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CAN THE SUSTAINABLE GROWTH RATE (SGR) MODERATE THE IMPACT OF ESG RISK RATING AND CAPITAL STRUCTURE ON FIRM VALUE?

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Abstrak

Penelitian ini bertujuan untuk menguji dan menganalisis pengaruh *Risk Rating* dari *Environmental*, *Social* dan *Governance* (ESG) dan Struktur Modal terhadap Nilai Perusahaan yang dimoderasi oleh *Sustainable Growth Rate* (SGR). Penelitian ini menggunakan pendekatan kuantitatif. Data yang digunakan adalah data sekunder berupa laporan tahunan dan laporan keuangan perusahaan yang terdaftar di Indeks ESG Leaders (IDXESGL). Selain itu, teknik pengumpulan data yang digunakan adalah sampling jenuh, dengan jumlah sampel yang diamati sebanyak 90 data. Pengujian hipotesis ini menggunakan analisis regresi linier berganda dengan menggunakan *Moderated Regression Analysis* (MRA). Hasil penelitian ini menunjukkan bahwa *ESG risk rating* berpengaruh signifikan terhadap nilai perusahaan. Struktur modal yang diproksikan dengan *debt to equity ratio* berpengaruh negatif dan signifikan terhadap nilai perusahaan. Sedangkan *Sustainable Growth Rat*e (SGR) mampu memoderasi hubungan antara *ESG risk rating* dengan nilai perusahaan. Namun, SGR tidak mampu memoderasi hubungan antara dan nilai perusahaan.
Kata Kunci: *ESG Risk Rating*, Struktur Modal, Kinerja Perusahaan, *Sustainable Growth Rate* (SGR)

Abstract

This research aims to find out the effect of Environmental, Social and Governance (ESG) risk rating and capital structure on the firm value which is moderated by Sustainable Growth rate (SGR). The research applies quantitatively. Furthermore, the data were secondary and in a form of annual reports and financial reports company listed on the ESG Leaders (IDXESGL) The Indonesia Stock Exchange from 2021 until 2023, it was taken from www.idx.co.id and GIBEI STIESIA, also ESG data of Risk Rating. Moreover, the data collection technique used saturated sampling with 90 data samples observed. This hypothesis testing uses multiple linear regression analysis using Moderated Regression Analysis (MRA). The result shows that ESG which is a proxy with risk rating has a negative and significant effect on the firm value. Capital structure which is a proxy with DER has a negative and significant effect on the firm value. Additionally, ESG risk rating which is moderated by sustainable growth rate has a negative and significant effect on the firm value. However, capital structure which is moderated by sustainable growth rate has a negative and insignificant effect on the firm value.
Keywords: *ESG Risk Rating, Capital Structure, Firm Value, and Sustainable Growth Rate (SGR)*

INTRODUCTION

Business competition is getting tougher over time, and the unpredictable economic growth requires companies to strengthen their ability to survive in the business sector. Companies that capitalize on business prospects will not escape competitors because they strive to improve their business ventures. Many companies today have concentrated on sustainability practices, including waste management, reducing carbon, and improving operational capabilities (Eccles & Serafeim, 2013). However, achieving corporate sustainability requires that sustainability practices benefit all stakeholders while increasing corporate value. Due to intensified competition, businesses must incur higher costs to continue operating. Global investors are increasingly recognizing that ESG is an important factor in investment decisions as companies with strong ESG scores tend to have lower risks and long–term sustainability. In Indonesia, IDXESG Leaders is a specialized index for companies with superior ESG practices. This research is critical to understanding how ESG commitment shown in the ESG Risk Rating affects firm value. Environmental, social, and governance (ESG) issues have taken center stage in the business and investment communities worldwide. Companies are

now evaluated not only on their financial performance but also their commitment to environmental sustainability and social responsibility. ESG risk rating has become essential for assessing how well companies address ESG issues. High ESG risk can reduce investor and stakeholder confidence, lowering the company's value. Pasaribu et al. (2019) identified two types of financial factors that can affect firm value: internal and external. Internal factors include capital structure, asset growth, and profitability, while external factors include inflation and exchange rates.

In addition to financial factors, research shows that non–financial factors, such as environmental, social, and governance (ESG) disclosures, can impact firm value (Christy & Sofie, 2023). According to Fachrezi et al. (2024), the ESG concept aligns with Elkington's (1998) triple bottom line. The aim is to holistically measure the company's success by considering economic performance measurements such as profit generation, social care actions, and environmental preservation (people–planet–profit). Environmental, Social and Governance (ESG) can use the ESG Risk Rating issued by Sustainalytics which is listed on the IDX ESG Leaders Index. Sustainalytics is a leading independent ESG research, ratings and data organization that helps investors worldwide design and implement responsible investment strategies. Sustainalytics' ESG risk assessment assesses a company's exposure to material ESG risks and its ability to manage them effectively.

Meanwhile, Capital structure is the combination of long–term debt and equity. Capital structure is an important issue for companies because it determines whether the capital structure directly impacts the company's financial statements and stock prices. According to Widiyanti (2019), the debt–to–equity ratio (DER) is a ratio that compares debt to equity. If an investor decides to invest the company's capital, the investor must consider the level of risk and profit. The company's capital structure, which shows the proportion of debt to equity, is important in determining company value. An optimal capital structure can improve financial efficiency while increasing firm value. However, capital structure decisions are closely linked to a company's ESG risk profile. Trade off theory explains how much debt and how much equity a company has, resulting in a balance between costs and benefits. Trade off theory is a capital structure theory that states that companies exchange tax benefits (Tax Shield) with debt financing to avoid complications caused by potential bankruptcy. This is because interest payments are deducted from Earnings Before Interest and Taxes (EBIT), which is non–taxable income. Firms with significant ESG risks may find it challenging to obtain low–cost funding, as investors and creditors are more cautious in assessing such risks. Thus, the interaction between ESG risk assessment and capital structure can significantly affect firm value.

Sustainable Growth Rate (SGR) is a metric that assesses a company's capacity to grow sustainably without significantly increasing its financial capital structure. SGR measures the balance between corporate growth and financial stability. In the context of ESG, SGR can serve as a moderator that can influence the relationship between ESG risk rating, capital structure and firm value. Companies with a high sustainable growth rate (SGR) can better manage the ESG risk rating and maintain an optimal capital structure, increasing firm value. Conversely, companies with a low sustainable growth rate (SGR) may find it challenging to balance growth and ESG risk rating management so that it can reduce company value.

Some previous studies have only looked at the impact of esg risk rating or capital structure on business valuation. This study combines the two variables into one framework to gain a better understanding of the factors that influence business value. The use of SGR as a moderating variable is still rarely used in some studies. SGR assesses the company's potential to grow without additional external investment, thus the findings may provide a novel viewpoint on how sustainable growth rate strengthens or lowers the influence of ESG risk rating, capital structure, and company value. Some previous studies, namely research (Prasetia, Tommy, & Saerang, 2014) stated that capital structure has a positive and insignificant effect on firm value. According to Mahanani & Kartika, it proves that capital structure has no effect on firm value. This is also supported by Irawan & Kusuma's research (2019) which states that capital structure has no effect on firm value. In the research of Fachrezi et al. (2024); Putu et al. (2024a) state that ESG risk has a negative effect on firm

value. Research by Priyanto et al (2020) states that capital structure has a positive effect on sustainable growth rate.

Based on the background above, the problem formulations that will be examined in this study are: (1) Does ESG Risk Rating affect the company's value? (2) Does the capital structure affect the value of the company? (3) Does ESG Risk Rating affect the value of the company, which is moderated by the sustainable growth rate? (4) Does the capital structure affect the company's value, which is moderated by the sustainable growth rate? This study aims to obtain empirical evidence of the affect ESG Risk Rating and Capital Structure to Firm Value. Also to determine that Sustainable Growth Rate (SGR) is able to moderate the relationship amongs ESG Risk Rating and Capital Structure to Firm Value.

RESEARCH METHOD

Data Selection and Collection Approach

This study's population comprises companies listed on the Indonesian Stock Exchange (IDX) indexed in ESG Leaders (ESGL). The number of companies in the ESGL index is 30, and this study's observation year is 2021–2023. Sugiyono (2019: 133) states that saturated sampling is a total sample determination when all population members are used as samples. The population in this study is 90 companies, therefore the sample size was 90 companies because they used saturated samples with the criteria. The research design can be seen in Figure 1 below.

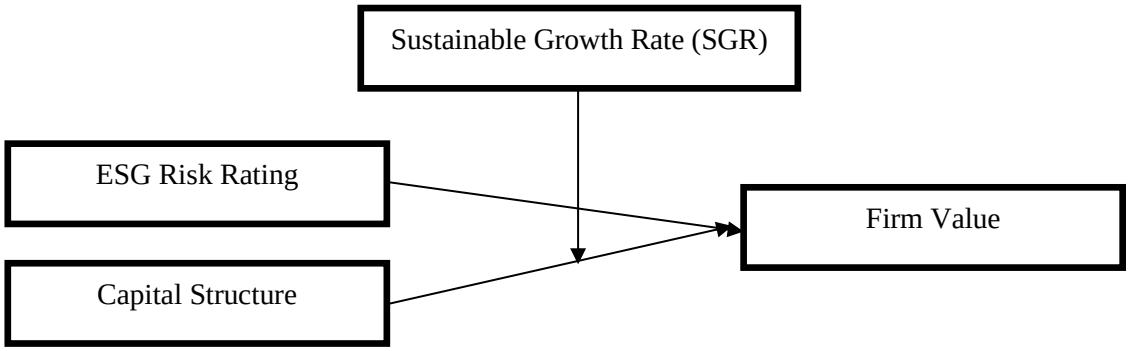

Figure 1. Research Model

Measurement and Operational Variable Definition

Dependent Variable: Firm Value

The dependent variable of this study is Firm Value. This study uses Tobin's Q ratio because this ratio helps assess the market based on stock prices. Tobin's Q value fluctuates in response to market conditions. Good market conditions automatically cause an increase in Tobin's Q value. This is because good market conditions will increase stock prices. Tobin's Q is an effective technique to determine the value of a company and understand how the market views the company's current prospects. Tobin's Q is obtained by dividing the market value of a company's shares by the book value of its equity. If the share price increases, the market value of the company's shares will also increase. Tobin's Q can be determined using this formula:

$$Q = \frac{(EMV + D)}{TA}$$

Where:
Q = Firm Value
EMV = Market value of equity (number of shares outstanding x share price)
D = Debt
TA = Asset

Independent Variable: ESG Risk Rating

Environmental, Social and Governance (ESG) can be proxied using the ESG risk rating. Environmental, social and governance (ESG) measurement uses the ESG risk rating methodology. The Indonesia Stock Exchange (IDX) cooperates with Morningstar Sustainalytics. Environment, social and governance (ESG) risk rating Sustainalytics assesses the company's exposure to and management of material ESG risks and the company's ability to manage these risks effectively. Thus, the environmental, social and governance (ESG) risk rating refers to the company's implementation of ESG practices. The lower the ESG risk rating, the better the company's ESG performance because a low ESG risk rating indicates good exposure, management, and minimal disputes. Morningstar Sustainalytics categorizes listed companies into five categories based on the level of ESG risk. Furthermore, based on the ESG score assessment, the listed companies are divided into five categories as below:

Table 1. ESG Risk Rating Categories

Negligble	Low	Medium	High	Severe
0–10	10–20	20–30	30–40	>40

Source: www.idx.co.id, 2024

When the company has a risk score assessment of 0–10, it can be categorized as negligible or negligible ESG risks for the company and low impact on the environment and society. When the company has a risk score assessment of 10–20, it can be categorized as low or low ESG risks and low impact on the environment and society with minimal risk to the company. When the company has a risk score assessment of 20–30, it can be categorized as medium or moderate ESG risk and significantly impacts the environment and society with significant corporate risk. When the company has a risk score assessment of 30–40, it can be categorized as high or high ESG risk and has a high impact on the environment and society with high corporate risk. Moreover, when the company has a risk score assessment of >40, it can be categorized as severe ESG risk and profoundly impacts the environment and society with serious corporate risk.

Independent Variable: Capital Structure

Capital structure refers to the percentage of a company's long-term permanent capital, which includes debt, equity, preferred stock, and common stock. Debt to Equity Ratio (DER) is a capital structure that compares total debt to equity. Capital structure describes the company's ability to fulfil its obligations and is the ratio between its total debt and total capital (equity). The higher this ratio, the less equity capital is used compared to debt. A high Debt to Equity Ratio (DER) indicates that the company has a high level of financial leverage, which means it uses more debt to fund its activities. Debt to Equity Ratio (DER) can be determined using this formula:

$$DER = \frac{Total\ Debt}{Total\ Equity}$$

Moderating Variable: Sustainable Growth Rate (SGR)

This moderation approach employs a moderating variable, the sustainable growth rate. A solid sustainable growth rate enables the company to grow or maintain its growth without incurring debt or raising equity, thereby strengthening or weakening the ESG risk rating and the influence of capital structure on firm value. Sustainable Growth Rate (SGR) is the maximum growth rate a company can achieve without resorting to external financing (such as issuing new shares) while maintaining its existing capital structure (a mix of debt and equity). SGR illustrates the company's ability to grow sustainably by using retained earnings and not disturbing the existing capital structure. Moreover, the sustainable growth rate indicates what stage a company is in during its life cycle. Understanding where a company is in its life cycle

is important. That position often determines the company's financial objectives, such as the sources of financing to be used, dividend payout policy, and overall competitive strategy.

Moderator variables affect (strengthen or weaken) the relationship between the independent and dependent variables Sugiyono (2019: 68). The moderating variable in this study is the sustainable growth rate. A sustainable growth rate (SGR) is the highest growth rate a company can achieve without adding equity or debt. SGR can be determined using this formula:

$$\boldsymbol{SGR = ROE\ (1 - DPR)}$$

Where:
ROE = Return on Equity
DPR = Dividend Payout Ratio

Data Analysis Method

This multiple linear regression analysis uses Moderating Regression Analysis (MRA). Moderated Regression Analysis is a variable that builds a relationship that can strengthen or weaken the dependent variable. The multiple linear regression equation used in the test Moderated Regression Analysis MRA with pure moderator testing. Ghozali (2018: 229) states that pure moderator testing involves interaction. However, moderator variables cannot function as independent variables. The Sustainable Growth Rate is classified as a pure moderation because it describes a company's internal ability to grow without external resources. As a result, while SGR does not always have a direct impact on company value, it does influence how much ESG Risk Rating and Capital Structure affect firm value. The equation in this study is as follows:

$$\boldsymbol{TOBIN'S\ Q = \alpha + \beta 1 ESGRisk + \beta 2 DER + \beta 3 ESGRisk * SGR + \beta 4 DER * SGR + e}$$

RESULT

Research Findings

Descriptive Statistical Test

Ghozali (2018: 19), descriptive statistics are used to evaluate data by presenting an overview or summary using the average, maximum, minimum, and standard deviation values of each variable Environmental, Social and Governance (ESG) Risk Rating, Capital, Structure, Company Value and Sustainable Growth Rate (SGR). The following table shows the results of the descriptive statistical test conducted:

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ESG Risk	90	11.31	30.26	21.8522	4.72176
DER	90	.03	15.31	1.9953	2.41264
Tobin’s Q	90	.34	197.93	4.7999	21.40250
SGR	90	-20.83	1.35	-.2083	2.22596
Valid N (listwise)	90				

Based on Table 2, descriptive statistics can be explained as follows: (1) The average value of ESG Risk is 21.8522, meaning that it has a medium risk, even close to low, meaning that the company effectively manages risk. (2) The average value of DER of 1.9953 indicates that the company's operational activities depend on debt compared to equity. (3) The average value of Tobin's Q is 4.7999. It has a larger standard deviation of 21.40250, indicating that the average company value does not reflect the actual average value because the lowest value of company value is 0.03 and the highest is 197.93. so the range is too extensive. (4) The average value of SGR is -.02083, meaning that many companies experience a decrease in net income compared to the standard deviation value of 2.22596; the average value of SGR does not reflect the actual average value.

Normality Test

In Table 3 below, it can be seen that Asymp. Sig. (2–tailed) of Kolmogorov Smirnov is more than alpha 5%, it can be concluded that the residual data is normally distributed. This is also reinforced through the normal probability plot below:

Table 3. Normality Test
One–Sample Kolmogorov–Smirnov Test

		Unstandardized Residual
N		90
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.10984246
Most Extreme Differences	Absolute	.128
	Positive	.128
	Negative	–.062
Kolmogorov–Smirnov Z		1.215
Asymp. Sig. (2–tailed)		.105

a. Test distribution is Normal.

b. Calculated from data.

In Figure 2 below, it can be seen that the points are around the diagonal line, so it can be indicated that the residual data is normally distributed.

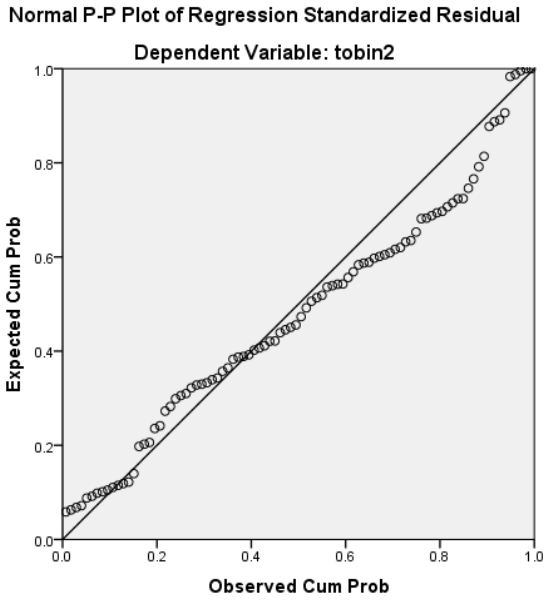

Figure 2. Normality Test Results Using the P–P Plot Graph

Multicollinearity Test

Based on Table 4, each variable of ESG risk rating, debt–to–equity ratio, and sustainable growth rate has a tolerance value greater than 0.10, and no VIF value exceeds 10. These findings indicate that the variables included in the research model do not have a significant relationship or relationship. Thus, the research model does not show multicollinearity between the independent variables in this regression model.

Figure 4. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	ESG RISK	.877	1.141
	DER	.869	1.151
	SGR	.986	1.014

Autocorrelation Test

Based on table 5 shows that the resulting DW value is 1.666. This figure is between –2 and +2, indicating that the model used in this study does not occur autocorrelation.

Table 5. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin–Watson
1	.902[a]	.813	.806	.11174	1.666

a. Predictors: (Constant), SGR, ESG RISK, DER
b. Dependent Variable: Tobin's Q2

Heteroscedasticity Test

Based on the Glejser test table, the sig. value for all ESG risk rating variables, debt to equity ratio (DER) and sustainable growth rate (SGR) is more than 0.05, which indicates that the regression model results meet the free assumption of no heteroscedasticity.

Table 6. Heteroscedasticity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	12.034	10.528		1.143	.256
	ESGRISK	–.205	.495	–.047	–.413	.681
	DER	–.651	.974	–.077	–.668	.506
	SGR	.342	.991	.037	.345	.731

Moderating Regression Analysis (MRA)

Based on the table above, the regression equation that can be found through multiple linear analysis is as follows:

$$\boldsymbol{TOBIN'S\ Q = \alpha - 0,008ESGRisk - 0,010DER - 0,031ESGRisk * SGR - 0,025DER * SGR + e}$$

The multiple linear regression analysis in the above equation shows that column B with a constant (a) of 1.086, the value of ESG risk (β1) of –0.010, which indicates that the variable Environmental, Social and Governance (ESG) risk rating and firm value have a negative relationship, the value of DER (β2) of –0.012 which indicates that the capital structure and firm value have a negative relationship.

In addition, the value of ESG risk and sustainable growth rate (SGR) as a moderating variable (β3) of –0.004 indicates that risk rating (ESGRISK) and sustainable growth rate (SGR) as a moderating variable have a negative relationship to firm value. In contrast, the value of capital structure and sustainable growth rate (SGR) as a moderating variable (β4) of –0.017 indicates that capital structure and sustainable growth rate as a moderating variable have a negative relationship to firm value.

Table 7. Moderating Regression Analysis (MRA) Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.086	.057		19.189	.000
	ESGRISK	–.010	.003	–.180	–3.607	.001
	DER	–.012	.006	–.112	–1.996	.049
	ESGRISK_SGR	–.004	.000	–.769	–11.396	.000
	DER_SGR	–.017	.010	–.122	–1.652	.102

Hypotesis Test

Goodness of Fit Test (F Test)

Table 8. Goodness of Fit Test (F Test) Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.703	4	1.176	96.560	.000[b]
	Residual	1.035	85	.012		
	Total	5.738	89			

a. Dependent Variable: Tobin's Q2

b. Predictors: (Constant), DER_SGR, ESGRISK, DER, ESGRISK_SGR

The table above shows that the F test has a sig value of 0.000 <0.05. This shows that the independent variable ESG risk rating, capital structure and sustainable growth rate (SGR) as a moderating variable significantly affect the firm value variable.

Coefficient of Determination (R^2)

Table 9. Goodness of Fit Test (F Test) Results

Model Summary[b]

Model	R	R Square	Adjusted R Squar	Std. Error of the Estimate	Durbin–Watson
1	.905[a]	.820	.811	.11035	1.658

a. Predictors: (Constant), DER_SGR, ESGRISK, DER, ESGRISK_SGR

b. Dependent Variable: Tobin's Q

The coefficient of determination R square (R2) is 0.820 or 82%. These results indicate that the firm value variable (Tobin's) can be explained by the ESG risk rating variable, capital structure (DER), and sustainable growth rate (SGR) as a moderating variable by 82%. At the same time, the rest (100% – 82% = 18%) can be explained by other variables outside the regression equation.

Hypothesis Test (t–Test)

Table 10. Hypothesis Test (t–Test) Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.086	.057		19.189	.000
	ESGRISK	–.010	.003	–.180	–3.607	.001
	DER	–.012	.006	–.112	–1.996	.049
	ESGRISK_SGR	–.004	.000	–.769	–11.396	.000
	DER_SGR	–.017	.010	–.122	–1.652	.102

Based on the table above, the t–test in Equation 1 can be explained as follows:

The impact of Environmental, Social and Governance (ESG) Risk Rating on Firm Value, the table above, shows a coefficient value of –0.010 with a significant value of 0.001. The

Environmental, Social and Governance (ESG) Risk Rating has a negative value with a significance value of less than 0.05 (0.001 <0.05). So, H_1 accepts that the Environmental, Social and Governance (ESG) Risk Rating (RR) has a negative influence on firm value (Tobin's Q).

The impact of capital structure on firm value, as shown in the table above, has a coefficient value of –0.012 with a significant value of 0.049. The capital structure has a negative value with a significance value of less than 0.05 (0.049 <0.05). So, H_2 is rejected that capital structure positively influences firm value (Tobin's Q).

Firm Value with Sustainable Growth Rate (SGR) as a moderating variable, the table above shows a coefficient value of –0.004 with a significant value of 0.000. The Environmental, Social and Governance (ESG) Risk Rating with Sustainable Growth Rate (SGR) has a negative value with a significance value of less than 0.05 (0.000 <0.05). So, H_3 accepts the Environmental, Social and Governance (ESG) Risk Rating with Sustainable Growth Rate (SGR) as a moderating variable has a positive influence on firm value (Tobin's Q).

The impact of Capital Structure on Firm Value with Sustainable Growth Rate (SGR) as a moderating variable, the table above shows a coefficient value of –0.017 with a significant value of 0.102. The capital structure with a Sustainable Growth Rate (SGR) has a negative value with a significance value of more than 0.05 (0.102> 0.05). So, H_4 rejected that capital structure with Sustainable Growth Rate (SGR) as a moderating variable that positively influences firm value (Tobin's Q).

Discussion

ESG Risk Rating and Firm Value

Environmental, Social, and Governance (ESG) risk rating has become an important indicator in assessing a company's performance and sustainability. Environmental, Social, and Governance (ESG) risk rating analysis can determine the company's exposure to environmental, social and corporate governance risks that can impact the company's financial performance and reputation. The higher the Environmental, Social, and Governance (ESG) risk rating, the greater the risk the organisation faces regarding business sustainability.

The results of this test indicate that the environmental, social and governance (ESG) variable, which is proxied by the ESG risk rating, hurts firm value. This shows that the greater the ESG risk of the company, the lower the public perception of the company's value. This result is supported by descriptive statistics, which show an ESG value of 21.8522, which is grouped into medium to low risk. Companies with a high level of ESG risk indicate their failure to manage their business responsibilities by ESG factors to meet stakeholders' interests.

Based on the individual parameter test (t–test) results, the environmental, social and governance (ESG) risk rating variable affects the company's value. It can be seen that the significant value is 0.001, whereas the significant value is less than 0.05. With a coefficient value of –0.010, which is a negative sign, it can be concluded that the environmental, social, and governance (ESG) risk rating hurts firm value.

Amperawati (2023) states that the environmental, social, and governance (ESG) risk rating hurts firm value. Because stakeholders have an important role in the company's operations, this will certainly reduce public trust (especially investors), so it can harm the company's reputation. Therefore, companies need to pay attention to the environmental, social and governance (ESG) risk rating by making proactive efforts to maintain and increase the company's value in the perception of investors and stakeholders. This result is in line with the first hypothesis, which states that the environmental, social and governance (ESG) risk rating has a negative impact on firm value.

Capital Structure and Firm Value

Capital structure is an important part of a company's financial management that can affect the value of the company. The company's capital structure refers to the proportion

between debt and equity used to fund its operations and investments. The results of this test indicate that the capital structure variable, which is proxied by the debt–to–equity ratio (DER), hurts firm value. It can be seen that the significance value for the capital structure variable (DER) of 0.049 is smaller than 0.05, with a negative beta coefficient value; it can be concluded that the capital structure variable (DER) hurts firm value. This indicates that the higher the DER, the lower the firm value and the greater the impact on Tobin's Q. The negative relationship between DER and firm value is caused by companies listed on the ESG Leaders Index in 2021 – 2023. The average DER variable among companies listed on the ESG Leaders Index is 1.9953, or 119.53%. It shows that, on average, these ESG Leaders Index companies used a large amount of debt to finance assets in their capital structure from 2021 – 2023. It rejects the trade–off theory because the observation of research data is still in the COVID–19 period, which is a systematic risk that cannot be avoided, so companies at that time get a lot of negative profits, and these conditions can be avoided.

These results align with Monicasari (2022), who states that a large debt will result in greater interest payments. This increases the risk that the company must bear and results in bankruptcy costs, which hurt the company's share value. Capital structure has a negative and significant effect on firm value, which indicates that the company is less able to make a reasonable assessment of the use of debt, affecting the company's future. If the company's debt remains below a reasonable level, the company's value will increase. However, if the debt level exceeds the limit, the company's value will decrease because the company must pay a large amount of interest to creditors. It will make investors hesitant to invest, thus reducing the company's value. Signalling theory explains why capital structure can reduce firm value. According to signalling theory, investors can perceive a company's decision to use a large amount of debt as a negative signal.

Sustainable Growth Rate (SGR) and Firm Value

Sustainable Growth Rate (SGR) has emerged as an important indicator for analyzing firm performance, especially regarding environmental, social, and governance (ESG) risk rating. This study shows that SGR is important in moderating the relationship between environmental, social and governance (ESG) risk rating and firm value. The results that show a negative value indicate that a high sustainable growth rate (SGR) can reduce the negative impact of environmental, social and governance (ESG) risk rating on firm value. The results of this test indicate that the environmental, social and governance (ESG) variable, which is proxied by the risk rating (RR) on firm value with the sustainable growth rate (SGR) variable as a moderating variable, has a negative and significant effect.

Based on the results of the moderated regression analysis (MRA), ESG risk rating affects firm value, with the sustainable growth rate (SGR) variable being a moderating variable. It can be seen that the significant value is 0.000, whereas the significant value is less than 0.05. With a coefficient value of –0.004, which has a negative sign, it can be concluded that the sustainable growth rate (SGR) has a negative and significant effect in moderating the effect of environmental, social and governance (ESG) risk rating variables on firm value. Furthermore, Environmental, social, and governance (ESG) risk ratings and sustainable growth rates (SGR) are two important considerations for investors and stakeholders when making investment decisions. Companies with a low environmental, social and governance (ESG) risk rating and a high sustainable growth rate (SGR) are considered more stable and able to produce higher long–term results. Companies with a high environmental, social and governance (ESG) risk rating but a low sustainable growth rate (SGR) are usually avoided because they are considered risky.

Sustainable Growth Rate (SGR) assesses a company's potential to grow sustainably without requiring external funding. Companies with low SGR sometimes struggle to successfully manage environmental, social and governance (ESG) risk ratings due to a lack of resources to invest in sustainable strategies. Environmental, social and governance (ESG) risk rating negatively and significantly influences firm value, but this relationship can be moderated by a sustainable growth rate (SGR). Companies with a high sustainable growth

rate (SGR) can better overcome environmental, social, and governance (ESG) risk ratings while maintaining firm value. Therefore, it is important for companies to focus on reducing ESG risks and increasing the sustainable growth rate (SGR) to achieve sustainable growth. According to Signaling Theory companies with a high sustainable growth rate (SGR) can send positive signals to investors about their ability to effectively manage environmental, social and governance (ESG) risk ratings, thereby reducing their negative impact on firm value. According to this theory, a strong SGR provides a positive signal to stakeholders that the company is able to achieve long-term growth without relying substantially on external investment, while demonstrating the ability to manage resources to mitigate ESG risks.

While, the capital structure variable affects the firm value with the sustainable growth rate (SGR) variable as the moderation variable. It can be seen that the significant value is 0.102, whereas the significant value is more than 0.05. With a coefficient value of -0.017, which has a negative sign, it can be concluded that the sustainable growth rate (SGR) has a negative and insignificant effect in moderating the effect of capital structure on firm value. The results show that the effect of capital structure on firm value moderated by sustainable growth rate (SGR) is adverse but not statistically significant. It shows that although there is evidence that SGR can influence the relationship between capital structure and firm value, its influence is not enough to have a significant impact. SGR is not necessarily the most important component in determining capital structure and firm value, especially if the firm has access to funding sources. SGR measures a firm's capacity to grow sustainably without incurring debt or issuing additional shares.

It happens because organizations with high SGR can better finance their funding internally, thus reducing their dependence on external debt or equity. As a result, a high capital structure can lead to financial instability, especially if the company cannot manage the growth effectively. Thus, high SGR may reduce the positive effect of capital structure on firm value.

CONCLUSION

The result of this study shows that ESG risk rating significantly affects firm value. This shows that the higher the ESG risk of a company, the lower the public perception of the company's value. Also, the capital structure variable proxied by the debt-to-equity ratio negatively and significantly affects firm value. This shows that the higher the level of corporate debt, the lower the company's value. This can cause investors to have an unfavourable view of companies with a high debt level. While the Sustainable Growth Rate (SGR) are able to moderate the relationship between ESG risk raking and firm value. It means that if the ESG risk rating shows a high risk at the same time the company has a good SGR, the negative impact can be minimized thus it increase the firm value. On the contrary, SGR are not able to moderate the relationship between and firm value. It shows that the greater the capital structure influenced by the SGR, the lower the company's value.

LIMITATIONS AND SUGGESTIONS

There are still several limitations in this study that can have an impact on the results of the study and should be considered when conducting future research. The limitations of this research are as follows: (1) ESG risk rating is still relatively new so there are not many studies that discuss it. (2) The observation period in this study is quite short, from 2021 to 2023.Further study should extend the research period to more than three years and can expand the research objects not only with companies listed on IDXLeaders. Long-term research can provide more accurate results in testing the impact of ESG risk rating and capital structure on firm value moderated by sustainable growth rate. Also, further researches can include other related variables not used in this study, such as ESG risk rating and capital structure, which are expected to affect firm value moderated by Sustainable Growth Rate (SGR). While for investors or potential investors who want to invest in stocks should consider

designing capital for companies with low ESG risk levels and good capital structures so that investors can gain significant profits from companies with a promising future.

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