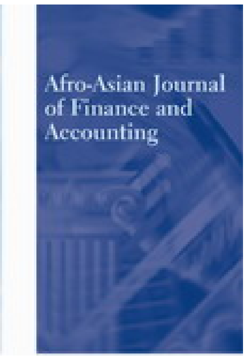

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The effect of corporate social responsibility disclosure on financial performance: evidence from Palestinian banks and insurance public listed companies

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The effect of corporate social responsibility disclosure on financial performance: evidence from Palestinian banks and insurance public listed companies

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Abstract: This study aims at investigating the effect of corporate social responsibility (CSR) disclosure on the financial performance of Palestinian financial listed firms. Content analysis of 13 financial firms' annual reports from the period 2010 to 2016 is assessed based on the existence and comprehension of CSR disclosure. Findings of Pooled OLS regression reveal that the mean value of CSR disclosure is low. The results reveal that CSR disclosure is insignificantly affected by financial performance measured by ROA and Tobin's Q. This study contributes to the existing CSR disclosure literature by extending the prior research to provide additional empirical results from emerging economies including Palestine which rarely has been studied through investigating the effect of CSR disclosure on financial performance. Therefore, this study adds to CSR disclosure literature new empirical results from emerging economies like Palestine with a unique business environment.

Keywords: CSR disclosure; financial performance; Palestine exchange; PEX; stakeholder theory.

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1 Introduction

The association between corporate social responsibility (CSR) and financial performance has received significant interest among researchers. Although the practice of CSR has become an important issue, the demand for a firm's fulfilling its corporate is a global common consensus. Therefore, when pursuing financial performance, firms are concerned to make a balance between corporate growth and CSR practices (Mishra and Suar, 2010; Wang and Hsu, 2011). Academic literature reveals that a firm's practice of CSR is more likely to be motivated by practical reasons associated with firm performance (Amini and Dal Bianco, 2017; Famiyeh, 2017; AlNaimi et al., 2012; Mishra and Suar, 2010; Feng et al., 2017). Sadeghi et al. (2016), as the firm could get advantages of its investment in CSR practices, CSR is considered as one of the important business strategies in a firm. Feng et al. (2017) argue that the performance of a business corporation is affected by its strategies and operation in market and non-market environments. Hence, when making decisions, managers and directors should consider CSR activities. Moreover, in the highly competitive business environment, the sustainability of the firms depends on the effectiveness and efficiency of financial management as well as satisfying various needs of stakeholders (Musallam, 2018; Laskar and Maji, 2016). This means that firms understand and deal with stakeholders' needs through the CSR activities as it is believed that CSR determines the accountabilities of the firm regarding the interests of primary and secondary stakeholders and its social and environmental responsibilities (Platonova et al., 2018). The integration of stakeholders' interests into firms' operations through CSR activities is argued to increase customer loyalty, mitigate the firm's risks (Laskar and Maji, 2016), and assure image building which in turn enhances the firm's reputation (Ullah et al., 2019). Consequently, CSR performance will have a positive influence on the financial performance of a firm, such as increased profitability (Bai and Chang, 2015; Mishra and Suar, 2010; Okpara and Idowu, 2013).

In prior CSR literature, there is no one unified definition of CSR, because of the different definitions introduced in previous research (Wu, 2006; Ali et al., 2017; Becchetti et al., 2008; Choi et al., 2010; Mallin et al., 2014; Okpara and Idowu, 2013). Accordingly, Waddock and Graves (1997) report that CSR is a multidimensional concept. Hussainey et al. (2011) define CSR as the process of reporting the effects of environmental and social of business activities to a specific group in society and society at large. Such a comprehensive definition assumes that the role of the firms not only increases the shareholders' wealth but also considers the interest of other stakeholders. Furthermore, Laskar and Maji (2016) argue that firms consider CSR disclosure as a strategic approach to create a competitive advantage. This is because integrity and transparent disclosure of CSR improve the firm's credibility, reduce its reputational risk (Ullah et al., 2019) and maintain a better relationship with a large group of stakeholders (Habbash, 2016; Lone et al., 2016). Bai and Chang (2015) report that CSR performances have positive effect on the national development when focusing on economic, environmental, and social values to ensure value growth for a firm. CSR is also introduced as the relationship between firm and society where the firm works in Makni et al. (2009) and Musallam (2018).

It is argued that as competition increases, firms are more oriented to achieve differentiation through engaging in socially responsible activities (Mishra and Suar, 2010; Waddock and Graves, 1997). A considerable number of CSR literature has demonstrated that firms integrate CSR activities into business operations to maintain firm's reputation (Surroca et al., 2010), improve customer satisfaction (Bai and Chang, 2015), establish brand equity (Brammer and Millington, 2008), assure legitimacy and increase market returns (Laskar and Maji, 2016; Choi et al., 2010). These are considered as key elements of improved firm performance (Janamrung and Issarawornrawanich, 2015; Mahoney and Roberts, 2007; Mallin et al., 2014). Therefore, adopting CSR is considered a management approach to maintain competitiveness, and hence ensure the sustainability of business development (Feng et al., 2017; Okpara and Idowu, 2013; Sadeghi et al., 2016; Clarkson, 1995).

In the Palestinian context, CSR is regarded as a significant interest of Palestine exchange (PEX). Due to the PEX policy (Palestine of Opportunities) of making PEX attractive for investment, PEX seeks to build a business model to meet a wide stakeholder's needs including employees, society, the environment, and potential foreign investors (Barakat et al., 2015; Musallam, 2018). In support of the confidence of the public and attract a bigger proportion of investments, the Palestine Code of Corporate Governance (PCCG) in 2009, emphasises the practices and disclosure of CSR in listed firms. CCGN (2009) illustrates that in their annual reports, Palestinian Listed firms should disclose CSR activities and programs throughout the year. Furthermore, CSR practices should be attainable in the long run to be influential to the society and community (Musallam, 2018). CCGN (2009) indicates that CSR activities should be in the best interest of related parties as well as improve the firm's image with the public and serve mutual interest with third parties.

The debate on CSR and its effect on financial performance continue to attract the interest of researchers. As a result, several researchers continued searching the impact of CSP on financial performance. Nevertheless, the majority of this research is conducted in developed economies, compared to the research undertaken in developing countries (Ali et al., 2017; Sadeghi et al., 2016; Katmon et al., 2019; Bai and Chang, 2015; Platonova et al., 2018; Wan and Liu, 2013). Moreover, the prior studies of CSR in developing countries have examined the link between corporate governance and CSR, and the majority of these studies were conducted in a certain range of emerging of economies including Malaysia, Singapore, South Africa, and China (Ali et al., 2017). Besides, the results of the association between firm performance and CSR are still inconclusive. This is because the specific characteristics of each country may have a role in the intensity of CSR (Amini and Dal Bianco, 2017; Sadeghi et al., 2016). The conflicting empirical results motivate additional work to investigate the relationship between firm performance and CSR specifically in which a little research exists.

The purpose of this study is to examine the association between the corporate social responsibility disclosure (CSRD) and the financial performance of public listed banks and insurance companies in Palestinian exchange (PEX) between 2010 and 2016.

The study adds to the existing literature of CSR in many aspects. First, the financial sector in Palestine is considered a vital sector and instrumental element in the economic stability. PEX with 13 financial firms among other list firms is one of the youngest stock markets in the region and contributes significantly to the formation of added value to the economy. Hence, an investigation of CSR practice and its relation with financial performance in Palestine context offer evidence on role of banks and insurance firms in funding social development projects. Second, Palestine has unique religious characteristics including Islamic principles, values and teachings. Such characteristics may have a positive impact on management attitude toward CSR practices and this could lead to the improvement of firm performance. Third, in addition to religious characteristics, Palestinian listed firms operate in special conditions including the Palestine-Israel conflict, institutional and a weak legal system and cultural dimensions. Since most of present studies on CSR disclosure has been conducted in developed countries, assessing the impact of CSR activities on firm performance contributes to the understanding of the link within the context of emerging economies. Fourth, present Palestinian studies of CSR disclosure have focused on the determinant of CSR disclosure (Musallam, 2018). Hence, the association between CSR practices and firm performance is not yet well examined. Consequently, this study provides evidence that helps to fill the existing gap in the Palestinian context. Fifth, unlike prior studies that employ an unweighted scoring method to score the CSR disclosure (Ullah et al., 2019; Musallam, 2018), this study uses a weighted scoring method. Such a method measures the quality of CSR practice in Palestine and hence could offer interesting results about the practices of CSR and its impact on firm performance. Finally, the study is expected to enrich the existing literature by providing evidence on the link between CSR disclosure practice and firm performance in a country with an unstable political atmosphere.

2 Literature review and hypothesis development

2.1 Theoretical framework

Stakeholder theory has been used extensively in explaining the CSR disclosure as well as its relation with firm performance (Amini and Dal Bianco, 2017; Feng et al., 2017; Jensen, 2001; Bai and Chang, 2015; Laskar and Maji, 2016). The main aim of CSR is to satisfy the need for a firm's stakeholders. A stakeholder is any individual or group of people who may influence or be influenced by business operations, including employees, customers, shareholders, suppliers, creditors, and the wider society (Bai and Chang, 2015; Feng et al., 2017). Stakeholder theory indicates that a firm conducts social responsibility activities to the interest of various groups of stakeholders (Freeman, 1983). Consistently, the view of stakeholder theory indicates that the management of corporations should consider the interests of all stakeholders in the decision-making process (Laskar and Maji, 2016). Taking into account the interests of stakeholders in a firm, stakeholder theory focuses on establishing and maintaining good relationships with various stakeholders (Clarkson, 1995). Hence, the firm should deal with its stakeholders fairly, and the organisation management should benefit all stakeholders. Jensen (2001) indicates that in spite of the difficult identification of important trade-offs between different stakeholders' competing interests, managers should make a balance to achieve the maximum interest of the company. In the same context, Okpara and Idowu (2013) argue that stakeholder management not only involves determining firm stakeholders and integrating their interests and values in the day-to-day decision-making process, but also balancing and integrating diverse relationships and diverse objectives.

It is argued that to ensure the support of a firm's stakeholders to the firm's objectives, managers should understand the interests of such stakeholders (Laskar and Maji, 2016; Okpara and Idowu, 2013). This support is important to maintain a firm's long-term success. Hence, the management needs to reconsider its relations with all stakeholders to enhance work polices (Feng et al., 2017).

2.2 CSR and financial performance

The link between CSR and financial performance represents the point of disagreements and debates on CSR literature (Sadeghi et al., 2016; Mishra and Suar, 2010; Agyemang and Ansong, 2017). Opponents of CSR argue that corporations should not exercise CSR programs and activities because they are additional costs and do not contribute to the profit-making process (Hirigoyen and Poulain-Rehm, 2014; Alareeni and Hamdan, 2020). Similarly, Friedman (2007) reveals that the costs of performing social activities are higher than the benefits received from such activities; therefore, this affects companies' wealth by decreasing their profits and hence reduces shareholder wealth (Waddock and Graves, 1997). Barnett and Salomon (2006) document that social programs including engaging in staff welfare programs, conducting charity projects, and mitigating environmental damage can be costly and hence increase the administrative burden of the firm. Perrini et al. (2011) report that firms are not responsible for addressing social issues that should be managed by the government, and that the financial resources allocated to social activities and programs should be dedicated to increasing shareholders' wealth. Soana (2011) shows that being involved in social responsibility programs does not result in a financial advantage. Similarly, Wan and Liu (2013) reveal that the stock value may decrease when the firm conducts an environmental program. Buallay et al. (2020) reveal that investors do not value the firms that disclose non-financial information, nor are they willing to invest in such firms. Alareeni and Hamdan (2020) argue that CSR practices are an additional cost on firms that lead to decreasing on the operational and financial performance. Thus, integrating CSR strategies into the business will lead to more costs and thus cause a competitive disadvantage to the company (Perrini et al., 2011; Mishra and Suar, 2010).

However, the positive impact of CSR on financial performance is derived from a stakeholder perspective. Clarkson (1995) argues that identifying a firm's stakeholders is essential for the firm's performance, and that by satisfying their needs and meeting their social expectations, the firm will enhance its effectiveness and efficiency and hence improve financial performance (Becchetti et al., 2008; Sabri and Sweis, 2016). It is believed that investment in CSR benefits the firm in the long-run and also contributes in maintaining firm's sustainability (Rasheed et al., 2018; Surroca et al., 2010). Socially responsible activities are an indication of effective use of resources that positively affects financial activities (Platonova et al., 2018). In this vein, Soana (2011) and Rasheed et al. (2018) reveal that firms with more social responsibility programs are more likely to improve the firm image and reputation as well as mitigate potential risk from negative information they may face in the future and therefore enhance their profit and financial performance. Thus, effective CSR programs would help a firm to create and maintain valuable goodwill that will protect the firm from unexpected issues and open opportunities for new prospects (Platonova et al., 2018). Consequently, CSR activities may lead to competitive advantage (Barnett and Salomon, 2006; Clarkson, 1995).

2.3 Hypothesis development

The view of stakeholder theory indicates that CSR disclosure affects financial performance because CSR practice includes activities intended to yield social benefit to a firm's stakeholders whose interests have implications for corporate management (Bai and Chang, 2015). Prior studies have examined the association between CSR and FP and produced mixed results. But, in the developed countries research have shown more advanced benchmarks than that in developing countries where they pay attention more on whether the companies reveal information on CSR or not (Katmon et al., 2019; Famiyeh, 2017; Paltonova et al., 2018; Bai and Chang, 2015; Sadeghi, et al., 2016; Ali et al., 2017; Zaid et al., 2019; Ullah et al., 2019). Garcia-Castro et al. (2010) investigate the association between corporate social performance and financial performance in large US-listed firms. The result indicates a significant positive association between social performance and financial performance measured by ROE and Tobin's Q. Mahoney and Roberts (2007) examine a sample of publicly listed Canadian firms and report that a positive effect of corporate social performance on financial performance. Similarly, Choi et al. (2010) report a significant positive impact of CSR disclosure on financial performance in a sample of 1222 Korean firms. Using meta-analysis, Wu (2006) and Orlitzky et al. (2003) provide evidence for a significant positive association between CSR practice and financial performance. On the other hand, Makni et al. (2009) report an insignificant association between CSR disclosure and financial performance in Canadian listed firms. Similar findings are drawn from a sample of 599 firms from 28 countries including Europe, North America, and Australia (Surroca et al., 2010). In a sample of Italian banks, Soana (2011) reports an insignificant link between CSR disclosure and financial performance. Becchetti et al. (2008) do not find a positive effect of CSR practice on financial performance. However, Brammer and Millington (2008) reveal that CSR activities increase managerial benefits, not firm's stakeholder's wealth which indicates that the cost of conducting CSR activities may exceed the benefit derived from them. Alareeni and Hamdan (2020) and Buallay et al. (2020) report that firms that engage in CSR programs are more likely to report lower operational and financial performance, indicating that CSR practices create financial costs for firms. Apart from studies relating to corporate social performance and financial performance, prior studies conducted in a weak institutional system and shareholders protection such as developing countries have provided mixed results. In a study conducted on Islamic banks in the Gulf Cooperation Council region, Platonova et al. (2018) find a positive association between CSR and financial performance. Mallin et al. (2014) report a positive effect of CSR disclosure on financial performance for a sample of 90 Islamic banks across 13 countries. Arshad et al. (2012) offer evidence that CSR performances reported in corporate yearly reports are positively associated with corporate reputation and firm activities for a sample of 17 Islamic banks in Malaysia. Similarly, several studies conducted on non-financial Indian listed firms, Laskar and Maji (2016) and Mishra and Suar (2010) reveal the positive influence of CSR disclosure level on firm performance. On the contrary, Janamrung and Issarawornrawanich (2015) find an insignificant effect of CSR disclosure level on financial performance measured by return on equity and Tobin's Q for Thailand firms. Belhaj and Damak-Ayadi (2011) report profitable Tunisian firms are less likely to disclose environmental information. Considering the above discussion, existing results of previous research indicate that the link between CSR practices and financial performance is inconsistent. Therefore, it is hypothesised that:

- There is a significant association between CSR disclosure and financial performance.

3 Methodology

3.1 Sample and data collection

The study population is composed of banks and insurance firms listed on the PEX. The study sample includes 13 firms that cover a period between 2010 and 2016. This period witnessed a noticeable CSR initiative among policy-makers in developing countries including Palestine (Zaid et al., 2019). Therefore, data of 91 companies, yearly observed was employed. The data of the study are gathered from the annual reports of the selected firm. The annual reports are downloaded from the website of the firm and PEX.

3.1.1 Dependent variable

The dependent variable in this study is financial performance. This is widely measured by accounting-based measures and market-based measures (Mishra and Suar, 2010; Famiyeh, 2017; Feng et al., 2017; Bai and Chang, 2015; Laskar and Maji, 2016; Barnett and Salomon, 2006; Perrini et al., 2011; Soana, 2011; Platonova et al., 2018). Accounting based measures include the return of assets (ROA) and return on equity (ROE). The market-based measures include Tobin's Q which is calculated as the market value of a company plus its total liabilities divided by the value of the firm's total assets.

3.1.2 Independent variable

The independent variable of the study is the CSR score. The study employs content analysis to measure the extent of CSR disclosure. Content analysis has been used extensively by prior studies to measure CSR disclosure (Ali et al., 2017; AlNaimi et al., 2012; Habbash, 2016; Hussainey and Razik, 2011; Katmon et al., 2019; Ullah et al., 2019; Zaid et al., 2019; Platonova et al., 2018; Musallam, 2018; Sadeghi et al., 2016; Arshad et al., 2012; Barnett and Salomon, 2006).

The study has implemented the following steps to construct the CSR disclosure index: First, prior studies on CSR disclosure have been reviewed to identify CSR categories (Zaid et al., 2019; Habbash, 2016; Becchetti et al., 2008; Choi et al., 2010; Musallam, 2018; Haniffa and Cooke, 2005; Ullah et al., 2019; Soana, 2011; Mishra and Suar, 2010; Mallin et al., 2014; Makni et al., 2009; Lone et al., 2016; Katmon et al., 2019). Second, the reviewed CSR index has been examined by auditors from Palestine including big4 and non-big4, to ensure the applicability of the CSR checklist index to the Palestinian context. Besides, the CSR checklist is derived from studies conducted in Palestine (Musallam, 2018; Zaid et al., 2019; Sabri and Sweis, 2016; Barakat et al., 2015). Third, consistent with previous studies, Cronbach's coefficient alpha as a reliability test is conducted on the CSR disclosure index to examine the consistency of the CSR checklist (Laskar and Maji, 2016; Platonova et al., 2018; Jizi et al., 2014). A sample of 20 annual reports is selected and provided to two independent coders. After the scoring procedures are explained to the coders, each coder is asked to assess the CSR content of the annual reports. The scores computed by the two independent coders as well as the score provided by the researches are used to test the reliability of the CSR disclosure index. Cronbach's coefficient alpha value is ranged from zero to one, and value is considered desirable and acceptable when it is 0.7 and higher (Hasseldine et al., 2005). In this study, the Cronbach's coefficient value for the four categories of CSR disclosure is 0.75. The disclosure checklist comprised of 31 items is classified into four categories.

In line with Jizi et al. (2014), the information of the four categories of CSR disclosure is assessed using scores based on the existence and comprehensiveness. The researcher is not in favour of using unweighted scoring method because it does not measure the comprehensiveness and the quality of CSR disclosure (Hasseldine et al., 2005). According to the disclosed information, each CSR category is evaluated from zero to three plus additional 1 to 2 points. A CSR category is rated zero if no information is disclosed in such a category. Point 1 is given to a CSR category if the disclosed information is rated as fair. Point one is given too if the firm shows its commitment to society, expresses the social obligations and interest, and will support social activities and programs related to individuals and communities, but without indicating how this is implemented. Point two is given to a CSR category if the disclosed information involves a brief discussion of one or more elements of a social category. Point three is a maximum narrative score and given to a CSR category if the disclosed information is rated as comprehensive. Comprehensive disclosure includes a lot of information clarifying tasks not confined by settings of social activities, clarifying the nature of a social product and who it is addressed to and the desired impact, nature of programs available to employees' learning and growth, channels offered to give employees feedback and ideas, incentive and motivational programs, and event photographs. In addition to three points, a CSR category may receive 2 plus pints. Another point is given to a CSR category if the disclosed information presents quantitative figures supporting the narrative discussion and two additional points are given to a CSR category if the reviled quantitative figures are compared to previous or prospective figures. Therefore, each CSR category could be assigned a maximum of five points and a total of 20 points for the four CSR categories. The CSR disclosure score is calculated as the ratio of points granted over the maximum points a firm could achieve. For instance, if the firm achieves 15 points in the four CSR categories, this means the revealed score is equal to 15 over 20, i.e. 0.75.

3.1.3 Control variables

According to the prior studies, firm size, firm age, leverage, and industry type are likely to affect CSR disclosure and financial performance, and hence the regression models are controlled by these variables (Haniffa and Cooke, 2005; Jizi et al., 2014; Musallam, 2018; Platonova et al., 2018; Zaid et al., 2019).

Platonova et al. (2018) argue that large firms seem to attract cheaper capital, and this leads to higher profits, while Haniffa and Cooke (2005) reveal that larger firms are more likely to disclose information voluntarily to reduce asymmetry information. This study uses the natural logarithm of total assets for firm size. CSR practice as well as financial performance may be influenced by firm age. Haniffa and Cooke (2005) claim that aged firms undertake more in CSR activities and exercise high financial performance. Thus, firm age is defined as the number of years a firm has been listed on the stock exchange. Leverage is another control variable that may influence CSR reporting and financial performance. When firms rely on debt, lenders require more information as a monitoring mechanism over managers. Moreover, leveraged firms are more likely to be profitable to convince the lenders that they can meet their claims (Haniffa and Cooke, 2005; Mishra and Suar, 2010).

Table 1 Scoring theme

0 points	If no information about a CSR category were disclosed
1 point	If there is a narrative disclosure about a CSR category general commitment without explanations
2 points	If disclosure addressed one dimension of a category or types of activities related to a category with a brief description
3 points	If disclosure is comprehensive
+1 points	If disclosure presents quantitative figures supporting the narrative discussion
+2 points	If the disclosed quantitative figures are in comparison with previous or prospective figures

Therefore, firms with a high debt ratio appear to be more socially responsible and undertake high financial performance. Thus, leverage is measured by total debt to total assets. Finally, industry type is defined as a dummy variable equals 1 if insurance firm and zero otherwise.

Table 2 Measurement of variables

Acronym	*Definition*	*Measurement*
ROA_{it}	Return on assets	Net Income / Total Assets in the firm I in year t
TBQ_{it}	Tobin's Q	(Total Market Value + Total Liabilities) / Total Assets infirm I in year t
$cred_{it}$	Corporate social responsibility index	CSRDS = ∑ points of (community, employees, environment, and product & services categories) / 20 infirm I in year t
Size	Company size	Natural logarithm (log) of total assets infirm I in year t
AGE_{it}	Company age	Firm age since firms are listed on Palestine stock exchange infirm I in year t
Lev_{it}	Company leverage/debit	Debt Ratio (total debt to total assets) in the firm I in year t
$Industry_{it}$	Industry Type	0 for Banking, 1 for Insurance infirm I in year t

3.2 Research models

Pooled ordinary least squares are employed to examine the association between CSR disclosure practice and financial performance for seven years. The regression models are formulated as follows:

$$\mathrm{ROA}_{it} = \mathrm{a} + \mathrm{CSRD}_{it} + \mathrm{SIZE}_{it} + \mathrm{AGE}_{it} + \mathrm{Lev}_{it} + \mathrm{Industry} + e$$

$$\mathrm{TBQ}_{it} = \mathrm{a} + \mathrm{CSRD}_{it} + \mathrm{SIZE}_{it} + \mathrm{AGE}_{it} + \mathrm{LEV}_{it} + \mathrm{Industry}_{it} + e$$

4 Results and discussion

4.1 Descriptive statistics

Table 3 illustrates a summary of the descriptive statistics of CSR disclosure categories. The table shows that the CSR disclosure for the listed Palestinian financial firms for the period 2010–2016 ranged from 0.15 and 0.70. The table also shows that mean of CSR disclosure is 0.35, indicating that on average, 35% of the financial firms practiced CSR disclosure. As shown in Table 3, the most widely disclosed category for the period of the study is the employees' category

Table 3 Descriptive analysis for CSR categories

Categories	*Minimum*	*Maximum*	*Mean*	*S.D.*
Total CSR disclosure	0.15	0.70	0.356	0.13
Community engagement	0.000	0.800	0.424	0.221
Environment	0.000	0.600	0.152	0.201
Employees	0.400	0.800	0.530	0.117
Product and services	0.150	0.800	0.334	0.158

Table 4 presents a summary of descriptive statistics for dependent and control variables. As shown in the table, the mean value of the ROA variable is 1.7%. Among the Palestinian financial listed firms, the highest reported ROA is 14.6%, whereas the lowest ROA is –11.6%. The average level of ROE is 9.5%, whiles the maximum and minimum are 202.4% and –263.2%, respectively. Furthermore, the average TBQ is 101.9%, where the range is between 77.8% and 153%.

Table 4 Descriptive analysis of dependent and control variables

Categories	*Minimum*	*Maximum*	*Mean*	*S.D.*
ROA	–0.116	0.146	0.017	0.031
ROE	–2.632	2.024	0.095	0.393
TBQ	0.778	1.530	1.019	0.117
SIZE	7.04	9.62	8.14	0.65
LEV	0.452	1.057	0.786	0.122

Note: For the definition of variables refer to Table 2

Table 5 exhibits the Pearson correlation matrix test between the study variables. This test is used to examine the strength and direction among the study explanatory variables and detect any multicollinearity problem. As reported in the table, the correlation between CSR disclosure and firm size is the highest, whereas, the correlation between CSR disclosure and leverage is the lowest. It is apparent that variables are not highly correlated and thus a multicollinearity problem does not exist.

Table 6 reports the findings of Pooled OLS Regression analysis. The adjusted R^2 in the two models ranges from 0.39 to 0.79. The p-value of the F-test for the two models is less than 0.001, indicating that the dependent variable can be explained by the explanatory variables. Model 1 examines the effect of CSR disclosure on financial performance measured by ROA. The results indicate that CSR disclosure is positively but not significantly associated with ROA.

Table 5 Pearson correlation matrix

Variables	*CSRD*	*SIZE*	*AGE*	*LEV*
CSRD	1			
SIZE	0.6706***	1		
AGE	0.4827***	0.560***	1	
LEV	0.3315***	0.494***	0.349***	1

Notes: For the definition of variables refer to Table 2. *, **, *** significant at 0.1, 0.05 and 0.001 levels respectively.

The result is consistent with Makni et al. (2009), Janamrung and Issarawornrawanich (2015), Soana (2011), and Garcia-Castro et al. (2010), who find an insignificant association between CSR disclosure and ROA.

Table 6 Pooled OLS regression results

Variables	*Model 1: ROA*		*Model 2: TBQ*	
	Coefficients	*P-value*	*Coefficients*	*P-value*
CSRD	0.0240	0.487	0.113	0.184
SIZE	0.023	0.260	–0.151	0.194
AGE	–6.81E-05	0.838	0.473	0.338
LEV	*–0.166*	*0.000****	*1.075*	*0.000****
INDUSTRY	0.021	0.301	0.340	0.803
Constant	-0.062	0.696	-0.559	0.778
Observations	78		78	
Adj R-squared	0.379		0.799	
F-test	12.03***		37.54***	

Notes: For the definition of variables refer to Table 2. *, **, *** significant at 0.1, 0.05 and 0.001 level respectively.

However, this result contradicts stakeholder theory that disclosing information related to various stockholders' needs may improve the firm image and reputation, and thus will result in enhancing firm performance. The finding denotes that for Palestinian financial listed firms, CSR practice is outside the profit-making scope. Model 2 examines the CSR disclosure on financial performance measured by Tobin's Q. The result shows that CSR practice is insignificant on Tobin's Q. The result confirms the argument and findings of Janamrung and Issarawornrawanich (2015), Surroca et al. (2010), and Becchetti et al. (2008), that CSR activities may not be adequately connected with economic activities of emerging countries such as Palestine. Therefore, based on the empirical results of models 1 and 2, CSR disclosure is not associated with the financial performance of financial firms in Palestine. This means a firm's relationship with various stockholders through CSR disclosure does not influence financial performance, and hence the hypothesis is not supported.

Moving to control variables, findings reveal that leverage is negatively associated with both ROA and Tobin's Q. High leveraged firms are more likely to have debt firm obstacles due to conflict of interests between shareholders and debtholders, and hence, reduce financial performance (Hassan et al., 2016). However, firm size, age, and industry type are not significantly related to ROA and Tobin's Q.

5 Conclusions

This study aims to investigate the influence of CSR disclosure on the financial performance of financial firms listed on the PEX during the period between 2010 and 2016 using content analysis. Stakeholder theory has been used to explain the effect of CSR reporting on financial performance. The empirical results reveal that the average CSR disclosure is 35% indicating that the practice of CSR disclosure is low, and hence there is a possibility to improve CSR disclosure level in Palestine. Moreover, the results reveal an insignificant association between CSR disclosure and financial performance. This finding does not lend support to the stakeholder theory, which suggests that a firm's value increases when the interests of influential stockholders are considered in the decision-making process. However, such practice is not obvious in the Palestinian context. This is possibly due to the fact that stakeholders may not be aware of firms' CSR activities because firms may not disclose or practise CSR activities (Youn et al., 2015). The result of this study lends support to the conclusions of Naser et al. (2006) and Hassan et al. (2016) that the ability of empirical results to support theories might be different in developed economies from that in developing economies.

The study will add to the existing CSR disclosure research studies by extending the prior research to provide additional empirical results from emerging economies including Palestine which rarely has been studied through tackling the effect of CSR disclosure on financial performance.

The study findings will be useful to policymakers and regulatory bodies in such developing economies like Palestine to consider and enhance CSR disclosure that is beneficial to stockholders. Such CSR disclosure practice would help firms to attract more investments. Furthermore, the authorities should identify CSR policies and requirements, and institutionalise practices beyond current CSR practices to improve firms' image, reputation, and prestige and hence financial performance. The majority of financial firms in this research restrict the CSR performances to the context of philanthropic programs. Therefore, it is needed to change firms' managers' perception of CSR activities to include other dimensions broader than CSR being a means of philanthropy. Therefore, Palestinian policy-makers need to focus more on the comprehensive CSR disclosure practice. The uniqueness of the country situation provides another significant implication. The political environment of business may have impact on CSR activities. Hence, regulators, policy-makers and responsible organisation-setting bodies should formulate CSR legislation to be aligned with business environment changes in order to enhance the CSR activities.

Among the limitations of the study is that its empirical results are based on the Palestinian context with an unstable business environment; therefore, results should be carefully extended to other countries. Another limitation is financial firms are selected as a sample for this study, and hence other business sectors are suggested to be examined.

Thus, the effect of corporate governance and firm size could be investigated on the relationship between CSR disclosure and firm performance.

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