ABSTRACT

This study proposes a new model on the integration of the dimensions of financial information and non-financial dimensions supported by the role of a multi-measurement investment opportunity set (IOS), so it is necessary to reduce the IOS dimension to obtain the right proxy in expressing the cost of equity capital. This study is an attempt to resolve the conceptual and empirical controversy about the integration of financial and non-financial dimensions in determining the cost of equity capital. Operationally, this study aims to empirically examine: (1) the association of earnings persistence and ESG disclosure on the cost of equity capital, (2) the implications of the role of the investment opportunity set (IOS) which moderate the relationship between earnings persistence and ESG disclosure with cost. of equity capital.

The research population is all companies in the Southeast Asian region listed on the Indonesia Stock Exchange (IDX); Malaysia Stock Exchange; Singapore Exchange (SGX); The Stock Exchange of Thailand (SET); The Philippine Stock Exchange (PSE), Cambodia Stock Exchange (CSX), Laos Stock Exchange (LSX), Yangon Stock Exchange of Myanmar (YSE), and Hanoi Stock Exchange of Vietnam (HSE). The sample selection used purposive sampling technique based on certain criteria, namely having complete data. Based on these criteria a total of 735 observations were obtained consisting of 197 observations for Indonesia, 175 for Malaysia, 167 for Singapore, 108 for Thailand, and 88 for the Philippines. This study uses annual report data obtained by direct access from the company's official website on the exchange of each country. Meanwhile, the sustainability report is also obtained from the Global Reporting Initiative (GRI) Standard database which is accessed through Bloomberg. Testing for all hypotheses in this study using Quasi MRA.

The research findings show that the investment opportunity set (IOS) as a result of the factor scores results in a price-based, investment-based, or variance-based IOS that partially strengthens the IOS proxy. The dividend growth approach (DPR) is able to explain the greater cost of equity than the profit growth approach (PEG). The test results show that the cost of equity based on dividend growth (CoE_DPR) and based on profit growth (CoE_PEG) produces an interaction regression model that remains robust. Earnings persistence (EP_NOI) and IOS-price, IOS-investment and IOS-variance have a positive effect on dividend growth (CoE_DPR) and profit growth (CoE_PEG). On the other hand, ESG disclosure has a negative effect on dividend growth (CoE_DPR) and profit growth (CoE_PEG). The results of the interaction of IOS-price with earnings persistence (EP-NOI) are proven to weaken the cost of equity based on dividend growth (CoE_DPR), as well as IOS-investment and IOS-variance are proven to weaken the cost of equity based on profit growth (CoE_PEG). The results of the interaction of IOS-investment and IOS-variance with ESG disclosure are proven to strengthen CoE_DPR. The same result shows that the interaction of ESG disclosure with IOS-price and IOS-investment is able to strengthen CoE_PEG. This situation illustrates that corporations in Southeast Asia have the potential to generate future profits, but the disclosure of ESG has not fully adjusted to the 8 SDGs items that have been set by *the United Nations. The research implication is that the financial dimension of performance concept contributes more to the low cost of equity capital, although the non-financial dimension also has an important role. This condition has begun to be realized by corporations in the Southeast Asia region, as a demand for sustainability performance. The concept of sustainable value-added has a role in integrating so that accountability reporting has high content and quality*

Keywords: Earnings Persistence, ESG Disclosure, Investment Opportunity Set, Dividend Growth, Profit Growth