ESG performance and the Cost of Equity: Evidence from South-East Asia

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ABSTRACT

This study analyzes the effect of ESG (Environmental, Social, and Governance) performance ratings on the cost of equity in South-East Asia, both individually and in aggregate. The implied cost of equity (ICC) based on various models is used as a proxy of a true cost of equity. The ESG rating data are from Refinitiv. The panel regression is applied to relate ICC to ESG rating scores and relevant explanatory variables. This paper examines the following five South-East Asian markets: Indonesia, Malaysia, Singapore, Thailand, and the Philippines. We find that firms with better ESG ratings do not necessarily have lower cost of equity as the effects of each ESG component are not the same. Environmental rating (E) and Social rating (S) are not statistically significant in determining the cost of equity. Only Governance rating (G) has a statistically significant negative relationship. The implication is that a firm that aims to lower its cost of equity does not need to invest in all aspects of ESG but should focus more on improving its governance.

Keywords: Cost of equity, ESG, Sustainability, Corporate Social Responsibility (CSR), Corporate Governance (CG)