Corporate Social Performance and Use of Debt: an Examination of Australian Companies

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Abstract

This study examines whether the corporate social performance (CSP) activities of firms influence the structure of debt in the Australian context. Long-term debt is often associated with higher monitoring by lenders, which suggests that firms may benefit from using long-term debt strategically. Short-term debt arises from regular business dealings with a number of primary stakeholders such as customers, suppliers, employees and lenders. We propose in this study that businesses that are committed to improving CSP outcomes may reduce use of short-term debt contributing to building sustainable long-term relationships with the primary stakeholders. We therefore investigate whether firms that prioritise CSP favour long-term debt or short-term debt. Using a sample of Australian Securities Exchange (ASX) listed firms, this study finds that the level of CSP is not associated with long-term debt use, but there is a significant negative association between CSP and the short-term debt usage. This finding suggests that firms with stakeholder-friendly policies reduce their use of short-term debt rather than long-term debt. The reduced use of short-term debt helps resolve possible conflicts between the primary stakeholders and a firm, thus this study presents evidence supporting stakeholder theory and conflict-resolution hypothesis.

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1. Introduction

The deliberations on the ethical, environmental and social dimensions of business activities ebbed and flowed in business, academic and media circles for the past four decades (see for example, Mintzberg, 1983, Carroll, 1999, Kolk, 2016). More recently, attention has turned to how businesses address their responsibilities to all stakeholders instead of only the shareholders. The *UN Global Compact*, for example, calls on companies around the world to '*align strategies and operations with universal principles of human rights, labour, environment and anti-corruption, and take actions that advance societal goals*' (United Nations Global Compact, 2019). Similarly, chief executive officers (CEOs) of nearly 200 large companies in the world redefined the purpose of a corporation through a statement issued by the *Business Roundtable* in August 2019 (Business Roundtable, 2019). This statement highlights the purpose of a corporation as '*delivering value to customers*', '*investing in our employees*', '*dealing fairly and ethically with our suppliers*', '*supporting communities in which we work*' and '*generating long-term value for shareholders*'. As a result of this broader focus on the corporate social responsibility (CSR) of businesses, there is a rapidly expanding literature related to measuring and reporting corporate social performance (CSP) (Cai et al., 2016).

Many corporate collapses in Australia and elsewhere have left stakeholders bearing the financial burden (Zona et al., 2013), thus highlighting the need for more research on the social performance of corporations. Most of the earlier CSP empirical literature analyses the influence of CSP activities on firms' financial performance (see, for example, Beurden and Gössling, 2008, Lu et al., 2014, Shahzad and Sharfman, 2015). Financial performance, however, is a broad measure of various activities undertaken by firms which provides little information about specific impact of CSP activities on each of the several dimensions. Our purpose is to investigate the impact of CSP activities on a single dimension of corporate financial activities. While there is an extant literature that indirectly suggests linkages between certain aspects of CSP and use of debt, this study contributes to theory building and empirical validation of the association between a broader measure of CSP and use of short-term and long-term debt.

Some of the earlier literature (Myers, 1977, Jensen, 1986, Titman and Wessels, 1988, Maksimovic and Titman, 1991) examines the use of debt and stakeholder relationships. The stakeholder theory of capital structure as proposed by Maksimovic and Titman (1991) suggests that customers, suppliers, employees, and other stakeholders bear the costs of liquidation of firms. Corporate firms, therefore, to encourage positive relationships with stakeholders, tend to employ lower debt levels. Verwijmeren and Derwall (2010) find that firms that value employee well-being employ lower levels of debt. Similarly, Bae et al. (2011) find that firms that are regarded as friendly to employees use lower levels of debt. Both these studies employ varying measures of employee-friendliness and different debt measures. While Verwijmeren and Derwall (2010) use total debt Bae et al. (2011) consider long-term debt. The total debt includes both short-term and long-term debt. The long-term debt is sourced from institutional investors as well as retail investors. The short-term debt includes accounts payables or trade creditors, employee benefits, borrowings, derivative financial liabilities, current tax payable and revenue received in advance. In other words, cash flows associated with short-term debt are associated with a number of stakeholders including suppliers, lenders, employees and customers. The interests of all these stakeholders may or may not be aligned. It is therefore important to consider both the short-term debt as well as the long-term debt – i.e., the structure of debt. Similarly, a broader measure of corporate social performance that includes consideration of interests of employees and other stakeholders is critical in capturing

a holistic measure of corporate social activities. This study therefore extends research that links employee-friendliness with use of debt to consideration of a broader measure of CSP and use of both short-term and long-term debt. Unlike previous studies which focus on employees we consider a broader measure of CSP that includes activities relating to customers, suppliers and the community (primary stakeholders). This study therefore examines the use of debt by Australian firms and the role played by CSP in determining such choice.

This study also aims to contribute to the CSP literature by focusing on the Australian context. The Australian corporate sector and capital market are characterised by the presence of strong institutions similar to that of the OECD countries. Employees in Australia are organized and often belong to a trade union or an industry association and their compensation and work conditions are determined largely through enterprise bargaining processes (Drago et al., 2007). Shareholders associations in Australia play an important advocacy role with both retail and institutional investors taking active interest in the annual general meetings (AGMs) of companies. These strong institutions encourage companies to improve their social outcomes while at the same achieving fair returns for both equity and debt investors. Given the enterprise bargain process in Australia, employees are also catered for in terms of appropriate compensation and opportunities for training and enhancing human capital which would benefit employees by helping them achieve career progression as well as helping companies derive benefits from higher employee motivation and productivity. We therefore investigate whether firms that prioritise CSP favour long-term debt or short-term debt or both.

The remainder of the study is organized as follows: In the next section relevant literature is reviewed and the theoretical framework of this study is highlighted. A description of the empirical analysis undertaken along with a discussion of the findings of the study are presented in the penultimate section. The final section draws conclusions.

2. Literature Review and Theoretical Framework

The use of the term CSP can be traced back to the mid-1970s (Sethi, 1975, Wartick and Cochran, 1985, Carroll, 1999). Wood (1991, p. 693) defined CSP as 'a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs and observable outcomes as they relate to the firm's societal relationships'. Marom (2006) defined CSP as the way businesses interpret and put CSR into practice. According to Beurden and Gössling (2008), CSP assesses companies' 'general stance with respect to a complex range of concerns relevant to the social field' (p. 409). For Shahzad et al. (2015), CSP is concerned with the outcomes of activities undertaken to fulfil a corporation's CSR and it is the corporate governance mechanisms within the firm that assist managers in finding the appropriate balance between the claims of shareholders and other stakeholders. Gond and Crane (2010) take stock of the theoretical developments and empirical research on CSP and point out that as a broad or universal construct, CSP still lacks 'strong theoretical foundations and empirical validity' (p. 1). They also suggest that a way forward is to acknowledge the non-testability of the universal construct and 'move to an approach that incorporates more inductive elements - that is, where empirical work is actively incorporated into concept development and where theory is also built from data and not in insolation from it' (p. 18). This research is based on an inductive approach and contributes to empirical literature related to CSP by focusing on activities that companies engage in to achieve outcomes relating to CSP.

2.1 CSR and financial performance

A vast amount of prior literature analyses the relationship between CSR and firm performance (Scholtens, 2007, Jo and Harjoto, 2011, Ntim and Soobaroyen, 2013). The motivations for firms to undertake CSR activities are considered in several studies. Harjoto and Jo (2011), for example, identify four reasons commonly identified that relate to reputation building, a strategic choice that leads to reduced probability of CEO turnover, signalling the quality of the firm through CSR activities and to reduce the conflicts of interest between 'non-investing stakeholders' and managers. However, in their large sample of US firms for the period 1993 to 2004, these researchers only found strong evidence to support the conflict-resolution hypothesis. In their review of 34 publications related to the benefits of CSP covering the period 1990 to 2007, Beurden and Gössling (2008) concluded there is clear evidence that there is a positive correlation between CSP and corporate financial performance. (Lee et al., 2009) find that corporate social performance and financial performance have a negative relationship when stock returns are employed as a proxy for financial performance. Mattingly (2015) summarised the results of over 100 studies that employ Kinder, Lydenberg, Domini (KLD) social ratings data and noted the differences in the empirical results of the relationship between accounting and stock market measures of financial performance and corporate social performance. Mattingly concludes that most of the studies that employ accounting measures of performance show evidence of positive relationship between corporate social performance and financial performance while this was not supported by studies employing stock returns.

In related research, Rees and Rodionova (2015) find that governance arrangements perform a mediating role on the relationship between ownership and environmental and social performance of a large sample of firms from 46 countries for the period 2002 to 2012. When controlled for governance they find that family ownership has a significant negative influence on environmental and social performance in economies with dominant stock markets and strong focus on shareholders and managers. Different types of ownership may have varying moderating influence on the relationship between CSR and performance. For a sample of European firms from 16 countries, Dam and Scholtens (2012) find that ownership by individuals, employees and corporations have a negative influence on performance while ownership by banks and institutional investors and governments have no influence on the performance in 2005. Similarly, Ntim and Soobaroyen (2013) find that CSR practices in combination with improved corporate governance have a more pronounced positive effect on financial performance compared to stand alone improvements in CSR practices for a sample of 291 non-financial firms listed on the Johannesburg Stock Exchange for the period 2002 to 2009.

Previous studies in the Australian context examine certain dimensions of CSR. (Moroney et al., 2012) analyses the role of assurance in improving the quality of environmental disclosure in a sample of 74 Australian companies for the period 2003 to 2007. Young and Marais (2012) find that the CSR reporting practices of Australian firms are relatively weaker compared to firms in France and that the CSR reporting in high-risk industries is generally extensive compared to low-risk industries. Jones et al. (2007) consider the role of CSR on labour policies of two mining firms in Australia and point out the lack of evidence that implementing a CSR strategy results in a fundamental change in the management of employment relations. Galbreath (2016) finds that CSR is positively associated with the financial performance of a sample of Australian firms for the year 2004-2005.

Very few studies, Australian or international, focus on the relationship between CSP and use of debt.

2.2 CSP and use of debt

The extant literature exploring factors that explain corporate use of debt does not specifically explore the relationships between CSP and debt. Starting with the seminal works of Modigliani and Miller (1958), Myers (1977), Myers and Majluf (1984), Jensen (1986), several studies examine the role of capital structure or the extent of debt on the value of firms. The relationship between capital structure and stakeholder relationships was the focus of some of these studies (see for example, Myers, 1977, Jensen, 1986, Titman and Wessels, 1988, Maksimovic and Titman, 1991). Employees in particular, have a substantial and often non-diversified investment of human capital when working for a firm. Employees are likely to lose not only income but also non-pecuniary benefits when firms that they work for are liquidated (Verwijmeren and Derwall, 2010). Similarly, Jacobson et al. (1993) find that bankruptcy leads to loss of income and 'firm-specific human capital' for employees and that workers in distressed firms start facing the consequences even prior to liquidation. Verwijmeren and Derwall (2010) find that firms that ranked high in terms of employee well-being operate at lower levels of debt. They also find that firms that rank highly on employee well-being have higher credit ratings even after controlling for levels of debt. Bae et al. (2011) synthesize the relationships between employee-friendliness and debt usage. They identify three strands of literature. First, the stakeholder theory of capital structure choice as proposed by Maksimovic and Titman (1991) suggests that employees, suppliers and other stakeholders bear both direct and indirect costs of liquidation of firms and therefore as a way to encourage investment in relationships by stakeholders, firms may employ lower debt levels. Second, the theory of agency costs of debt and capital structure as proposed by Myers (1977) introduces the idea of underinvestment. Firms may forego profitable investments when the payoffs from the new investments afford more benefits to certain stakeholders. For instance, investment in employee training and development may add long-term value to the firm, but firms may underinvest in these projects when the benefits are perceived to be accruing more to employees than to the firms. Third, the overinvestment problem of capital structure as proposed by Jensen (1986) suggests that firms with an excess free cash flow may undertake more investments in employee related projects even though these projects have negative net present values.

2.3 CSP and cost of debt

Another closely related strand of literature considers the influence of CSR and CSP on cost of capital (see for example, Sharfman and Fernando, 2008, El Ghoul et al., 2011, Ye and Zhang, 2011, Chava, 2014). Firms that perform well in relation to CSR or CSP pose a lower risk and investors are therefore willing to accept lower returns on such investments leading to a reduced cost of capital for firms. Sharfman and Fernando (2008) show a reduction in the cost of capital for a sample of US firms that improved their environmental risk management. The reduced cost of capital allows firms to replace some equity financing with additional debt and realize tax benefits for the firm and its investors. However, the relationship between CSR and cost of capital is not always direct. Firms may have an optimal CSR investment level and when the actual CSR investment is lower than this optimal level, the cost of debt capital may be lower. When CSR investment exceeds the optimal level, the cost of capital may increase. Ye and Zhang (2011) show evidence of a non-linear relationship between CSR investment and cost of debt capital for a sample of Chinese firms. Their findings suggest that CSR investments may not always lead to substitution

of equity with debt financing. The study by El Ghoul et al. (2011) finds a reduction in cost of equity capital for a sample of US firms with better CSR scores. These findings suggest that a reduction in the cost of equity capital makes debt financing less attractive.

2.4 CSP and use of debt – hypotheses development

Figure 1 traces the possible associations between CSP and debt. Long-term debt capital is secured from both institutional and retail lenders even though in the Australian context, there is very little retail debt issued by businesses through issue of corporate bonds. Long-term lenders face risks of changes in credit quality that arises due to business-specific changes as well as macroeconomic changes. Short-term debt relates to day-to-day activities of businesses. It includes accounts payables or trade creditors, employee benefits, borrowings, derivative financial liabilities, current tax payable and revenue received in advance. A number of primary stakeholders including suppliers, lenders, employees and customers are associated with short-term debt. Agency theory (Jensen, 1986) and conflict resolution hypotheses (Jensen, 2001, Jensen, 2002, Scherer et al., 2006, Verwijmeren and Derwall, 2010) highlight the possible conflicts of interest between these stakeholders and shareholders. In addition to these two theories, the stakeholder theory (Maksimovic and Titman, 1991, Bae et al., 2011) highlights the need for aligning interests and pursue common goals including social responsibility imperatives. Employees, suppliers and other stakeholders face both direct and indirect costs of liquidation of firms. The stakeholder theory (Maksimovic and Titman, 1991) proposes that firms employ lower debt levels in order to develop trust and long-term sustainable relationships with stakeholders.

Businesses undertake CSP activities with an aim to develop 'trust and loyalty' in their relationships with employees, customers, suppliers and the community in which they operate. CSP activities include product responsibility, and health and safety of customers; trust and commitment in dealings with suppliers including investments in building sustainable supply chains; occupational health and safety, and training and development of employees including employees working in value chains; and community welfare and development including all forms of diversity, equal opportunity, and human rights. CSP activities therefore address some of the concerns relating to conflict of interests between shareholders and stakeholders including lenders.

Given the differences in stakeholders associated with the short-term and long-term debt, it is imperative to consider possible associations between CSP and short-term debt and CSP and long-term debt. As considered previously, short-term debt arises from regular business dealings with a number of primary stakeholders such as customers, suppliers, employees and lenders. Short-term debt as described earlier consists of trade and other payables, employee benefits, borrowings, derivative financial liabilities, current tax payable and revenue received in advance. Some of these sources have a direct interest cost while others represent costs of doing business. Corporate firms have choices in regards to their dealings with suppliers of short-term credit as well as other stakeholders who provide goods or services. We propose that firms that improve their social performance derive the twin benefits of improved and sustainable long-term relationships with the primary stakeholders as well as efficiencies arising out of trust and closer relationships with suppliers and other stakeholders. In addition, firms derive the benefits of improved productivity as a result of the investments that they make in employee training and development as well as general employee and community welfare. Extant literature in Australia and overseas supports the positive benefits of employee training on improving productivity and accruing gains both to employees and the firms (Black and Lynch, 1996, Blandy et al., 2000, Ballot et al., 2006). In the Australian

context, there is a strong role for employee unions in determining work conditions resulting in investments in employee development which further lead to improved efficiencies. Improved employee productivity and efficiency makes it possible for firms to achieve efficiencies in working capital management and therefore firms that have better CSP investments may reduce short-term debt. This study therefore hypothesizes that CSP has a significant negative association with the use of short-term debt of Australian firms as shown by the solid line in Figure 1. We therefore test the following null hypotheses:

Hypothesis 1: There is no association between CSP and short-term debt.

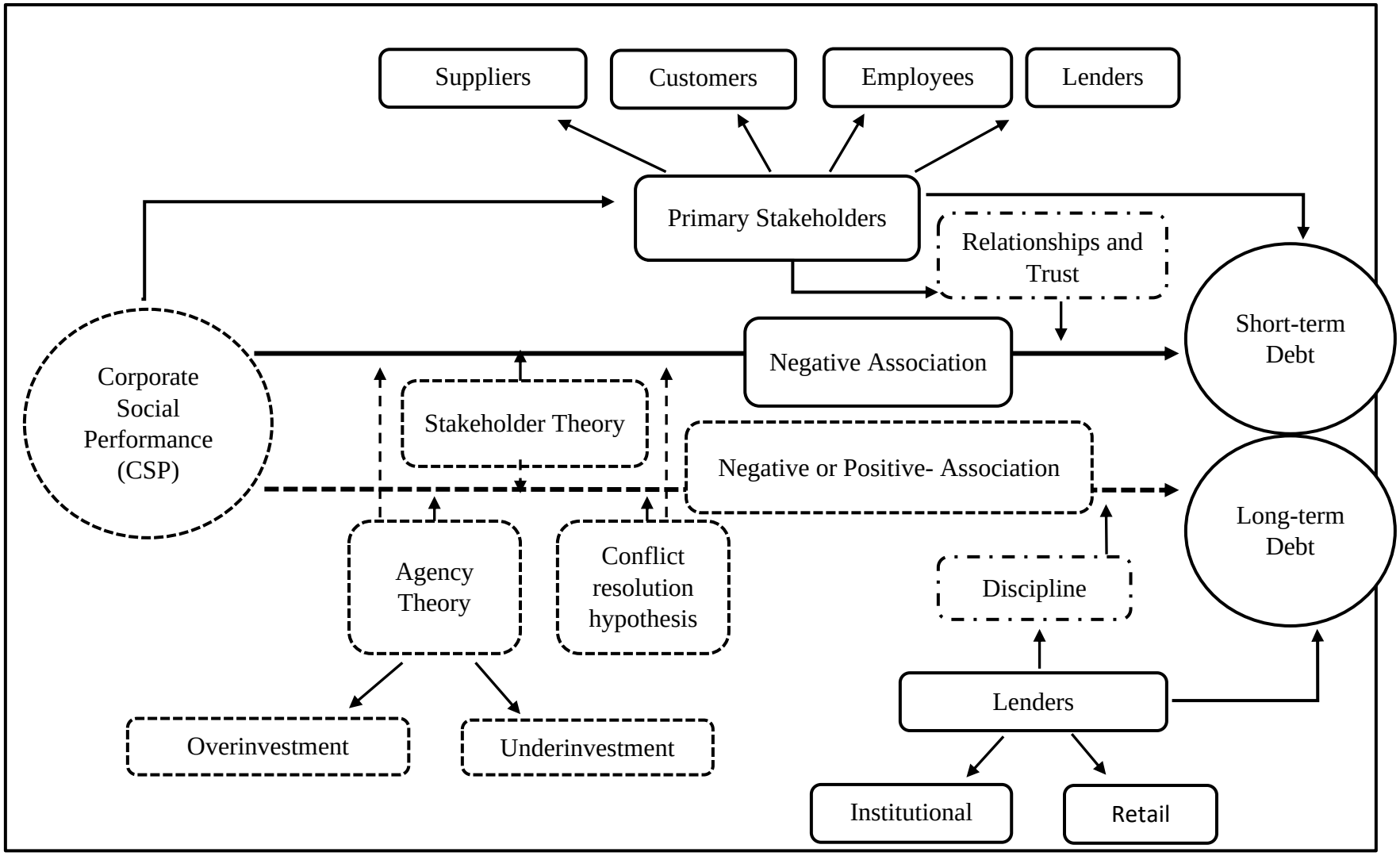
A negative association between CSP and short-term debt supports both the stakeholder theory and the conflict resolution hypothesis.

The theory of agency costs of debt and capital structure as proposed by Myers (1977) introduces the idea of underinvestment. Firms may forego profitable investments when the payoffs from the new investments afford more benefits to certain stakeholders such as employees and lenders. For instance, investment in employee training and development may add long-term value to the firm, but firms may underinvest in these projects when the benefits are perceived to be accruing more to employees than to the firms. Similarly firms may forego positive net present value investment opportunities when the cash flows generated are used predominantly to service lenders interest and principal repayments. In these situations, employees and lenders confront similar cash flow uncertainties. The overinvestment problem of capital structure as proposed by Jensen (1986) suggests that firms with an excess free cash flow may undertake more investments in employee related projects even though these projects have negative net present values. D'Mello and Miranda (2010) provide empirical evidence that increased debt reduces overinvestment problem in businesses. Long-term debt is associated with higher disciplinary benefits (Jensen, 1986), which suggests that firms may benefit from using long-term debt strategically. Businesses may increase long-term debt as a means to have a better bargaining position with employees (Bronars and Deere, 1991). Similarly, businesses may hold high proportions of debt when faced with customers and suppliers who are large and have a higher bargaining power (Kale and Shahrur, 2007). In summary, long-term debt is associated with issues of underinvestment, overinvestment and disciplinary benefits. Some stakeholder interests are served well with a larger proportion of long-term debt, while other stakeholder interests are not served well with long-term debt. Therefore, long-term debt may have a positive or negative association or no association with corporate social performance as highlighted with a dotted line in Figure 1. There we propose the following null hypothesis:

Hypothesis 2: There is no association between CSP and long-term debt.

3. Empirical framework and findings

The sample for this study consists of all Australian Securities Exchange (ASX) listed firms covered in the Asset 4 ESG Database excluding the financial firms for the period 2004 to 2014. This sample addresses sample-selection bias pointed out by Shahzad and Sharfman (2015) when only those firms that engage in CSP are included. Financial firms are excluded because of their unique capital structures and high degree of regulation.


Suppliers
Customers
Employees
Lenders
Primary Stakeholders
Relationships and Trust
Short-term Debt
Corporate Social Performance (CSP)
Negative Association
Stakeholder Theory
Negative or Positive- Association
Long-term Debt
Agency Theory
Conflict resolution hypothesis
Discipline
Lenders
Overinvestment
Underinvestment
Institutional
Retail

The final sample consists of the 236 non-financial firms (covering 1464 observations) listed on the ASX with a valid CSP score. The sample comes from various sectors of the economy – basic materials (36%), consumer cyclicals (15%), consumer non-cyclicals (6%), energy (17%), healthcare (5%), industrials (15%), technology (2%), telecommunications (2%) and utilities (2%).

Table 1 provides the descriptive statistics for the variables employed in the study. The firms in the study are typically large with an average $4.6 billion (all dollar values refer to Australian dollars) in total assets including tangible assets of $2.29 billion and cash and other equivalent short-term assets of $0.36 billion. These firms have an average of $1.24 billion in total debt of which $1 billion is long-term debt. The firms in the study have average revenue of $3.3 billion and $0.45 billion of selling and general administrative expenses. These firms are typically profitable with average earnings before interest, depreciation and amortization of $0.68 billion and with estimated average franking credits due to tax imputation of $0.77 billion.

Table 1 Descriptive statistics

Variable	Observations	Mean	Standard Deviation
Total Assets	1455	4599.087	13138.500
Long-term Debt	1456	1062.157	3146.472
Total Debt	1456	1237.495	3683.253
NPPE	1454	2286.037	8394.877
Cash	1455	362.549	1123.473
Sales	1454	3343.091	8794.722
SGA	902	446.143	1273.703
EBITDA	1429	675.767	2758.457
Franking Credits	1459	768.392	3910.735
LevBVLT	1456	0.165	0.160
LevBVST	1456	0.041	0.107
LevBVTD	1456	0.206	0.188
LevMVLT	1445	0.154	0.162
LevMVST	1449	0.038	0.079
LevMVTD	1445	0.192	0.186
CSP	1464	0.375	0.277
Growth	1444	1.716	1.759
Size	1455	7.020	1.683
RoA	1442	0.029	0.217
Tangibility	1454	0.389	0.277
Slack	1455	0.145	0.169
Attainment Discrepancy	1435	-0.037	0.195
SGA to Sales	897	0.026	0.313
SD	1443	0.237	0.745
Interest Rate Spread	1397	0.003	0.008
WACC	1385	0.108	0.038
Board Size	1351	7.036	2.091
Board Independence	1235	0.603	0.228
CEO Duality	1352	0.052	0.222
Board Diversity	1351	0.457	0.289
Board Attendance	1331	0.960	0.052
Employee Ownership	1459	0.032	0.091
Institutional Ownership	1459	0.095	0.109

LT Debt is long-term debt with maturity of more than one year. Total Debt is the total of long and short-term debt. NPPE is computed as the net property, plant and equipment. Cash is the sum of cash and short-term investments. Sales is the sales revenue. SGA represents expenses relating to selling, general and administrative functions. EBITDA is the earnings of a company before interest expense, income taxes and depreciation. These variables along with Total Assets are in millions of Australian dollars.

Methodological approach

Given the censored nature of the value of proportion of debt (lies between 0 and 1), it is inappropriate to use ordinary least squares (OLS) regressions. Tobit models employing maximum likelihood method yield consistent and unbiased estimates and therefore we employ them in a panel setting. The panel models help address the issues of unobserved heterogeneity (Baltagi, 2008, Wooldridge, 2010). We use Stata 15 to examine the association between use of debt and CSP. There are feasibility concerns about estimation of Tobit models with fixed effects and no fixed effects Tobit model is available in Stata, given this, we employ panel Tobit random effects model (StataCorp, 2017). Long-term debt, short-term and total debt are regressed separately on CSP and a set of financial and governance variables identified in prior literature.

Dependent variable

Proportions of debt used is the main dependent variable employed in this study. To consider the significance of long-term and short-term debt separately, measures are estimated separately for both long-term debt and short-term debt. BVLT is long-term debt as a percentage of total assets and is calculated on a book value basis. BVST is short-term debt as a percentage of total assets and is calculated on a book value basis. BVTD is total debt expressed as a percentage of total assets and is calculated on a book value basis. MVLT is long-term debt expressed as a percentage of sum of total debt and market value of equity. MVST is short-term debt expressed as a percentage of sum of total debt and market value of equity. MVTD is total debt expressed as a percentage of sum of total debt and market value of equity.

Debt levels generally increased until 2008 and fell during the Global Financial Crisis (GFC). Post-GFC, debt on a book-value basis has remained in the range of 0.17 in 2011 to 0.20 in 2014 and debt on a market-value basis increased over the same period from 0.12 in 2011 to 0.16 in 2014. The sample firms employ approximately 20 percent of debt to fund their total assets, of which 80 percent is funded by long-term debt both on book and market value bases.

Explanatory and control variables

CSP is the variable of critical importance in this study and is based on the social performance score from the Asset 4 ESG database. This measure is an indication of companies' reputation and their 'social license' to operate. It captures the 'trust and loyalty' enjoyed by a company in its relationships with employees, customers, suppliers and the community in general. It covers areas such as community welfare and development (including all forms of diversity, equal opportunity, and human rights), supplier relationships, health and safety (of customers and employees working in value chain), product responsibility, and training and development of employees. The firms in the study have an average CSP score of 0.37 with a minimum of 0.04 and a maximum of 0.98 (year-wise trends are available from authors on request). Their social performance increased from

0.45 in 2004 to 0.53 in 2008. In 2009 and 2010 there was a considerable decline to 0.33 and 0.34 after which the average CSP remained in the range of 0.34 and 0.35.

We employ traditional financial determinants of debt as explanatory variables in this study. Growth is calculated as a ratio of market value to book value. Size is calculated as the natural logarithm of the total assets. RoA is the return on assets. Tangibility is calculated as a ratio of the net property, plant and equipment to total assets. SGA to Sales is calculated as a ratio of selling and general administrative expenses to sales. SD is the standard deviation of EBIT for the last 5 years. RD Dummy takes a value of 1 when R&D investments is reported and 0 otherwise.

Australia has a tax imputation system where by double taxation of corporate profits in the hands of companies and shareholders is avoided. To account for possible effects of dividends on debt, we employ franking credits accumulated by firms as a control variable. We estimate franking credits based on the cumulative taxes paid and the franking credits distributed to domestic shareholders. Information on financial variables was collected from the Worldscope database as well as annual reports of the companies.

Apart from the traditional financial variables such as growth, size, profitability, tangibility and taxes, other factors such as macroeconomic conditions and weighted average cost of capital (WACC) may influence the proportion of debt used by firms. Changes in economic conditions may also affect both short-term and long-term interest rates as well as the availability of slack resources for firms to undertake investment in CSP activities. Without controlling for these factors, it is difficult to isolate the influences of CSP on the use of debt. In this study we control for the traditional financial variables as well as for interest rate spread and WACC following El Ghoul et al. (2011), Ye and Zhang (2011). Interest rate spread is the difference in the yields of 10 year Government Bonds and 180 Day Bills. We estimate the weighted average cost of capital (WACC) based on estimates of cost of equity, cost of debt and proportions of debt and equity. Cost of equity is estimated using capital asset pricing model (CAPM). Beta is estimated based on monthly returns over a 5 year window. Cost of debt is estimated based on the average yields data collected from the Reserve Bank of Australia (RBA).

The sample firms had a WACC of 11 percent and the average term spread between long-term interest rates and short-term interest rates is 0 with short-term interest rates being higher in some and lower in other years.

Following previous literature, we also control for governance (Rees and Rodionova, 2015) and ownership variables (Dam and Scholtens, 2012). Board size is the total number of directors on a board. Board Independence is calculated as a ratio of number of independent board members to total board members. CEO duality is a dummy variable that take a value of 1 when both the roles of CEO and chairperson are performed by the same person, and 0 otherwise. Board diversity captures the gender diversity of board members. Chairperson is ex CEO is a dummy variable and takes a value of 1 when a chairperson is a former CEO, and 0 otherwise. Board attendance is the proportion of board meetings attended by all board members. Employee ownership is the proportion of ownership held by employees and directors. Institutional ownership is the proportion of shareholding held by institutional investors.

The firms in the study period had on average 7 board members, with 60 percent being independent. Attendance of the board members was high (96 percent) and only 4 percent of firms had the same

person performing the dual roles of CEO and chairperson. In terms of ownership, employees held 3 percent and institutions 16 percent.

The relationship between CSP and use of debt is also not straightforward, for example, Arora and Dharwadkar (2011) demonstrate "that the association between corporate governance and CSR dimensions depends on differences in decision-making latitude originating from relative firm performance compared to those of peer firms" (p. 136). Thus we include a variable attainment discrepancy to control for relative performance compared to peers in the industry. Another important factor – organizational slack – may also influence CSP and financing patterns. Shahzad et al. (2016) find evidence of a negative relationship between financial slack and CSP for a sample of US firms. Slack is calculated as a ratio of cash and short-term assets to total assets. Attainment discrepancy is calculated as the difference between target profitability and profitability. Target profitability is estimated as the median profitability within an industry.

The sample firms have an average growth (as measured by the ratio of market value to book value) of 1.72, a slack of 0.14 and an attainment discrepancy of -0.04. In approximately two-thirds of the sample firm-years dividends were paid and in about one-fifth of the firm-years losses were incurred.

First correlations among the independent variables is considered for any possible multi-collinearity related issues. Table 2 shows no unusually high values of correlations and therefore all variables employed are considered appropriate.

Empirical findings on the association between CSP and debt usage

Table 3 presents the results of the analysis of the association between CSP and the use of debt measured on a book value basis. BVLT is long-term debt as a percentage of total assets and is calculated on a book value basis is employed as a dependent variable in Model 1. CSP has no significant association with the proportion of long-term debt utilised by the firms in the study. BVST is short-term debt as a percentage of total assets and is calculated on a book value basis is employed as a dependent variable in Model 2. CSP shows a significant negative association with the short-term debt of sample firms. BVTD is total debt expressed as a percentage of total assets and is calculated on a book value basis. It is employed as a dependent variable in Model 3. CSP has no significant association with total debt either.

Table 4 presents results relating to the influence of CSP on debt measured on a market value basis. MVLT is long-term debt expressed as a percentage of sum of total debt and market value of equity is employed as a dependent variable in Model 4. MVST is short-term debt expressed as a percentage of sum of total debt and market value of equity is employed as a dependent variable in Model 5. MVTD is total debt expressed as a percentage of sum of total debt and market value of equity is employed as a dependent variable in Model 6.

CSP has a significant negative association with short-term debt while it has no association with long-term and total debt.

Table 2 Correlations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
CSP	1.000																
Growth	-0.113	1.000															
Size	0.449	-0.269	1.000														
RoA	0.129	0.058	0.243	1.000													
Tangibility	0.066	-0.126	0.036	-0.116	1.000												
Slack	-0.292	0.289	-0.473	-0.201	-0.159	1.000											
AttDis	0.055	-0.060	0.115	0.458	0.002	-0.094	1.000										
SGA	-0.060	0.023	-0.089	-0.098	-0.037	0.117	-0.037	1.000									
Franking	0.482	-0.075	0.481	0.197	0.052	-0.281	0.098	-0.227	1.000								
SD	0.298	-0.084	0.470	0.067	0.135	-0.083	0.024	-0.036	0.434	1.000							
Rate Spread	-0.111	-0.038	-0.168	-0.079	0.035	0.072	0.026	-0.021	-0.120	-0.044	1.000						
WACC	-0.287	0.169	-0.395	-0.101	0.070	0.378	-0.047	0.163	-0.342	-0.068	-0.079	1.000					
Brd Size	0.408	-0.076	0.493	0.098	0.002	-0.298	0.033	-0.047	0.489	0.425	-0.160	-0.272	1.000				
Brd Ind	0.365	-0.027	0.254	0.071	-0.049	-0.180	0.032	-0.064	0.209	0.097	-0.031	-0.236	0.042	1.000			
Brd Div	0.388	-0.057	0.348	0.047	-0.145	-0.208	0.022	0.004	0.377	0.113	-0.067	-0.250	0.261	0.323	1.000		
Brd Att	0.075	0.044	0.005	0.117	-0.134	0.023	0.069	-0.042	0.080	-0.052	-0.006	-0.038	-0.114	0.214	0.119	1.000	
Institutional	-0.018	-0.011	0.012	0.075	-0.267	-0.082	0.049	-0.043	-0.039	-0.106	-0.063	-0.199	-0.026	0.162	0.144	0.029	1.0
Employee	-0.129	0.032	-0.071	0.082	-0.078	0.021	-0.003	-0.015	-0.074	-0.042	-0.084	0.039	0.017	-0.268	-0.097	-0.006	-0.0

AttDis is Attainment discrepancy, SGA refers to SGA to sales, Franking is ln of Franking Credits, Rate Spread is Interest Rate Spread, Brd Size refers to Board Size, Brd Ind refers
Board Independence, Brd Div refers to Board Diversity, Brd Att refers to Board Attendance, Institutional is Institutional Ownership, and Employee is Employee Ownership.

Table 3 CSP and use of debt – Book value measures - Panel Tobit analysis Note: z statistics in parentheses. ***, **, and * indicate significance at 1, 5 and 10 percent respectively.

	Model (1) - BVLT	Model (2) - BVST	Model (3) - BVTD
CSP	0.030	-0.041**	0.001
	(1.14)	(-2.41)	(0.02)
Growth	0.012***	0.002	0.014***
	(3.41)	(0.73)	(4.09)
Size	0.037***	0.002	0.040***
	(4.87)	(0.42)	(5.04)
RoA	-0.000	-0.001***	-0.001***
	(-0.27)	(-7.31)	(-5.89)
Tangibility	0.057*	-0.046**	-0.031
	(1.73)	(-2.37)	(-0.91)
Slack	-0.124***	0.002	-0.098**
	(-2.99)	(0.07)	(-2.34)
Attainment Discrepancy	0.081**	-0.057	0.030
	(2.17)	(-1.07)	(0.84)
SGA to Sales	0.003	-0.003**	-0.000
	(1.18)	(-1.98)	(-0.12)
Ln Franking Credits	-0.002	0.001	-0.003
	(-0.46)	(0.39)	(-0.67)
SD	-0.000**	0.000	-0.000
	(-2.06)	(0.22)	(-1.47)
RD Dummy	0.025	0.027***	0.058***
	(1.62)	(2.87)	(3.68)
Interest Rate Spread	-1.094**	-0.235	-1.358***
	(-2.41)	(-0.69)	(-3.10)
WACC	-0.735***	-0.332***	-1.076***
	(-4.88)	(-3.46)	(-7.07)
Board Size	-0.003	-0.001	-0.006
	(-0.85)	(-0.42)	(-1.57)
Board Independence	-0.023	0.006	-0.001
	(-0.85)	(0.34)	(-0.04)
CEO Duality	0.019	0.000	0.012
	(0.63)	(0.00)	(0.40)
Board Diversity	0.011	-0.013	0.005
	(0.56)	(-1.02)	(0.26)
Chairman Ex CEO	0.017	0.018	0.038**
	(0.89)	(1.43)	(2.00)
Board Attendance	-0.062	0.107***	0.059
	(-1.20)	(3.35)	(1.12)
Institutional Ownership	0.036	0.006	0.051
	(0.86)	(0.22)	(1.24)
Employee Ownership	0.052	0.026	0.070
	(0.97)	(0.73)	(1.30)
Post GFC	-0.000	-0.009	-0.008
	(-0.00)	(-0.82)	(-1.12)
Sector	Yes	Yes	Yes
Loglikelihood	587.247	781.726	587.327
χ^2	546.627	219.955	651.393
Probability	0.000	0.000	0.000

Table 4 CSP and use of debt – Market value measures - Panel Tobit analysis

	Model (4) - MVLT	Model (5) - MVST	Model (6) - MVTD
CSP	0.029	-0.042**	-0.000
	(1.17)	(-2.56)	(-0.01)
Growth	-0.020***	-0.007***	-0.025***
	(-6.06)	(-2.96)	(-7.42)
Size	0.041***	0.005	0.045***
	(5.68)	(1.21)	(5.78)
RoA	-0.000	-0.001***	-0.001***
	(-0.84)	(-5.76)	(-4.60)
Tangibility	0.076**	-0.032*	0.047
	(2.36)	(-1.72)	(1.37)
Slack	-0.048	-0.007	-0.030
	(-1.21)	(-0.26)	(-0.69)
Attainment Discrepancy	0.042	-0.040	-0.001
	(1.18)	(-1.54)	(-0.03)
SGA to Sales	0.004*	-0.001	0.004
	(1.94)	(-0.87)	(1.46)
Ln Franking Credits	-0.002	0.001	0.000
	(-0.56)	(0.35)	(0.03)
SD	-0.000**	0.000	-0.000
	(-1.98)	(0.12)	(-1.44)
RD Dummy	0.004	0.017*	0.016
	(0.30)	(1.80)	(1.01)
Interest Rate Spread	-1.143***	-0.039	-1.210***
	(-2.68)	(-0.12)	(-2.71)
WACC	-0.672***	-0.318***	-1.012***
	(-4.72)	(-3.43)	(-6.59)
Board Size	-0.010***	-0.004*	-0.017***
	(-2.81)	(-1.86)	(-4.44)
Board Independence	-0.037	-0.004	-0.035
	(-1.45)	(-0.26)	(-1.27)
CEO Duality	0.041	-0.019	0.022
	(1.41)	(-1.04)	(0.72)
Board Diversity	0.017	-0.000	0.025
	(0.97)	(-0.01)	(1.33)
Chairman Ex CEO	-0.003	0.023*	0.016
	(-0.18)	(1.94)	(0.85)
Board Attendance	-0.015	0.107***	0.092*
	(-0.30)	(3.44)	(1.73)
Institutional Ownership	-0.050	0.020	-0.019
	(-1.26)	(0.72)	(-0.45)
Employee Ownership	0.009	0.012	0.004
	(0.17)	(0.36)	(0.08)
Post GFC	0.009	0.001	0.004
	(1.27)	(0.17)	(0.55)
Sector	Yes	Yes	Yes
Loglikelihood	621.256	823.025	584.104
χ^2	481.994	193.507	608.792

Probability	0.000	0.000	0.000

Note: z statistics in parentheses. ***, **, and * indicate significance at 1, 5 and 10 percent respectively.

Discussion of Findings

From the results presented above, it is clear that CSP has no significant association with the total debt or the long-term debt of the firms in the study. These findings, on the surface, appear to contradict the earlier findings of (Bae et al., 2011) who find that firms with better employee treatment practices maintain lower levels of debt. However, given the similarities in the payoffs to the primary stakeholders, CSP and long-term and total debt may not have any negative association. These findings are also broadly consistent with CSR and cost of capital literature (Sharfman and Fernando, 2008, El Ghoul et al., 2011, Ye and Zhang, 2011). Payoffs to short-term lenders and other primary stakeholders differ considerably and firms' reliance on short-term debt may lead to additional agency problems particularly for those primary stakeholders who are not in a position to influence the use of free cash flows. Therefore the hypothesis that CSP has a significant negative association with short-term debt is confirmed. Firms that look after their primary stakeholders reduce short-term debt levels as a way to provide assurance to these stakeholders that value creation focuses on long-term assets and the funding of long-term assets is undertaken through long-term sources rather than short-term sources.

Discussion of findings relating to other explanatory and control variables

The traditional financial, governance and ownership factors identified in previous literature are included as controls for debt. These results are also presented in Tables 3 and 4 along with results relating to possible associations between CSP and debt.

Consistent with previous studies, size has a significant positive association with total debt, and long-term debt. Larger companies are likely to be well-diversified and therefore less likely to face bankruptcy due to changes in economic conditions. Larger firms therefore employ more long-term debt in their capital structure compared to smaller firms which are subject to a higher probability of bankruptcy. This finding is consistent with the trade-off theory of capital structure (Rajan and Zingales, 1995, Frank and Goyal, 2009). Consistent with findings from previous studies, this study finds that tangibility has a significant positive association with total long-term debt. The tangible assets are available as collateral thus enhancing opportunities for borrowing (Rajan and Zingales, 1995). Higher tangibility may also imply lower default risk for lenders, thus making more debt available to firms (Haque et al., 2011). Tangibility, on the other hand, has a negative association with short-term debt, implying that firms with more collateral assets employ long-term debt rather than short-term debt.

Growth has a varying association with debt depending on the way the latter is measured. Broadly, when debt was measured on a book value basis, growth has a positive influence whereas for market value measures of debt, growth has a negative influence. The findings relating to market value of debt are similar to Qiu and La (2010) who find support for a negative relationship between debt and growth for a sample of Australian firms. These findings are consistent with the view that profitable firms may rely on retained earnings to fund future growth and therefore employ lower levels of debt (Kayhan and Titman, 2007). Consistent with the trade-off theory, growth opportunities imply higher risk and firms raise less debt to 'avoid issues of debt overhang' (Myers,

1977). Dilution concerns may motivate firms to use debt rather than equity to fund growth opportunities (Du and Dai, 2005).

This study finds that profitability has a significant negative association with the total debt as well as short-term debt and thus supports the pecking order theory (Myers and Majluf, 1984). This finding is also consistent with the finding of Titman and Wessels (1988), who find that profitable firms have lower debt ratios.

The degree of financial slack, on the other hand, has a significant negative association with the proportion of long-term debt as well as total debt employed. This is consistent with the notion that firms that have a higher degree of financial flexibility may employ other sources of funding rather than long-term debt.

Board attendance has a positive association with the level of short-term debt while it has no association with long-term debt employed in the sample firms. The higher degree of monitoring by board members through regular attendance at board meetings results in lower use of short-term debt. Board size has a negative association with long-term and short-term debt measured on market value basis, consistent with (Jo and Harjoto, 2011). None of the other governance or ownership factors show any significant association with debt.

4. Conclusion

This study examines the influence of CSP on the total, long-term and short-term debt of a sample of Australian firms for the period 2004 to 2014. The average CSP score increased from 0.45 in 2004 to 0.53 in 2008 and declined to 0.33 in 2009. It remained around this level in subsequent years. Sample firms employed approximately 20 percent of debt to fund their total assets and approximately four-fifths of total assets are funded by long-term debt both on book and market value bases. Debt levels generally increased until 2008 and fell during the GFC. Post-GFC, debt on a book-value (market value) basis has remained in the range of 0.17 (0.12) in 2011 to 0.20 (0.16) in 2014. The level of CSP shows no effect on long-term and total debt usage while it exerts a significant negative association with the short-term debt usage of sample firms. All financial and governance factors show influences that are consistent with previous studies. CSP has a significant negative association with the short-term debt use of sample firms even after controlling for financial, governance and ownership factors. This finding suggests that firms with employee-friendly policies reduce their short-term debt rather than long-term debt or total debt. Given the similarities in the pay-offs of the primary stakeholders and the monitoring benefits provided by long-term debt, firms that commit to the interests of primary stakeholders reduce the short-term debt usage rather than long-term debt use.

This study has implications for stakeholder theory, trade-off theory and pecking order theory. While traditional financial variables included in this study show that the debt decisions of firms is consistent with trade-off theory and pecking order theory, the negative effect of CSP highlights the significance of stakeholder theory for capital structure choice. This latter finding is also consistent with the conflict-resolution hypothesis.

This study has important insights for corporate executives, investors and CSR advocates as well as policy makers concerned with corporate governance and stakeholder management and protection. In addition to the amount of debt, the type of debt utilised has implications for primary stakeholders. Corporate firms may reduce short-term debt in preference to long-term debt in order to demonstrate their commitment to CSP activities. Similarly, investors and CSR advocates need to consider the financial choices made by companies more thoroughly paying particular attention to the structure of indebtedness. These findings could also inform the development and implementation of appropriate voluntary and non-voluntary governance initiatives by policy makers that facilitate enhanced CSP.

The focus of this study is the influence of CSP on the use of debt and not on the potential influence of debt on CSP about which there is no consensus. Further research may explore this relationship in more detail. Future studies may also directly quantify investments in CSP as well as possible reductions in costs of doing business for corporate firms in addition to focusing on the relationships between specific components of working capital and CSP.

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