CORPORATE SOCIAL RESPONSIBILITY, BOARD INDEPENDENCE, STATE OWNERSHIP AND COST OF DEBT IN VIETNAMESE FIRMS

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ABSTRACT

One of the criteria that firms consider when making financial decisions is the cost of debt. This research explored the relationship between Corporate Social Responsibility, Board Independence, State Ownership, and Debt Cost in Vietnam's Developing Countries. We use quantitative methods of linear regression to find out the relationship with a sample of 82 energy firms from 2007 to 2016. The findings show that there is a negative association between CSR, board independence, and state ownership on the cost of debt in Vietnamese energy firms. This study supports the policy implications for listed firms, investors, and creditors by improving corporate image and the effective cost of debt.

JEL Classification: M40, M41.

Keywords: Cost of Debt, Corporate Social Responsibility, Board Independence, State Ownership.

INTRODUCTION

Moreover, the issue related to the cost of debt is one of the criteria, which firms consider to making financial decisions. Firms tend to invest more in financial capital when the cost of debt is low. Therefore, determining the factors that affect the cost of debt in order to reduce the cost of debt is a topic significant. As a result, firms can improve their competitiveness in the market, increase profits and enhance operational performance. However, the cost of debt is constantly changing due to the impact of many factors internal and external their business and especially one factor that this study is talking about is the impact of social responsibility disclosure. Many theoretical and empirical studies have considered the social responsibility factor of the business to its cost of debt.

The activities related to corporate social responsibility has attracted many researchers since the early 20th century because nowadays investors want to know not only financial information but also non-financial information. On environmental and social aspects, society becomes an equally important factor in the cost of capital in listed companies. Investors believe that social, environmental and governmental issues can affect their investment risk. Prior researches around the world show that the implementation of CSR can bring benefits to businesses and society, simultaneously aiming to improve reputation, and reduce asymmetric

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information. Therefore, when firms implement the CSR, this not only brings benefits to their firms but also help to increase the belief of customer in order to use the company's products and services. Besides, it helps investors avoid losing in case they invest in their firms. With firms, CSR can help their firms enhance some business operations and reduce associated risks.

Previous studies were mainly focused on developed countries and there are different conclusions for each country and region. Studies related to the cost of debt is pretty rare in the developing market, Thus, researches related topics on CSR and the cost of debt are mentioned quite a few in Vietnam market. Besides, most of the new researches in Vietnam focus on analyzing individual factors such as state ownership or firm size that affect the cost of debt of a firm without considering the social responsibility problem. Hardy studies examine the impact of customers, directors, partners, and competitors on corporate social responsibility disclosure, but it is very little mention of the cost of debt and corporate social responsibility. Almost there is no research that has been fully researched on the effects of CSR, especially using the data of firms listed in the Vietnamese market. Besides, State ownership in Vietnam should be considered because it is influenced by institutional factors and the political situation of Vietnam, which is a socialist country. Some research was conduct in China market according Liu et al. (2018), thus, in this study, we exanimate this variable whether it can affect to the cost of debt. Board independence also a factor that can influence the cost of debt according to Bradley and Chen (2015). We consider in the Vietnam market whether board independence and cost of debt correlate. Goss & Roberts (2011) provides evidence that CSR has more reliable signals towards investors or in other words CSR reduces the cost of debt. These findings are also consistent with studies by Demiroglu & James (2010) and Attig et al. (2013). By research Demiroglu & James (2010), people find that CSR associated with fewer debt covenants leads to lower cost of debt. Furthermore, Attig et al. (2013) present that firms joining CSR had higher credit ratings, resulting in a lower cost of debt. Therefore, the research team carried out the topic *"Corporate social responsibility, board independence, state ownership and cost of debt in Vietnamese energy firms"*.

The study aims to evaluate the impact of these factors on firms to provide evidence of the relationship between CSR and the cost of debt. In order to make practical recommendations and implication for Vietnamese listed firms to the users, and the government.

We structure the research into five parts: in the next section, the research presents CSR activities and CSR institutions in Vietnam; section three talks about the literature review and hypothesis development; in the fourth section, the data and methodology will be presented; at the ends of study, we show the result and conclusion.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Corporate Social Responsibility and Cost of Debt

According to Parsons (1960) and Suchman (1995), the legitimacy theory points out any company exists in an environment, it is the reason why the company itself must meet the standards of that environment to survive. It means that an organization's performance must conform to the values or social norms in which the organization operates especially moral

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legitimacy (Fernando and Lawrence, 2014). Failure to meet social expectations and expectations can lead to a shutdown because of withdrawing the license, and that affects to firms in the long-term survival (Deegan, 2002)). Therefore, firms consider CSR to play an important role in their firms to adapt to society's needs as well as to develop more in the future.

In addition, based on agency theory and signal theory, flowing Scott, (2015) research points out between management and shareholder always exist information asymmetries. Furthermore, third-party also based on a symptom or signals to guess the risk of performance activity. The more reputation firms disclose corporate social responsibility reports the more belief was reinforced by users. So, when reputation firms spend money to improve CSR programs to give beneficial signals to investors, it also means that firms have a good financial balance. Furthermore, Attig et al. (2013) show that firms with higher levels of CSR activities often has a high credit rating. Likewise, firms with high credit ratings are more likely to have lower costs of debt due to increased confidence in their operations (Goss & Roberts, 2011). Firms consider CSR activities as a form of insurance to their reputation, to promote a better corporate image (Liang and Renneboog, 2018). According to Goss and Roberts, (2011); Magnanelli and Izzo, (2017) banks tend to review CSR report when they check the entity's loan application, these study had shown that diversified CSR activities lead to significantly reduce debt costs. Similarly, Firms pursue CSR policy to help reduce their financing costs (Dhaliwal et al., 2014; El-Ghoul et al., 2018). Moreover, the study of Cooper and Uzun (2015) shows that companies that lack an understanding of CSR as well as without policies related to environmental and social protection can face higher costs of debt because of reducing the bank's confidence in firms. Thus, this study shows a hypothesis below to consider the relationship between CSR and the cost of debt.

Hypothesis 1: CSR has a negative impact on cost of debt

Board Independence and Cost of Debt

When credit conditions are high or leverage is low, the board's independence lowers the cost of debt according to the study (Bradley and Chen, 2015). This study points out another view that when boards are more independent, there is a lot of conflict between director and management according to asymmetric information theory (Jensen, 1993; Mace, 1986; Bradley, and Chen, 2015). However, most prior researches Bhojraj and Sengupta, (2003); Anderson et al. (2003); Piot and Piera, (2007); Ertugrul and Hegde (2008) show the negative relationship between board independence and the cost of debt. Because creditors believe that when boards are more independent will lead to having a monitoring committee for the firm's activities. This is consistent with the study Sengupta, (1998); Mazumdar and Sengupta (2005) board independence increases knowledge transparency and long-term profitability. In consequence, firms ensure transparency of accounting data and transparency in information disclosure, which also helps creditors to reduce significantly some financial risks. Thus, for the reasons mentioned above, this study presents a hypothesis on the relation between board independence and the cost of debt.

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Hypothesis 2: When board independence increases, this can help the cost of debt reduction.

State Ownership and Cost of Debt

Empirical research implement in the Spanish market according to research by de Andre´s Alonso et al. (2005) shows that banks that have state-owned shareholders in which bank generally have lower bank debt ratios because they can indirectly count them into state guarantees. Research in the European market by Borisova (2006) investigates that when the proportion of government ownership decreases, the cost of debt tends to increase. The study of Sánchez-Ballesta & Garcia-Meca (2011) considers whether the ownership structure includes the board of directors, managers, shareholders, investors, and government ownership that impacts the cost of debt. The result shows that firms having government ownership often manage firms' financial situation effectively by monitoring and that is the reason why the cost of debt is lower.

According to Lin et al. (2015), Liu and Huang (2018), these researches look into the relationship between bank competition and the cost of debt. There is a negative impact on the cost of debt from bank competition, but this effect is amplified by state ownership. The reason for this argument is firms that have a high rate of state ownership can be more limited the bank loan because the government wants to ensure these firms can not meet bankruptcy. The more proportion of state ownership the fewer bank loans can be accepted by a bank. The study of Borisova and Megginson, 2011 presents the reason why the government does not allow state-owned enterprises to go bankrupt. These enterprises are often associated with non-financial goals and the government assigns some tasks such as providing public services for the country and the society, or specifically, some services that cannot be provided by a private enterprise.

Following Ge and Qiu (2007), Private Banks could be more willing to lend to state ownership enterprises than to non-state ownership enterprises. Because there is a relationship between benefit and politics. Banks want to strengthen their political ties with governments by offering more credit terms to state ownership enterprises, which helps them land lucrative contracts. Thus, so that is the reason why state ownership enterprises have less cost of debt. This study pose hypothesis following:

Hypothesis 3: Firms with high proposition state ownership can reduce the cost of debt.

RESEARCH METHODOLOGY

We use the model at the below to test the hypotheses that we have established:

$$COD_{it} = \beta_0 + \beta_1 CSR_{it-1} + \beta_2 Boardindependence_{it} + \beta_3 Stateownership_{it} + \beta_4 PPE_{it} + \beta_5 Leverage_{it} + \beta_6 Firmsize_{it} + \varepsilon_{it}$$

Where: COD: The dependent variables cost of debt of firm (i) at the time (t). It is calculated as interest expense divided by the average long-term and short-term debt during the year (Lorca et al., 2011; Bacha et al., 2020).

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CSR: Corporate social responsibility of firm (i) at the time (t).

According to Gray et al. (1995), Scholtens (2009), and Jizi et al. (2014), there are four categories: community involvement, environment, employees, social products and services quality. We look at each energy company's annual report and grant a 1 if they fall into one of the groups and a 0 if they don't.

Boardindependence: is the board independence of firm (i) at the time (t). According to Bradley and Chen (2015), Liu et al. (2015); Lorca et al. (2011). It is the number of independent director divided the total number of board director.

Stateownership: is the state ownership of firm (i) at the time (t). This ratio is the state ownership divided total value of shares follow Borisova, and Megginson (2011); Borisova et al. (2015); Ge et al. (2020).

Control Variables

PPE (Property, Plant, and Equipment) is the historical cost of fixed assets divided total assets, PPE shows the value of tangible fixed assets the firms. According to Rajan & Zingales (1995), tangible assets can act as collateral, which helps to reduce risk-related bankruptcy and firms cannot pay the loan for the lender. This means that the lender's risk is passed on to the borrower, when lenders are willing to offer loans when the tangible rate is higher leading to the cost of debt is lower.

Firm’s size is logarithm of total asset according to Sudarmadji and Sularto (2007), Frank and Goyal (2009) and Ghouma et al. (2018). When the firms are larger, the cost of debt tends to reduce because large firms often have stability in operations. Large businesses have longer histories and more stable in development. As a result, the problem of asymmetric information between large firms and lenders is also reduced. Thus, the firm's size that is large often attracts lower-cost loans leading to the cost of debt is lower.

According to research of Anderson et al. (2003) & Reeb et al. (2001), the leverage ratio is total debt divided total asset act as a control variable. When firms use more the leverage ratio, to enhance their performant, firms can face the cost of debt higher. The reason is firms have to invest in right way to cover the cost of debt from bank or lender, and ensure unbalance in using this ratio.

RESULTS AND DISCUSSION

The descriptive statistics Table 1 of the dependent and independent variables of the 82 energy firms listed on the Vietnam stock market. Data is collected on variables related to financial and non-financial factors of these firms in the period from 2007 to 2016 (during 10 years). For different variables, the collected data gaps are not the same. Therefore, the number of observations for each variable is not uniform. In both 2007 and 2016, the COD of energy firms ranged from 0 to 0.218, with an average of 0.029. The CSR of listed energy firms ranges from 0.129 to 0.741 with an equal to 0.410 from 2007 to 2016. The board independence variable ranges from 0 to 1. The largest, smallest, and average of the state ownership variable of observed

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power firms are 0.0000, 0.8058, and 0.415 respectively in during this period. PPE starts from 0 to 0.9594 with an average of 0.328 between 2007 to 2016. Leverage ranges from 0.0146 to 0.9517 with an average of 27,042 and the Firm's size ranges from 24.1690 to 31.6245 with an average of 27,042 between 2007 and 2016.

TABLE 1
DESCRIPTIVE STATISTICS FOR THE VARIABLES EXAMINED IN THE STUDY

Variable	Obs	Mean	Std. Dev.	Min	Max
COD	473	0.029	0.0313	0.0000	0.2184
CSR	473	0.410	0.1329	0.1290	0.7419
Boardindependence	471	0.636	0.1732	0.0000	1.0000
Stateownership	457	0.415	0.2266	0.0000	0.8058
PPE	473	0.328	0.2461	0.0000	0.9594
Lev	473	0.502	0.2061	0.0146	0.9517
Firmsize	473	27.042	1.3513	24.1690	31.6245

Source: Author's calculation based on research data

Table 2
PEARSON CORRELATIONS

	COD	CSR	Board Independence	State Ownership	ppe	lev	size
COD	1.0000						
CSR	-0.1252	1.0000					
Board Independence	-0.1221	0.1573	1.0000				
State Ownership	-0.0920	-0.0205	0.1356	1.0000			
PPE	0.0327	-0.0196	-0.0155	0.3050	1.0000		
Leverage	0.0263	-0.0588	-0.1604	-0.1184	-0.1117	1.0000	
Firmsize	0.0533	0.2024	0.0724	-0.0129	0.0000	0.5383	1.0000

Source: Author's calculation based on research data

Table 2 displays Pearson correlations. Matrix correlation which is used in the study to examine whether the independent variables are linked. According to Tabachnick and Fidell (1996), there is rarely a correlation between independent variables, with the highest correlation

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being 0.583. Almost all correlations are less than 0.70, indicating that the problem of multicollinearity is not severe.

Table 3
REGRESSION RESULTS OF CSR TO COD

Variables	Coefficient	Standard Error	z	P>z	[95% Confidence	Interval]
CSR	-0.0326***	0.010	-3.14	0.002	-0.0530	-0.0123
PPE	0.0024	0.006	0.4	0.689	-0.0092	0.0139
Leverage	-0.0058	0.011	-0.53	0.599	-0.0274	0.0158
Firmsize	0.0025*	0.001	1.78	0.075	-0.0003	0.0053
_cons	-0.0237	0.034	-0.7	0.484	-0.0902	0.0427
Obs	473					
Prob > chi2	0.0114					
Wald chi2(4)	12.97					
R2	0.0212					

Source: Author's calculation based on research data
*, **, *** denote the level of significance of 10%; 5% and 1% respectively;

In Table 3: there is the negative correlation between COD and CSR with the Coefficient -0.0326 an level 1% significance, this result is consistent to previous research (Goss & Roberts, 2011; Liang and Renneboog, 2018; Magnanelli and Izzo, 2017; Dhaliwal et al., 2014; El-Ghoul et al., 2018, Cooper and Uzun, 2015). CSR plays an important role in shaping and recognizing the company's image. Companies with good CSR generally build more belied from the public, investors, and banks. Therefore, companies with many CSR activities are often given high credit ratings, reducing bank borrowing costs. This helps firms a lot when COD is reduced.

Table 4
REGRESSION RESULTS OF BOARDINDEPENDENCCE TO COD

Variables	Coefficient	Standard error	z	P>z	[95% Confidence	Interval]
Boardindependencce	-0.0239***	0.008	-3.07	0.002	-0.039	-0.009
PPE	0.0019	0.006	0.31	0.757	-0.010	0.014
Leverage	-0.0072	0.011	-0.64	0.521	-0.029	0.015
Firmsize	0.0023	0.001	1.58	0.114	-0.001	0.005
_cons	-0.0140	0.034	-0.41	0.682	-0.081	0.053
Obs	471					
Prob > chi2	0.0168					
Wald chi2(4)	12.08					
R2	0.0207					

Source: Author's calculation based on research data
*, **, *** denote the level of significance of 10%; 5% and 1% respectively;

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In Table 4: There is a negative relationship between COD and Board independence with the Coefficient -0.0239 with 1% significance. Following the research Bradley, M., & Chen, D. (2015), Jensen, 1993; Mace, 1986; Bradley, M., & Chen, D. (2015); Bhojraj and Sengupta, (2003); Anderson et al. (2004); Piot and Piera, (2007); Ertugrul and Hegde, (2008). The more an organization has an independent board of directors, the lower its agency costs. To assist in this, the entity's control board plays an important role in keeping the entity's costs under control, and information transparency is resolved to limit asymmetry. Particulars As a result, when the board of directors is more independent, objectivity and transparency of information increase, and the cost of debt tends to decrease.

Table 5
REGRESSION RESULTS OF STATEOWNERSHIP TO COD

Variables	Coefficient	Standard Error	z	P>z	[95% Confidence	Interval]
Stateownership	-0.0157**	0.0066	-2.39	0.017	-0.029	-0.003
PPE	0.0085	0.0067	1.28	0.202	-0.005	0.022
Leverage	-0.0016	0.0109	-0.15	0.882	-0.023	0.020
Firmsize	0.0013	0.0014	0.93	0.353	-0.001	0.004
_cons	-0.0025	0.0356	-0.07	0.943	-0.072	0.067
Obs	457					
Prob > chi2	0.1392					
Wald chi2(4)	6.92					
R2	0.0153					

Source: Author's calculation based on research data
*, **, *** denote the level of significance of 10%; 5% and 1% respectively;

In Table 5: the relationship between COD and state ownership is negative with the Coefficient -0.0157 and the 5% significance. This result is consistent with reseach Ge and Qiu (2007); Borisova and Megginson, 2011, Sánchez-Ballesta, & Garcia-Meca (2011) Lin, Sun, and Wu (2015), Liu and Huang (2018) that firms with a high proportion of state ownership are frequently associated with some essential industries or industries with political ties. As a result, in order to meet some of the state's requirements, the Board of Supervisors in these businesses must have a thorough understanding and knowledge of the industry. Furthermore, in order to sponsor specific industries, these businesses must be controlled by state banks and abide by certain state austerity measures.

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Table 6
REGRESSION RESULTS OF CSR, BOARDINDEPENDENCE, STATEOWNERSHIP TO COD

Variables	Coefficient	Standard error	z	P>z	[95% Confidence	Interval]
CSR	-0.033***	0.011	-3.12	0.002	-0.0545	-0.0124
Boardindependence	-0.019**	0.008	-2.42	0.015	-0.0347	-0.0037
Stateownership	-0.014**	0.007	-2.14	0.032	-0.0276	-0.0012
PPE	0.007	0.007	1.02	0.308	-0.0061	0.0194
Leverage	-0.011	0.011	-1	0.318	-0.0335	0.0109
Firmsize	0.003**	0.001	2.04	0.041	0.0001	0.0059
_cons	-0.016	0.035	-0.47	0.642	-0.0843	0.0519
Obs	457					
Prob > chi2	0.0000					
Wald chi2(6)	32.13					
R2	0.0466					

Source: Author's calculation based on research data
*, **, *** denote the level of significance of 10%; 5% and 1% respectively;

In Table 6: The variables has significance related to CSR, Board independence, State ownership with Coefficient -0.033 at level 1% significant, -0.019 at level 5% siifnificant, -0.014 at level 5% siifnificant respctively. The result in Table 6 consittent to result of Table 3, Table 4, and Table 5. Besides, Wald chi2 (6) is *32.13*, Prob> Chi2 is 0.000 <0.05 (95% confidence level) so the regression model has statistical significance. These factors affect the cost of debt in energy firms. However, Firm size variable has positive relationship with COD. The reason is energy firm in the growth stage and Vietnam is a developing country.Thus, it is necessary for these firm use bank loan to development to increase COD.

CONCLUSION AND IMPLICATIONS

COD is an indicator, which shows the financial health of firms, especially energy firms in a period of growth, it is necessary to do research related to COD. Moreover, this study complements the literature research on listed firms on the Vietnam stock exchange. Energy firms themselves can use natural materials a lot, and the emission to the environment is not a little bit. These firms should be focusing on CSR activities to build the belief from the citizen, shareholders, and investors in the community. Besides, building a green ecosystem is extremely necessary and it can bring benefits to the community. The study has shown that there is a negative relationship between CSR and COD. This is to reinforce the evidence that the better the

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CSR activity of these firms, the banks often lend with preferential policies and lower interest, so that is the reason why COD tends to reduce. Moreover, the Board independence variable has a negative relation to COD, which means that, at energy firms, when the Board of director is more dependent, the less COD is accepted. This is explained by the independence of the board, which helps to reduce agency cost, increase information transparency, and the monitoring committee will work better, helping the COD ratio to decrease. State ownership ratio has a negative impact on COD due to policy in energy firms in Vietnam, the higher government owner in enterprises, the lower money can be approved by State bank. The policy is implemented to reduce bankruptcy risks for enterprises and ensure the balance financial for the economy.

In this study, we exam on energy firms, in the other research, researchers can consider testing on various industries, not only Vietnam market, but also crossing Asian market. Moreover, we measure COD by the cost of interest bank because, in Vietnam, the cost of debt is not public. In the future, if Vietnam considers COD as popular, there is more research on this issue.

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Citation Information: Thu, P.A., & Khanh, T.H.T. (2021). Corporate social responsibility, board independence, state ownership and cost of debt in Vietnamese firms. *Journal of Legal, Ethical and Regulatory Issues, 24*(S5), 1-12

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