INTRODUCTION

In recent decades, business executives of many of the largest companies have allocated considerable amounts of time and resources to CSR strategies, as well as an increasing number of academics studying CSR (European Commission, 2001).

Despite all this attention, the answer to the fundamental question of whether CSR leads to value creation for the business firm is still remains inconclusive.

Ye and Zhang (2011) opine that since operating risk is a primary driver of debt capital cost, reducing business risk will lead to lower cost of debt.

INTRODUCTION

Improved social performance → reduce business risk

Superior CSR performance → better stakeholder engagement, limiting the likelihood of short-term opportunistic behavior (Benabou and Tirole, 2010; Eccles et al., 2012), which results in reducing overall contracting costs (Jones, 2005).

PROBLEM STATEMENT

- ■ **The popularity and benefit of CSR has heightened the need for more research throughout the developing countries.**

- ■ **Managers and decision makers need to understand whether lenders reward CSR disclosures in developing countries.**

- ■ **Research aimed at identifying the relationships between CSR and CDF has provided a conflicting result**

- ■ **Most of these findings were derived from the evidence in developed countries**

- ■ **Research on the effect of CSR on CDF is in Ghana is scanty**

PROBLEM STATEMENT

Majority of the studies on the relationship between CSR and cost of debt use data from the public bond markets such as credit ratings to measure the cost of debt (Menz, 2010, Chang and Shen, 2014)

Goss and Roberts (2009), in studying the impact of CSR on their cost of debt from a developed country setting

Magnanelli and Izzo (2017) investigate the link between corporate social performance and cost of debt financing in Italy, using a sample from 332 firms over five years antecedent to the global financial crisis

GAP: This study fills these knowledge by assessing the relationship between CSR and CDF within the context of Ghana, which to our knowledge is the first article that explores the relationship between CDF and an aggregate measure of CSR.

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RATIONALE OF THE STUDY

This article fills the gap in the empirical literature on the relationship between CSR and the cost of debt, extending the traditional research on CSR beyond the focus on cost of equity or performance.

We conduct the relationship between CSR and CDF within the context of Ghana, which to our knowledge is the first article that explores the relationship between CDF and an aggregate measure of CSR.

Managers need to understand the effect of CSR activities on a firm's financing costs, with relevant implications for strategic planning.

STUDY OBJECTIVES

Drawing on risk mitigation theory, this article aims to examine the link between corporate social responsibility disclosure and cost of debt financing.

In particular, this paper seeks to determine whether firms with higher CSR disclosure scores have a lower cost of debt financing.

LITERATURE REVIEW

According to finance theory, **financial performance and risk** are closely related and are key considerations of any investor.

There is a trade-off between **expected return and risk**, which would suggest that lower firm risk should have a beneficial effect on its cost of raising finance.

The key benefits of CSR are its **risk-reducing and information asymmetry reducing effects** which theoretically have a negative effect on the cost of debt (Magnanelli and Izzo, 2017).

LITERATURE REVIEW

Goss and Roberts (2011) studied the impact of corporate social responsibility on the cost of bank loans. Using a sample of 3996 loans to **US firms**, their result indicates that firms with less social responsibility concerns pay between 7 and 18 basis points more than more responsible firms.

Magnanelli and Izzo (2017) on the other hand document a positive relation between CSR performance and cost of debt, indicating that CSR is not considered as a value driver by bank lenders but rather as a sort of a waste of resources.

Ye and Zhang (2011) study the effects of CSR on the cost of debt from the risk mitigation viewpoint with a focus on the **corporate philanthropy** aspect of CSR. Ye and Zhang hypothesize that enhanced CSR performance reduces firm risk by creating **positive ethical capital** among shareholders and by reducing the firm's vulnerability to unfavourable circumstances. Because firm risk is a dominant determinant of debt capital cost, a decline in corporate risk leads to reduced cost of debt (Ye and Zhang, 2011).

RESEARCH METHODOLOGY

The authors employed a multi-method approach in the current study. Data concerning firms cost of debt and corporate social disclosure were gathered from 2006 to 2019 of eighteen listed companies on the Ghana Stock Exchange.

Design = Causal

IV = CSR: This article used a dichotomous approach for calculating the CSR index.

Following Francis et al. (2005) the dependent variable = cost of debt, measured by the ratio of interest expenses to the interest-bearing debt outstanding during year t.

DV= Interest expenses on debt include = all the service charges for the use of capital before the reduction for capitalized interest

RESEARCH METHODOLOGY

$$\gamma it = \alpha i + \beta 1 X1it\text{-}1 + \beta 2 X2it + \mu it \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \quad (1)$$

where: γit = company *i* cost of debt in year *t*, αi = the intercept on the cost of debt axis, X1it-1 = CSR for company *i* in year *t-1*, X2it = Control variable for company *i* in year *t*, $\beta 1$ and $\beta 2$ are the coefficients of CSR and the control variables, and μit is the error term.

Model 2 depicts that cost of debt is a function of leverage, sales growth, industry type, short term profitability and size:

$$CDF_{it} = \beta_0 + \beta_1 CSR_{it\text{-}1} + \beta_2 LEV_{it} + \beta_3 SALESGTH_{it} + \beta_4 IND_{it} + \beta_5 STPROF_{it} + \beta_6 SIZE_{it} + E_{it} \text{--- (2)}$$

RESEARCH METHODOLOGY

Where;

CDF = the ratio of interest expenses to financial debt of the firms;

CSR = a measure of CSR disclosure across selected firms;

LEV = ratio of total liabilities to total assets and liabilities;

SALESGTH = Annual sales growth is measured by the percentage of sales growth from year *n−1* to year *n*.

IND = industry type represents a dummy variable of 1 if the industry is manufacturing otherwise 0

STPROF = short term profitability;

SIZE = firm size as log of total assets of the selected banks over the time period of the study

E_{it} = a white noise process.

ANALYSIS OF RESULTS

Multicollinearity mean --VIF < 5%

Heteroskedascity-Breusch–Pagan Lagrange multiplier test p <5 %

Hausman specification test (p = 0.2607)-- Random effect is preferred

ANALYSIS OF RESULTS

CDF	Model 1 Coef	p > |z|	Model 2 Coef	p > |z|	Model 3 Coef	p > |z|
CSR	0.2102353	0.076	-0.0144925	0.478	0.3820476	0.061
SALESGW	-4.14E-07	0.024	-1.30E-07	0.000	0.001597	0.304
SIZE	-0.0201055	0.009	-0.0088027	0.101	-0.0341308	0.044
STPROFIT	-0.0003986	0.001	-0.0000913	0.020	-0.0124993	0.366
LEV	-1.94E-06	0.005	-0.0266011	0.000	-3.88E-07	0.777
con	0.0533077	0.558	0.128753	0.021	0.114437	0.495
IND		YES				
No of groups	18		8		10	
No of obs.	248		111		137	
Wald χ2(6)	3347.55		386.49			
Prob >χ2	0.000		0.000		0.000	

MAJOR OUTCOMES

Surprisingly, the result shows a positive and statistically significant relationship between the CSR disclosure score and CDF,

SALESGW and STPROFIT have an inverse significant relationship with CDF

An inverse relationship between the cost of debt and the leverage of a firm

A negative and significant relation (p = 0.009) is found between the dependent variable and the size of the firm,

MAJOR OUTCOMES

Variable	Oil and gas (GHS)	Manufacturing (GHS)	Food and beverages (GHS)
Short term debt	1,067,141,705.67	3,436,795,438.83	10,709,861.05
Long term debt	1,717,492,625.14	457,973,348.48	21,498,422.21
Interest expense	59,273,225.16	9,544,292.03	793,227.79
Total debt	2,784,634,330.81	3,894,768,787.31	32,208,283.26
CSR disclosure	0.715821	0.624037714	0.64085

Although the manufacturing sector has the highest total debt, the oil and gas industry recorded the highest interest expense, indicating that lenders perceive the oil and gas industry as a highly risky venture. From the risk-mitigating theory, oil and gas should have recorded the lowest cost of debt as it has the highest CSR disclosure. Firm characteristics can influence the relationship between CSR and both firm cost of debt and debt maturity

CONCLUSION AND POLICY IMPLICATIONS

This paper examines the relation between CSR disclosure and the cost of debt financing

The disclosure scores are collected from the annual reports and sustainability reports from the company's website. This research argued that CSR disclosure reduces information asymmetry (Dhaliwal et al., 2011; Bose et al., 2017) and improves companies' reputation and image (Krasodomska and Cho, 2017).

Outcome = CSR does not play an essential role in the cost of debt's definition, in contrast with our expectation that high CSR scores are inversely related to cost of debt.

Thus, we document a positive correlation between the cost of debt and CSR. These results suggest that lenders do not attribute to CSR practices an important role in reducing the operating risk facing by the firms.

CONCLUSION AND POLICY IMPLICATIONS

Managers should consider that the lack or the misleading communication on CSR actions could lead to a failure of CSR potential benefits to the firm itself, affecting, among all the other mentioned aspects, the cost of debt financing.

The introduction of regulations and laws regarding CSR by policymakers needs to be developed to enhance uniformity in reporting.

Laws requiring transparency in the environmental, social, and corporate governance policies in Ghanaian firms should be enacted to improve upon social reporting.

An increasing number of Ghanaian managers regard CSR activities as costs containing their progress instead of opportunities.

Credit providers should pay more appropriate attention to CSR activities of companies and reward them appropriately.

Business managers, and lenders who should be more aware of the impact of CSR and the cost of debt financing.

CONCLUSION AND POLICY IMPLICATIONS

Managers of high-risk industries such as oil and gas can use CSR as a strategic tool to appear more reliable in the long run and pay less interest on debt as CSR continue to gain awareness in Ghana.

In the short run, CSR no longer plays the beneficial roles it generally plays in areas where CSR is well developed and understood, and lenders tend to disregard CSR by focusing exclusively on financial performance.

The main implication this study is believed to have is to contribute with a factor to a more comprehensive CSR-CDF model. The results can be used to further investigate the likelihood of developing a model with different CSR factors according to their actual effects.