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Blockholder, Accounting Conservatism, Free Cash Flow, and The Cost Of Capital: What do We Know?

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Abstract

The usefulness of blockholders, accounting conservatism, and free cash flow on the cost of capital is a very important and controversial question. Companies in Indonesia still bear the highest cost of capital in ASEAN+3. This research aims to examine the influence of blockholders, accounting conservatism, and free cash flow on the cost of capital during the Covid-19 pandemic. A total of 68 food and beverage companies in 2020-2021 were used in this research. Data were analyzed using descriptive statistical analysis and panel data regression analysis using Eviews 12. The results showed that blockholders had a positive influence, accounting conservatism had a negative influence, and free cash flow had a positive influence on the cost of capital. The main conclusion from this research is that high accounting conservatism reduces the cost of capital and the size of the cost of capital in line with increasing the company's blockholders and free cash flow.

INTRODUCTION

Consumer non-cyclicals companies, especially those operating in food and beverage (F&B), are companies with customer demand that tends to be stable. This is because most of the products sold are necessities so that in whatever conditions, be it a pandemic or a recession, this company's products are still needed and prioritized to be fulfilled by customers. So many companies are engaged in F&B and competition is increasingly competitive. Even though they have a large market share, F&B companies tend to have characteristics, namely low selling prices, so that to record high profits the company must increase effectiveness, efficiency, and competitive advantage both in the value chain, smooth operations, finances and ensuring the company's going concern.

The company uses external funding to create competitive advantages and the company's going concern. The first external funding comes from debt, both bank debt and bonds. This funding has limitations, namely fixed costs in the form of interest, guarantee schemes, and financial ratio limits. This will burden the company, especially for companies that are not yet stable enough because they must bear interest which is fixed and tends to be high. Alternatively, the company also uses a second source of external funding, namely obtaining funds by issuing shares. Issuing shares is the best solution in dealing with the problem of funding needs and debt ratios (Pagano et al., 1998). However, issuing shares is also inseparable from costs, namely the rate of return on funds provided by external parties. In companies, this cost is the cost of capital. Meanwhile, investors indicate stock return expectations.

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The cost of capital is closely related to the level of return or profit required by investors (Khalifa et al., 2019). Investors really pay attention to the rate of return before investing because this is directly related to the risk borne by investors when the company goes bankrupt in the future. The level of return expectations by investors is also considered as one way to estimate company value (Tran, 2014). High return expectations indicate that investment risk is high and investor confidence in the company is low so that the company value is also assessed as low. It also emphasizes the importance of impression management and good governance (Santoso et al., 2023).

On the other hand, having share capital and investors will increase control over the company, especially company management. In Agency Theory this is known as an agency relationship (Jensen & Meckling, 1976). An agency relationship is a relationship between a principal (shareholder) and an agent (manager), where the shareholder delegates company management to the manager. Shareholders will provide certain incentives for the manager's performance. However, there are times when managers do not act in the interests of shareholders and act opportunistically so that information bias is very likely to occur. This causes information asymmetry and agency problems so that shareholders assess their investments as having high risks and demand higher returns (Cuadrado-Ballesteros et al., 2016).

If the company is unable to compensate for the risks borne by shareholders, investors' investment interest will decrease, the company will lack funds, and this will result in decreased performance and even bankruptcy. However, if the required return is too high, the company's cost of capital will be too large and it will be difficult for the company to develop. Asian Development Bank dan Korea Capital Market Institute (2014) stated that the cost of capital in Indonesia is the highest in ASEAN+3 with an average of 12.32 or 3 points greater than Malaysia which is in second place for the highest cost of capital in ASEAN+3. Schroders (2016) also found that investors in Indonesia wanted a return of 12%, much greater than the global return rate of only 9.1%. This indicates that investment in Indonesia tends to be risky so investors demand high returns.

Looking at the cost of capital in terms of dividend distribution. Some companies do not distribute dividends even though they have good performance. In 2021, PT Jasa Marga decided not to distribute dividends even though the company managed to achieve a net profit of IDR 1.62 trillion (Hidayat, 2022). Likewise, PT Bakri Brother also does not distribute dividends even though the company managed to achieve a net profit of more than IDR 98 billion (Putra, 2022). This raises suspicions, namely whether the company is really implemented with good corporate governance mechanisms or whether the company has indications of fraud and the resulting financial reports do not show the actual conditions.

The problems above encourage the urgency to learn more about the cost of capital and the factors that influence it, especially the cost of capital in Indonesia. F&B companies are very vulnerable to costs because product selling prices tend to be low so all costs must be made as efficient as possible, including the cost of capital, so that the company can record high profit margins and the company can grow.

Shareholders demand high returns because the company is considered to have high risks (Santoso & Setiawan, 2023), so it is mandated to implement Good Corporate Governance (GCG). Previous research regarding the implications of GCG on the cost of capital has been widely researched and succeeded in producing several determinants that are thought to influence the cost of capital from the GCG side, such as the board of commissioners, audit committee, directors, audit quality, constitutional ownership and blockholders (Masripah et al., 2021; Pangestika & Widiatmoko, 2021). Research on other determinants that influence the cost of capital such as earnings quality and intellectual capital disclosure has also been carried out and tends to produce the same results (Adesina, 2019; Ishtiaq et al., 2019; Pangestika & Widiatmoko, 2021; Raza et al., 2018; Salvi et al., 2020; Setiany & Suhardjanto, 2021; Sugiyanto & Febrianti, 2021). Most of these determinants have produced consistent research, but not blockholders. Several previous studies found that blockholders have a positive effect on the cost of capital (AlHares, 2020; Derbali &

Saleh, 2022; Murtaza & Azam, 2019). Which means that if there is a blockholder, the cost of capital tends to rise. On the other hand, research conducted by Arslan & Abidin (2019); Ellili (2020); Lutfiani & Hidayah (2022); dan Ramalingegowda et al. (2020) found that blockholders have a significant negative effect on the cost of capital. This can happen if minority shareholders also have the same protection for their investments.

However, in Indonesia protection for minority shareholders tends to be weak, which implies different results. Moreover, the characteristics of companies in Indonesia tend to be family companies, not companies that are truly owned by the public. So blockholders are very interesting and urgent to study further. This is mainly because the smaller the percentage of minority ownership, the greater the risk borne by minority investors.

Another factor that is thought to influence the cost of capital is accounting conservatism. Accounting conservatism is a principle of prudence in dealing with uncertainty that cannot be separated from the company's business activities, such as delays and recognition of certain transactions. In agency theory, conservation time is useful for reducing agency costs so that the financial reports produced are more accurate, high quality and accountable and do not mislead investors and creditors (Putri, 2017).

Research conducted by Mohammed (2022); Ramalingegowda & Yu (2021); dan Rashidi (2021) found that accounting conservatism has a negative effect on the cost of capital. Other research shows the opposite result, accounting conservatism affects the cost of capital (Karampinis & Lessis, 2021; Khalifa et al., 2019; Sugiyanto & Febrianti, 2021). So accounting conservatism is very interesting to study further.

Apart from the two factors above, free cash flow (FCF) is also one of the factors that is thought to influence the cost of capital. FCF is funds available for distribution to shareholders and creditors. The higher FCF indicates that shareholders and creditors will receive money either as dividends for shareholders or debt payments for creditors. In agency relationships, conflicts often occur, one of which is the agent acting not in accordance with the interests of shareholders (Jensen & Meckling, 1976). Through FCF, shareholders can see the company's performance to act in the interests of shareholders, namely getting high profits on the funds they invest.

Research conducted by Gupta et al. (2018) which is associated with social capital found that FCF has a positive effect on the cost of capital. In research Budiardi (2019) dan Komarudin & Affandi (2020) regarding agency found that FCF had a negative effect on agency costs. Agency costs are the costs of decreasing welfare experienced by the principal due to information asymmetry. Jensen & Meckling (1976) states that agency costs consist of monitoring costs, bonding costs, and residual costs. So, it can be concluded that agency costs have the same characteristics as equity costs. Other research finds that FCF has a positive effect on dividend policy (Heliani et al., 2022; Widyasti & Putri, 2021; Wulandari et al., 2019). Dividend policy has characteristics that are the opposite of the cost of capital, so it can be concluded that FCF has a negative effect. Other research on company performance found that FCF influences company performance (Desideria & Tanusdjaja, 2021). A high FCF means the company's performance will be good. In such a case the cost of capital will decrease.

This research fills the gap in previous literature by empirically testing the influence of blockholders, accounting conservatism, and free cash flow on the cost of capital in F&B companies in Indonesia. Although there are quite a lot of studies on manufacturing companies, there are still few that focus on F&B companies, so this study will provide a unique contribution to the literature on the cost of capital. These findings will provide practical implications for corporate governance and corporate financial management.

LITERATURE REVIEW

Agency Theory

Jensen & Meckling (1976) became the main basis for understanding Agency Theory, highlighting the complex relationship between company owners and managers. They assert that more general market theories cannot fully explain the behavior of managers and internal conflicts in firms, which are essential for maximizing profits. The main concept in Agency Theory is the agency relationship, where the company owner (principal) delegates authority to the manager (agent) to run the company's operations, but this often causes conflict because the agent has interests that may not be aligned with the principal, such as obtaining higher personal incentives.

Agency conflicts can be divided into two categories: moral hazard and adverse selection (Jensen & Meckling, 1976). Moral hazard occurs when the principal cannot control the agent's actions, while adverse selection arises due to information asymmetry between the principal and the agent. This information asymmetry is a significant problem because shareholders cannot always directly monitor managers' performance, which allows managers to act not in accordance with the principal's interests (Mitchell & Meacheam, 2011). Therefore, control mechanisms become important and also incur agency costs, including incentive costs, monitoring, and residual losses, which companies need to manage in accordance with their policies and internal control mechanisms to minimize such conflicts and costs.

Hypothesis Development

Blockholder and Cost of Capital

Shareholders and managers often experience conflicts of interest due to managers' tendency to behave opportunistically and self-interestedly. This is usually overcome by providing a few incentives to managers to carry out their duties in line with the wishes of shareholders and maximize shareholder profits. This will indirectly give greater rights and opportunities to shareholders with large ownership to direct managers to suit their wishes and interests and this can reduce agency costs and information asymmetry. Arslan & Abidin (2019) in his study in Pakistan with strict regulations on corporate governance found that blockholders had a negative effect on the cost of capital. Several similar studies support the results of this research that blockholders have a negative influence on the cost of capital (AlHares, 2020; Ellili, 2020; Ramalingegowda et al., 2020). Meanwhile, Lutfiani & Hidayah (2022) found that blockholders do not have a significant influence on the cost of capital. Conditions in Indonesia are different. Even though good corporate governance regulations in Indonesia have been in place for a long time, there are still many weaknesses in their implementation. In terms of investment, minority shareholders do not get sufficient legal protection. This allows minority shareholders to face much higher investment risks. The existence of blockholders can worsen this condition because they control managers and have high control over all decisions made by managers. Ultimately, minority shareholders will demand a high cost of capital as insurance for the risks they assume.

H1. Blockholders have a positive effect on the cost of capital.

Accounting Conservatism and Cost of Capital

Investors not only pay attention to how management manages the company, but investors also analyze the information provided by managers through financial reports. Moreover, the accounting regulations in force in Indonesia give companies the freedom to determine their own accounting policies. This raises the potential that the information in financial reports may be inconsistent and managers can change the actual information so that the resulting report is the result of modifications. Therefore, accounting conservatism is very important in financial reports because it can reduce the risk of information asymmetry and errors in natural decision making by shareholders. Shareholders are the owners and parties who bear the greatest risk than managers.

Therefore, it is important to ensure that the information or financial reports received are appropriate information to be used as a basis for decision making. What managers can do and are required to do is to practice accounting conservatism. So, since the more a company practices high accounting conservatism, the more information asymmetry it will reduce. Reduced information asymmetry will make shareholders bear lower risks. So shareholders will demand smaller expected returns and this will cause the cost of the company's equity to be borne will also be smaller. Mohammed (2022) found that accounting conservatism reduces the cost of capital. This result is supported by previous literature which found a negative relationship between accounting conservatism and cost of capital (Ramalingegowda & Yu, 2021; Rashidi, 2021). Another study found the opposite, that accounting conservatism increases the cost of capital (Karampinis & Lessis, 2021; Khalifa et al., 2019; Sugiyanto & Febrianti, 2021).
H2. Accounting conservatism have a negative effect on the cost of capital.

Free Cash Flow and Cost of Capital

One of the indicators of company performance is shown by how much the company can create value for shareholders. This can be seen from free cash flow (FCF). The number of dividends that shareholders will receive depends on how much the company generates FCF. Meanwhile, the increase in share prices was caused by shareholder confidence in the company's performance. FCF is funds available to be distributed to investors, both shareholders and debt holders. The greater the FCF, the greater the share of returns that shareholders will receive through dividends. On the other hand, when a company declares dividends and distributes dividends, the company's share price will rise. In this case, shareholders will get two benefits, namely dividends and increased share prices. This indicates that the greater the FCF, the risk of loss borne by shareholders will decrease so that the company's cost of capital will also be lower. Budiardi (2019) and Komarudin & Affandi (2020) found that FCF has a negative relationship with cost of capital. Other research finds that FCF has a positive effect on the cost of capital (Heliani et al., 2022; Wulandari et al., 2019). The higher the FCF, the company will distribute dividends and thus shareholders will judge the company to have good performance so that the company's cost of capital is lower.
H3. Free cash flow have a positive effect on the cost of capital.

METHODS

This research is research with a quantitative approach. The research data is secondary data obtained from the Annual Report of F&B companies listed on the Indonesia Stock Exchange (BEI) during 2020-2021. This year was studied because during this period Indonesia faced the Covid-19 pandemic which had major implications for the operations of F&B companies, so the results of this study will provide a unique contribution to the study of the cost of capital in Indonesia. Sample selection was based on purposive sampling by considering positive equity values, majority blockholders with ownership above 20%. Based on the final sample of 132 analysis units. The data used is panel data and analyzed using Eviews 12.

Table 1. Variable Measurement

Variable	Measurement	Data Source
Cost of Capital (COC)	$= (\frac{Earning\ per\ Share}{Stock\ Price}) - Earning\ to\ Price\ Industry$ (Solikhah & Jariyah, 2020)	Annual Report
Blockholder (BLOCK)	$= \frac{Blockholder}{Number\ of\ shares\ outstanding}\ x\ 100\%$ (Tran, 2014)	Annual Report
Accounting Conservatism (CONSER)	$= \frac{NI + D - CFO}{TA}\ x\ (-1)$ NI: profit before extraordinary items D: depreciation expense CFO: cash flow from operating activities TA: total assets (Xie et al., 2012)	Annual Report
Free Cash Flow (FCF)	$= \frac{(\frac{\text{NOPAT} - \text{NIOC}}{share})}{Market\ Price\ per\ Share}$ NOPAT: net operating profit after tax NIOC: net investment in operating capital (Daves & Brigham, 2019)	Annual Report

This research empirically tests the influence of blockholders, accounting conservatism, and free cash flow on the cost of capital. Variable measurements can be seen in Table 1. The regression model in this study is as follows.

COC = α + β1BLOCK - β2CONSER + β3FCF + e

RESULTS AND DISCUSSION

Results

The results of the descriptive statistical analysis can be seen in Table 1. Cost of capital is the dependent variable and is measured by the industry-adjusted earnings-to-price ratio. The average cost of capital (COC) borne by F&B companies in Indonesia in 2020 and 2021 is 0.0343 with a minimum value of -0.8268 and a maximum value of 0.8219. This value shows that F&B companies bear an equity cost of 3.43% of the share price. BLOCK has an average value of 0.6437 with a minimum value of 0.2055 and a maximum value of 0.9500. CONSER has an average value of 0.0009 with a minimum value of -0.6592 and a maximum value of 1.6638. FCF has an average value of 0.0143 with a minimum value of -0.8000 and a maximum value of 0.8678.

Table 2. Descriptive Statistics

	N	Mean	Maximum	Minimum	Std. Dev.
COC	132	0.0343	0.8219	-0.8268	0.2056
BLOCK	132	0.6437	0.9500	0.2055	0.1924
CONSER	132	0.0009	1.6638	-0.6592	0.1851
FCF	132	0.0143	0.8678	-0.8000	0.1821

This research estimates the best model to be used further for hypothesis testing. Based on the Chow test, Hausman test, and LM test, the best model was obtained between the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) which are displayed in Table 3. Table 3 shows the regression results using Eviews 12 1, 2, and 3 are the separate regression results of each independent variable (blockholder (BLOCK), accounting conservatism (CONSER), and free cash flow (FCF)) on the cost of capital (COC). This analysis aims to determine the separate influence of each variable without the contribution of other independent variables. Then Panel 4 is the full model used to test the hypothesis of the influence of BLOCK, CONSER, and FCF on COC.

Based on Table 3, separate tests in Panels 1, 2, and 3 show that CONSER has a negative effect on COC and FCF has a positive effect on COC, while BLOCK has no effect on COC. Panel 4 shows that blockholders have a positive and significant effect at the 5% significance level, so that H1 which states that blockholders have a positive effect on the cost of capital is accepted. Accounting conservatism shows a significant level below 1%, so H2 which states that accounting conservatism has a negative effect on the cost of capital is accepted. Free cash flow shows a significant influence at the 1% level, so H3 which states that FCF has a positive effect on the cost of capital is accepted. The adjusted R2 value shows 0.7628, which shows that the independent variables in this study consisting of BLOCK, CONSER, and FCF can explain 76.28% of COC, while the remaining 23.72% is explained by other variables not examined in this study. Prob value. (F-Statistics) of 0.0000 which indicates that blockholder, accounting conservatism, and free cash flow together have a significant effect on the cost of capital.

Table 3. Regression Results

MODEL	1	2	3	4
	REM	REM	REM	FEM
BLOCK	0.0664			0.3943**
	(0.6105)			(2.0210)
CONSER		-0.2487***		-0.3851***
		(-3.3042)		(-4.4848)
FCF			0.2861***	0.4919***
			(3.7390)	(5.3955)
Adj. R2	-0.0049	0.0662	0.0881	0.7628
Prob (F-Statistics)	0.5472	0.0017	0.0003	0.0000
Observation	132	132	132	132
Notes: t statistics in parentheses; *p < 0.1, **p < 0.05, ***p < 0.01				

This study also conducted a Robustness Test to test the durability of the results of this research. The Robustness Test is carried out in two ways, namely: (1) adding the firm size variable; (2) industry adjusted cost of capital variable. Firm size has different implications for the company because different company sizes show differences in terms of the complexity of the organizational structure and resources owned by the company so that it can influence the company's cost of capital. This study also tests the robustness of the research results by changing the cost of capital measurement, namely a score of "1" for companies that have a cost of capital above the industry average and a score of "0" for companies that have a cost of capital below the industry average and analyzed using Logit Regression. This test aims to test whether blockholder, accounting conservatism, and free cash flow are related to a company's higher cost of capital compared to other companies in the same industry. Based on the robustness test in Table 4, it shows that in

Panel 2 BLOCK has no effect on the cost of capital, while the other variables and tests show consistent results with the main model so it can be concluded that the results of this research are robust.

Table 4. Robustness Test

MODEL	1	2
	FEM	Logit
BLOCK	0.3912**	0.6528
	(1.9989)	(0.6323)
CONSER	-0.4241***	-7.2306***
	(-4.2893)	(-2.7851)
FCF	0.4796***	4.2437***
	(5.1747)	(2.7872)
FS	-0.0551	0.4303***
	(-0.8032)	(3.4521)
Adj. R2 (McFadden R2)	0.7614	0.1865
Prob (F / LR statistic)	0.0000	0.0000
Observation	132	132

DISCUSSION

The Effect of Blockholders on the Cost of Capital

Agency theory explains that shareholders (principals) and managers (agents) often experience conflict. This conflict occurs because managers tend to be opportunistic and self-interested, so they do not carry out their duties in accordance with the interests of shareholders. Through blockholders or majority share ownership, shareholders can have more rights and opportunities to direct managers to act in accordance with their interests. So, the presence of blockholders will reduce information asymmetry because shareholder access is much greater and shareholder trust will increase. In this way, blockholders can reduce the cost of capital borne by the company.

As many as 52% of F&B companies in Indonesia have above average blockholders. This cannot be denied because of the characteristics of companies in Indonesia which are family businesses, so the company founders try to become blockholders to maintain the family business and company management rights. Although blockholders have a negative impact on minority shareholders and place shareholders at higher investment risks, legal protection is not good enough for minority shareholders in Indonesia. So, shareholders demand higher expected returns when blockholders are too high, because majority shareholders have greater control and are feared to be detrimental to other shareholders, especially minority shareholders.

Previous research also found this, Arslan & Abidin (2019) found that institutional ownership, government ownership, and director ownership have a positive effect on the cost of capital but become negative when blockholders. Other research also finds that blockholders have a negative influence on the cost of capital (AlHares, 2020; Ellili, 2020; Ramalingegowda et al., 2020). Meanwhile, Lutfiani & Hidayah (2022) found that blockholders have no significant effect on the cost of capital. In the situation in Indonesia where protection for minority shareholders is still weak, the existence of blockholders has different implications where they respond to this as a risk, thereby leading to higher returns.

The Effect of Accounting Conservatism on the Cost of Capital

Agency theory explains that managers as agents should act in the interests of shareholders and optimize shareholder welfare. However, shareholders as principals cannot fully trust managers because there is a tendency for managers to only try to maximize their personal profits. Therefore, agency problems occur, one of which is adverse selection. Conditions where information cannot be distributed evenly between managers and shareholders. Implementing accounting conservatism will provide benefits for shareholders. This is because financial reports formed from the practice of accounting conservatism will better present the condition of the company so that shareholders will avoid errors in decision making. This practice can reduce investment risk by shareholders so that shareholders ultimately demand lower return expectations. This has an impact on the cost of capital borne by the company becoming smaller. The findings of this research answer agency theory.

Based on the results of the analysis, it shows that accounting conservatism has a negative and significant influence on the cost of capital. These results are in line with several previous studies. Khalifa et al. (2019); Mohammed (2022); Ramalingegowda & Yu (2021); dan Rashidi (2021) who also found that accounting conservatism has a negative and significant influence on the cost of capital. The results of this research indicate that companies can apply the principle of accounting conservatism to reduce the cost of capital so that funds obtained from investors and company profits can be used for project investment and business development so as to increase company value. The results of the analysis prove that most F&B companies in Indonesia are still low in practicing the principles of accounting conservatism. Therefore, most F&B companies in Indonesia have large costs of equity.

The Effect of Free Cash Flow on the Cost of Capital

Agency theory explains that managers should maximize shareholder welfare. Although sometimes managers do not act in the interests of shareholders. Shareholders get information from financial reports published by the company. Through these financial reports, shareholders can see how well the company's financial performance is. The success of managers in making shareholders prosperous is not only through increasing company value but also through large free cash flow values. Large free cash flow shows that after the company has made additional capital investment to develop the business, the company still has funds that can be distributed to shareholders, one of which is through dividends. The amount of free cash flow indicates that the company has a high level of return on investment so that shareholders are more confident that the company's performance is good and there are no going concern problems. Thus, shareholders demand their rights such as dividend distribution so that shareholders get benefits from their investment in the company.

The research results prove that the results are in line with several previous studies (Heliani et al., 2022; Wulandari et al., 2019). However, this is inversely proportional to several other studies such as Budiardi (2019) who found that large free cash flow reduces agency costs so that the cost of capital also decreases. Komarudin & Affandi (2020) also found the same thing that free cash flow had a negative effect on agency costs. Companies that distribute dividends indicate that they have large free cash flow. Although not all companies with large free cash flow distribute dividends and use the funds to invest in new company projects. However, in the future this can increase free cash flow to a much greater extent and increase company value. In this case, shareholders respond by asking for their rights such as dividends and other benefits.

CONCLUSION

This research examines the influence of blockholders, accounting conservatism, and free cash flow on the cost of capital. The results of this research succeeded in proving that blockholders, accounting conservatism, and free cash flow have a significant influence on the cost of capital. The findings show that under conditions of regulatory protection for minority shareholders, such as in Indonesia, which are still weak, shareholders respond to the presence of blockholders as a risk and demand higher returns so that the cost of capital tends to increase along with the increase in blockholders. Accounting conservatism carried out by the company received a positive assessment from shareholders. Shareholders believe that this can reduce the risk of information received by shareholders so that the company's cost of capital tends to be lower. Lastly, a company's high free cash flow increases the company's cost of capital because shareholders demand their rights to dividends from the company.

This research has several implications. First, companies should carry out accounting conservatism wisely so that they can reduce the company's cost of capital. Second, the government is expected to be better at implementing protection policies for minority shareholders so that they do not hesitate to invest and thus can improve a good climate for investment in Indonesia. Third, the results of this study underline the importance of synergy between company and regulatory policies in reducing the cost of capital for companies in Indonesia. Although this research has contributed to the literature on the cost of capital, this study still has limitations. First, this research has filled the gap in literature on F&B companies in Indonesia. However, because the sample is only from F&B companies in Indonesia, this reduces the generalizability of research results to other sectors and countries. Future studies are expected to consider F&B companies in Southeast Asia and the world, where varying regulatory characteristics may provide different implications and findings. Second, this research was set during a pandemic where worry was everywhere. In this case, shareholders have different assessments regarding their risks and return expectations so that this study provides a unique contribution to the existing literature. However, these results may mask shareholder behavior under normal conditions. Future research can add other variables such as characteristics of company leaders, education, experience, voluntary disclosure, and national governance.

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