

## The effect of Corporate Social Responsibility and Corporate Governance on Cost of Debt in Indonesian Companies

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**Abstract:** Companies worldwide are increasingly recognizing the significance of integrating sustainability aspects into their strategy and corporate governance practices for their long-term success. Given the increasing attention of lenders, it is reasonable to expect that a high level of CSR can lead companies to obtain a reduction in the cost of debt. This study also considers the effect of corporate governance required to achieve their financial goals. Companies listed on the Indonesia Stock Exchange (IDX), which are currently included in the LQ45 index and have been included in the LQ45 index from 2017 to 2021 were selected and observed. Our study finds that while corporate social responsibility has a significant influence, it has a positive effect on the cost of debt, which is not in accordance with some previous studies. Meanwhile, corporate governance has a significant influence on the cost of debt. These findings suggest that if companies implement CSR only to obtain a favorable reduction in the cost of debt, it is possible that the impact of CSR implementation may not satisfy their expectation.

**Keywords:** sustainability, corporate social responsibility, corporate governance, cost of debt, financing

### 1. Introduction

The implementation of sustainability practices is becoming an important business issue, and corporate social responsibility (CSR) reports are often considered by investors as additional financial information when making investment decisions, as CSR-related information is considered to be value-relevant in the long run and can address stakeholder concerns about environmental, social, and governance issues (Xu et al. 2019). Companies around the world are increasingly recognizing the importance of integrating environmental, social, and governance (ESG) considerations into their strategy, risk management, and governance practices for their long-term success. Similar development can also be found in the mutual fund investment industry, where some mutual fund companies are changing their names by adopting names that contain sustainability-related elements to gain investor interest (El and Karoui 2020). Businesses should develop a CSR-related strategic roadmap in order to clearly establish their aims for implementing the aforementioned actions in accordance with an active approach and a concentrate on the longer horizon (Tran et al. 2022).

In light of the increasing focus on ESG disclosure, academics have not yet arrived at an agreement on how significantly its dynamic character contributes to its financial worth. Sustainability reporting is a crucial component that tends to raise firm value by delivering accountability to stakeholders, while also improves reputational value, so it's vital for businesses to make sure they're doing it (Khanchel and Lassoued 2022). Many investor use ESG sign for gauging the quality of management, illustrating the significance of ESG disclosure (Raimo et al. 2021). Corporate risk can be assessed through the cost of capital, which is a key consideration in any investment decision made by investors and companies (Khanchel and Lassoued 2022). Given the capabilities of non-financial disclosures and the greater interest of creditor, it is reasonable to expect that a high degree of ESG may allow business to acquire a reduction cost of financing, and this is something that can be expected with reasonable confidence (Eliwa, Aboud, and Saleh 2019). In addition to attracting more investors, enhancing the quality of ESG disclosure would make corporate bonds more competitive in the secondary market, drive down the cost of corporate financing, and contribute to the promotion of long-term sustainable growth (Yang et al. 2021). A higher rating from a CSR agency also plays a safer role for lenders, especially socially responsible banks. Socially

accountable enterprises have lesser borrowing costs, illustrating the significance of solid social strength and effective financial governance in the mechanism of debt cost structure (Bacha, Ajina, and Saad 2021).

The implementation of CSR in companies requires the implementation of an effective governance system so that the system can help companies achieve their financial goals. The concept of corporate governance is very important because it involves the relationship between the company's management, board of directors, shareholders, and stakeholders (Hunjra, Mehmood, and Tayachi 2020). An efficient governance system can help companies to achieve better financial performance, better access to financing, and better treatment of stakeholders (Hunjra, Mehmood, and Tayachi 2020). Previous research on listed companies in China found that the quality of corporate governance has a negative impact on the level of leverage or debt (Zhou, Li, and Chen 2021).

Based on this explanation, this study aims to analyze the effect of CSR and corporate governance on the cost of debt. For this reason, companies included in the LQ45 index of the Indonesia Stock Exchange were selected because these companies are companies whose shares are actively traded and have a high market capitalization compared to other companies in the Indonesia Stock Exchange, so it is hoped that this study can represent the condition of companies in Indonesia that are relevant to the applicative interests of investors and financial managers. Although there are many previous studies on CSR and cost of debt, this study can still contribute novelty by providing additional emphasis on the corporate governance variable into a separate variable that can also affect the cost of debt.

## 2. Theoretical review and hypothesis development

### 2.1 Research Framework

Prior research has been undertaken on the connection between ESG and the cost of debt. Research by (Raimo et al. 2021) on ESG disclosure from 919 companies listed on S&P 1200 with a total of 8264 observations during the 2010-2019 period shown that disclosure of ESG had a significant negative influence on cost of debt. The results show that more transparent companies that adopt extensive ESG disclosure policies are likely to source funding from third parties under better conditions. (Eliwa, Aboud, and Saleh 2019) conducted research on a total of 6108 samples of company observations from 15 European Union countries and found that companies can benefit from increasing ESG by lessening the cost of capital imposed by financial establishments on their borrowed funds. These findings point to the importance of market forces, here represented by lending institutions, in elevating the importance and accountability of ESG performance and disclosure. Similarly, another previous research also suggests that companies with complete and transparent disclosure policies related to social issues and governance quality appear to face lower borrowing costs (Dunne and Mcbrayer 2019). Meanwhile, research conducted by (Khanchel and Lassoued 2022) on companies listed in the S&P500 with an observation period from 2009 to 2019 focuses that ESG disclosure is dynamic so that the significance of its impact on the cost of capital changes from year to year. The results show that over time, creditors and shareholders do not give enough weight to ESG activities in the analysis of corporate risk, so that over time, ESG disclosure is not a strategic decision that can be taken to reduce corporate risk.

Another perspective on the correlation between CSR and cost of debt can be found in the results of a study conducted by (Samuel and Mahenthiran 2022) on 104 companies listed on Bursa Malaysia with the observation period from 2009 to 2015. The study focused on two aspects of CSR, namely CSR disclosure and CSR awards. The results show that the higher the level of CSR disclosure, the lower the cost of debt, but the CSR awards aspect shows that companies that win CSR awards will experience an increase in the cost of debt. This suggests that a company's over-investment in CSR initiatives actually raises concerns for creditors, thereby increasing the company's risk in the perception of creditors. In addition, another study on the relationship between CSR performance and cost of debt, conducted among European companies included in the STOXX Europe 600 index, found a positive relationship between CSR and cost of debt (Gonçalves and Barros 2022). Similarly, a study conducted by (Magnanelli and Izzo 2017) on 332 companies spread across several countries and regions, including the United States, Europe, and East Asia, identified a correlation between CSR scores and cost of debt, and this correlation turn out to be positive effect.

There have been previous studies on the correlation between corporate governance and the cost of capital. One of them is the research conducted by (Alhares 2020) on 240 companies included in the Forbes Global 2000 Leading

Companies publication list, where these companies are spread across 12 OECD (Organization for Economic Cooperation and Development) countries. The results showed a significant negative impact of corporate governance on the cost of capital. According to the results of the study, companies that can manage risk well receive a good credit rating and have an easier time obtaining loans and attracting investment. Conversely, companies that tend to be speculative will receive a poor credit rating, which will make it more difficult to obtain loans and will have to pay more for loans. Corporate governance affects a company's credit rating and affects the level of risk the company faces.

The control variables used in this study refer to the research conducted by (Raimo et al. 2021), namely the use of firm size, firm profitability, financial leverage, and interest coverage ratio. According to Graham in (Raimo et al. 2021), larger firms will find it easier to access external financing, in addition, firms with high levels of profitability tend to be better able to repay their debt, which reflects a low risk of default and leads to lower cost of debt. Thus, firm size and firm profitability will affect the level of cost of debt from loans that creditors can offer. Previous research shows that firms with high leverage have high debt obligations and high default risk (Raimo et al. 2021). Thus, the level of financial leverage and the interest coverage ratio can affect the cost of debt.

Considering the research that has been done on the correlation between CSR and corporate governance with the cost of debt, and also its relationship with several control variables, this study leads to a conceptual framework that can be explained in the following conceptual framework figure.

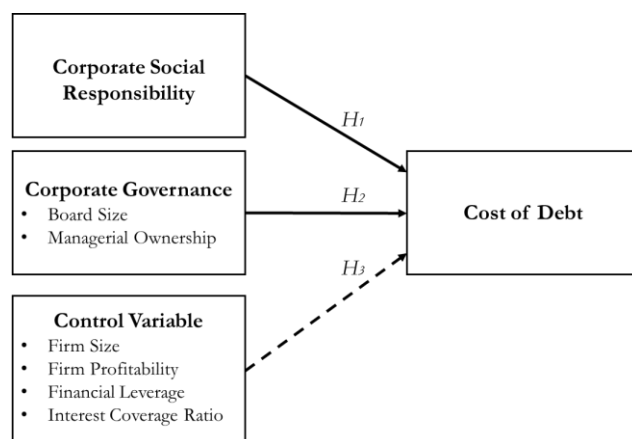


Figure 1: Conceptual Framework

## 2.2 Hypothesis Development

### 2.2.1 The effect of corporate social responsibility on the cost of debt

The long-term usefulness of CSR information may be applied to the evaluation of a business's risk profile, possible liabilities, earnings, and spending based on the information on environmental and social responsibilities included in CSR reports. Financial institutions evaluate a firm's creditworthiness by considering a variety of factors, including information linked to corporate social responsibility (CSR), prior providing credit (Xu et al. 2019). Therefore, ESG disclosure is an important tool to consider relevant extra-financial indicators in assessing corporate risk and borrower creditworthiness (Raimo et al. 2021). Measuring CSR variables using Social Contribution Value per share Based on this explanation, the first hypothesis can be formulated as follows:

H1: Corporate social responsibility affects the COD.

### 2.2.2 The effect of corporate governance on the cost of debt

There are two measures of the corporate governance variable, the first being board size (BOS). One of the studies conducted by (Chijoke-mgbame, Mgbame, and Akintoye 2020) on the board size aspect of corporate governance and its relationship with firm performance in companies listed on the Nigerian Stock Exchange indicates a relationship between board size and firm performance. The second measure is managerial ownership (MOS), which is represented by the percentage of shares owned by top management. Previous studies have shown that a

smaller board size result in greater internal control due to increased communication and collaboration among boards member (Hunjra, Mehmood, and Tayachi 2020). Governance disclosure promotes transparency about the firm's engagement with all its stakeholders, so governance disclosure will improve the firm's financial performance by mitigating risk (Khanchel and Lassoued 2022). Based on this explanation, the second hypothesis can be formulated as follows:

H2: Corporate governance affects the COD.

**2.2.3 The effect of control variable (firm size, firm profitability, financial leverage, and Interest Coverage Ratio) on cost of debt**

Several control variables are used in this study to improve the quality of the model used. First, firm size (FIS) is measured by the logarithm of total assets. Previous research shows that larger firms have easier access to external financing (Raimo et al. 2021). Then for the profitability variable or Firm Profitability (ROA) using the return on assets ratio measurement as a representation of the firm's profitability (Raimo et al. 2021). Firms with high levels of profitability tend to be better able to repay their debt, reflecting a low risk of default and leading to lower debt costs (Raimo et al. 2021). In addition, we include variables that are directly related to debt, namely financial leverage (LEV) using the shareholder equity ratio measure and the interest coverage ratio (ICR) variable. Previous research shows that firms with high leverage have high debt obligations and high default risk (Raimo et al. 2021). Based on this explanation, the control variable hypothesis can be formulated as follows:

H3: Control variables (firm size, firm profitability, financial leverage, and Interest Coverage Ratio) affect the COD.

**3. Methodology**

**3.1 Data Collection**

The sample to test the hypothesis in this study was selected using the purposive sampling method in companies listed on the Indonesia Stock Exchange (IDX), which are currently included in the LQ45 index and have been included in the LQ45 Index from 2017 to 2021. Secondary data is obtained from the publication of annual reports on the website of the Indonesia Stock Exchange, and the websites of all companies listed on the Indonesia Stock Exchange from 2017 to 2021 that are sampled in this study. The firms whose data is not available for the measurement of each variable used in the observation period of this study were excluded. In addition, companies whose shares were suspended or delisted from the Indonesia Stock Exchange were also excluded, even if the company's shares were previously included in the LQ45 Index. A total of 34 companies that met these criteria were selected as samples for research data collection. With the observation period from 2017 to 2021, there are 170 observation data that can be processed for this study.

**3.2 Variable Measurements Identification**

In order to determine the effect of the independent and control variables on the dependent variable in this study, the following measurements were used for each variable:

**Table 1: Identification of measurement variables**

Variable Type	Variable Name	Proxy	Symbol	Definition of Operational Variable	Reference
Dependent Variable	Cost of Debt	-	COD	$\frac{\text{Interest Expenses}}{\text{Total Liabilities}}$	(Ha et al. 2022)

Independent Variable	Corporate Social Responsibility	Social Contribution Value per share	SCV	Earnings per share + (Tax Revenue + Salaries of employees + interest on loans + Public welfare expenses - Social cost)/Total equity	(Hunjra, Mehmood, and Tayachi 2020)
	Corporate Governance	Board size	BOS	Number of members on board	(Hunjra, Mehmood, and Tayachi 2020)
		Managerial ownership	MOS	Percentage of shares held by top management	(Hunjra, Mehmood, and Tayachi 2020)
Control Variable	Firm Size	Total Asset	FIS	Logarithm of the Total Assets	(Raimo et al. 2021)
	Firm Profitability	Return on Asset	ROA	$\frac{\text{Net Income}}{\text{Total Assets}}$	(Raimo et al. 2021)
	Financial Leverage	Shareholder Equity Ratio	LEV	$\frac{\text{Total Shareholder Equity}}{\text{Total Assets}}$	(Raimo et al. 2021)
	Interest Coverage Ratio	-	ICR	$\frac{\text{EBIT}}{\text{Interest Expense}}$	(Raimo et al. 2021)

### 3.3 Panel Regression Method Selection

The Chow test and Hausman test were carried out to determine which model is better and more appropriate to use in terms of choosing between the fixed effect model and random effect model in this study. Based on the results shown in Table 2 below, both test results indicate that the fixed effects model is more suitable to be applied in this research.

**Table 2: Chow Test & Hausman Test Results**

Chow Test					
Effects Test	Model	Prob.	Hypothesis	Conclusion	
Cross-Section Chi-Square	Model 1 (Cost of Debt)	0.0000	Ha Accepted	Fixed Effects Model	
Hausman Test					
Effects Test	Model	Prob.	Hypothesis	Conclusion	
Cross-Section Random	Model 1 (Cost of Debt)	0.0001	Ha Accepted	Fixed Effects Model	

After determining the fixed effect model, the goodness of fit test and F test are performed to the next test. The results for Adjusted R-Squared value in the model are 0.9337 or 93.37%. Shows that all independent variables can explain the dependent variables of 93.37%, the remaining 6.63% is explained by the other variables outside the model and the value of the prob (F – statistic) in the model is  $0.0000 < 0.05$ , Ha accepted. This can be concluded that simultaneity all independent variables have significant effect on the dependent variable, both test can be shown on the table below.

**Table 3. Goodness of Fit Test Results**

Testing	Model	Value
Adjusted R-Squared	Model 1 (Cost of Debt)	0.9337

**Table 4. Simultaneous Test**

Effects Test	Model	Prob.	Hypothesis	Conclusion
Prob. (F-Statistic)	Model 1 (Cost of Debt)	0.0000	Ha accepted	Have Significant Effect

**4. Result and discussion**

**4.1 Description of Research Data**

A total of 34 companies that meet the criteria of this study consist of companies from various industrial sectors as can be grouped in Table 3. With 34 companies that meet the criteria for data completeness during the observation period of this study, 170 observation sample data are obtained to be statistically tested.

**Table 5. Industrial Sector Grouping**

No	Sector	Quantity	Percentage
1	Trade, service, and investment	4	11.76%
2	Infrastructure, Utilities and Transportation	5	14.71%
3	Mining & Energy	6	17.65%
4	Finance	7	20.59%
5	Property dan Real Estate	3	8.82%
6	Basic Industry and Chemical	6	17.65%
7	Consumer Goods Industry	3	8.82%
Total		34	100%

**4.2 Descriptive statistics Result**

The descriptive statistical analysis result for all variables that were measured in this research are presented in the following table:

**Table 6: Results of Descriptive Statistical Analysis**

	COD	SCV	BOS	MOS	FIS	ROA	LEV	ICR
Mean	0.027124	307.9798	13.20588	0.004524	17.40426	0.053162	0.445896	182.0973
Median	0.024703	88.40404	13.00000	0.000000	17.20622	0.039742	0.467770	4.972086
Maximum	0.106527	5655.154	23.00000	0.124000	21.24093	0.222403	0.862863	8727.091
Minimum	3.07E-05	-333.9554	6.000000	0.000000	13.36002	-0.068147	-0.052381	-1.659224
Std. Dev.	0.022562	777.5488	4.086197	0.018961	1.707884	0.047269	0.235091	804.6376
Skewness	0.879040	5.141133	0.688443	5.936738	0.458022	0.873827	-0.005006	7.860247
Kurtosis	3.520620	31.39179	3.210896	37.53691	3.127000	3.824417	1.927310	77.82837
Jarque-Bera	23.81338	6458.717	13.74373	9447.592	6.058134	26.44887	8.151251	41412.13
Probability	0.000007	0.000000	0.001037	0.000000	0.048361	0.000002	0.016982	0.000000
Sum	4.611088	52356.57	2245.000	0.769000	2958.724	9.037486	75.80227	30956.53
Sum Sq. Dev.	0.086027	1.02E+08	2821.794	0.060761	492.9506	0.377602	9.340259	1.09E+08

Observations	170	170	170	170	170	170	170	170
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The minimum result of COD variable is 3.06819E-05 and the maximum is 0.106527 with an average of 0.027124 and standard deviation of 0.022562. The minimum COD result is found on AKR Corporindo Tbk (AKRA) in 2019 and the maximum result is found on Indah Kiat Pulp & Paper Tbk (INKP) in 2021. The minimum result of SCV variable is -333.9554044 and the maximum is 5655.153575 with an average of 307.9798 and standard deviation of 777.5488. The minimum SCV result is found on XL Axiata Tbk (EXCL) in 2017 and the maximum result is found on Gudang Garam Tbk (GGRM) in 2019. The BOS variable has a minimum result of 6 and a maximum value of 23 with an average of 13.20588 and standard deviation of 4.086197. The minimum BOS result is found on by Adhi Karya (Persero) Tbk (ADHI) in 2016 and the maximum result is found on Bank Rakyat Indonesia (Persero) Tbk (BBRI) in 2017. The minimum result of the MOS variable is 0.0000 and the maximum is 0.1240, with an average of 0.004524 and standard deviation of 0.018961. The minimum MOS result during the period 2017-2021 was obtained from 22 out of 34 companies, and the maximum result is found on Adaro Energy Tbk (ADRO) in 2018. The minimum FIS variable result is 13.36002424 and the maximum result is 21.24092669, with an average of 17.40426 and standard deviation of 1.707884. The minimum FIS result is found on by Merdeka Copper Gold Tbk (MDKA) in 2017 and the maximum result is found on Bank Rakyat Indonesia (Persero) Tbk (BBRI) in 2021. The minimum result of ROA variable is -0.068146549 and the maximum is 0.222402621 with an average of 0.053162 and a standard deviation of 0.047269. The minimum ROA result is reported by XL Axiata Tbk (EXCL) in 2017 and the maximum result is reported by Charoen Pokphand Indonesia Tbk (CPIN) in 2017. The minimum result of the LEV variable is -0.052381138 and the maximum is 0.862862772, with a mean of 0.445896 and standard deviation of 0.235091. The minimum LEV result is found on AKR Corporindo Tbk (AKRA) in 2019 and the maximum result is found on Bank BTPN Syariah Tbk (BTSP) in 2021. The minimum result of ICR variable is -1.659224034 and the maximum is 8727.090909 with average of 182.0973 and standard deviation of 804.6376. The minimum ICR result is reported by XL Axiata Tbk (EXCL) in 2018 and the maximum result is reported by Ace Hardware Indonesia Tbk (ACES) in 2017.

### 4.3 Regression Analysis Results

Based on the tests conducted on the measurement of this research data, the panel data regression model is used to assess whether each independent variable and control variable has a significant effect on the dependent variable. The model is written as follows:

$$COD_{i,t} = 0.198746 + 9.35E-06SCV_{i,t} + 7.45E-05BOS_{i,t} - 0.032118MOS_{i,t} - 0.010575FIS_{i,t} - 0.025628ROA_{i,t} + 0.022904LEV_{i,t} - 8.04E-07ICR_{i,t}$$

Criteria hypothesis testing based on a significant level value of 0.05 ( $\alpha = 5\%$ ). if the probability value  $> 0.05$ , means that the independent variable does not have significant effect on the dependent variable and if the probability value  $\leq 0.05$ , means that individually the independent variable has a significant variable has significant effect on the dependent variable.

**Table 7: Results of Statistical Analysis**

Fixed Effects Model				
Variable Dependent: Cost of Debt				
Variables	Coefficient	Prob.	Hypothesis	Conclusion
C	0.198746	0.0000		
Corporate Social Responsibility	9.35E-06	0.0002	Ha accepted	Have significant effect
Board Size	7.45E-05	0.7685	Ha Rejected	No effect
Management Ownership	-0.032118	0.0000	Ha accepted	Have significant effect
Firm Size	-0.010575	0.0000	Ha accepted	Have significant effect
Firm Profitability	-0.025628	0.1508	Ha Rejected	No effect
Firm Leverage	0.022904	0.0019	Ha accepted	Have significant effect
Interest Coverage Ratio	-8.04E-07	0.0000	Ha accepted	Have significant effect

Based on the data displayed in the table above, the following conclusions can be drawn:

- The CSR variable has a prob. Value of  $0.0002 < 0.05$  ( $H_a$  is accepted), indicating that corporate social responsibility has a significant effect on the COD.
- The BOS variable has a prob. Value of  $0.7685 > 0.05$  ( $H_a$  is rejected), indicating the board size has no significant on COD.
- The MOS variable has a prob. Value of  $0.000 < 0.05$  ( $H_a$  is accepted), indicating that management ownership has a significant effect on the COD.
- The FIS variable has a prob. Value of  $0.0000 < 0.05$  ( $H_a$  is accepted), indicating that firm size has a significant effect on the COD.
- The ROA variable has a prob. Value of  $0.1508 > 0.05$  ( $H_a$  is rejected), indicating that firm profitability has no significant effect on the COD.
- The LEV variable has a prob. Value of  $0.0019 < 0.05$  ( $H_a$  is accepted), indicating that firm leverage has a significant effect on the COD.
- The ICR variable has a prob. Value of  $0.0000 < 0.05$  ( $H_a$  is accepted), indicating that the Interest Coverage Ratio has a significant effect on the COD.

#### 4.4 Discussion

The statistical test results in Table 7 can be explained in relation to the hypothesis developed in this study as follows:

H1. Corporate Social Responsibility affects the cost of debt.

The corporate social responsibility variable has a significant effect on the cost of debt as the dependent variable. The relationship between CSR and Cost of Debt has a positive relationship which can be defined as the higher the company conducts programs related to environmental and social aspects, the higher the company's risk on cost of debt. This result contradicts the research of (Raimo et al. 2021), which shows a negative effect of ESG disclosure on the cost of debt. However, other studies have found a positive relationship between CSR awards and cost of debt, as in the research by (Samuel and Mahenthiran 2022) on companies listed on the Malaysian stock exchange. Another study by (Gonçalves and Barros 2022) on companies in Europe whose shares are included in the STOXX Europe 600 index also found a positive relationship between CSR and cost of debt, suggesting that lending institutions tend to provide loans with higher interest rates to companies with high CSR scores. Similarly, a study on 332 companies spread across several countries and regions, including the United States, Europe, and East Asia, also found a positive relationship between CSR score and cost of debt (Magnanelli and Izzo 2017).

H2. Corporate governance affects the cost of debt.

The independent variable corporate governance measured by two different proxies, namely board size and management ownership, shows different statistical test results as shown in table 7. Based on the statistical test results, it is known that board size has no significant effect on the COD variable. These results may indicate that in lending policies, lending institutions do not consider the board size factor as one of the indicators that can significantly affect the company's risk, especially since the companies sampled in this study are companies that are considered to have good reputation and prospects in the Indonesian capital market. Therefore the size of board does not have substantial role in determining the level of risk associated with companies ability to secure financing from third parties. On the other hand, management of ownership has significant influences on the COD and result is negative. This is consistent with previous research on listed companies in China, which found that the quality of corporate governance has a negative impact on the level of leverage or debt (Zhou, Li, and Chen 2021).

H3. Control variables (firm size, firm profitability, financial leverage, and interest coverage ratio) affect the cost of debt.

Base on table 7, the result of the analysis show that firm size (FIS) in the company has significant effect on the COD of the companies studied. Correlation between firm size and the cost of debt shows a negative value which can be indicated that companies with high asset valuations tend to get lower interest rate incentives from lending



institutions. This result is in line with previous research showing that larger companies will find it easier to access external funding (Raimo et al. 2021). However, a different thing happened to the firm profitability variable (ROA), although the relationship value showed a negative value, the analysis results did not show significant effect on the COD the companies studied. This finding indicates that there is a tendency where firm profitability may not have a significant effect in determining the interest rate on loans for companies that have reached a certain asset valuation limit or have high market capitalization during a certain period and are considered to have positive growth prospects (thus meeting the criteria to be included in the LQ45 index).

Furthermore, the financial leverage variable (LEV) in the studied companies shows a significant influence on the company's COD. The correlation between financial leverage and the COD is positive, indicating that the higher financial leverage of firm, the higher amount of debt in the firm's capital structure. These results are consistent with previous research that shows firms with high levels of financial leverage incur high debt obligation and have a high risk of default (Raimo et al. 2021). In addition, (Bhuiyan, Hong, and Nguyen 2020) suggest that firms with higher leverage are perceived as a risk factor to the financial market when the firm is approaching new financing, thus incurring higher borrowing costs. The interest coverage ratio is a measure of a company's operating ability to cover its financial expenses, or interest expense, due to interest-bearing loans from external parties. Companies with higher interest coverage are perceived as less risky and benefit from lower COD. In line with previous studies (Raimo et al. 2021), the analysis results for the variable interest coverage ratio (ICR) in the company has a significant effect on the cost of debt of the studied companies. Furthermore, the correlation between ICR and COD has a negative value. This may indicate that the higher the ICR of a company, the lower the cost of debt of the company.

## 5. Conclusion and implication

### 5.1 Conclusion

In the research conducted on companies whose shares are included in the LQ45 index on the Indonesia Stock Exchange, within the observation period from 2017 to 2021, based on statistical tests conducted on existing variables, it is found that:

1. Corporate Social Responsibility has a significant effect on the cost of debt, but it is not in line with some previous studies, in this study it was found that the CSR variable has a positive effect on the cost of debt.
2. Corporate governance as measured by management ownership shows a significant influence on the cost of debt, but other measurements made on the board size indicator show no significant influence on the cost of debt. According to the results of statistical tests conducted, Management Ownership shows a negative influence on the cost of debt.
3. Three of the four control variables show a significant influence on the cost of debt. Firm size, leverage and interest coverage ratio (ICR) have a significant influence on the cost of debt. Meanwhile, firm profitability has no significant impact on the cost of debt. Consistent with previous research, Firm Size and Interest Coverage Ratio have a negative influence on Debt Cost, while Leverage has a positive influence on Debt Cost.

### 5.2 Implication

#### 5.2.1 Managers

The results of this study are expected to provide a basic overview of the influence of CSR and corporate governance on the cost of debt. Some previous studies found a negative influence between CSR and cost of debt, thus based on these findings, financial managers can see that CSR practices can be associated with a decrease in corporate risk, which is reflected in a lower cost of debt. However, this study found that there is a positive effect between CSR and cost of debt, which means that in the sample used in this study, it shows that by increasing the value of CSR, the risk of the company increases, which is reflected in increasing the cost of debt. In response to the results of this study, financial managers can add further considerations when implementing CSR practices in the company. If financial managers implement CSR policies only to achieve a favorable reduction in the cost of debt, it is possible that the impact of CSR implementation may not be as expected by financial managers. The positive effect between CSR and the cost of debt found in this study may occur because lending financial institutions have not taken a significant portion of CSR factors into consideration in their lending policies,

especially for companies with significantly high asset valuations or companies with growth prospects that are positively perceived by investors. However, as this is beyond the scope of this research, further research on this correlation is needed. On the other hand, the findings on corporate governance show a significant negative effect on the cost of debt. This suggests that financial managers can pay more attention on corporate governance practices and policies in order to control the risk level of the firm and thus achieve a lower cost of debt or obtaining more favorable loan terms from lending institutions.

### 5.2.2 Investors

Sustainability issues are becoming more and more important when making investment decisions in a company. With the results of this study, investors can find out that companies with significant market capitalization and high liquidity in the Indonesian capital market are still not incentivized by the implementation of CSR. Investors in the Indonesian capital market who are concerned about the environmental and social sustainability factors of a company may be able to promote the sustainability awareness by increasing their investment portfolio with companies that have good CSR performance. This may encourage the public and especially the lending financial institutions to pay more attention to the CSR performance of companies in their lending policies. In addition, investors can increase their focus on companies with good corporate governance because, based on the findings of this study, companies with good corporate governance are associated with lower corporate risk due to the lower cost of debt borne by these companies.

## 6. Limitation and recommendation

This research had several shortcomings, including the fact that there was only one indicator used to quantify the CSR variable. With the increasing awareness of sustainability issues in Indonesia, it is expected that more indicators can be used to measure CSR performance so that richer and more accurate data can be obtained for future research. In addition, the data observation period used in this study can provide limitations for this study because during this period there was a significant movement in interest rates as a result of global and national economic factors that were not the scope of this study, where the movement of interest rates is a separate factor that can affect the COD that must be borne by company. In addition, the companies that are the object of observation in this study are limited only to companies that have been listed on Indonesian Stock Exchange, which consists only of large companies, while the effect of sustainability practices on large companies may differ from sustainability practices on SME companies, as found in previous research that shows a difference in the relationship that occurs between CSR in large companies compared to SME companies.

With the limitations that exist in this study, suggestions that can be given to future research on CSR, corporate governance and cost of debt are to add measurement methods, especially on CSR variables. In addition, by increasing the observation period, it is hoped to further minimize other factors that may affect the level of corporate cost of debt from year to year. In the future, it is hoped that more research will be conducted on corporate sustainability practices, especially on the aspect of CSR and corporate governance in Indonesia's SME companies.

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