Abstract

of the dissertation work of Orazayeva Assem Zhanatayevna on the topic: “The effects of financial indicators on the level of Corporate Social Responsibility of firms from developing countries”, submitted for the degree of Doctor of Philosophy (Ph.D.) in the program of education – 8D04105 Finance.

1. General characteristics of the research topic

This study examines the influence of financial indicators on the level of Corporate Social Responsibility of firms from developing countries.

2. Relevance of research topic

The growing social role that business inevitably plays in society motivated this study. Despite a large body of academic studies on CSR which has emerged in recent decades, the main focus of prior research has been the effects of CSR on various business aspects, leaving the predecessors of socially responsible behavior strikingly neglected. In addition, an infant stage of formal CSR in developing countries creates a research problem of vague causalities of social behavior by firms in these economies, as the “why CSR” question in the context of developing countries remains unanswered. This study addresses the issue by examining potential contributors to socially responsible practices by firms from developing part of the world. Particularly, this study examines whether the financial condition of the firm as presented by its financial indicators plays a significant role in its eagerness to engage in socially responsible practices.

3. Research goal and objectives

The main purpose of this study is to examine the effects, if any, of financial indicators of firms from developing countries on their level of Corporate Social Responsibility. To achieve this goal, the following research objectives are set:

- Determine the direction and significance of the impact of profitability of firms from developing countries on CSR and CSR pillars.
- Determine the direction and significance of the impact of slack resources of firms from developing countries on CSR and CSR pillars.
- Determine the direction and significance of the impact of the level of leverage of firms from developing countries on CSR and its pillars.

4. The theoretical and methodological basis of this study

This study presents an integrated perspective to determine factors that can impose an effect on socially responsible behavior in developing countries. Explanatory variables include both internal motives, as well as external factors beyond the firm’s control. For internal motives, which also present the main focus of this study, financial indicators of the firm are selected. In particular, profitability, availability of slack resources, and the level of debt are utilized, based on the theoretical basis of Carroll’s CSR pyramid, resource-based perspective, and

stakeholder theory. Concerning the external factors, government effectiveness, and public voice are employed, founded on the institutional theory and stakeholder theory, respectively. Such a complex framework which relies on multiple factors and theoretical grounds is dictated by the multidimensional nature of the CSR concept.

The effects of financial indicators on the level of CSR are examined by utilizing instrumental variable estimation techniques to address potential endogeneity and heterogeneity issues, which present serious flaws in some prior research examining the CSR-financial performance link. This study also recognizes the complexity of the CSR concept and suggests macro-level variables that have the potential to influence the socially responsible behavior of firms from developing countries. Financial indicators in this study are categorized into profitability, slack resource, and leverage measures. Effects of financials on the overall CSR, as well as separate CSR pillars (Environmental, Social, and Governance), are examined. Statistical data processing was performed by applying Microsoft Excel and E-views 12 statistical package.

5. Data and Methodology

This study is based on financial and social responsibility data for 110 firms representing 20 developing countries over the period 2016-2020. Financial ratios and CSR scores were obtained from the Refinitiv ESG database. The source for macro-level variables comes from the World Bank ratings compiled based on opinion surveys.

The Generalized Method of Moments (GMM) is utilized as the main estimation method of this study, as it is argued to deliver consistent estimates, overcoming the presence of endogeneity and measurement errors.

6. Significance and novelty

This study adds knowledge for a better understanding of the drivers of CSR in the developing parts of the world, thereby calling for more effective implementation of CSR mechanisms that consider the peculiarities of CSR in these countries. A better understanding of the drivers of CSR in the developing world and specifically, the role of financial indicators, can contribute to the creation of a theoretical and methodological base for studying CSR in developing countries and setting new research tasks.

From the practical side, the findings of this study can be useful for implementing, developing, and improving the CSR strategies of firms in developing economies. Understanding the role that financial indicators play in the shape of CSR in developing countries suggests an avenue for the encasement of corporate strategies with consideration of CSR initiatives and their interactions with the firm's finances. Determining the stimulus of firms to undertake CSR can serve as a foundation for creating more effective reporting and monitoring mechanisms.

The scientific novelty of this research comes from the following factors:

- Firstly, the novel research setting of this study contributes new evidence to the ongoing discussion regarding the direction and magnitude of the relationship between CSR and firms' financial performance.
- Secondly, this study utilizes non-traditional financial indicators, such as measures of slack resources and leverage, in addition to standard profitability measures observed in prior research. Moreover, individual CSR pillars (Environmental, Social, and Governance) are examined separately in this study, while in previous works using overall CSR score is more commonly observed.
- Thirdly, this study applies a multi-layered approach that considers both firm-specific factors and external effects, thereby addressing the complexity of the CSR concept.
- Moreover, the study addresses the critique that prior related research on the topic is often subject to limitations of methods. Thus, this study suggests examining the CSR-financial performance relationship utilizing a dynamic linear model which is not commonly observed in previous studies.
- Finally, the novelty of the study comes from the multiple-country setting.

7. Results

Study results indicate that financial indicators disregarding their type (profitability, slack resources, leverage) have an insignificant impact on stimulating the social behavior of firms from developing countries. The exception presents the relationship between the degree of firms' leverage and environmental responsibility, which demonstrates statistical significance. Moreover, the direction of the impact differs depending on the type of financial indicator examined.

The effect of macro-variables on CSR and its pillars also differs. Government effectiveness exhibits no significant influence on social behavior. The second macro variable presented by public voice has a positive impact on CSR and its pillars, with a significant influence exercised on the environmental pillar. Regarding the control variables, a positive impact on the CSR of firms' size is observed. Countries' GDP is found to play an insignificant positive role in shaping firms' social behavior.

Contrary to the initial predictions of this study, it was observed that the profitability of the firm is a poor predictor of the level of CSR of firms from developing countries. Moreover, it was observed that accounting-based and market-based indicators impose effects in different directions.

Secondly, with regard to organizational slack, this study initially suggested a resource-based perspective arguing that a firm's CSR depends on the availability of internal resources, with a higher resource base increasing the probability of CSR engagement. However, the findings of this study indicate that higher slack resources do not necessarily motivate more socially responsible behavior. The relationship between slack resources and CSR was observed to be negative and insignificant.

Thirdly, with regard to the level of leverage, findings are in line with the initial prediction based on stakeholder theory whereby more socially responsible firms tend to employ less debt in their capital structure, to build higher protection from bankruptcy risk. Though, the power of leverage to discourage CSR initiatives is small, as the statistical significance of the results is lacking.

8. Personal contribution of the author

The author of the work participated in the choice of the concept and object of research, determining the purpose of the work, setting research objectives, as well as in the design and running all regressions, collecting and analyzing the data obtained, and writing a dissertation.

9. Prior publications

The author of this thesis previously addressed the investigation of the relationship between CSR and financial performance in six publications, including 3 published in domestic journals and 2 published in Scopus, and 1 forthcoming in Scopus.