operational risks. However, many are managing them through greater operational resilience, shifting the impact on profitability from negative to neutral or even positive. Thus, the findings of this study align with recent literature indicating that business risks do not always reduce profitability, especially when firms have strong mitigation mechanisms and operational strategies.

#### **The Effect of Dividend Policy on Profitability**

Based on the initial hypothesis (H7), dividend policy has a positive effect on profitability, as stable dividend payments are seen as a signal of good performance and sound cash flow management. However, the study's results showed that dividend policy has a negative and significant effect on profitability, thereby rejecting H7. This finding indicates that high dividend distributions can reduce the internal funds firms need for expansion, productive investment, or operational efficiency, thereby suppressing short-term profitability. This means that firms may face a trade-off. Off between paying dividends or retaining earnings for profitability growth.

These results align with market dynamics in 2025, particularly for firms sensitive to economic conditions. Showed that several firms, particularly those focused on sustainability, lowered dividends and tended to be cautious in their dividend policies post-crisis, as long-term financial stability outweighed the incentive to pay high dividends.

#### **The Influence of Capital Structure on Profitability**

Based on the initial hypothesis (H8), capital structure is positively associated with profitability. In trade theory, the measured use of debt can lower the cost of capital through tax shields and encourage managerial discipline, thus increasing ROE as long as bankruptcy costs remain manageable. The results of this study confirm that DER has a positive and significant effect on profitability in Model 2, thereby supporting H8 in the sample context and the 2020-2024 research period.

These findings align with evidence from 2025 showing that DER can boost profitability. In Indonesian manufacturing firms, DER has been shown to increase ROA, which then channels this effect into increased firm value (profitability mediation), confirming the operating performance

channel as the primary mechanism (DER•ROA•PBV) (Akmalia & Suprijanto, 2025). In another study of LQ45 issuers, capital structure (DER) and profitability (ROA) were identical. Both strengthen market performance; the role of dividends can moderate this relationship, an indication that well-managed leverage goes hand in hand with higher profitability and is appreciated by the market.

### **The Influence of Profitability on Firm Value**

Based on the initial hypothesis (H9), profitability has a positive effect on firm value because profitability is considered a signal of a firm's fundamental strength. Companies with high profits are perceived as having better future cash flow prospects, thus attracting investor interest and increasing market valuation. In this study, the role of the profitability variable is reflected in the mediating relationship and the consistent direction of other variables. Theoretically, the relationship between profitability and firm value remains relevant because profitability is a primary indicator of financial performance and a signal of firm quality.

These results also align with several findings from the 2025 study.

Study of the Indonesian technology sector found that profitability (ROA) has a positive and significant effect on firm value, with firm size as a moderating factor. Study shows that profitability plays a significant role in strengthening the influence of capital structure and investment decisions on firm value, confirming that profitability is a value driver positively reflected in the market. Thus, empirical evidence and financial theory indicate that profitability remains an important determinant of firm value, providing a strong foundation for the initial hypothesis and aligning with recent research findings.

### **Profitability Mediates the Effect of Sustainability on Firm Value**

The initial hypothesis (H10) states that profitability positively mediates the relationship between ESG disclosure and firm value. In theory, ESG disclosure is expected to increase investor confidence, improve reputation, and then increase profitability, ultimately driving firm value. However, the results of this study indicate that ESG disclosure actually decreases profitability, while firm value is not directly affected by ESG. Therefore, profitability cannot act as a positive mediator, and H10 is not supported in the context of this study.

This finding aligns with the 2025 literature, which suggests that the relationship between ESG and Profitability and Firm Value does not always follow classical theory. Study found that while ESG can increase profitability in some contexts, it has not been shown to directly increase firm value, resulting in a weak or insignificant mediation pathway through profitability. Study showed that several ESG dimensions, particularly governance disclosure, have a negative impact, and profitability only moderates or partially weakens the relationship, indicating that profitability's role as a mediator is not always strong in emerging markets like Indonesia.

### **Profitability Mediates the Effect of Business Risk on Firm Value**

Based on the initial hypothesis (H11), profitability is hypothesized to mediate the negative relationship between Business Risk and Firm Value. In theory, the higher the business risk, the lower the profitability, and ultimately, the firm's value can be reduced, so the mediation path is expected to move in a negative direction. However, the results of this study indicate that business risk has a positive and significant effect on profitability, not a negative one as the theory assumes. Because Profitability increases as business risk increases, the direction of the relationship is not consistent with the initial hypothesis, so profitability cannot serve as the expected negative mediator. Thus, H11 is not proven.

These findings are consistent with the 2025 business risk dynamics, which show that some firms can transform operational risks into profit opportunities. The Operational Risk Horizon 2025 report notes that, despite rising business risks, many firms are benefiting from strategic adaptation and operational resilience, so risks do not always directly impact profitability.

### **Profitability Mediates the Effect of Dividend Policy on Firm Value**

Based on the initial hypothesis (H12), profitability mediates the positive relationship between dividend policy and firm value. The assumption is that the higher the dividend distribution, the more positive the market signal, thereby increasing profitability and ultimately increasing firm value. However, the results of this study indicate that dividend policy has a negative effect on profitability, so profitability cannot act as a positive mediator in this relationship. Because the direction of the relationship is inconsistent with the hypothesis, H12 is not proven in this study.

This finding is consistent with recent 2025 research, particularly on firms that are more sensitive to economic conditions. Study found that some firms particularly those prioritizing sustainability tend to lower dividends and focus more on maintaining long-term financial stability. These findings suggest that high dividends can undermine a firm's profitability, particularly during economic uncertainty.

Furthermore, research by Nabila, Murhadi and Wijaya (2025) confirms that dividend policy is significantly related to profitability, but the direction of the effect depends heavily on the firm's internal conditions. In some contexts, high dividends actually limit a firm's ability to increase profitability by reducing internal funds for expansion.

### **Profitability Mediates the Effect of Capital Structure on Firm Value**

Based on the initial hypothesis (H13), profitability positively mediates the relationship between capital structure (DER) and firm value. In theory, optimal debt use can improve managerial discipline and generate tax shields, thereby increasing profitability. Increased profitability is then expected to strengthen firm value. The results of this study indicate that capital structure has a positive effect on profitability, and this path is consistent with increased firm value, suggesting that profitability can function as a mediator. Thus, H13 is supported and consistent with the relationship pattern observed in the data.

Who found that DER has a significant positive effect on ROA, and ROA then mediates the effect of DER on PBV, indicating that profitability is an important pathway connecting capital structure to firm value. Also confirms that capital structure and profitability are the same. Both increase firm value, and the relationship between DER and firm value becomes stronger when profitability is high, confirming the financial mediation function.

### **Key Insight**

These findings collectively suggest that in the Indonesian telecommunications sector, firm value is driven more by tangible financial performance than by symbolic or strategic signals such as ESG disclosure, reinforcing the dominance of profitability as the primary factor shaping investor perception in emerging markets.

## **6. Conclusion**

The results showed that ESG did not affect firm value and did not have a negative impact on profitability. Business risk did not affect firm value but did positively affect profitability. Dividend policy had a positive effect on firm value but a negative effect on profitability, while capital structure had no effect on firm value but a positive effect on profitability.

Profitability has been shown to increase firm value, but it fails to mediate the effects of ESG, business risk, and dividend policy on firm value. Only capital structure successfully mediates profitability, where leverage increases profitability, which in turn drives firm value.

## **Recommendation**

### **For Investors:**

Focus on profitability as a key indicator of firm value. Do not rely solely on ESG disclosure, but also assess the quality of its implementation. Pay attention to the balance of dividend policy and capital structure, particularly long-term debt risk.

**For Companies:**

Optimize leverage to increase profitability measurably. Improve the quality of ESG implementation to avoid cost burdens. Manage business risks strategically, balance dividend policy with operational needs, and prioritize profitability improvement as the key to increasing firm value.

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