

Chapter 5

The Relationship Between ESG Disclosure and the Cost of Debt in the Healthcare Industry

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ABSTRACT

In the last decades, attention to corporate social responsibility (CSR) has grown considerably. The new scenario characterized by greater attention to aspects of sustainability poses important challenges for companies operating in the healthcare (HC) industry due to both the high number of stakeholders with which these companies interface and their business model closely related to people’s life and health problems. In light of this, companies operating in the HC industry are also called upon to provide an adequate level of non-financial information and in particular environmental, social, and governance (ESG) information to meet the needs of stakeholders. This study aims to examine the financial effects of ESG disclosure in the HC industry. In particular, it analyses the impact on the cost of debt. The results of the econometric analysis, conducted on a sample of 4,271 observations (an unbalanced data panel of 680 international firms for the period 2011-2020), show the existence of a negative association between the amount of ESG information disseminated and the cost of debt.

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INTRODUCTION

In the last decades, corporate social responsibility (CSR) has gained increasing importance among policy makers, professionals, and academics due to the central role played by the environmental, social, ethical, legal and economic objectives that companies should pursue beyond traditional financial goals. CSR can be defined as the integration on a voluntary basis, by companies, of social and environmental issues in their commercial operations and in their relations with stakeholders (Clegg et al., 2015). Companies should implement policies, practices and programs and use their resources to minimize the negative effects of their operations on the community in which they operate (Jamali et al., 2010; Vitolla et al., 2020). To this purpose, firms should rethink their business model, integrating CSR as a key part of their corporate agenda, in order to achieve the environmental and social goals (García-Sánchez et al., 2021; Raimo et al., 2021b). This scenario, characterized by greater attention to CSR, poses important challenges for companies operating in the Healthcare (HC) industry. According to Safkaur (2016), the HC industry is one of the most complex industries from an operational point of view because it must be facing a series of hard challenges such as the implementation of high-quality standards, strict regulatory compliance, complex administrative and financial procedures, costly and increasing technological advancements, and an intense labour shortage, as well as numerous epidemic diseases affecting the world population. CSR and respect for the needs of stakeholders take on particular importance in the HC industry for two main reasons (Demir & Min, 2019; Safkaur, 2016). The first reason concerns the presence of numerous categories of stakeholders such as government, customers, suppliers, workers, other industries and society. In particular, according to Russo (2016), “the relationship between HC and society is derived from a mandate that the former receives from the latter: to take care of patients” (p. 323). The second reason, on the other hand, concerns the business model of companies operating in the HC industry, which is strictly correlated with the people’s life and health issues. In this regard, companies operating in the HC industry must pay particular attention to the needs and rights of patients, because they deal with patients and not with customers and the patient’s status is ontologically different from that of the customer and this implies a different approach with respect to other companies (Russo, 2016).

The relevance of CSR is significantly increasing the importance of non-financial information (Vitolla et al., 2019; Nicolò et al., 2021). In fact, financial disclosure alone cannot guarantee a flow of information sufficient to meet the needs of the various stakeholders and potential capital providers (García-Sánchez et al., 2020; Salvi et al., 2020a; 2021). For this reason, the voluntary dissemination of non-financial information, and in particular environmental, social and governance (ESG) information, through corporate documents such as integrated reports, social reports or environmental reports is gaining growing importance worldwide (Raimo et al., 2020; Salvi et al., 2020b). According to Tamimi and Sebastianelli (2017), ESG disclosure is becoming increasingly important among firms due to its ability to improve corporate image, firm reputation and facilitate the investors’ decision-making process. It could be considered, in fact, a key activity for firms due to its ability to increase the knowledge of stakeholders about waste, pollution, emissions, labour standards, human rights, gender policies, as well as corporate governance (Raimo et al. 2020). In this regard, mandatory financial disclosure lacks to provide this kind of information (Jackson et al., 2020). Therefore, an accurate ESG disclosure allows investors to evaluate, in an adequate and transparent way, the firm’s future performance and the correlated risks and opportunities (Albarrak et al., 2019). ESG disclosure could play an important role in the HC industry because it allows to improve corporate transparency and create a better understanding between companies and stakeholders. In other words, it allows to clarify the strategies that HC firms intend to adopt in order to

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