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Capital Structure and ESG Risk Rating on Firm Value with Profitability as a Moderating Variable

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ABSTRACT

Previous studies regarding the combined effect of financial decisions and sustainability risks on firm value show inconsistent results, creating a research gap. This study examines the direct effect of capital structure and ESG risk rating, vital in Indonesia's capital market, on firm value, and the moderating effect of profitability. This research used cross-sectional data from 85 companies listed on the IDX in 2024. The sample was adjusted to 47 companies because the initial data was not normally distributed; thus, outlier elimination using the boxplot method was performed to normalize it. Analysis used cross-sectional regression and Moderated Regression Analysis (MRA) using Stata 17. Results indicate a positive and significant direct effect of capital structure on firm value. However, the ESG risk rating found no significant effect on firm value. Furthermore, capital structure on firm value moderated by profitability showed insignificant results. Meanwhile, ESG risk rating on firm value with profitability as a moderating variable proved positive and significant. These findings confirm that profitability can strengthen the effectiveness of ESG risk management in increasing firm value. Practically, corporate managers must maintain profitability to ensure ESG initiatives optimally impact market value, while investors can use these combined metrics to identify high-quality assets.

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1. INTRODUCTION

Currently, firm value is no longer determined solely by financial performance. Many investors are starting to look at responsible investment principles by considering Environmental, Social, and Governance (ESG) factors as a tool for long-term risk management [1]. In this regard, the ESG Risk Rating, which is an objective measure to assess how much environmental, social, and governance risk a company faces and how to manage

it, has become very important for companies. Therefore, companies today are not only focused on chasing profits, but must also manage this sustainability risk to maintain market trust.

Issues regarding sustainability aspects have currently turned into a primary focus for investors, companies, and the government [2]. In the Indonesian context, this is backed by the Financial Services Authority (OJK) Regulation Number 51/POJK.03/2017, which mandates listed firms to execute the tenets of sustainable finance [3], [4]. Transparent ESG practices can build good relationships with stakeholders [1] and even make companies more resilient to negative sentiments during a crisis [5]. In emerging markets like Indonesia, good ESG performance can serve as a positive signal that distinguishes a company's quality, thus exerting a constructive influence on firm value as measured by Tobin's Q [6], [7].

On the other hand, besides non-financial factors like ESG, funding policies, or Capital Structure remain crucial for maintaining creditor trust. For example, ESG-based financing instruments like green bonds are proven to affect firm value [8]. Capital structure becomes even more important because in 2024, Bank Indonesia raised its benchmark interest rate to 6–6.25% (BI, 2024), forcing companies to be more careful in managing their debt to keep operations efficient [9]. In Indonesia, companies implementing ESG tend to prefer funding from equity and adjust their capital structure flexibly [10], where the decision to choose debt or equity signals the company's prospects [3]. However, previous research results regarding this relationship are still inconsistent due to differences in market conditions and internal capabilities [11]. For instance, several studies demonstrate that ESG implementation successfully projects a premium signal that boosts corporate value [6], [7]. Conversely, other findings suggest that sustainability mechanisms are still perceived as an operational burden that reduces profitability in emerging markets [12]. This creates a research gap, as studies examining how the combination of debt (capital structure) and ESG risk ratings affects firm value during tight economic conditions like 2024 are still rare.

To fill this research gap, this study includes profitability as a Moderating Variable. Profitability is crucial, especially when economic conditions in 2024 faced pressure from rupiah exchange rate fluctuations and high capital costs. Based on reports from business media like CNBC Indonesia, when the economy is uncertain, investors tend to play it safe (*flight to quality*) by still making profit the main requirement for stock selection. Firms exhibiting elevated profitability are deemed to possess adequate capital to fund ESG endeavors, rendering them more appealing to market investors [6], [13]. Driven by this background, this research intends to evaluate the impact of Capital Structure and ESG Risk Rating on Firm value with profitability as a moderating variable in companies listed on the Indonesia Stock Exchange (IDX) in 2024.

The combination of financial (capital structure) and non-financial (ESG) variables is believed to provide investors with a clearer picture when forecasting a company's future. The results of this study are highly expected to enrich the financial literature within the framework of Stakeholder Theory, while practically providing a strategic formulation for financial managers to balance corporate sustainability expenditures with bottom-line targets.

Stakeholder theory explains that firm value is created through the company's responsibility in running its business in an effort to meet the desires of all related parties.

Stakeholders include all aspects that have the ability to influence the achievement of organizational goals [14]. ESG practices are a responsibility to society and the environment [1]. Active ESG risk management reduces information gaps and builds a strong reputation that leads to improved market ratings [7].

Firm value

Firm value is the ability to maintain competitiveness in the current industry competition, as well as representing investors' assessment of the company's resource management capabilities, which is reflected in its share price [15]. High firm value generally sends a positive signal to the market, indicating strong financial conditions and potential for sustainable growth, thereby attracting investment interest [2], [16]. The higher the value of a company, the greater the prosperity of its shareholders [17]. Firm value is measured using Tobin's Q [11], [16], [18], [19], where a value above one indicates value creation.

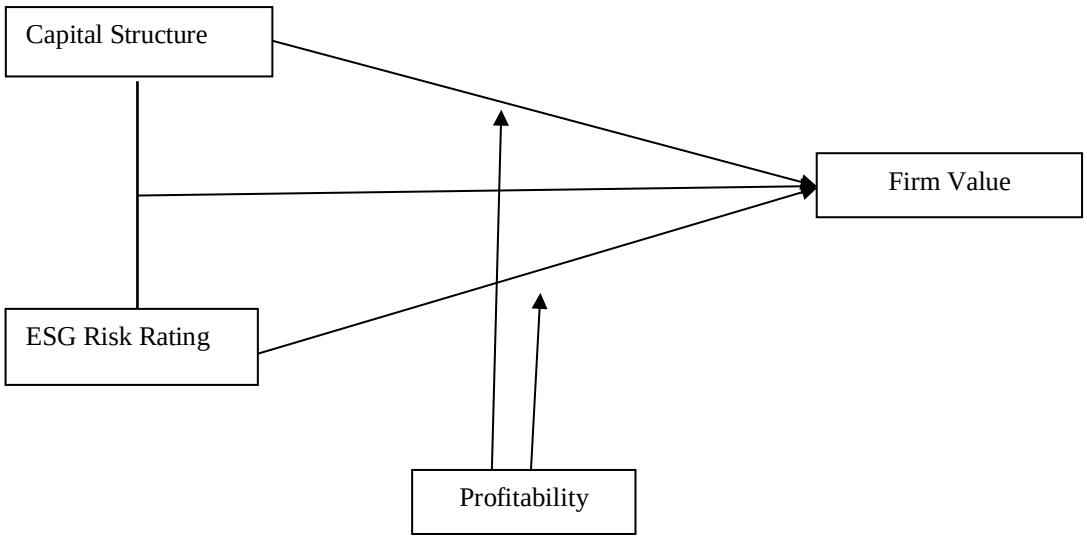

Figure 2. Research's Model

The Effect of Capital Structure on Firm Value. Capital structure is usually associated with a company's funding activities in an effort to provide confidence to all stakeholders. A high capital structure value means that the company uses debt as a source of funding, which the company can utilize well [20]. The use of debt in certain amounts reflects management's ability to balance the interests of creditors and investors, which is part of Stakeholder Theory [3], finding that a wisely used capital structure correlates with an increase in firm value as an instrument of productive expansion funding. A high capital structure value means that the company uses debt as a source of funding and can make good use of its funding sources [20].

H1: Capital Structure has a positive effect on Firm value.

The Impact of ESG Risk Ratings on Firm Value. Disclosure of superior ESG performance has been shown to increase firm value because the market responds positively to long- term risk transparency [6], [21], [22]. However, in general, research findings indicate that the average level of existence of Indonesian companies in sustainability reports is still very low [23]. This effect is even more significant in industries that are sensitive to

environmental issues [7]. Stakeholders have access to resources that are essential to companies, so companies that want to continue operating are required to establish good relationships with all stakeholders to increase their value [24]. In addition, companies benefit from ESG disclosure because they have the ability to improve public perception of the company through its governance, environmental, and social performance reports [14].

H2: ESG Risk Rating affects Firm value.

The Simultaneous Effect of Capital Structure and ESG Risk Rating on Firm Value. The combination of a solid capital structure and good ESG performance provides a comprehensive signal to investors. Market assessment of firm value is not based on a single aspect, but rather on the integration of funding efficiency and sustainability responsibility [3], [25].

H3: Capital Structure and ESG Risk Rating simultaneously affect Firm value.

The influence of Capital Structure on Firm value is moderated by profitability. Profitability acts as a variable that strengthens the impact of funding policies. [11], argue that at high levels of profitability, additional debt is responded to more positively because the company is considered to have strong repayment capabilities.

H4: Profitability moderates the effect of Capital Structure on Firm value.

The effect of ESG Risk Rating on Firm value is moderated by profitability. According to [6], profitable companies benefit much more from ESG practices. Strong profits provide legitimacy that social and environmental activities are driven by healthy internal capacity, thus receiving a premium response from investors.

H5: Profitability moderates the effect of ESG Risk Rating on Firm value.

2. METHOD

This inquiry adopts a quantitative method featuring causal associative analysis to investigate the cause-and-effect links among variables. The utilized data consists of secondary information derived from sustainability disclosures and annual disclosures of corporations listed on the Indonesia Stock Exchange (IDX) for the 2024 period. The entire population encompasses all firms listed on the IDX. The selection process employed a purposive sampling method based on specific benchmarks:

Table 1. Sample Selection Criteria

No	Information	Total
1.	*Companies listed on the Indonesia Stock Exchange*	967
2.	Companies that do not publish complete financial reports	(26)
3.	Companies that do not publish complete sustainability reports and do not have an ESG risk rating score on IDX	(856)
4.	*Companies that have complete and relevant data for all variables to be studied*	85
	Total Sample	**85**
5.	Data reduction due to extreme outliers	(38)
	Final Analytical Sample	**47**

Source: Data processed (2025)

This study uses the Ordinary Least Squares (OLS) method to examine the effect of capital structure and ESG risk rating on firm value with profitability as a moderating variable. The data used in this study consisted of 85 (eighty-five) sample companies, but due to outliers, the research data was reduced to 47 (forty-seven) sample companies. This reduction of 38 data points was carried out using the Boxplot method to filter and remove extreme data located outside the boundaries (whiskers). This process was intentionally conducted with the primary objective of normalizing the research data distribution to meet the assumptions of the normality test, avoiding bias in the regression coefficients, and guaranteeing that the model meets the Best Linear Unbiased Estimator (BLUE) criteria.

Data Sources and Ethical Considerations:

Annual report and sustainability report data were obtained directly from the official IDX website (www.idx.co.id), where the ESG Risk Rating score data was compiled by Sustainalytics. All financial statements are ensured to have been audited by an independent public accountant to maintain data reliability. Because this study uses public secondary data in the form of corporate archives, it does not involve human subjects directly, making it free from ethical violations. To determine the indicators for each variable, refer to the following table:

Table 2. Indikator Variabel

No	Variable	Indicator	Source
1	*Capital Structure*	$Debt\ Equity\ Ratio = \frac{Total\ Debt}{Total\ Equity}$	(Deme et al., 2022)
2	*ESG Risk Rating*	$ESG\ Risk\ Rating = \ score\ ESG\ Risk\ Rating\ in\ IDX$	(Anisa & Panuntun, 2025)
3	*Firm value*	$Tobins'Q = \frac{Total\ Market\ Value + Total\ Book\ Value\ of\ Liabilites}{Total\ Book\ Value\ of\ Asset}$	(Chandra & Hastuti, 2023)
4	*Profitability*	$Return\ on\ Asset = \frac{Net\ Profit\ After\ Tax}{Total\ Asset} \times 100\%$	(Bayuaji et al., 2025)

Methods of Data Analysis Processing is performed utilizing Stata 17 software. Analytical procedures involve descriptive statistics to offer an outline of the minimum, maximum, mean, and standard deviation measures for each variable. Subsequently, Classical Assumption Testing is conducted, encompassing tests for normality, multicollinearity (via VIF evaluation), and heteroscedasticity, confirming that the regression model meets the Best Linear Unbiased Estimator (BLUE) criteria. Lastly, Moderated Regression Analysis (MRA) is applied to evaluate both the concurrent and joint impacts of the profitability metric in altering the connection between X and Y.

Data Analysis Techniques

Analysis uses Stata 17 software. The steps in analyzing include:

1. Descriptive Statistics: To provide an overview of the minimum, maximum, mean, and standard deviation values of each variable.
2. Classical Assumption Tests: Including the normality test (using the Shapiro-Wilk equation), multicollinearity test, and heteroscedasticity test to ensure that the regression

model meets the Best Linear Unbiased Estimator (BLUE) criteria. The multicollinearity test is explicitly assessed using the Variance Inflation Factor (VIF) value and tolerance level, where the model is declared free of problems if the VIF value < 10.

3. Moderated Regression Analysis (MRA): Used to test the simultaneous and interactive effects of the profitability variable in modulating the relationship between X and Y. Operationally, the interaction variables (X1.M and X2.M) are formed from the multiplication of the independent variable values with the moderating variable (Profitability) to analyze whether profitability strengthens or weakens the effect of capital structure and ESG risk on firm value.

The MRA regression model equation in this study is formulated as follows:

$$Y=\beta0+\beta1X1+\beta2X2+\beta3(X1M)+\beta4(X2M)+\varepsilon \quad 1)$$

Where:

- Y = Firm value (Tobin's Q)
- β0 = Constant
- β1, β2 = Regression coefficients of independent variables
- β3, β4 = Regression coefficients of interaction/moderation variables
- X1 = Capital Structure (DER)
- X2 = ESG Risk Rating
- M = Profitability (ROA)
- ε = Error term / residual

3. RESULTS AND DISCUSSION

3.1. Results

Descriptive Statistics

Table 3. Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
VAR_Y	47	.976189	.3899139	.2522076	2.116252
VAR_X1	47	.8253652	.6244935	.046169	2.371665
VAR_X2	47	27.82426	8.484102	8.67	44.73
VAR_M	47	.0515728	.0333858	-.0624505	.1080053

Source: Stata 17 Processed Data, 2024

From the table above, the analyzed results consist of 47 sample data points due to the outlier process, from a total of 85 sample data points. Capital Structure Variable (X1) The capital structure variable is calculated using the Debt to Equity Ratio (DER), displaying a lowest record of 0.046 and a highest mark of 2.371. The mean DER score stands at 0.825 alongside a standard deviation of 0.624. Since the standard deviation falls below the mean figure, it signifies that the observed firms possess homogeneous DER distributions.

ESG Variable (X2) The capital structure metric is evaluated through the ESG risk rating, presenting a bottom value of 8.67 and a peak value of 44.73. The mean outcome

reaches 27.824 with a standard deviation calculated at 8.484. The mean figure exceeds the standard deviation, indicating that the sampled corporations exhibit homogeneous ESG data.

Profitability Variable (M) The profitability variable is calculated using Return On Asset (ROA) with a lowest mark of -0.062 and a highest peak of 0.108. The mean score for ROA is recorded at 0.051 with a standard deviation of 0.033. As the standard deviation is lower than the mean value, it reflects that the corporate entities display homogeneous ROA statistics.

Firm value Variable (Y) The firm value variable is measured using Tobin's Q, with a minimum value of 0.252 and a maximum value of 2.116. The average value of Tobin's Q is 0.976 with a standard deviation of 0.389. The standard deviation value is smaller than the average value, which means that the company has homogeneous Tobin's Q data.

Classical Assumption Test

Normality test, according to (Ghozali, 2016), this normality test is intended as a test tool to determine whether, in the regression model, the confounding variables have a normal distribution. The normality test is also used to assess whether the regression used is good. A good regression has a normal or near-normal distribution. This study uses the Shapiro-Wilk statistical analysis equation, which states that when the probability value is > 0.05, the data is normally distributed.

Table 4. Normality Test

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
res	47	0.95665	1.942	1.411	0.07919

Source: Stata 17 Processed Data, 2024

As illustrated in Table 4, the obtained probability value stands at 0.079, demonstrating that the metric exceeds the alpha threshold of 0.05, thereby confirming that the residual data follows a normal distribution.

Multicollinearity testing, following the guidelines of Ghozali (2016), this evaluation aims to verify whether intercorrelations exist among the explanatory variables within a regression framework. An econometric model is deemed robust if no significant linear relationships are present between these predictive factors. The presence of multicollinearity can be examined by analyzing tolerance metrics and the variance inflation factor (VIF). The model is declared free from multicollinearity if the VIF score remains strictly below 10. The relevant test details are presented in the subsequent table:

Table 5. Multicollinearity Test

	VAR_X1	VAR_X2	VAR_M
VAR_X1	1.0000		
VAR_X2	0.0948	1.0000	
VAR_M	-0.1327	0.0532	1.0000

Source: Stata 17 Processed Data, 2024

The aforementioned details demonstrate that every independent variable exhibits a VIF score under 10, signifying the total absence of multicollinearity issues.

Heteroscedasticity testing, as noted by Ghozali (2016), evaluates whether the variance of error terms remains inconsistent across different observations within the regression setup. The empirical findings of the heteroscedasticity analysis are detailed below:

Table 6. Heteroscedasticity Test

```
Breusch-Pagan/Cook-Weisberg test for heteroskedasticity
Assumption: Normal error terms
Variable: Fitted values of VAR_Y

H0: Constant variance

    chi2(1) =   1.76
Prob > chi2 = 0.1840
```

Source: Stata 17 Processed Data, 2024

The Chi-Square probability value of 0.1840 > 0.05 can be interpreted as the regression model being free from heteroscedasticity problems.

Multiple Linear Regression Analysis

Table 7. Full Regression and Moderated Regression Analysis (MRA) Results

Source	SS	df	MS	Number of obs	=	47
				F(4, 42)	=	3.14
Model	1.60872324	4	.402180809	Prob > F	=	0.0241
Residual	5.38478636	42	.128209199	R-squared	=	0.2300
				Adj R-squared	=	0.1567
Total	6.99350959	46	.152032817	Root MSE	=	.35806

VAR_Y	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
VAR_X1	.3507457	.1436181	2.44	0.019	.0609127	.6405787
VAR_X2	-.0046412	.0077478	-0.60	0.552	-.0202768	.0109945
VAR_X1M	-4.410432	3.080337	-1.43	0.160	-10.6268	1.805939
VAR_X2M	.2038933	.0777863	2.62	0.012	.0469141	.3608724
_cons	.6960331	.191875	3.63	0.001	.3088137	1.083252

Source: Stata 17 Processed Data, 2024

Notes: This table integrates the outputs for multiple linear regression, individual parameter significance tests (t-test), and the moderating effect analysis.

Based on the output of the common effect model table estimation, a constant value of 0.6960331 was obtained. The capital structure variable obtained a coefficient of 0.3507457, the ESG risk rating variable obtained a coefficient of -0.0046412, the capital structure variable with moderation had a coefficient of -4.410432, and the ESG risk rating variable with moderation obtained a coefficient of 0.2038933. Meanwhile, the F-statistic test

is 3.14, and the probability obtained is 0.0241, with an R-sq of 0.2300. The CEM estimation output can be formulated as follows:

$$Y=0,6960331+0,3507457X1-0,0046412X2-4,410432(X1.M)+0,2038933(X2.M)+\varepsilon$$

The constant value of 0.6960331 means that if the variables of capital structure, ESG risk rating, and profitability are considered zero, then the variable of firm value is 0.6960331. The regression coefficient has a positive value of 0.3507457. This means that every one-unit increase in capital structure can increase firm value by 0.3507457, assuming other variables in the model remain constant. This indicates a direct influence of capital structure on firm value. The regression coefficient is negative at -0.0046412. This shows that a one-unit increase in the ESG risk rating will cause the firm value to decrease by 0.0046412, assuming other variables remain constant. The interaction coefficient of -4.410432 indicates that profitability weakens the positive effect of capital structure on firm value. This means that at a high point of profitability, the positive impact of capital structure on firm value actually decreases by 4.410432. The interaction coefficient of 0.2038933 shows that profitability enables the ESG Risk Rating to positively affect firm value. Since the main effect of ESG Risk Rating is initially insignificant, this indicates that ESG practices will only have a significant and positive impact on firm value when a high level of profitability supports the company.

Furthermore, the R-squared value of 0.2300 indicates that 23% of the variation in firm value can be explained by capital structure, ESG risk rating, and their interactions with profitability. The remaining 77% is influenced by other external factors not included in this model, such as macroeconomic sentiments, industry policies, or market speculation in the Indonesian capital market.

Regression Hypothesis Testing

The t-statistical test is utilized to examine the partial impact of each variable on the dependent variable. In this study, the t-test is designed to evaluate the significance of the influence exerted by capital structure and ESG risk rating factors, alongside the moderating role of profitability on firm value. The benchmark for concluding this evaluation relies on the p-value. When the alpha threshold of 0.05 exceeds the significance level, it demonstrates that the explanatory variable strongly influences firm value, and vice versa.

Registered a significance level of 0.019, which falls below 0.05, demonstrating that capital structure exerts a notable impact on firm value. The coefficient value for capital structure stands at 0.350, implying that an escalation in leverage will drive an increase in corporate worth. This confirms that capital structure possesses a positive relationship with firm value, meaning that H1 is supported. Meanwhile, the ESG risk rating (X2) recorded a significance value of 0.552, surpassing 0.05, which indicates that no meaningful relationship exists between this sustainability metric and firm value; thus, H2 is dismissed. F test / Simultaneous, this evaluation serves to analyze the concurrent impact of independent variables on dependent variables. Should the significance metric fall below 0.05, it implies

that the independent factors jointly exert an influence on the outcome variable, and vice versa.

Table 8. F Test (Capital Structure and ESG Risk Rating)

Source	SS	df	MS	Number of obs	=	47
				F(2, 44)	=	2.33
Model	.669340138	2	.334670069	Prob > F	=	0.1093
Residual	6.32416948	44	.143731124	R-squared	=	0.0957
				Adj R-squared	=	0.0546
Total	6.99350962	46	.152032818	Root MSE	=	.37912

VAR_Y	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
VAR_X1	.1550724	.0899146	1.72	0.092	-.0261386	.3362835
VAR_X2	.0074634	.0066184	1.13	0.266	-.0058751	.0208019
_cons	.6405337	.1997132	3.21	0.002	.2380383	1.043029

Source: Stata 17 Processed Data, 2024

The result obtained is Prob > F of 0.10 > 0.05. It is concluded that capital structure and ESG risk rating, together, do not have a significant effect on firm value; H3 is rejected.

Moderated Regression Analysis

Moderate Regression Analysis (MRA) is conducted to identify whether the interacting factor amplifies or diminishes the primary relationship. A significance score under 0.05 indicates that the moderating element enhances the impact of the predictor variable, whereas a significance value above 0.05 implies that the moderator fails to strengthen the connection of the main variable. The empirical outcomes of the moderated regression analysis for this research are outlined as follows.

Moderating Effect Test

The interaction between capital structure and profitability (X1M) on firm value (Y) obtained a coefficient of -4.410 and a significance of 0.160, which is >0.05. It was found that profitability cannot moderate capital structure on firm value.

The interaction between ESG risk rating and profitability (X2M) on firm value (Y) obtained a coefficient of 0.203 and a significance of 0.012, which is <0.05. It was found that profitability can moderate the ESG risk rating on firm value.

3.2. Discussion

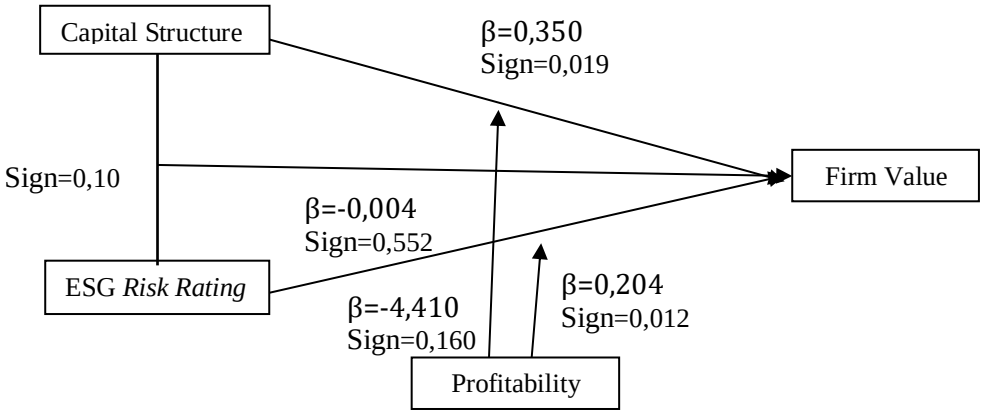

Figure 2. Moderation Diagram

Source: Stata 17 Processed Data

The Effect of Capital Structure on Firm Value. The data analysis shows that capital structure has a positive and significant effect on firm value (β = 0.350; sig = 0.019). This suggests that optimizing the debt-equity mix sends a positive signal that increases investor confidence. This finding reinforces Stakeholder Theory, which states that optimal use of debt is a management strategy to fund productive activities that benefit all stakeholders [9]. Measured debt policy is seen as a signal of managerial responsibility in managing resources for sustainable growth [26].

The Effect of ESG Risk Rating on Firm Value. Testing using OLS estimation in Stata 17 states that ESG Risk Rating has no significant effect on Firm value (sig = 0.552; β = -0.004 Based on Stakeholder Theory, this finding indicates a gap between stakeholder risk management practices (ESG) and market perceptions, where investors have not fully converted stakeholder expectations into economic value [27]. This shows that the synergy to create shared value (value co-creation) for stakeholders through ESG innovation has not been holistically understood by the market in developing countries [1]. Unlike global markets where ESG maturity is relatively high and directly drives stock premiums, the Indonesian capital market is still in a transitional phase regarding sustainability awareness. In this market context, investors tend to view ESG implementation strictly through a cost-benefit lens rather than long-term value creation. This means that risk management costs cannot yet be converted into a competitive advantage in the eyes of the market [7], [27]. On the contrary, sustainable financing is still considered a burden in some companies. [12].

Simultaneous Influence of Capital Structure and ESG Risk Rating. Simultaneously, capital structure and ESG risk rating do not have a significant effect on firm value (sig = 0.10). Simultaneously, the integration of financial responsibility to creditors (capital structure) and social responsibility (ESG) has not been able to provide a collective boost to market value. This is in line with the Stakeholder Theory view that the effectiveness of a company's strategy is highly dependent on how the market responds to the relevance of non-financial information as part of the company's fundamentals [4]. This phenomenon is in line with the argument [4], on the IDX ESG Leaders index, which notes that the integration of these variables is highly dependent on how the market responds to the relevance of information. This insignificance indicates that the Indonesian capital market is still in the

transition stage of integrating ESG aspects with financial fundamentals [4]. This insignificance indicates that the Indonesian capital market is still in the transition stage of integrating ESG aspects with financial fundamentals [4]. Investors generally still view funding policies (capital structure) and sustainability commitments (ESG) as two separate domains. Consequently, the integration of both has not yet been able to serve as a solid collective signal to drive market value simultaneously.

Profitability Moderates the Effect of Capital Structure on Firm Value. The test results show that profitability is unable to moderate the effect of capital structure on firm value (sig = 0.160; β = -4.410). High or low profits do not change investors' reactions to management's debt policy. reactions to management's debt policy. These findings indicate that profitability does not change stakeholders' perceptions. These findings indicate that profitability does not change stakeholders' perceptions of the company's solvency risk. From the perspective of Stakeholder Theory, investors separate operational profit efficiency from the company's commitment to financial stakeholders (creditors), so that high or low profits do not strengthen the influence of debt policy on firm value [28], [29].

Profitability Moderates the Influence of ESG Risk Rating on Firm Value. Unlike the previous variable, profitability was found to significantly moderate the influence of ESG Risk Rating on firm value (sig = 0.012; β = 0.203). Profitability acts as an enabler for companies to meet the demands of a wider range of stakeholders. Conceptually, this demonstrates that sustainability commitments in emerging markets are not yet viewed as standalone virtues, but rather as initiatives that require strong financial validation. In line with Stakeholder Theory, solid financial performance provides legitimacy and financial capacity for companies to invest in sustainability initiatives [17]. This synergy creates stakeholder confidence that the company's ESG commitments are supported by sound fundamentals, thereby significantly increasing market value [6], [30]. To fund strategic investments in sustainability. This synergy, as explained by [30], creates a strong positive signal to shareholders regarding healthy long-term growth prospects through the integration of profit efficiency and ESG responsibility [26], [30]. For corporate financial managers, this finding implies a clear practical strategy: ESG initiatives should not be pursued at the expense of core operational profits. Managers must prioritize securing bottom-line profitability first to financially legitimize their ESG spending in the eyes of investors, thereby maximizing the overall firm valuation.

4. CONCLUSION

This study concludes that while capital structure directly enhances firm value as a signal of managerial efficiency, ESG risk rating alone does not significantly impact market valuation in the Indonesian context. Furthermore, the integration of both financial (funding) and non-financial (ESG) factors simultaneously fails to provide a collective impetus to market value. A key theoretical contribution of this study to Stakeholder Theory is demonstrating the role of profitability as a critical enabler. Although profitability fails to moderate the market's perception of debt risk, it significantly validates and legitimizes ESG initiatives. Sustainability signals are only rewarded by the market when they are backed by solid financial capacity.

Practically, company management is advised to balance its capital structure and profitability, prioritizing bottom-line performance to ensure ESG initiatives receive a positive market response. Investors are also encouraged to broaden their assessments beyond traditional financial metrics by progressively considering ESG risks. Furthermore, for the general public, this research contributes to raising broader awareness that genuine corporate sustainability in developing markets requires a strong economic foundation, educating society to critically evaluate companies not just on their green claims, but on their holistic financial and sustainable integration.

Despite these insights, this study has several limitations. The significant sample size reduction due to outliers and the use of a cross-sectional design limited to the 2024 period imply that these findings may not be entirely generalizable across all industries or different economic cycles. Therefore, future researchers are recommended to expand the research sample, extend the observation period, and add other control variables, such as company size or inter-sector analysis, to provide a more comprehensive picture.

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