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Investing In Corporate Social Responsibility, Banking Disclosure And Finance In Uzbekistan

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ABSTRACT

Using panel data set from banks in Uzbekistan, a developing country, this paper examines the effects of corporate social responsibility (CSR) investment and disclosure on corporate financial performance. The results from the Wallace and Hussain estimator of component variances (a two- way random and fixed effects panel) suggest that CSR investment without due disclosure would have little or no contribution to corporate financial performance. This paper supports the argument that firms could benefit both financially and non-financially from a strategic CSR agenda.

KEYWORDS

Corporate social responsibility, Financial performance, Banks Disclosure

INTRODUCTION

So far, CSR as a worldwide phenomenon has been a prosperous corporate government idea and management approach in most multinationals (Peng & Yang, 2014; Amin-Chaudhry, 2016). As a result of industrial development and economic well-being in many countries, it continues to draw interest from numerous academics, economists, government and NGOs and the public (Abiodun, 2012; Adeyemi & Ayanlola, 2014;

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Harpreet, 2009; Uadiale & Fagbemi, 2012; Uwuigbe & Uadiale, 2016). Documented evidence shows that CSR investment has the potential to make a positive contribution to society and business growth (Harpreet, 2009; Helg, 2007; Wahba & Elsayed, 2015; Hategan & Curea-Pitorac, 2017). More businesses begin to realize the advantages of establishing a strategic CSR agenda (Chaudhary, 2017; Famiyeh, 2017).

The notion of CSR has historically been omnipresent in the sixties. Since then, legal and moral duties have been narrowly interpreted and used indiscriminately (Uadiale & Fagbemi, 2012). CSR activity is, in the corporate sense, a way for firms to reimburse society for the social and environmental deterioration caused by their activities. It also gives the host nation an act of gratitude. Corporations are social creations and rely mainly on social survival support (Reich, 1998). While companies may participate in CSR to continue support for society, whether the investment in CSR generates financial returns and is just a drain (Galant & Cadez, 2017; Peng & Yang, 2014; Testa & D'Amato, 2017) is the stalemate.

In literature, the meaning of CSR to a company has been ambiguous and vague, and the motivations behind the company's commitment to CSR have been (Abiodun, 2012; Wahba & Elsayed, 2015; Galant & Cadez, 2017; Hategan & Curea- Pitorac, 2017). Business experts and economic strategists have put a great deal of effort into empirical evidence that a proactive approach to CSR merely drains profit from a company, or that a company provides sustainable success and competitive advantage (Hockerts, 2007; Famiyeh, 2017; Galant & Cadez, 2017). In general CSR theories say that companies have the potential to achieve profit optimization of the CSR and their leading motivation are supposed to be socially responsible because of the anticipation of certain benefits (McWilliams & Siegel, 2001; Bagnoli & Watts, 2003; Amin-Chaudhry, 2016).

The advocates of CSR are then persuaded that the company as well as stakeholders and culture are paying off. They felt that investing in CSR improves the image of the public company and gives the company special comparative marketing advantages, mainly between increasingly socially aware customers (Burke & Logsdon, 1996; Gras-Gil, Manzano, & Fernandez, 2016). Around 70 per cent of the global managers consider CSR to be essential for their business profitability, according to an international poll by PricewaterhouseCoopers (Simms, 2002).

While studies of CSR in developed countries are generally abundant, there seems to be limited evidence from the development perspective (Wahba & Elsayed, 2015). CSR research remains particularly sparse in Uzbekistan. Consequently, this paper provides further empirical evidence on the impact of CSR investments and disclosures on the financial performance of businesses from a developed country's perspectives. According to Wahba and Elsayed (2015), many CSR studies reflect developing countries' contexts. This will also help expand existing corporate finance theories and corporate social accountability by introducing evidence from less developed countries.

Moreover, in Uzbekistan, most CSR studies focused on multinational companies. Oil and gas companies like UzGazOil in particular, while indigenous companies and other sectors such as the banking sector have been less affected. The demand for CSR in the Uzbekistan banking system is essential because the banks are crucial to the country's growth. This document, therefore, adds our understanding of the relationships between CSR investment and divulgation and the financial performance of banks through data from banks in Uzbekistan, a developed country. Central Asia as a whole and Uzbekistan in particular, includes the limited literature on CSR.

The rest of the paper is organized as follows: the second part reviews CSR-related literature

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and corporate financial performance. It also presents the theories for the research. The third section describes the approach for research and the study design. The fourth part discusses the findings and conversations, and the fifth part concludes and introduces the study's importance.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

In general, the notion of CSR and its constituents were not widely agreed (Wahba & Elsayed, 2015). But Belkaoui (but 1999) previously argued that "measurement" and 'communication' of information on the impacts of an enterprise and its activities in society and the environment is one of the key characteristics of social accounting. Crane et al. (2008), based on Belkaoui, and has stated that the essence of CSR lies in its voluntary characteristic, which extends beyond legal responsibilities, externalities management and various stakeholder orientation in the management. They also pointed out that a CSR feature extends beyond the educational, economical and corporate philanthropic alignment. CSR is a true strategic structure to guarantee the viability of corporations and the environment.

More dynamically, CSR is understood as the triple bottom line principle of people, world and profit, which incorporates a wider range of value and criteria to measure corporate achievement (Abiodun, 2012; Harpreet, 2009). Although conflicting convictions of the significance of CSR in business activity or otherwise have arisen. For example, neoclassical economists suggested that companies should put more effort into providing their customers with quality goods and products, decrease costs and increase profits, all within the framework of land laws and regulations (Carroll, 1979; Jamali & Mirshak, 2007; Quazi & O'Brien, 2000; etc.). Overtly, the stance of neoclassical economists offers a motivating platform for companies to participate voluntarily in CSR to benefit from their host community and the whole society.

In recent years, companies have begun to respond to stakeholders' increasing interest in their social importance. While many of the individual policies, strategies and programmes, as such, are not new (al-Samman and al-Nashmi, 2016; peng and yang, 2014), companies take their societies on an approach that is elegantly expanded by CSR far more cohesive, detailed and pro-professional (Crane et al., 2008; Galant & Cadez, 2017; Wahba & Elsayed, 2015). Therefore, scientists and economists in describing the CSR paradigm between companies (Choi, 1999) suggested different CSR theories and paradigms. Companies (Croker & Barnes, 2017; Hamid & Atan, 2011) for example, have used the informed model of shareholders, legitimacy theory and stakeholder theory, to describe the reason for investing in CSR activities. Recent studies also use institutional theory to clarify the motives of CSR and companies to invest in CSR (Bradly, 2015; Ruiviejo & Morales, 2016).

Investment in CSR and financial performance

Most of the recent data showed that companies would benefit from CSR activities both financially and non-financially (Famiyeh, 2017; Hategan & Curea-Pitorac, 2017). This is widely referred to as the illuminated approach of the shareholder. It suggests that decision-making companies need to address a variety of environmental and social issues if long-term financial returns are to be maximized (Harpreet, 2009). However, there has been a lot of controversy and criticism on the business case for the CSR agenda. CSR developers have claimed that companies can benefit in several ways from using a wider and longer CSR viewpoint than their short-term, immediate profits, although the criticism of CSR has argued that CSR is contrary to the essential economic role of firms (Harpreet, 2009).

The Soana (2011) study examined the potential links between social performance and financial performance in the banking industry, which sampled banks both at the national and international level. No statistically significant correlation between social performance and financial performance was found from the findings of the study to support any positive or negative correlation.

The influence of CSR on Uzbekistan's financial performance was studied in and CSR showed positive effects on the return on equity (ROE) and return on assets for firms from the findings of the investigation (ROA). In Uzbekistan, they say that companies should improve their credibility and earnings by investing in CSR. Therefore, a CSR scheme would serve as an image booster for companies in Uzbekistan. In particular, for companies whose activities harm the environment.

The 2012 Baird, Geylani and Roberts study reexamined, with linear mixed model analysis, the relationship between company social performance (CSP) and business performance from an industry standpoint. The results of their research reveal an important link between corporate social performance and financial performance, and that the connection is dependent on the particular context of the companies' business. This can also be understood as having a highly dependent type of industries on the effect of a company's performance on their financial performance in CSR activities. Likewise, the Peng and Yang research (2014) investigated the financial impact of corporate social output and the moderating impact of Taiwan's corporate ownership focus. The findings indicate that corporate social achievement has a negative relationship with financial performance.

Asatryan and Březinová (2014) have also examined the relationship between CSR and the financial performance of companies in the airline industry in Central and Eastern Europe. CSR initiatives were found to positively correlate with the financial indicators analyzed by companies through the findings of the research. In contradiction, Bradly (2015) concluded that longer-term sustainability is more of an issue than short-term profitability in terms of engaging with and promoting local Community investments. That is to say, questions of legitimacy, interdependence and risk management are key strategic reasons not profit-based ones for the enterprise of Community investment (CSR).

Although the research carried out on Hategan and Curea-Pitorac (2017) revealed strong statistical evidence suggesting that the links between CSR projects and the Romanian listed companies' financial performance measures had been positive, the positive relationship between CSR and financial performance between Jain, Vyas and Roy (2017) was weak.

In these analyses, it is obvious that the linkages between CSR operations and the financial performance of firms are linked with three main strands of findings. This includes: (1) the existence of a positive link between the CSR and the financial results; (2) the absence of any correlation among the CSR with financial results; (Galant & Cadez, 2017; Uadiale & Fagbemi, 2012; Peng & Yang, 2014; Baird et al. 2012).

Probably, it can be construed that the positive interaction between CSR and financial performance reported in the literature can lead to increased financial advantage by a broad spectrum of other advantages, such as corporate reputation and brand image, loyalty to clients, cost reductions, operational flexibility, a comparative benefit, and proven service (Galant & Cadez, 2017; Lee, Chang, & Lee, 2017). The company in-house in CSR builds up reputational capital stocks and creates some organizational capacities according to Wahba and Elsayed (2015) to help the company achieve some kind of competitive advantages and financial boost. Hence, it could be concluded that the related benefits of engaging in CSR activities exceed the related costs.

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On the other side, the negative relationship between CSR and the economic performance of the literature may be viewed as consistent with the traditional perspective of CSR, which believes that CSR involvement is expensive because it entails extra costs to be socially responsible. Critics have also argued that the involvement of CSR companies is merely a shallow vestibule to prevent countries from becoming watchdogs over powerful multinational companies (Harpreet, 2009; Testa & D'Amato, 2017).

The findings on CSR and financial performance are evident from the above-mentioned debates. This paper attempts to provide empirical evidence from the perspective of a developed country to demonstrate whether CSR investment has positive (or negative) effects on the financial performance of a corporation. The first hypothesis of the paper is thus as follows, as is indicated in the null:

H1. CSR investment does not have a major impact on Uzbekistan banks' financial performance.

Disclosure of CSR activities and financial performance

The theory of legitimacy is perhaps one of the oldest and most used to describe the motivation for the CSR programs and the practice of disclosure (Deegan & Gordon, 1996; Guthrie & Parker, 1989; Milne & Patten, 2002; Murthy & Abeysekera, 2008; Uwuigbe & Uadiale, 2016; Wilmhurst & Frost, 2000). In general, this theory is based on the assumption that companies are legitimate by disclosing their activities adequately (Gray, Kouhy, & Lavers, 1995). As it is true in CSR research, the theory of legitimacy does not lie with the theory of the stakeholder but as complementary within the political economy (see Gray, Javad, Power, & Sinclair, 2001). The legitimacy theory is aimed at explaining the company's efforts to narrow every perceived legitimacy gap as an effort to prevent sanctions or threatening their survival, according to Uwuigbe and Uadiale (2016). This theory argues that companies operate in society through a social contract that is expressly or implicitly based on their survival and development. Patten (1992) had earlier noted that disclosure of CSR initiatives positively correlated with organizational legitimacy, which suggests that firms legitimized their operations through voluntary CSR disclosures.

Concerning the theory of legitimacy, Uwuigbe and Uadiale (2015) explored the existence of a substantial difference between building materials and breweries in the level of corporate social environmental information. The findings of the study indicate that the level of social-environmental information for companies differ greatly among chosen sectors. However, they note that social environmental information is typically low among selected listed companies in Uzbekistan and is still in the infancy.

CSR policies and associated disclosure are normally referenced as reliability indicators, as well as brand positioning for corporate entities according to Perrini, Russo, Tencati and Vurro (2011). They encourage companies with open dialogue and honest interaction to have better understand their clients' needs. They also highlighted that the incorporation of CSR into company disclosure procedures is considered a signaling exercise to prevent prospective adverse selection risks and future social cost exposures. This means that the disclosure of CSR encourages a company's visibility that shareholders and financial partners may interpret as a sign of the successful efforts of the company to meet its expectations, thus reducing risk perceptions and facilitating access to the capital markets. Furthermore, voluntary disclosure of CSR encourages the company in its efforts to act morally acceptable under social and political pressure.

In general, corporate management responds to the community and the expectations of others with the legitimacy theory undertone,

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because it constantly seeks to ensure that its actions are seen and understood to work following the standards of its respective companies (Campbell, 2000; Deegan, Rankin, & Tobin, 2002; Hamid & Atan, 2011; Patten, 1992). In this theory, moreover, it could be argued that companies are seeking to establish, retain or remedy their social credibility through CSR disclosure (Uwuigbe & Uadiale, 2016), which also benefits from the supportive influence of the Company, the increased awareness of its goods and services and consumers and other stakeholders' sponsorship.

The research Gras-Giletal. (2016) concluded that the CSR indicator correlates significantly with ethical and moral concerns related to business decision-making, which explains why businesses engage in socially responsible activities. The authors suggested that investments in socially responsible activities not only improve stakeholder satisfaction, but also affect corporate reputation positively, and lead to effective use of resources.

Although the findings of CSR disclosure were mixed, several previous CSR studies used the theory of legitimacy and the theory of parties involved to describe company incentives in response to social responsibilities (Guthrie & Parker, 1990; Gras-Gil et al., 2016; Gray et al., 1995; Patten, 1992). These contradictory findings can be attributed to various techniques used by companies to legitimize their conduct and different legislative competencies (Cormier & Gordon, 2001; Newson & Deegan, 2002). The paper is concerned about whether CSR disclosure has an impact on the Uzbekistan financial performance of banks while discourses on CSR operations are wide-ranging. Therefore, the second hypothesis of this paper, which is stated in the null, is as follows:

H2. The disclosure of Uzbekistan CSR operations does not have a major impact on their financial performance by banks.

RESEARCH METHODS AND DATA

This paper discusses the effects of CSR investment and disclosure on the financial performance of banks in Uzbekistan through explanatory and content analysis designs. The sample included 21 banks depositing cash on the website of Uzbekistan's central banks (see Appendix A) (CBN). The samples were reduced to 12 banks with a 60 observation result after due screening without coherent annual reporting for the period (2010-2014). Content analyzes have been used to construct panel data from the sampled banks' annual reports in the reporting period (2010 to 2014).

Model specification

Panel data analysis was used because of its benefits over typical cross-sectional or time-series data sets. Hsiao says (2003) that the panel data gives researchers a vast number of data points increase the freedom and reduce the collinearity between explanatory factors so that econometric estimates are more efficient. Similarly, panel data enables researchers to build and test complex behavioural models rather than simply cross-sectional or time-series data. The panel data analysis was also carried out to estimate the model as follows:

$$FINPERFit = ß0 + ß1INVCSRit + ß2DCSRit + ß3SIZEit + ß4TANGit + \varepsilon it$$

Where FINPERFit is the bank's financial performance at t. This variable is dependent and is calculated as an asset return (ROA). That is, the share of income after tax in total capital (see Galant & Cadez, 2017). The explanatory variables for the model, on the other hand, are INVCSRit and DCSRit. In INVCSRit is an investment in the CSR (see Appendix B) for the year t (that is, preceding year basis). According to Galant and Cadez (2017), in previous empirical analyses, the measurement of CSR variable was found to account for the varied results of the CSR-business relationship.

A different measurement for CSR investment was therefore employed for this paper. The natural record of the quantities used for carrying out CSR operations as reported in the annual reports of those banks in the previous year was collected and used to measure this variable. The rationale for this measurement is that the real effect of CSR investment is expected to be detected in a given year, not in the year of investment, but the following years.

Similarly, DCSRit constitutes a divulgation by the bank I of CSR activities during period t. This is a dummy variable and is measured as one of the banks I have in the annual report a dedicated section disclosing CSR operations, or 0, if not (note; the financial performance of the current year was used to reverse its previous disclosure to reflect the true effect). As noted above, the disclosure of CSR actions for a certain year is only rational, not on the financial performance of the same year, but the performance of the following years.

ANALYSIS AND RESULTS

Descriptive analysis

The paper provided descriptive statistics for the results as well as explanatory variables needed for analysis, as part of the data analysis and interpretation process. Each variable was studied in conjunction with the normal skewness and Kurtosis distributions based on its mean score and standard deviation. A right-threshold position shows a positive Skewed distribution, and a left-threshold position shows a negative Skewed distribution, whereas Kurtosis may suggest either a considerable high or a flatter peak distribution (Field, 2009). The conclusions of this analysis are presented in Table 1.

The average score (0.0211) on FINPERF merely indicates that the sampling banks show low profitability, which has a rectangular skewness distribution at a significant peak value (Skewness = 1.3533 and Kurtosis = 9.7630 respectively) for reporting the results of the descriptor statistics shown in Table 1. The average score (4,1950) for INVCSR indicates that investment in CSR operations was considerable and coherent during the period under investigation. INVCSR is distributed skewness with a high peak value (skewness = -2.0720 and kurtosis = 8.7665). The average score for DCSR (0.6667) reflects that in their annual reports more banks have disconnected from their operations with a section for CSR activities. This variable has a flattered pinnacle (Skewness = -0.7071 & kurtosis = 1.5000 respectively) and is skewed to the left.

While the average score (5.9359) for SIZE suggests larger banks across the sample, the average score (0.0352) for TANG indicates very low tan liability across the samples, having the right-tailed distribution of skewness, and a significant summary value (skewers) (skewness) = 1.1004, and kurtosis = 5,7850 resp) (SIZE = 1.9359) SIZE has samples with slightly peaked value.

INVCSR, DCSR, and SIZE are generally spread negatively (left-tailed), while FINPERF and TANG are distributed positively (right-tailed). However, the regular distributions may be a value of zero without a left or right tail distribution, or a leptokurtic (peak) or platykurtic (flat) distribution (Field, 2005, 2009). However, this should not be generalized because other variables, such as sample size and population group, may influence the normal distribution of data (Ajibolade & Sankay, 2013; Field, 2009; Sankay, Adekoya, & Adeyeye, 2013).

Correlation analysis

The results variable – FINPERF (p-value = 0.0086 and 0.0076, respectively) was significantly correlated to that in Table 2. INVCSR and DCSR. The INVCSR-FINPERF ratio is negative (r=-0.2362), and the DCSR-FINPER-RAL relationship is good (r=0.231). Of the explanatory parameters, no significant correlation except SIZE was discovered that was correlated significantly with INVCSR (r=0,0000). No doubt, it calls for collinearity problems with the important relationship reported between the SIZE and the INVCSR.

This is because the precise estimation of regression is endangered. Hence SIZE Variable (a control variable) will be removed from Model 1 to have a more precise regression estimation (see Field, 2005, 2009). Therefore, the following changes are made to Model 1:

FINPERFit = ß0 + ß1INVCSRit + ß2DCSRit + ß3TANGit + εit

Where all other variables remain unchanged, Model 2 supersedes Model 1 to adapt to the threat of multi-coil interference from the SIZE variable. Therefore, the regression estimation is free of interference with multi-collinearity with this modification.

CONCLUSION

CSR has surpassed traditional procedures of the individual company. In most multinational corporations, it has become a worldwide phenomenon, a flourishing corporate governance idea and management approach. Although the motivation behind CSR company investments has not yet been addressed, which has resulted in mixed results from previous research (Gras-Gil et al., 2016), this report has been able to provide empirical proof of the impact of CSR investment and disclosure on Uzbekistan financial performance of banks.

This article contributed to the increasing number of CSR studies conducted in developed countries with an emphasis on Uzbekistan's banking industry, which, despite its imperative contribution to the growth of Uzbekistan's economy, lacked a sufficient amount of study in the CSR environment. The evidence in this paper shows that legitimacy, not financial benefit, can be the main motivator of bank investments in CSR activities in the context of the Uzbekistan banking sector. Because its activities do not damage the culture or degrade the climate like that of the petroleum, gas and manufacturing industries, the banking industry is unique. Therefore, banks may differ greatly from other sectors, such as the oil and gas industries, in their motivation for investing in CSR activities, which are best, explained through the theory of legitimacy.

Because of the findings of this article, it is merely concluded that investing in CSR activities without disclosure to stakeholders of such activities would have no positive effect on the financial performance of the firm. Instead, its financial resources will only be depleted to provide service to CSR operations. The paper proposes, therefore, that if the motivation to engage in CSR activities is financial profit, banks in Uzbekistan must also acceptably disclose their CSR activities to the different stakeholders, therefore generating several financial benefits in the future.

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