

CORRELATION BETWEEN THE CORPORATE SOCIAL RESPONSIBILITY AND FINANCIAL PERFORMANCE OF THE BANK IN UKRAINIAN CONTEXT

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Abstract

The concept of the corporate social responsibility (CSR) has been developed since the first part of the XX century by many world known economists. Importance and significance of the CSR for all kinds of firms, banks and corporations became obvious many years ago. Hundreds of scientific papers were made on this topic, but still even nowadays the links between CSR and corporate financial performance (CFP) of the company are not clear and form a question for discussions. Especially interesting this problem appears in the banking sector, where it has its own specific. Banking institutions have implemented the CSR concept among the first, but the last financial crisis questioned the effectiveness of the banking CSR policy and its influence on the financial performance of the banks.

This paper is aimed to make an attempt in finding correlation between CSR and financial performance on the example of the Ukrainian banking system. We have analyzed resident and non-resident banks which operate on Ukrainian market. The analysis was based on hypotheses proposed in the paper about correlation of CSR and CFP of the bank and separate indicators of the CSR such as the presence of independent directors, committees of the Board and code of conduct, expenditures on employees and some indexes of bank performance. Statistical analysis showed no clear link between CSR and CFP of the bank in general and between separate indicators of the CSR policy and efficiency of bank's activity as well.

Keywords: Corporate Social Responsibility, Corporate Financial performance

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Introduction

As a result of combination of the economic and financial crisis with what has been called an entrepreneurial crisis of maturity, CSR has risen to prominence in the last decade. Even though CSR is a new controversial concept, everybody in the academic and business spheres agree that it is a fundamental strategy for achieving the sustainable development that our globalized world needs.

Banking system is a key sector of the market economy. It provides necessary financial recourses and expedites the growth and development of the micro- and macroeconomic structures. Due to the important financial intermediation role of banks in an economy, the public and the market have a high degree of sensitivity to any difficulties potentially arising from any corporate governance shortcomings in banks. Corporate governance is thus of great relevance both to individual banking organizations and to the international financial system as a whole.

One of the essential parts of the banks' corporate governance activity is the CSR activities that usually support sustainable development and gain competitive advantages. Effective CSR strategy suggests sustainable development, effective risk management, good governance, tolerant cooperation with all stakeholders and responsible decision making process.

That's why it is important to find the reasons of CSR failures and prevent such devastating economic events in future through the effective CSR mechanism. Our research is put in Ukrainian context, as this region is weakly investigated and needs further study.

Previous studies

A number of studies have been already made to test the extent to which the economic drivers for CSR deliver improved financial performance. The studies adopt different methodologies for measuring CSR and financial performance, and do not unexpectedly present quite different results.

Waddock, Sandra A., and Samuel B. Graves (1997) reviewed financial characteristics of 486 firms and found numerous significant relationships between CSR and profitability measures such as ROA and return on sales. The authors argue that CSR and slack resource availability are correlated, a finding that is highly relevant in light of Myers (1984).

Theoretical and empirical studies have often resulted in contradictory conclusions, emphasizing the complexity of the investigation process (Carroll, 2000; Rowley and Berman, 2000).

C.-H. D'aricimoles (2002) analysed the link between corporate social performance (CSP) and financial performance in France. He estimated three

models. Models 1 and 2 had the same specifications as Waddock and Graves (1997) and model 3 was the one proposed by McWilliams and Siegel (2000). Results finally indicate the neutral effect of CSP on financial performance.

W. G. Simpson and T. Kohers (2002) made an investigation, aimed to find the evidence of the link between CSR and financial performance in banking sector. Their empirical analysis solidly supports the hypothesis that the link between social and financial performance is positive.

Orlitzky (2003), made a meta analysis and integrated 30 years of research from 52 previous studies and used meta analytical techniques to support the proposition that CSP and CFP are positively correlated and significant statistically. Interestingly, the meta analysis found a higher correlation between financial performance and a company's management of its social impact than between financial performance and a company's management of its environmental performance.

M. Tsoutsoura (2004) using extensive data over a period of five years have explored and tested the sign of the relationship between CSR and financial performance. The results indicated that the sign of the relationship is positive and statistically significant.

M. Brine, R. Brown and G. Hackett (2007) have made a research on CSR and financial performance in the Australian context. Preliminary results of their research showed that the adoption of CSR led to an increase in sales and an increase in equity. In comparison, the adoption of CSR led to a reduction in return on assets. All results, however, were statistically insignificant and there are no reliable results could be obtained from these initial regressions.

Chin-Huang Lina, Ho-Li Yanga and Dian-Yan Liou (2008) have described the impact of CSR on financial performance in Taiwan. Based on theoretical assertions and empirical evidence in the literature, they identified a positive relationship between CSR and financial performance and found that while CSR does not have much positive impact on short-term financial performance, it does offer a remarkable long-term fiscal advantage.

The paper of E. Shauki, I. Islamiyah (2008) was aimed to provide evidence of the relationship between corporate social responsibility and financial performance in the highly regulated banking industry of Indonesia. The empirical evidence supported the hypothesis that the link between voluntary disclosure on CSR and financial performance is significantly positive.

Maria-Gaia Soana (2009) made a sizable analysis of 93 previous studies examining the relationship between corporate social performance and corporate financial performance and made a conclusion, that there is no consensus in academic circles about character of such correlation. She states that "most studies reviewed seem to confirm the hypothesis of a positive relationship between CSP and CFP, but the methodologies and results are not homogeneous and

cannot be generalized to all markets and sectors". Her own research, based on the ethical ratings, as an indicator of the CSR showed no clear evidence of a significant relationship between CSP and CFP in the financial sector.

So most contributions seem to confirm the hypothesis of the existence of a positive relationship between CSP and CFP. Thus in spite of the great amount of researches, the uncertainty still remains in this question. And further we'll try to investigate the evidence of the link between the corporate social responsibility and financial performance in the Ukrainian context.

CSR and financial performance of the bank

By this time, scientists have not been able to offer a clear and generally accepted framework for CSR. Even basic questions like "What is CSR? How can you define CSR?" do not have a unique answer. A clear example of what was said is Carroll's paper (1999), which presents close to 25 definitions that have appeared for CSR since 1953, when Howard Bowen's (1953) book, "Social Responsibilities of the Businessman," was published.

Taking into account banking context the definition of corporate social responsibility is not abstruse here. So there is a necessity to highlight the specific and main points of the CSR in banks.

According to Business for Social Responsibility, CSR is defined as "achieving commercial success in ways that honor ethical values and respect people, communities, and the natural environment."

Giving it deeper consideration we can say that this definition is better applicable for the companies, because banks do not make the significant influence on the environment, so this point is indirectly important for the financial institutions, through the process of granting loans to the industrial firms. But on the other hand it highlights the key point of the CSR implementation by any company or bank – "achieving commercial success".

According to Frooman (1997:227), the definition of what CSR would exemplify is following: "An action by a firm, which the firm chooses to take, that substantially affects an identifiable social stakeholders' welfare." Here we can see the stakeholders issue that as known goes along with the CSR activity. In fact, stakeholders are those who have the interest in bank's activity. Stakeholders can be defined as a group or individual who can influence or can be influenced by the organizational goals achievement. The Organization for Economic Cooperation and Development states the role of stakeholders as: the structure of corporate governance should recognize the legal rights of stakeholders and encourage active cooperation between corporations and stakeholders in creating wealth and jobs and ensuring the financial stability of prosperous businesses. In our article we'll consider bank's stakeholders as: shareholders, government, employees, creditors, clients, depositors.

The World Bank Group's CSR Practice²⁵ defines CSR as "The commitment of business to contribute to sustainable economic development working with employees, their families, the local community, and society at large to improve their quality of life, in ways that are both good for business and good for development." This definition, is similar to The World Business Council's for Sustainable Development one and illustrates the banks' obligations to pay taxes, keep up the personnel expenditures on the right level and ensure good governance practices and risk management to support solid bank and country's economic development etc.

INCAE Business School (2009) proposes such definition: "CSR is not philanthropy, independent actions, obligations or impositions on companies. CSR is a strategy or the way a company's acts when it relates to its stakeholders, and it becomes a competitive advantage for the company." This definition was formed for the South America region, but it suits Ukrainian conditions as well. In terms of strict competitiveness in banking sphere and crisis difficulties Ukrainian banks are focused only on the essential parts of financial business. Such things as philanthropy or charity have a residual character. It is important for Ukrainian banks managers to understand the essence of CSR and to know that it could improve their competitive advantages significantly. So in Ukrainian context we propose to understand CSR as a *strategic activity of the bank, which suggests sustainable development and qualitative cooperation with all its stakeholders that brings competitive advantages and good reputation.*

As we have already stated – the main aim of CSR in bank is achieving the new channels of making the profit, hence the question appears: do socially responsible banks achieve higher, lower, or similar levels of financial performance than comparable banks that do not meet the same CSR criteria? In this context financial performance of bank could be defined as accounting profitability (e.g., return on equity, return on assets, profit). Here we can propose our first hypothesis: *Hypothesis 1: There is a positive link between CSR and CFP of the bank.*

CSR and risk management

Managing risk is a central part of many corporate strategies. Reputations that take decades to build up can be ruined in hours through incidents such as corruption scandals or insolvency crisis in bank. These can also draw unwanted attention from regulators, courts, governments and media. Building a genuine culture of 'doing the right thing' within a corporation can offset these risks.²⁶

Levine (2008) highlights managing risks as a main benefit of CSR in the short-term: "Why implement a CSR program? In short, to manage risks and to ensure legal compliance companies may be exposed to a variety of legal and reputation risks if they do not have adequate social compliance or CSR/sustainability programs in place" (2008: 2).

But financial risks on the contrary of the non financial risks, form the core of the bank's management. Moreover, we should consider that CSR and CFP in bank are closely tight not only to the reputational risks but also to the effectiveness of the financial risk management and control process. This is why we put the risk issue under consideration in terms of its management and control.

Risk issue is one of the questions Basel Committee works on. In March 2010 The Basel Committee published a consultative document "Principles for enhancing corporate governance", where the main recommendations about risk management in banks were stated. According to The Basel "Large banks and internationally active banks, and others depending on their risk profile and local governance requirements, should have an independent senior executive with distinct responsibility for the risk management function and the institution's comprehensive risk management framework across the entire organization. This executive is commonly referred to as the chief risk officer (CRO)." Mentioned document highlights the necessity of the external risk control infrastructure in the bank.

We suppose that risk controlling process could be executed more effectively on the level of Board of Directors, who plays the crucial role in risk management as the main body of decision making process of the bank.

Pursuant to the Third King Report on Governance 2009, the formed Board of Directors must:

- take into account not only financial indicators, but also the impact of the company's activities on society and environment;
- protect and invest in welfare of the economy, society, and environment;
- ensure the company's actions and cooperation with stakeholders based on the law;
- take into account the need for joint efforts with stakeholders in order to promote ethical conduct and good corporate governance;
- provide measurability of implemented CSR programs;
- be aware that the strategy, risk, indicators, and sustainability are inseparable and consider sustainability as business opportunity;
- ensure efficient governance based on ethical principles;
- contribute to the company remaining and being considered a responsible corporate citizen;
- the company has an efficient and independent audit committee whose duties include audit of both financial and non-financial statements.

²⁵ Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains – The World bank working paper

²⁶ Kytly, Beth; (2005). "Corporate Social Responsibility as Risk Management: A Model for Multinationals"

It should be mentioned, that control functions can't be objectively executed by the internal employee. The position of the controlling director must be taken by the independent person. Moreover, the tendency to hire independent directors is on the rise with the purpose of improving quality of decisions made at the level of the Board who have different experience, skills, knowledge, and expertise which means "diversity" in the CSR language. This aspect ensures more reasonable decisions concerning financial and non-financial issues and brings about positive results.

Hypothesis 2: Independent directors in the Board make the banks CSR activity more efficient through the process of risk management and control.

We also consider that independent directors could better execute their functions in risk management process and CSR activity of the bank, if they are grouped in profile collegiate bodies, such as committees of the Board. Among the committees which effect bank's CSR policy we could name following: CSR committee, audit committee, corporate governance committee, risk management and control committee.

Here follows *Hypothesis 3: The committees of the Board make a positive effect on CSR activity of the bank.*

CSR and code of conduct

Codes of conduct are mainly used as tools of corporate governance, but their usage grows for purposes of CSR with the following priority issues:

- the company's impact on the economic, environmental, and social areas, sustainability;
- working atmosphere;
- labour relationships;
- relationships with suppliers;
- ethical conduct.

An ethics code and practices that foster transparency are the basis for a company to comply with its operational and strategic objectives. These guide companies on how to behave when managing relationships with suppliers, investors and employees. Communications and control mechanisms on compliance form part of this category.

In the CSR literature, codes of conduct are variably described and defined and have common elements, such as being self-regulatory or voluntary in nature, used to influence behavior of a specified group or groups, and/ or to define intentions/ actions on a certain group of issues or to a certain group of individuals, sometimes from a market-based perspective (Kolk, van Tulder and Welters, 1999; Kaptein and Wempe, 2002; United States Council for International Business, 2000; ILO, n.d.a; ILO, n.d.b; Forcese, 1997; Alexander, 1997; Dickerson and Hagan, 1998; OECD, 2001; Diller, 1999).

In this literature, an implicit relationship exists between codes and CSR that is well illustrated by the United States Council for International Business (USCIB) where the corporate responsibility section on

their website has a recent 'position/ statement document' on codes of conduct, where codes are defined as '...commitments voluntarily made by companies, associations, or other organizations that put forth standards and principles of business conduct in the marketplace, and are thus primarily market-driven' (2000, p.2).

In some cases, this primarily implicit relationship between codes and CSR is made explicit such as with Kolk, van Tulder and Welters (1999) who define codes of conduct as '...encompass[ing] guidelines, recommendations or rules issued by entities within society (adopting body or actor) with the intent to affect the behavior of (international) business entities (target) within society in order to enhance corporate responsibility' (p.151). Other authors indicating a more explicit relationship between codes and CSR include Dickerson and Hagen (1998) and OECD (2001). As we will see later, Kolk, van Tulder and Welters (1999) make an important distinction between these 'international' codes and internal codes of conduct '...which consist of guidelines for staff on how to behave when confronted with dilemmas such as conflict of interest, gifts, theft, insider trading, pay-offs and bribery' (p.150), arguing that the internal codes do not address the business-society relationship.

Efficient code of conduct should declare information for bank personnel about right treatment of the clients. We suppose, that compliance of the rules, stated in the code provides for the bank better dialog with the clients, and thus could assist in increasing of the deposit volume that could be treated as competitive advantage of the bank and positively influence it's CFP. That's why the result of the presence of the code of conduct could be analyzed by the comparative indicator of the bank's deposits share in the total banking system deposits volume.

This brings us to the following hypothesis:

Hypothesis 4: Banks that have a code of conduct gain competitive advantages through the CSR mechanism.

Methodology

For our research and statistical analysis we have picked top 20 banks controlled by the Ukrainian shareholders (residents) and top 20 banks-subidiaries of the international financial groups (non-residents), which operate on Ukrainian market with considerable share of assets of the whole banking system so representation degree is high enough. The reason for this classification is based on our assumption that non-residents and residents have significant differences in CSR policies. As CSR theories are widely known in developed western economies and implemented by banks in their practices, we suppose that international mother banks transfer their best practices in banking business to their Ukrainian subsidiaries, including CSR policies. So we can propose *Hypothesis 5: Non-residents have better CSR policies and practices compared to residents.*

We analyzed financial reports of the banks in time period of 4 years (2006, 2007, 2008 and 2009). This period was divided into two main parts: 2006-2007 – period, which characterize banks activity before the financial crisis, and 2008-2009 – period of crisis.

To analyze the CSR activity of Ukrainian banks we chose several indicators of the effective CSR policy. These indicators show the bank's attempts to satisfy all the stakeholders mentioned above. Particularly, bank performs its duties to a government as the tax payments from their profit; to creditors, depositors, clients – as solvency ratio; employees – as employees expenditures per worker. All in all we understand that we can speak about effective CSR bank policy only in case when all these indicators are taken together. Moreover, we should not forget about the role of independent directors and board committees, and this is how the presence of them should be considered as indicators as well. So we regard bank as social responsible if it satisfies mentioned indicators.

To analyze the link between the CSR and financial performance of the bank we consider that last one is represented by ROA and ROE indicators. We suppose that CSR policy of the bank is effective if there is a positive link between mentioned indicators of CSR and CFP.

Results

The first thing we parsed was our first hypothesis on the link between CSR and banks' financial performance. For its examination we analyzed the ROE and ROA figures of the chosen banks and their profit for time period 2006-2009.

As can be seen from figures 1 and 2 during the pre-crisis period there were positive figures of efficiency, but with a negative trend. Thus, we can see a decrease in 2008 (01.01.2009), which shows the results of the financial crisis, and further a significant decline in 2009 (01.01.2010) follows. As it could be seen in 2009 average losses of non-resident banks on Ukrainian market were on the level of 40% of the shareholders capital and of resident banks – near 20%. Of course in such conditions it is rather hard to make conclusions about the influence of CSR on Financial performance. It could be so, that CSR policy helps bank to fight only not significant punches of the market.

To find if there is a link between the CSR and CFP we have grouped banks into two groups: banks which satisfy more than 3 CSR indicators mentioned above. We called them "CSR banks". And "other" banks, which satisfy 3 or less CSR indicators.

Data analysis of the table 1 showed no clear link between CSR and CFP of the Ukrainian banks in defined period of time. "CSR banks" showed in 2009 equally bad financial performance compared to "others", which had weaker CSR policy and lack some of its important indicators. In pre-crisis years there was equal diversification of both types of banks in different ROA and ROE groups. We expected that CSR banks should reach better financial results, but found no clear evidence of that. Especially in crisis period such banks appeared even more financially unstable. So our hypothesis 1 was not confirmed.

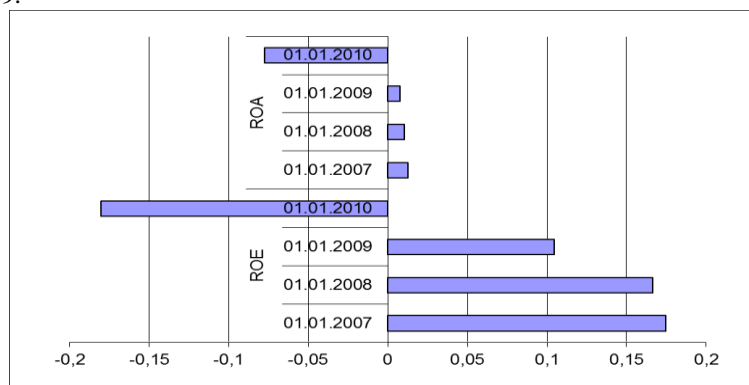


Figure 1: Dynamics of the average ROA and ROE indicators of the resident banks

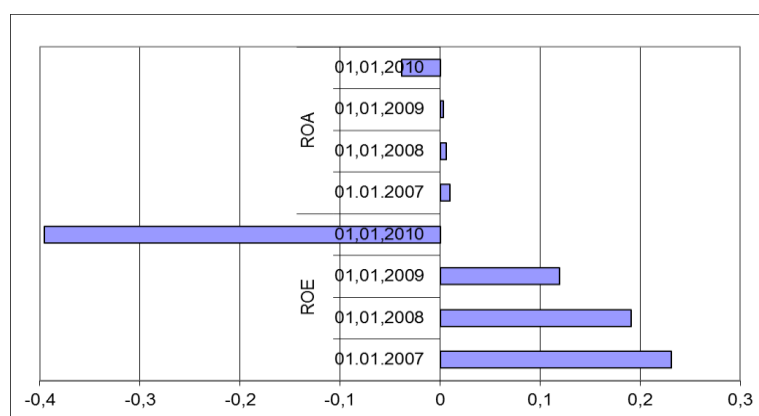


Figure 2: Dynamics of the average ROA and ROE indicators of the non-resident banks

Table 1: Efficiency of the financial performance in the defined period of time, % of total quantity

	01.01.2010		01.01.2009		01.01.2008		01.01.2007	
	CSR banks	others	CSR banks	others	CSR banks	others	CSR banks	others
ROE								
negative	25	33	-	3	-	-	-	-
0,00001-0,001	-	5	8	8	-	10	-	5
0,001-0,01	-	5	5	25	10	20	10	15
0,01-0,1	-	23	10	28	10	25	13	25
>0,1	5	5	8	8	10	15	10	23
ROA								
negative	25	33	-	3	-	-	-	-
0,00001-0,001	-	18	-	13	-	-	-	-
0,001-0,01	-	15	13	20	13	23	10	13
0,01-0,1	5	5	10	30	13	38	10	43
>0,1	-	-	8	5	8	8	10	15

Our next hypothesis is based on our assumption that independent directors practice could introduce some improvement of CSR activities of the bank. But this is what the world practice shows while Ukrainian banks still have not adapted to this. The remarkable point here is that even non-residents have not widespread this practice in Ukraine.

To analyze the link between such indicator of CSR of the bank as independent directors in the Board and risk management process we decided to measure the last one through the quality of the credit portfolio. The quality of credit portfolio is represented in our research by the percentage of the reserves for credit operations comparing to the credit portfolio of the bank. If this figure in dynamics grow significantly it means, that there is a considerable decrease in credit portfolio quality and this respectively means, that risk management in the bank (especially credit risk management) is low.

We've collected information on credit portfolio quality of resident and non-resident banks in defined

period of 4 years. Figures 2 and 3 demonstrate dynamics of the credit portfolio quality of Ukrainian banks. Statistical analysis of the data showed results absolutely opposite to our hypothesis. All 5 non-resident banks with independent directors in the Board (Raiffeisen Bank Aval, Alfa-bank, Nadra, Swedbank and Kreditprombank) showed a gradual decrease in the credit portfolio quality during the analyzed period and a significant salutatory deterioration on the last reporting date (01.01.2010). All 3 resident banks with same parameters also showed an intense decline of their credits quality on 01.01.2010 up to 50%-70% loss of previous level. So according to the analyzed data we can conclude, that no link between independent directors in the Board of Ukrainian banks and CSR represented by quality of the risk management process was found. We suppose that such results could be caused by destructive conditions of the financial crisis, and no bank could stay stable and effective under the influence of general economical and financial decline.

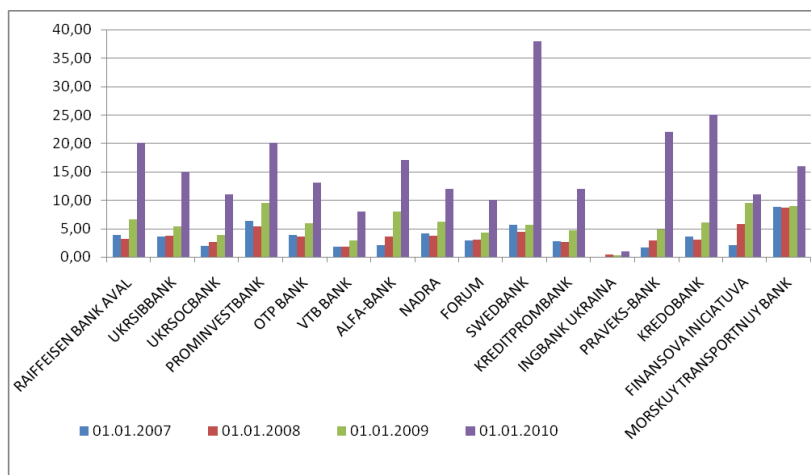


Figure 3: Dynamics of the credit portfolio quality of non-resident Ukrainian banks, %

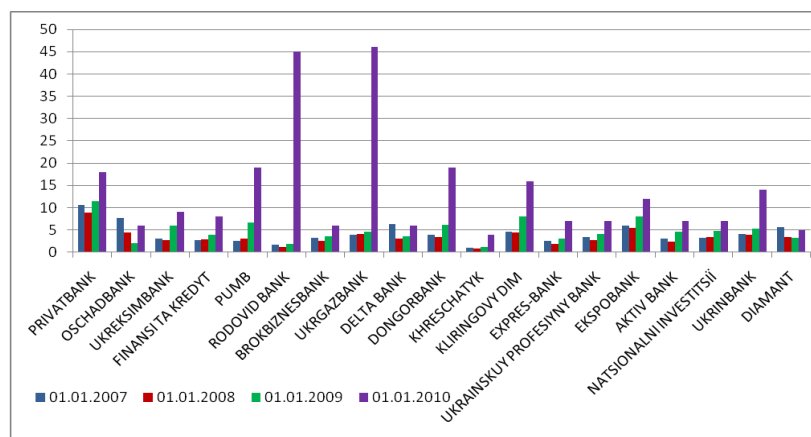


Figure 4: Dynamics of the credit portfolio quality of resident Ukrainian banks, %

It should be mentioned, that all of the banks with independent directors in the Board except 1 showed losses in 2009 and financial results not higher than average in the previous years. So our hypothesis 2 was not confirmed.

Hypothesis 3 states that committees of the Board should effect positively on the CSR activity of the bank through the CSR mechanism. This statement as the previous one also could be tested with the statistical analysis of the link between the activity of committees of the Board in bank and quality of its credit portfolio. The analysis has showed that both – resident and non-resident banks with committees in the Board felt allowable slow depravation of the credit portfolio quality in 2006-2008. And similarly to other banks they significantly lost the quality of their credit portfolio in 2009 – more than 100% of the previous level in average.

As for financial results we'd like to mention that there are only 5 non-resident and 4 resident banks among 40 that were analyzed with committees in the Board but 2009 year all of them finished with losses and showed average results in comparison with other banks in previous years. So hypothesis 4 appeared unconfirmed.

Hypothesis 4 states, that code of conduct should provide to the bank competitive advantage in the recourse collecting policy through the CSR activity. We analyzed the dynamics of the banks deposits share in total amount of the banking system deposits separately for individuals and for corporate sector (figures 5-8). Non-resident banks that publicly declare existence of the code of conduct during 2006-2009 years lost some points in their share of the individual deposits in total amount. At the same time some non-resident banks, that does not show any signs about the code of conduct in their structure raise own share in the market of individual deposits. Such result is rather unexpected, because we've supposed, that individuals could be even more potentially influenced by the good treatment of the bank personnel. Same unclear situation is in the field of corporate deposits. Banks with code of conduct and banks without it showed equally high rise and decrease respectively in the relevant market share during the analyzed period. We suppose that such situation could occur because of different reasons. One of them could be situation when codes of conduct are just formal documents and personnel in banks don't act like they should according to the codes. Or Ukrainian clients don't really meter about how they are treated by the bank staff, and are interested only in economical

advantages. And if the code don't include some important instructions that have a decisive role it also

could be useless for bank.

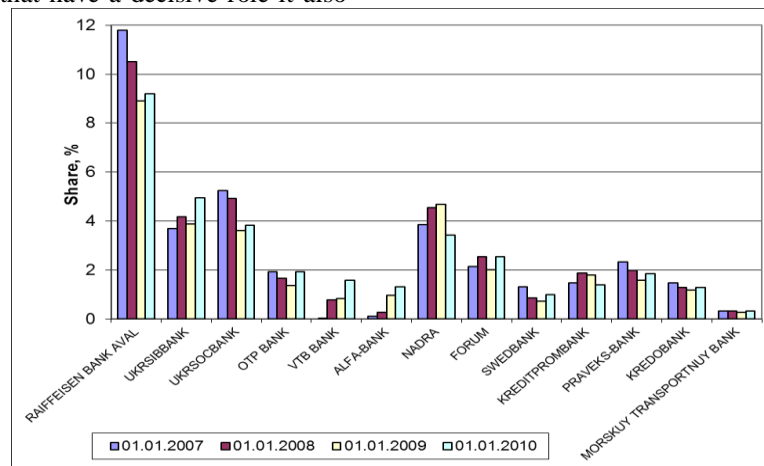


Figure 5: Dynamics of the banks' share of individual deposits in the total amount of the banking system deposits (non-resident banks)

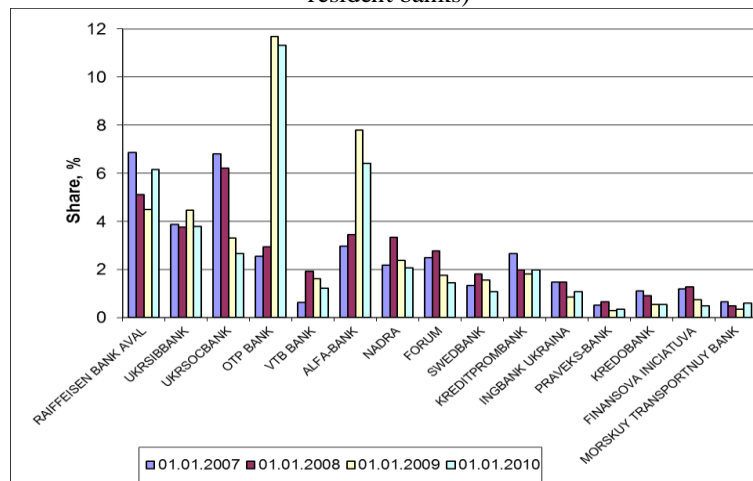


Figure 6: Dynamics of the banks share of corporate deposits in the total amount of the banking system deposits (non-resident banks)

As it could be seen from the figures 5-6 resident banks also had a fluctuate dynamics of the deposit share. On individual deposit market 4 of 7 banks that don't have public codes felt a decrease of the individual deposit share during the investigated period of time. Other banks mainly increased their share of the mentioned recourses.

Similar situation appears on the market of corporate deposits. 5 of 7 resident banks that have no code of conduct lost some point in their market share same as 4 of 14 banks that have codes of conduct. As it could be seen there is not a clear systematic connection between the existence of the code of conduct in Ukrainian banks and their competitive advantages that

are measured as dynamics of the deposits market share of each bank.

In reference to the impact of the code of conduct on the financial performance of the bank through the mechanism of the CSR we found that among 25 resident and non-resident banks that have codes of conduct half showed lose in 2009. What about the pre crisis years – there is no clear link between the two analyzed indicators. Because some “codeless” banks showed equally good financial results as banks that have the code. And some banks that have in their arsenal this instrument didn't seem to gain measurable advantages from it.

So our fourth hypothesis also failed to be approved.

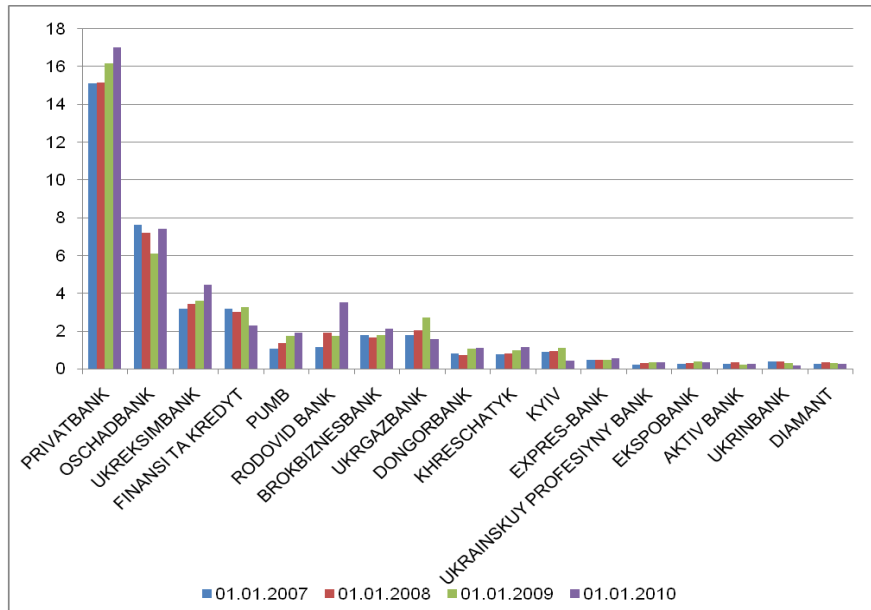


Figure 7: Dynamics of the banks' share of individual deposits in the total deposits amount of the banking system, % (resident banks)

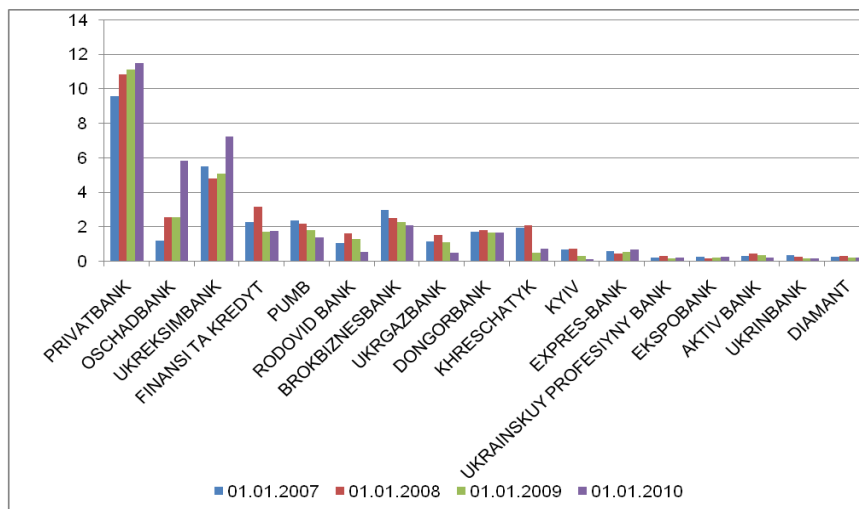


Figure 8: Dynamics of the banks share of corporate deposits in the total deposits amount of the banking system, % (resident banks)

The next indicator that matters is the employee's expenditures. According to the banks reports non-residents spend about 90 thousands hryvnyas per person per year while residents have more dissimilar meanings with the top at 1100 thousands per person and low at 10 thousand hryvnyas, although the average meaning is close to 60 thousands hryvnyas. This statistics makes residents more responsible to their employees than non-residents.

However we failed to approve hypothesis 5 because we still found no significant difference in the financial performance and CSR indicators of the resident and non-resident banks in Ukraine (figure 9). Apparently mother companies of non-resident banks in Ukrainian market do not really pass their best CSR practices to their subsidiaries.

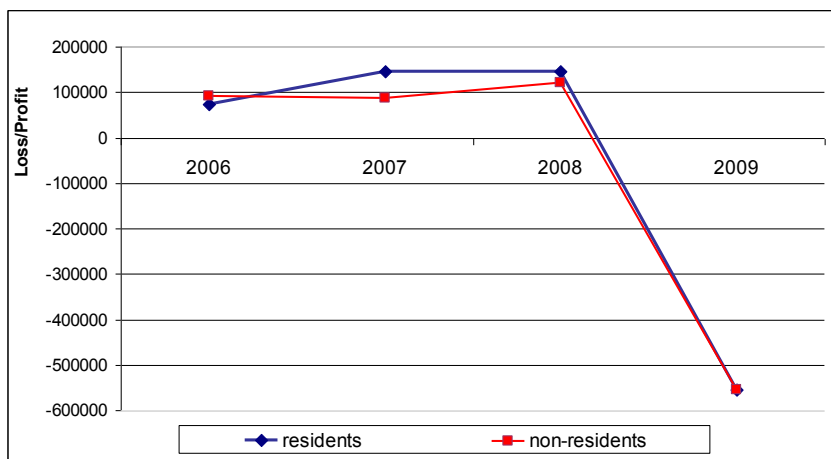


Figure 9: Profit-loss dynamics of the Ukrainian banks in 2006-2009 (thousands of hryvnyas)

Conclusions

Our research presents an attempt to make a statistical analysis on the correlation between the CSR of the bank and its financial performance in Ukrainian context. 5 hypotheses were made during the investigation, top 20 resident and top 20 non-resident Ukrainian banks were picked up for the statistical analysis of their financial performance and CSR policy during 4 years 2006-2009.

Hypothesis 1: There is a positive link between CSR and CFP of the bank. The link was analyzed by the finding a statistical correlation between the CSR indicators mentioned in the paper and indexes of the financial efficiency of banks – ROA and ROE. As a result we found no clear link (positive or negative) between examined figures.

Hypothesis 2: The independent directors in the Board make the banks CSR activity more efficient through the process of risk management and control.

Hypothesis 3: The committees of the Board make a positive effect on CSR activity of the bank.

To analyze these two hypotheses we picked up a suitable indicator of the risk management in the bank. It is an index which shows a dividing of the banks reserves for credit operations on the total amount of credit portfolio which mainly characterize a management of the main risk in banking activity – credit. After a statistical analysis we failed to confirm mentioned hypotheses because no correlation between risk management in the bank and operating of the independent directors or committees in it was found. Same as with the link between financial results and mentioned indicators of the CSR were seen.

Hypothesis 4: Banks that have a code of conduct gain competitive advantages through the CSR mechanism. To make an analysis of this hypothesis we've chose as an indicator of bank performance its share in total deposits of the banking system. The analysis showed no clear relation between examined indicators as for individual deposits so for corporate deposits in banks portfolios. We also haven't found (find) statistical evidence of the coherence between the code of conduct in the bank and its financial results.

Hypothesis 5: Non-residents have better CSR policies and practices compared to residents. All mentioned analyses we've made for two separate groups of banks – residents and non-residents. And in all cases no statistical proof of stated hypothesis was found. Non-residents appeared to be more responsible to their personnel. We measured that by the expenditures for 1 person per year. But what about other characteristics of the CSR resident and non resident banks showed similar indexes.

Unexpected results we get could be caused by several reasons. First of all there is no bank in Ukraine, which obtain all CSR indicators that we picked up for the analysis. Separately code of conduct, independent directors in The Board and committees could not effectively influence banks CSR policy and thus its financial results. Second reason is financial crisis which distorted all usual financial procedures and caused significant losses in both Ukrainian and world banking sectors. That makes difficulties in considering all factors in such conditions, that's why we are not able to do some confident conclusions on the link between CSR and CFP of the banks in this period.

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