CSR and Firm Performance Nexus in a Highly Unstable Political Context: Institutional Influence and Community Cohesion

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ABSTRACT

We provide evidence of the relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) in Palestine, a highly unstable political context. Annual reports of all firms listed on the Palestine Exchange (PEX) for the period 2016-2019 were manually content analysed. A checklist of reported CSR items is summarized into four areas: ‘environmental information’, ‘human resources’, ‘community involvement’, and ‘product and customer service quality.’ Results indicate a robust positive connection between each of the four dimensions and the overall CSR index with three performance indicators: ROA, ROE, and Tobin’s Q. Results also find better performing companies with a higher degree of community involvement being greatly appealing, while the environmental dimension was the least resilient. We discuss the significance of community engagement for an unstable context like Palestine from a ‘community cohesion’ standpoint.

KEYWORDS: Corporate Social Responsibility; Corporate Financial Performance; Unstable economies; Small economies; Palestine.

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1. INTRODUCTION

Companies from relatively unstable political contexts are smaller in size and scope. Ownership of these firms is held within close local communities they belong to, often by friends and families (Hosny, 2017). As they practically serve their local community, these companies play an active social role, during good as well as bad times. They prioritise their community engagement as their social responsibility, which often drives their performance.

While the definition has evolved over the years, Corporate Social Responsibility (CSR) is summarized as the collective corporate engagement to achieve a sustainable impact on society (Servaes & Tamayo, 2013; Nguyen, Agbola & Choi, 2021; Nguyen and Nguyen, 2021). CSR is synonymous with several recent discussions, including the triple-bottom-line, Environment, Social and Governance (ESG) framework, among others, that make CSR a strong academic domain (Galant & Cadez, 2017). Opponents argue that investing in CSR hurts profitability, which makes it less convincing and unimportant to the shareholders (Friedman, 2007). Supporters take CSR as having numerous advantages that can lead to improved financial success (Gregory, Tharyan & Whittaker, 2014; Okafor, Adeleye & Adusei, 2021; Barauskaite & Streimikiene, 2021).

Over the last five decades, CSR theories evolved around stakeholder activism (Freeman, 1984), fulfilling basic economic, legal, and philanthropic responsibility (Carroll, 1979), integrating CSR into the core strategy for operational benefits (Vishwanathan et al., 2020), and institutional pressure to direct corporate activities towards fulfilling social goals (Singh & Mittal, 2019; Coluccia et al., 2018). Gigantic CSR literature, however, is surprisingly limited when it comes to unstable economies with limited institutional support and stakeholder activism. We examine CSR in Palestine, which has been affected by uncertain political tensions for several decades. The financial market and regulatory authorities in Palestine have little power over the companies to convince them to deliver on their social promises. Also, companies are smaller in size, closely held, operate locally, and, hence, value community engagement as the source of their financial success.

With the massive emergence of neoliberalism, which establishes the need for prioritizing fulfilling basic economic rights, community cohesion might be seen as a narrower channel to arrive at social goals (Cowden & Singh, 2017). Nonetheless, in a community that faces a constant political crisis, and their basic rights are jeopardized, the people from that community form their expectations based on how institutions resemble their needs and support their cause. Palestine is a unique case with an uncertain political landscape, a smaller economy, and an extremely cohesive community. Corporate social responsibility in Palestine may connect well to financial performance if the CSR responds well to the needs of the community.

Due to assorted results, the link between CSR and CFP remains muzzy. The context, methodological techniques, time, and industry that the companies belong to have had an influence on the CSR-CFP nexus (Gregory et al., 2014; Awaysheh, Heron, Perry, & Wilson, 2020; Galant and Cadez, 2017). As a result, while some studies have found no significant link between CSR and CFP (McWilliams & Siegel, 2000; Lima Crisóstomo et al., 2011), a growing number of studies have reported a robust connection (Orlitzky et al., 2003; Tsoutsoura, 2004; McGuire, Sundgren, and Schneeweis, 1988; Nguyen, Agbola & Choi, 2021; Nguyen and Nguyen, 2021; Okafor et al., 2021).

Existing research support three major channels behind CSR and CFP. These are strategic, regulatory, and reputational. Evidence generally covers a wide spectrum of companies from developed as well as developing countries. However, the literature on the CSR-CFP connection in countries experiencing extreme political uncertainty is not only limited, but also contentious (Nour, Alia, & Balout, 2021). Given the fact that the extent of CSR disclosure is influenced by an unpredictable political environment, poorly governed financial markets, and inadequate rule of law, this study aims to investigate CSR-CFP nexus in a unique setting, namely Palestine. Palestine has been under occupation for decades but has had limited autonomy on internal affairs and resources since 1994 (Abdeljawad et al., 2020; Abu Alia et al., 2022). It is a developing country with prolonged political unrest and a weak legal system (Abu Alia et al., 2020). Palestine scored poorly on several development and governance metrics, including the rule of law, government effectiveness, and voice and accountability (World Bank, 2020). Furthermore, most incorporated businesses in Palestine are family businesses fulfilling local demands with just a tiny percentage of shares available for sale (Jabarin, Nour, & Atout, 2019).

This study considers four CSR dimensions, based on stakeholder framework, to capture ‘reported’ corporate engagement with the ‘environment’, ‘human resources’, ‘community involvement’, and ‘product and customer service quality’. The study has taken three proxies for CFP. These are 'return on assets (ROA)’, ‘return on equity (ROE)’, and ‘Tobin's Q ratio.’ Results indicate a strong positive impact of CSR on CFP. Tobin’s Q models are relatively weaker than the ROA and ROE models, which indicates that CSR disclosure carries a weaker influence on market-based performance measures. The CSR-CFP nexus did not change much even after considering the industry effect.

All four CSR dimensions reported a strong positive connection to performance indicators. Our results indicate that 'product and customer service quality' has been prioritized more than the remaining three CSR dimensions. 'Community involvement' received the second highest score in the sub-total CSR disclosure index. 'Environmental information' has been the least disclosed among the four CSR dimensions. Also, the environmental disclosure had the weakest connection to book value- as well as the market value-based performance proxies. Overall CSR disclosure index stands at 38.43%, which not only indicates a below-average disclosure practice but also encourages more in-depth studies on the CSR-CFP nexus.

Firms in Palestine value activities that are more directly connected to profitability than long-term social benefits. Environmental governance is poorly monitored, which has impacted environmental disclosure on the annual report. Companies are expected to disclose their policies on environmental protection, pollution control, disposal of waste materials, and recycling policies, among others. Among the community engagement activities, companies are active in their charitable donations to education, social, and religious causes. Taking into consideration the political violence in Palestine, we believe that CSR-CFP nexus heavily relies on the quality of the relationship the company develops with the community over time. The quality of the relationship can be sustainable if environmental protection policies are integrated with community engagement activities.

In the remainder of the paper, we discuss the background and literature in section 2, methodology in section 3, findings in Section 4, and conclusions in Section 5.

2. BACKGROUND AND LITERATURE

This study investigates the impact of CSR disclosure on corporate financial performance. In the first stage, four independent dimensions of CSR are measured. These include environmental, human resources, community involvement, and product and customer service quality. In the second stage, these four dimensions are used to create a holistic index of CSR disclosure. Then the index is used to investigate the connection with financial performance.

2.1 Theoretical views

Corporate and financial market events, such as the global financial crisis of 2007-08, corporate disclosure-related scandals, accounting frauds, and pandemics, are frequently mentioned as catalysts for increased social engagement by businesses (Jo & Harjoto, 2011;

Bae, El Ghoul, Gong, & Guedhami, 2021). Companies find CSR disclosure useful and value-enhancing to their stakeholders due to the higher reputational risk associated with the lack of social engagement and compounding legislative and institutional pressure (Lima Crisóstomo, de Souza Freire, & Cortes de Vasconcellos, 2011; Nour, Bouqalieh, & Okour, 2022). CSR is a significant aspect and integral part of a company's corporate governance framework that is used to strengthen and improve the company's relationship with the local community, enhancing perceptions of entities, and achieving both profit and social objectives at the same time (Rashid, Abdeljawad, Ngalim, & Hassan, 2013). As a result, CSR can be viewed as a strategy for influencing the performance of organizations and operations in both market and non-market environments (Orlitzky, Schmidt & Rynes, 2003).

The neo-classical view by Merton Friedman forwards that CSR is to prioritize the interest of the shareholders, which connotes making as much money as possible while adhering to society's basic standards, both legal and ethical (Jo & Harjoto, 2011; Friedman, 2007). Even though profit and principles are not mutually exclusive, several corporations are caught with ill motives of maximizing profit, which is seen as derivatives of accounting and governance frauds (Nour, Sharabati, & Hammad, 2020; Abdeljawad & Masri, 2020). CSR activities are seen as the outputs of social and institutional expectations of corporate activities that spread into fulfilling social, economic, ethical, legal, philanthropic, and environmental functions (Carroll, 1991; Lantos, 2001; Schooley, 2019; Rahman, 2011). Consequently, different institutions, including civil society, media, and regulators started paying attention to ensuring better social engagement by corporations.

The institutional theory promotes that the motivation towards and strategic integration of CSR activities is driven by a collection of social, traditional, organizational, and environmental norms and practices that extends from the collective forces of various stakeholders, and internal and external pressure groups (Coluccia et al., 2018; Matten & Moon, 2008; DiMaggio & Powel, 1983). As it might seem, the application of institutional theory and the relationship that the theory expects to establish between businesses and society has been contested globally. While the transition from a formal institutional application of CSR practices has been praised, institutional theory helps identify a massive gap between CSR and corporate outputs in otherwise less-advanced countries with limited governance and informal social activities (Brammer et al., 2012).

The way companies engage with ‘their’ society depends on the way ‘they define’ their surroundings, key stakeholders, and institutions they deal with. For instance, approaches of large, listed firms in developed countries engage with society differently from relatively smaller listed firms from problem-affected developing countries. However, in the presence of strong institutions, CSR creates value for its stakeholders and improves its institutional and societal parameters (Risi et al., 2022). Businesses become more aware of their impact on society because of institutional activism (Swanson, 2017), and formulate strategies to uphold ethical ideals, and treat people, communities, and the environment with respect (Tsoutsoura, 2004; Lima Crisóstomo et al., 2011).

Reflections of the institutional factors have been visible in the empirical literature. Companies plan to redesign their products and listen to CSR norms as these practices are considered 'good practices' by customers (Rashid et al., 2013) and positively influence the product and market performance of the company (Kuokkanen & Sun, 2020). News on anti-social engagement by companies is often heavily penalized by the financial and product markets. As a result, CSR becomes an integral part of a firm's competitive advantage that helps safeguard and enhance the trust of consumers and employees (Yu, Kuo, & Kao, 2017).

Community engagement is an important element of CSR activity in smaller markets. As the companies in these markets are owned by close neighbours, the CSR expectations in these contexts are driven by corporate initiatives to improve the environmental, social and financial conditions of the community. While the community problems are presented in CSR initiatives, firms see an increase in return on equity or earnings per share (Sameer, 2021). On similar grounds, this study expects that a cohesive community as part of the CSR strategy will bring positive CFP to Palestinian firms.

2.2 CSR-CFP empirical connection

The link between corporate social responsibility and financial performance is highly debated. Prior research has demonstrated mixed results. Several studies find a positive relationship between CSR and corporate financial performance across financial and non-financial sectors (McGuire et al., 1988; Orlitzky et al., 2003; Cochran & Wood, 1984; Waddock & Graves, 1997; Gregory et al., 2014; Tsoutsoura, 2004; Preston & O'Bannon, 1997; Maqbool & Zameer, 2018; Simpson & Kohers, 2018). Peloza (2009) conducted a meta-analysis of 128 studies. The study reported that 59% of the studies found a positive association between CSR and financial success, while only 14% found a negative relationship, and 27% reported no significant relationship. Orlitzky, Schmidt, and Rynes (2003) took reputation as a proxy for corporate social and environmental responsibility and conducted a meta-analysis. Their study found a positive connection between CSR and financial outcomes. Margolis, Elfenbein, and Walsh (2009) reviewed a wide sample of 251 studies and concluded that CSR had a relatively weak but positive impact on financial success.

Several studies find insignificant or neutral connections between CSR and CFP (McWilliams & Siegel, 2000; Lima Crisóstomo et al., 2000). Between 2003 and 2005, Chih, Chih, and Chen (2010) looked at the determinants of CSR for 520 financial organizations in 34 countries. The findings demonstrated that larger companies were more concerned with CSR, and that financial performance and CSR were unrelated. Deng, Ji, and Liu (2021) also found inconclusive evidence for Chinese entrepreneurs. Despite using similar methods, control variables and determinants, the root cause of insignificant connection is broadly unknown.

2.3 Approaches to capture CSR

CSR measurement can be traced back to four groups: disclosure-based measures, rating-based measures, financial measures, and perceptual measures. Content analysis (of qualitative or quantitative data) is used to create disclosure-based measures that are extracted from documents, such as annual reports or websites. During the last two decades, CSR has become an integral aspect of corporate annual reporting. In most annual reports, companies dedicate a particular section to CSR reporting. This disclosure is the channel by which a firm's commitment to all stakeholders is communicated to the users of the annual reports. Several studies have utilised content analysis of annual report disclosures to measure CSR (Moore, 2001; Karagiorgos, 2010; Luethge & Han, 2012; Jose & Saraf, 2013). It is important to note that disclosure requirements might be different in different countries, making comparisons among companies difficult.

Another frequent way to measure CSR is through rating-based measures or rating indices. These indices are often prepared by external observers and rating (and ranking) agencies. The output can be used to rank companies based on their CSR reporting index. The Kinder, Lydenberg, and Domini (KLD) Stats database is an example of this type of index (Harrison & Freeman, 1999). Several extant studies, like Servaes and Tamayo (2013), Jo and Harjoto (2011), and Gregory et al., (2014) have used this index as a basis for measuring CSR.

The third category includes financial CSR measures that are calculated based on the amount of money spent by businesses on CSR-related aspects. Environmental protection, donations, labour issues, human resources, and community involvement are some examples of CSR spending reported in annual reports. Donations were utilized as a CSR measure by Navarro (1988) and Brammer and Millington (2008). Bolanle (2012) utilized total CSR spending as a metric in his paper. In this situation, CSR spending encompasses all efforts that fulfil a company's social duty. Financial reporting is predominantly a matter of large firms.

Perceptual CSR indicators are utilized as a foundation for evaluating enterprises' social performance based on the perception of the stakeholders. Employees, consumers, suppliers, and investors may have different perspectives on CSR. Employee perception is the most well-known CSR perceptual measure, which is employed as a measure of CSR by Carter (2005) and Gyves and Higgins (2008).

2.4 Hypotheses development

Galant and Cadez (2017) suggested that the significant mismatch in the CSR and financial performance nexus is partly due to the measurement techniques used in different studies. One of the major attributes that moderate the measurement problem is the type of industry the company belongs to. Industry-specific characteristics explain varying levels of relationship between CSR and financial outcomes. Cochran and Wood (1984) discovered a robust link between CSR and financial performance even after controlling for the industry characteristics. For market-oriented non-state-owned firms, Kao et al. (2018) reported a positive association between CSR and performance. Similar relationships were reported for large innovative corporations after successful innovations (Mishra, 2017), and for large US corporations (Tsoutsoura, 2004). Awaysheh et al. (2020) found that firms with better CSR performance experienced relatively higher market value than their comparable. The above results suggest a robust positive connection between overall CSR initiatives and their financial performance. Given this robust connection, we hypothesise for this study that:

> H1: A higher degree of overall CSR has a positive connection with the financial performance of the firms in Palestine.

Scholtens (2008) investigates the relationship between financial and social performance as evaluated by overall social engagement and sub-dimensions of community involvement, employee relations, diversity, environment, and products. The study also found that the nexus is driven by more financial reasons than community engagement. However, according to Barauskaite and Streimikiene (2021), companies with clear CSR disclosure enjoy a greater competitive advantage based on a long-term positive public image or reputation. This reputation connects strongly to higher revenue and return on investment. Okafor, Adeleye, and Adusei (2021) added that investing in causes that benefits the wider community found a strong link with long-term growth of the US technology firms. Maqbool and Zameer (2018) reported similar results on Indian banks: closer to the community, better is the financial outcomes. Given the importance of community connection that adds positively to the image of the company, and its financial performance, we hypothesise that:

> H2: Higher community engagement positively influences the financial performance of firms in Palestine.

Taking care of stakeholders – employees – is a strong dimension of modern-day CSR. Alongside paying them comparable packages or value for their hard work and trust, companies are expected to ensure a culture of a healthy working environment, welfare and training programmes, and a high standard of workplace safety. While research on human resources as a dimension of CSR is limited, Nguyen and Nguyen (2021) presented evidence on corporate policies on the environment, community, employees and products, and consumers and suppliers from Vietnam. Their study found a close positive connection between 'taking care of employees and better corporate performance.

Employee welfare is a key dimension of CSR. Employees contribute to the research and innovation activities that help deliver high-quality services to the customers, which eventually connects strongly to value (Freeman & Velamuri, 2006). Other social engagement activities also closely depend on effective employee empowerment, which ensures 'convenience' for customers in return for higher financial benefits for the firms (Andaleeb et al., 2016; Bhattacharya & Sen, 2004). Siegel (2020) rightly defined CSR as how customers, employees, and suppliers perceived corporate social engagement goals. However, evidence of human resources as a dimension of CSR in developing markets is rare. To test this, we hypothesise that:

> H3: Higher employee welfare activities are positively connected to the corporate financial performance of firms in Palestine.

Environmental protection is another key component of CSR. Stakeholders expect the firms to confirm their active role in safeguarding the environment. Climate change is a reality and large as well as small firms are expected to include climate vulnerability in their key strategy. Nguyen, Agbola, and Choi (2021) studied mining companies in Australia and found a strong connection between CSR and financial performance. Conventional wisdom suggested that environmental protection should be a key strategic element only for selective industries and potential for large firms with deep climate impact. Alongside mining, other similar industries include oil and gas, transportation, and even the food sector. However, recent climate realities force us to disagree on that, as such all firms have their responsibilities, even though not equal, towards improving environmental screening of corporate operations.

CSR activities are often more aligned with customer and employee satisfaction rather than environmental safety (McDonald & Lai, 2011). While it is easier for large companies to invest in redesigning production and industrial processes that ensure environmental safety, smaller firms from developing countries may find it difficult to establish an environment-friendly investment policy. There are countries where environmental protection is often ignored or become secondary to other areas, such as political instability or poverty reduction. Firms in these countries find environmental reporting less connected to strategic decision-making (Bouten et al., 2019). Based on legitimacy theory, firms, therefore, end up spending less time on the environment and more on activities that directly connect to better performance (Azmi et al., 2020). Given its conflicting evidence, we would like to test the environmental dimension of CSR to closely connect to performance using the following hypothesis:

> H4: Higher environmental CSR activity positively influences the financial performance of the firm in Palestine.

Being customer-centric is one of the most important dimensions of CSR. Firms are expected to take good care of the environment and society. However, they cannot survive unless they improve the quality of products and services offered to customers. Continuous quality improvement through innovation is a key attribute of socially responsible firms (Manohar & Pandit, 2014). Firms that invest in creating a culture of quality and innovation enjoy superior customer loyalty and financial outcomes (Davila et al., 2005). Socially responsible firms offer superior convenience to their customers and support customer co-creation for a better experience (Andaleeb et al., 2016), which helps achieve higher customer-related financial outcomes (i.e., higher revenue). We hypothesise that:

> H5: Better quality product and customer service is positively connected to better financial performance of firms in Palestine.

3. RESEARCH METHODOLOGY

3.1 Data

Based on several past studies (Nguyen & Nguyen, 2021; Kong et al. 2020), this study has used secondary data reported in the annual reports. Annual reports are the most important source of disclosures since they include dedicated sections that report CSR information. Annual reports also include information on financial performance. This study covers all listed companies in Palestine: both financial and non-financial. The number of registered firms on the Palestinian Stock Exchange (PEX) was originally 48. However, the delisting of the two firms due to financial difficulties left us with a sample size of 46. Banking, industrial (manufacturing), investment, insurance, and services are the segments that are included in the sample. The data frame for analysis is a relatively stable period between 2016 and 2019. The final sample includes a total of 183 firm-year observations. Details are presented in Table 1. Table 1 shows that the majority of our sampled firms are from the industrial sector, followed by the investment sector.

Table 1: Sample of the study by sector and year

Sector	Sampled firms in 2016	Sampled firms annually for 2017-2019	Total sampled firm-year	Number of listed firms by 2020	Market capitalization (USD), end of 2020
Banking sector	7	7	28	7	1,023,239,849
Industry sector	13	13	52	13	379,966,479
Insurance sector	7	7	28	7	214,802,000
Investment sector	9	10	39	10	725,066,387
Service sector	9	9	36	9	1,103,838,801
Total	**45**	**46**	**183**	**46***	**3,446,913,516**

Source: https://web.pex.ps.

Notes: * Two companies were delisted in 2020, making the total count 46 (compared to 48 at the end of 2019).

3.2 Measurement of CSR

A growing list of research on CSR considers disclosure-based CSR measures based on the contents published in the annual reports (Moore, 2001; Karagiorgos, 2010; Luethge & Han, 2012; Jose & Saraf, 2013; Nguyen & Nguyen, 2021; Turyakira, Venter, & Smith, 2014). Most existing CSR measurements lack diversity as these meet specific requirements of large firms from stable economic condition. In this study, we follow Gray, Owen, & Maunders (1987) and Gray, Kouhy, & Lavers (1995). Turyakira et al. (2014) claim that stakeholder theory is the base for choosing these dimensions of CSR. As we needed to modify the CSR measures to fit the unique condition of Palestinian context, we have based our CSR measures on Abu Alia and Mardawi (2021) that considers prioritizing CSR for the Palestinian setting.

Our CSR measures include one major and four sub-indices. The major index is the composite CSR reporting index. The four sub-indices are based on CSR activities treated as or relevant to environment, human resources, community involvement, and product or service quality as main stakeholders (See Appendix 1 for a description of the items). Data are collected in several stages. We have started with downloading annual reports of the companies from the website of the Palestinian Stock Exchange (PEX). Next, based on Weber (1990), we conduct content analysis using items in Appendix A as the basis to find the 'presence' or 'absence' of these items in the annual report. The items were then coded with '1' and '0' for presence and absence. An average score of the items was then used to form the respective indices. For instance, the CSR index is calculated as the average: $(\sum X_i \div n)$, of the items of all categories.

3.3 Measures of corporate financial performance (CFP)

Lima Crisóstomo et al. (2011) define financial performance as the results of a firm's policies in operational terms and the degree to which financial objectives have been attained. CFP is a metric that assesses firms' ability to create revenue from their resources, and it may be used to compare performance among competing firms in the same industry (Servaes & Tamayo, 2013).

A range of CFP measures is found in the literature. Most measures however indicate accounting and (stock) market performance. Strong arguments are available against both types of measures, as such the opponents of accounting measures, for instance, believe that CFP based on accounting measures are susceptible to managerial manipulation and must be adjusted to reflect risk and industry characteristics (McGuire et al., 1988; Tsoutsoura, 2004). The ratio of operating earnings to assets, the ratio of operating earnings to sales, and excess market value were used by Cochran and Wood (1984). McGuire et al. (1988) measured corporate performance and risk using a combination of accounting and stock market-based measures.

Notably, accounting metrics were used in most of the research. Return on assets (ROA), Return on Equity (ROE), and Return on Investment (ROI) were found as proxies for financial accounting performance by Preston and O'Bannon (1997), Tsoutsoura (2004), Lima Crisóstomo et al. (2011), and Nguyen and Nguyen (2021). Orlitzky et al. (2003) argued that accounting-based measures were more closely linked to business performance than market-based indicators. Tobin's Q, which is defined as the ratio between a company's market value and its accounting value, has been employed as a proxy for firm value in several studies (Jo & Harjoto, 2011; Servaes & Tamayo, 2013; Okafor, Adeleye, and Adusei, 2021). The argument behind Tobin's Q is that the ratio potentially connects accounting and market performance.

This study used both accounting and market variables to measure company performance. Return on Assets (ROA) and Return on Equity (ROE) are the accounting performance measurements chosen. The first is arrived at by dividing net income by the total assets. The second is determined by dividing net income by the equity of the company. Tobin's Q, a market-based indicator, is also used. Q ratio is presented as the ratio of market value and replacement cost (Panaretou et al., 2013). Replacement cost is not easy to calculate. Therefore, several studies suggested a simpler way to estimate Tobin's Q ratio. Based on Perfect and Wiles (1994), we calculate Q ratio as: $[(BVD + MVE) \div TA]$. Here, BVD stands for book value of debt, MVE for market value of equity, and TA is for total asset.

3.4 Control variables

Company size, financial risk, and industry are frequently cited control variables in CSR-related studies within one country (Beck, Frost, & Jones, 2018; McWilliams & Siegel, 2000; Lima Crisóstomo et al., 2011; Tsoutsoura, 2004; Griffin & Mahon, 1997). Smaller organizations differ significantly in their CSR engagement. Large, listed companies face severe institutional and stakeholder pressure to preserve the rights of various stakeholders, which is relatively less significant for smaller firms. Also, smaller firms individually have less environmental footprint than larger firms. Hence, size is considered a control variable. Size is measured by taking the log of the total asset. Financial risk is another key factor to examine, with a company's leverage (total liabilities divided by total assets) serving as a proxy for the company's risk exposure. Companies already in the high-risk zone may not invest more to uphold their CSR status. We also control for the type of industry as industries have varying attention to CSR. For instance, the financial sector takes CSR differently than the industrial sector. The study includes industry dummies to capture differences in the CSR-CFP nexus across industries.

3.5 Empirical model

Based on a panel data approach, the hypotheses of this research will be examined through the estimation of the basic model shown in Equation 1 below. All regressions were estimated using Estimated Generalized Least Squares (EGLS) approach to account for heteroskedasticity and autocorrelation of the residuals. Previous studies on CSR employs estimated GLS method (see Liang & Renneboog, 2017).

$$CFP_{it} = \beta_0 + (\beta_1 \times CSR_{it}) + (\beta_2 \times LEV_{it}) + (\beta_3 \times SIZE_{it}) + (\beta_4 \times D\_BANK_i) + (\beta_5 \times D\_INSU_i) + (\beta_6 \times D\_INVS_i) + (\beta_7 \times D\_SERV_i) + \varepsilon \qquad (1)$$

where, CFP stands for corporate financial performance, which is measured by either ROA, ROE, or Tobin's Q in different models. CSR is used as a broader proxy for the CSR disclosure index. Independent CSR indices for each dimension will also be used in separate models. Size is used to denote the size of a firm calculated by the log of the firm's total assets. LEV is a proxy for the financial risk of a firm, calculated by dividing total debt by total assets. D_BANK, D_INDU, D_INSU, D_SERV, and D_INVS are the five dummy variables used respectively for the banking and financial services sector, industry sector, insurance sector, service sector, and investment sector. The D_INDU is dropped in the regression to avoid the dummy trap. $'\varepsilon'$ stands for the error term.

4. RESULTS

4.1 Descriptive indicators and correlation analysis

Table 2 provides details on the CSR proxies used for four CSR dimensions. The degree of compliance of Palestinian firms with CSR proxies is reported according to their sectors. Overall CSR index is the lowest in the investment sector with only a 27.75% reporting score. The highest is reported in the banking sector, followed by the industrial sector. Even though the reported CSR scores cannot be directly compared among sectors, reporting by the insurance, investment and services are generally poorer. The average reporting score is 38.43% - a below-average disclosure performance.

Reporting of the overall CSR index and most of its components was increasing over time for most sectors. Among the four CSR dimensions, 'product and customer services quality (PCSQ)' amassed the highest compliance rate of 51.36%, which is closely followed by 'community involvement (COMM)' and 'human resources (HRES).' Reporting on 'environmental information (ENV)' has been the poorest across all industries, with a total score of only 16.36%. The reported scores offer a quick look at the poor commitment of Palestinian firms toward the environment.

Table 2: Compliance with CSR disclosure by sector and year

Sector/year	Environmental Information Index (ENV)	Human Resources Index (HRES)	Community Involvement Index (COMM)	Product And Customer Service Quality Index (PCSQ)	Overall CSR Index (CSR)
Banking	**15.36%**	**50.71%**	**84.52%**	**57.14%**	**48.45%**
2016	15.71%	48.57%	80.95%	54.29%	46.67%
2017	17.14%	50.00%	83.33%	54.29%	48.10%
2018	14.29%	51.43%	83.33%	60.00%	48.57%
2019	14.29%	52.86%	90.48%	60.00%	50.48%
Industry	**24.69%**	**54.69%**	**45.92%**	**62.04%**	**45.99%**
2016	23.08%	51.54%	48.72%	63.08%	45.13%
2017	22.31%	55.38%	48.72%	61.54%	45.90%
2018	23.85%	54.62%	42.31%	60.00%	44.62%
2019	31.00%	58.00%	43.33%	64.00%	49.00%
Insurance	**7.86%**	**48.57%**	**33.33%**	**52.14%**	**34.17%**
2016	5.71%	45.71%	35.71%	45.71%	31.90%
2017	5.71%	47.14%	30.95%	51.43%	32.38%
2018	10.00%	48.57%	30.95%	54.29%	34.76%
2019	10.00%	52.86%	35.71%	57.14%	37.62%
Investment	**12.97%**	**28.92%**	**35.59%**	**40.00%**	**27.75%**

Sector/year	Environmental Information Index (ENV)	Human Resources Index (HRES)	Community Involvement Index (COMM)	Product And Customer Service Quality Index (PCSQ)	Overall CSR Index (CSR)
2016	14.44%	22.22%	42.59%	42.22%	27.78%
2017	15.00%	24.00%	31.67%	38.00%	25.67%
2018	10.00%	33.00%	25.00%	38.00%	25.67%
2019	12.50%	37.50%	45.83%	42.50%	32.92%
Service	**15.88%**	**41.47%**	**40.69%**	**42.94%**	**34.41%**
2016	15.56%	41.11%	40.74%	37.78%	33.33%
2017	16.67%	41.11%	42.59%	44.44%	35.19%
2018	16.67%	43.33%	42.59%	44.44%	35.93%
2019	14.29%	40.00%	35.71%	45.71%	32.86%
Grand Total	**16.36%**	**45.11%**	**46.88%**	**51.36%**	**38.43%**

Table 3 presents the descriptive statistics for the variables considered in this investigation. ROA, ROE and TQ are the three performance indicators and the dependent variables. CSR is the composite CSR index. LEV and SIZE are the two control variables. COMM, ENV, HRES, and PCSQ are the four CSR dimensions used as independent variables in separate models.

Table 3: Descriptive statistics

Items	ROA	ROE	TQ	CSR	LEV	SIZE	COMM	ENV	HRES	PCSQ
Mean	0.031	0.097	1.169	0.384	0.416	15.797	0.469	0.164	0.451	0.514
Median	0.024	0.061	1.001	0.4	0.375	16.114	0.5	0.1	0.5	0.6
Max	0.215	3.418	4.267	0.9	0.915	20.975	1	0.8	1	1
Min	-0.622	-1.209	0.296	0.033	0.017	8.01	0	0	0	0
S. Dev.	0.075	0.324	0.658	0.189	0.253	2.135	0.357	0.181	0.219	0.236
Obs.	180	180	180	176	180	179	176	176	176	176

Notes: ROA = Return on assets, ROE= Return on equity, TQ = Tobin's Q ratio, CSR = composite CSR index, LEV = leverage, SIZE = company size, COMM = CSR measure for community involvement, ENV = CSR measure for environment, HRES = CSR measure for human resources, and PCSQ = CSR measure for product and customer services quality. Max = maximum value, MIN = minimum value. S. DEV = Standard deviation, Obs. = observation.

An average firm from the sample had 3.1% of return on asset, 9.7% of return on equity, and 1.099 of Tobin's Q ratio. Average CSR index was 0.384, which is a below average disclosure performance. Percentage of debt was around 41.6%, indicating that companies were mostly financed with equity capital. Among the four individual CSR dimensions, companies disclosed much more information on PCSQ, compared to ENV. This briefly indicates lack of environmental awareness and action plans among the Palestinian firms similar to Abu Alia and Mardawi (2021).

Correlation matrix is shown in Table 4. The matrix does not indicate any severe correlation issues that may lead to multicollinearity problems. Our primary interest is around the variable CSR, which is the composite CSR reporting index. Among the non-CSR dimensions, CSR has a positive correlation with all five variables. Among the CSR dimensions, ENV shows negative relationship with ROE and LEV. The relationship between CSR and ROE is weaker than the relationship between CSR and ROA. TQ exhibits a weaker positive link with CSR than other performance indicators.

Table 4: Correlation matrix

Variables	ROA	ROE	TQ	CSR	LEV	SIZE	COMM	ENV	HRES	PCSQ
(1) ROA	1.00									
(2) ROE	0.46	1.00								
(3) TQ	0.04	-0.09	1.00							
(4) CSR	0.20	0.07	0.03	1.00						
(5) LEV	-0.13	0.18	-0.21	0.26	1.00					
(6) SIZE	0.20	0.16	-0.16	0.31	0.46	1.00				
(7) COMM	0.18	0.09	-0.05	0.79	0.30	0.32	1.00			
(8) ENV	0.23	-0.02	0.00	0.71	-0.10	0.15	0.34	1.00		
(9) HRES	0.08	0.05	-0.01	0.85	0.33	0.25	0.52	0.49	1.00	
(10) PCSQ	0.17	0.09	0.28	0.70	0.24	0.21	0.49	0.33	0.53	1.00

4.2 Estimation Results

Table 5 presents the results from the basic models involving a composite CSR index and the industrial classification. Panel A shows the results of the regression analysis using financial performance as the three dependent variables (ROA, ROE, and TQ), and the two control variables (LEV and SIZE) and composite CSR index (CSR) as the independent variables.

Results from Panel A show that CSR strongly positively influences ROA, ROE, and TQ. Higher leverage is found to decrease ROA and TQ, and large size decreases Tobin's Q ratio. In Panel B, we introduce the sectoral dummies to control for the industry-fixed effect. After introducing the dummies, interactions between CSR and the three performance indicators have significantly improved except for TQ. Both accounting, as well as market performance indicators, show a strong positive relationship with the CSR index with and without industry dummies.

Palestinian market and economy are relatively smaller and politically unstable, which could explain the reduction in the TQ effect after introducing industry dummies. This market is also characterized by high levels of speculation, which has an impact on stock prices. Therefore, the models with TQ should be discussed with care. R-squared in the TQ models are also significantly lower.

The positive relationship between CSR and financial performance is supported by a group of existing studies from non-Palestinian cases (McGuire et al., 1988; Orlitzky et al., 2003; Cochran & Wood, 1984; Waddock & Graves, 1997; Gregory et al., 2014; Tsoutsoura, 2004; Preston & O'Bannon, 1997; Maqbool & Zameer, 2018; Simpson & Kohers, 2002). Sameer (2021) reported a positive connection between CSR and ROE and EPS in a similar smaller economy: Maldives. SIZE is positively related to performance in both ROA and ROE. LEV is negatively related to ROA and positively related to ROE, implying that leverage reduces the return on assets by reducing the income available to all money suppliers, but leverage improves the final return to equity holders.

Table 5: Determinants of composite CSR disclosure index

Variables	Panel A			Panel B		
	ROA	ROE	TQ	ROA	ROE	TQ
CSR	0.072***	0.046***	0.367***	0.098***	0.126***	0.237***
	0.009	0.014	0.061	0.011	0.020	0.070
LEV	-0.085***	0.084***	-0.314***	-0.104***	-0.081***	-0.216**
	0.006	0.017	0.056	0.007	0.018	0.106
SIZE	0.01***	0.011***	-0.019**	0.007***	0.013***	-0.030***
	0.001	0.002	0.007	0.001	0.0019	0.009
C	-0.113***	-0.162***	1.384***	-0.083***	-0.181***	1.640***
	0.014	0.022	0.105	0.013	0.023	0.140
Industry Dummies	No	No	No	Yes	Yes	Yes
R^2	0.538	0.552	0.32	0.747	0.652	0.233
Obs.	174	174	174	174	174	174

Notes: The estimation method is EGLS with cross-section weights. '*', '**', and '***' denote significance levels at 10%, 5%, and 1% levels. Standard errors are in parentheses. Industry Dummy indicates dummy variables for industrial classification are included.

Tables 6 and 7 show the results of the CSR sub-indices. In Table 6, Community involvement (COMM) shows a positive impact on ROA and ROE. Environmental information (ENV) positively influences the ROA model. Our results on ENV present a better theoretical fit (i.e., positive significant connection with CFP) compared to the results presented in Sameer (2021) for the Maldives. It is interesting why an environmentally challenged country like the Maldives did not exhibit a significant connection between environmental engagement and CFP. We have also found an insignificant connection between the ENV, and the three proxies of CFP (ROE and TQ).

Long-term sustainable environmental policies and regular reporting exercises of the best environmental practices in Palestine will help post a good image in the minds of the stakeholders.

In Table 7, all performance indicators show a positive connection to the human resources (HRES) and service quality (PCSQ) factors. In the Palestinian context, the environmental dimension appears to have the lowest robustness of the impact on financial performance. This could be due to a lack of environmental awareness among businesses, investors, and consumers. The insignificance of TQ models is also worthy of future research. In our initial observation, we forward that political instability and chances of speculation (in a relatively smaller market) are responsible for the limited impact of some CSR dimensions on market performance (TQ models).

Table 6: CSR Dimensions and CFP

CSR Dimension	Panel C			Panel D		
	ROA	ROE	TQ	ROA	ROE	TQ
COMM	0.053***	0.081***	0.065			
	(0.006)	(0.008)	(0.050)			
ENV				0.059***	0.029	0.048
				(0.013)	(0.020)	(0.090)
LEV	-0.098***	-0.096***	-0.250**	-0.082***	-0.051**	-0.172
	(0.009)	(0.015)	(0.113)	(0.008)	(0.021)	(0.108)
SIZE	0.006***	0.012***	-0.014	0.008***	0.017***	-0.018*
	(0.001)	(0.001)	(0.009)	(0.001)	(0.002)	(0.010)
C	-0.054***	-0.143***	1.488***	-0.082***	-0.215***	1.562***
	(0.014)	(0.015)	(0.153)	(0.014)	(0.025)	(0.171)
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.644	0.709	0.250	0.624	0.556	0.209
Adjusted R-squared	0.629	0.697	0.219	0.609	0.538	0.175
F-statistic	42.939***	57.766***	7.910***	39.423***	29.734***	6.249***
Observations	174	174	174	174	174	174

Notes: The estimation method is EGLS with cross-section weights. '*', '**', and '***' denote significance levels at 10%, 5%, and 1% levels. Standard errors are in parentheses. Industry Dummy indicates dummy variables for industrial classification are included.

Table 6: CSR Dimensions and CFP (Continued)

CSR Dimension	Panel E			Panel F		
	ROA	ROE	TQ	ROA	ROE	TQ
HRES	0.037***	0.043**	0.183**			
	(0.012)	(0.018)	(0.073)			
PCSQ				0.067***	0.085***	0.748***
				(0.007)	90.011)	(0.057)
LEV	-0.094***	-0.067***	-0.215**	-0.110***	-0.098***	-0.569***
	(0.009)	(0.022)	(0.107)	(0.010)	(0.019)	(0.100)
SIZE	0.010***	0.017***	-0.024**	0.008***	0.015***	-0.043***
	(0.001)	(0.002)	(0.010)	(0.001)	(0.002)	(0.009)
C	-0.105***	-0.216***	1.552***	-0.092***	-0.201***	1.608***

	(0.015)	(0.024)	(0.151)	(0.013)	(0.026)	(0.157)
Industry Dummy	Yes	Yes	Yes	Yes	Yes	Yes
R-squared	0.536	0.578	0.239	0.640	0.638	0.588
Adjusted R-squared	0.517	0.560	0.207	0.625	0.623	0.571
F-statistic	27.440***	32.488***	7.468***	42.124***	41.859***	33.861***
Observations	174	174	174	174	174	174

Notes: The estimation method is EGLS with cross-section weights. '*', '**', and '***' denote significance levels at 10%, 5%, and 1% levels. Standard errors are in parentheses. Industry Dummy indicates dummy variables for industrial classification are included.

Overall, our hypotheses are accepted based on the theoretical relationships and research findings. These indicate that there exists a robust positive connection between CSR and CFP. The 'Environment' and 'Product and Service Quality' are the two least and most significant factors, respectively, that deserve additional discussion. In 2020, United Nations[1] publishes an extension of the earlier report by the United National Environmental Programme on environmental protection in the Palestinian territory. The report finds lack of cooperation at the individual, corporate, and state levels that leads to severe environmental digression in terms of wastewater management, use of unauthorised capital in farming, and hazardous chemical destroying the ecological reserve.

In 2018, Ziad Amra[2], the legal advisor to the Ministry of Planning and International Cooperation (MOPIC), suggested threefold solutions. These include, 1) establishing basic infrastructure for pollution control, 2) effective collaboration between donor agencies and the local authorities for long-term solutions, and 3) building public awareness of sustainable development goals. Our results indicate that effective corporate policy and enforcement of environmental protection would be possible once the legal system for environmental protection is active. A strong collaboration between PEX, auditing firms, and the central authorities on the environmental causes must work together to build a composite reporting need assessment on environmental protection in Palestine.

The other important aspect is community involvement, which is influenced by the very social objective, driving the community towards communitarianism or neoliberalism (Cowden & Singh, 2017). 'Politics of secularism' that may help question the basic realities behind the lack of social cohesion, may also help explain the community involvement. Companies that represent a community create a sense of social cohesion as if they are guarding the interest of the community members. These companies are seen as 'answers' to poverty, inequality, and unemployment within the community. We believe that

[1] https://www.un.org/unispal/document/state-of-environment-and-outlook-report-for-the-opt-2020-un-environmental-program-report/

[2] https://pij.org/articles/426/the-development-of-palestinian-environmental-law-and-legal-advocacy

Palestinians tag themselves to similar community principles, in bad and good times, that accordingly to their belief will help them achieve socio-economic realities. The company that preserves these values should see better performance.

5. CONCLUSION

CSR positively influences financial performance, which is explained using the lenses of stakeholder and institutional theories for firms from a relatively stable and stronger financial system. Contexts similar to Palestine, with a prolonged period of extreme political events, a smaller economy, and a close community, are rare in CSR literature. We investigate the CSR-CFP nexus in Palestine by taking the entire sample from Palestine Stock Exchange for the period 2016-2019. Five CSR indices were used; one each for a composite CSR index, environmental information, community involvement, human resources, and product and customer service quality. Companies are subcategorised into sectors.

We forward that, overall, there is a strong connection between CSR and CFP. The connection is stronger when industrial classification is taken into consideration. We find stronger and more robust results for accounting-based measures of financial performance when compared to market-based measures. The reason lies in the smaller size and influence of the stock market in the Palestinian corporate landscape. Among the dimensions of CSR, product and customer service quality has been the most and environment has been the least important dimension influencing financial performance.

Our results support that community cohesion is an important aspect that connects Palestinian institutions with their customers. This cohesion is rooted in family, social and spiritual grounds that benefit a stronger tie between the institutions and the people. As most companies are smaller in size and owned by close families, companies pay close attention to building long-term relationships through charitable donations to social causes. They take part in educational events, finance events that benefit society, and the purpose that lead the society to form and maintain community cohesion.

We also forward that, following several reports by the World Bank, the environmental responsibility of the Palestinian corporations must be resolved in a sustainable manner. This requires strong collaboration between the local authorities and donor agencies. However, the biggest role should be played by the residents. They must be aware of the type of environmental degradation around them and remedies to resolve those problems.

There is no substitution for stronger administration and a stable political landscape to ensure effective social engagement by companies in Palestine.

We strongly suggest Palestinian listed firms focus more on practising and publicizing CSR activities, based on the research findings because CSR has a favourable impact on financial success. Listed companies should also make their CSR data simpler to view and understand. Firms in Palestine should revisit Research and Development (R&D) activities, product discovery, customer satisfaction, and service quality to improve overall customer experience. Innovation will help achieve better quality, safety, environmental protection, and community cohesiveness.

The lack of ready databases for Palestinian-listed firms was one of the drawbacks of this study. Some Palestinian-listed firms do not report their CSR operations sufficiently, while others do not disclose them at all. Furthermore, the Palestinian economy is smaller in comparison to other markets. As a result, some specific metrics of firm value, such as Tobin's Q, appear to be less robust in the context of Palestine. Also, due to differences in regulation and structure, financially listed firms may affect the results of this study. Future studies may consider including these in separate models. The lack of sufficient data prohibited us from investigating such separate models. More financial metrics and alternative approaches to measuring CSR should be investigated in future research.

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Appendix A: CSR Index checklist

Environmental Information
1 Environmental policy, including environmental protection and pollution control programs (air and water,… etc.)
2 Activities and donations to promote environmental awareness
3 Compliance with environmental laws and regulations and cooperation with environmental authorities and agencies
4 ISO 14001 certification
5 Recycling plant of waste products
6 Water or electricity conservation
7 Disposal of waste materials and industrial water in a proper manner
8 Tree-planting and landscaping projects
9 Pollution control in the conduct of business operations
Human Resources
10 Number of employees
11 End of service benefits
12 Disclosure the educational level of employees
13 Employees' welfare programs (e.g. housing, transportation and meals)
14 Minorities in the workforce
15 Employees' health insurance
16 Training programs
17 Cooperation with labor unions
18 Providing recreational activities and facilities for employees
19 Safety in the workplace
Community Involvement
20 Charitable donations and grants
21 Donations to educational programs and public educational institutions
22 Donations to health programs and public-health institutions
23 Offering training programs for students
24 Sponsoring sports, arts, cultural and recreational activities
25 Nationalism (donations to refugee camps)
Product and Customer Service Quality
26 Information about the quality of products and services provided to customers (e.g. compliance with ISO quality standards)
27 Research and development programs related to the company's products and services
28 Customer service improvement
29 Customer complaints or satisfaction

30 Product safety

Note: Adopted from Abu Alia, M. J. & Mardawi, Z. M. (2021). The Impact of Ownership Structure and Board Characteristics on Corporate Social Responsibility Disclosed by Palestinian Companies. *Jordan Journal of Business Administration*. 17(2), 254-277.