Review of the Impact of Corporate CSRD on the Capital Cost of Debt

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Abstract: With the expansion of credit scale, green credit releases a large number of ecological dividends. CSR reporting is different from tightly regulated financial reporting and there are no uniform standard to regulate and monitor its disclosure. At the same time, because CSR reports mainly contain non-financial information of text, and text is more flexible and easier to manipulate than numbers, compared with financial reports, CSR reports have a large space for subjective manipulation, which runs counter to the original intention of reducing information asymmetry. Existing studies have confirmed that CSR intonation can provide incremental information to external information users, so it is worth further exploring whether creditors will obtain information from CSR reports when making credit decisions. Therefore, this paper tries to take CSR intonation as the entry point, summarize the motivation and consequences of CSRD, the relationship between social responsibility and debt capital cost, discuss the impact of CSRD behavior on the financing ability of enterprises, further improve the theoretical basis and conclusion of CSRD and enterprise financing ability, and promote the sustainable development of enterprises.

Keywords: Decoupling of social responsibility, cost of debt capital, literature review.

1. Foreword

In the context of double carbon, all parties in society are gradually focusing on the current environmental protection and green sustainability. China has issued a series of policy documents, aiming to encourage banks and other financial institutions to carry out green credit. For enterprises that actively fulfill their social responsibilities, financial institutions can often provide financial support to enterprises by reducing the cost of debt capital. However, there are a lot of problems in the disclosure of social responsibility information. Many enterprises choose to beautify the performance of social responsibility through various means, that is, social responsibility decoupling behavior (referred to as CSRD). For many Chinese enterprises, customers on the list can still obtain bank loans through CSR report disclosure. Enterprises often exaggerate the actual performance of corporate social responsibility by means of impression management, but the false image of impression management will collapse.

However, in the case of information asymmetry, will the enterprise choose to truthfully disclose its environmental information, and will the social responsibility information transmitted by the enterprise to the market have an impact on the debt and capital cost of the enterprise? In other words, can banks, as major creditors, identify the CSRD? From the perspective of exploring the internal power of CSR decoupling, this paper deeply analyzes the influence of CSRD behavior on the capital cost of corporate debt.

2. The Motivation of The Enterprise CSRD

The motivation of enterprise CSRD can usually be summarized from both internal and external perspectives of the enterprise.

From the perspective of internal enterprises, enterprises often carry out intonation management based on strategic motivation and management motivation, and constantly beautify the corporate social responsibility report (Ran Zhang et al., 2010) [1]. The fulfillment of social responsibility is regarded as a symbolic strategic behavior. Through CSRD, it can often beautify the image of the enterprise and expand the popularity of the enterprise, and the management can benefit from it. In fact, intonation is a main means for managers to carry out impression management, and managers will be more actively undertaking the social responsibility of enterprises out of the consideration of corporate reputation. The management needs to take the necessary investment decision-making behavior to maintain and enhance the corporate image and reputation. At this time, fulfilling corporate social responsibility becomes one of the effective corporate strategic decisions. The higher the disclosure value of the CSR report, the lower the return on assets of the listed organization (Muhammad & Haji, 2023) [2].

From the outside of an enterprise, the bank is an important external contract party of the enterprise. As an external stakeholder, it is at a disadvantage in terms of enterprise information. Digitization brings new social and governance issues and higher responsibilities, especially for businesses. In recent years, the society has put higher requirements for transparency in digital technology practice, supervision and influence (Jordan F, 2023) [3]. CSR report is given priority to with text information, tone is an important feature of text information, is also a kind of more implicit impression management, the information readers has certain psychological suggestion, potentially affect the information users of the corporate social responsibility, will bring different degrees of influence to stakeholders.

3. Consequences of the Corporate CSRD

Based on legitimacy theory and agency theory, managers usually perform CSRD to attract stakeholders. In general, the higher the level of corporate governance, the less corporate CSRD behavior. Once the enterprise has CSRD behavior, it will have a negative impact on the financial performance of the enterprise.
In the credit market, banks are usually at an information disadvantage, especially when China's banks are not completely market-oriented operation, and green credit has certain execution costs (R.M. Haniffa and T. E. Cooke, 2005) [16]. In this case, the question of whether the bank can identify this impression management method and whether it will increase the corresponding cost of debt capital needs further study.

5. Countermeasures and Suggestions

(1) Government: At present, the government's relevant policies on the performance of corporate social responsibility play the role of supervising and encouraging creditors in promoting the sustainable development of enterprises, which can promote the optimization of economic structure and make up for the inherent defects in the market to some extent. Once the government regulates the decoupling behavior of social responsibility, it can change the environmental strategy of the enterprise through legitimacy. In essence, government supervision is a mandatory pressure. The effectiveness of supervision can rely on the punishment of decoupled behavior, or reward the good behavior of social responsibility information disclosure. The government can issue relevant laws and regulations to motivate creditors, and creditors will pay more attention to the decoupling of corporate social responsibility. The government platform can build a powerful organization, form a complete cooperative regulatory system, evaluate the rules and regulations issued by each regulatory agency, so that the regulatory agencies can understand the responsibilities and status of supervision, and lay a foundation for the subsequent regulatory work arrangements.

(2) Enterprise: The improvement of enterprise internal governance is the key to promoting sustainable development. For enterprises, strengthening internal governance is an important way to reduce the decoupling behavior of social responsibility. Enterprises pay attention to the construction of green culture, through carrying out environmental protection publicity activities, constantly strengthen the construction of enterprise green culture, take environmental protection measures to promote the application of new energy technology, reduce the generation of social responsibility decoupling behavior. At the same time, enterprises should also put their social responsibility in the green planning of enterprise development, establish an internal main responsibility investigation mechanism, and bring energy conservation and emission reduction into the employee performance evaluation standards. At the same time, the board of directors and other authorities should strengthen supervision to form the top-down concept of green development of enterprise leadership. Enterprises need to have the correct concept of environmental protection, and all the enterprises should realize that environmental protection is not only a responsibility, but also a necessary way of sustainable development.

(3) Third-party scoring organization: Third-party organizations should actively expand the dissemination scope of enterprise environmental information, enhance the sense of responsibility of stakeholders, gradually guide enterprises to carry out environmental protection actions, and truthfully disclose the performance of enterprises. To strengthen the authority and readability of third-party authentication, regulators can formulate differentiated authentication assurance degree standards for different industries to achieve the consistency and comparability of authentication reports.
among enterprises in different industries, reduce ambiguous information disclosure, and gradually improve the guarantee degree of authentication reports.

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References


