THE EFFECT OF MARKET DISCIPLINE ON THE PERFORMANCE OF BANKS WITH REGARD TO THE ROLE OF SOCIAL RESPONSIBILITY IN IRAQI BANK

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ABSTRACT

In this article, we investigate the influence of market discipline on the performance of a selection of Iraqi banks from 2015 to 2021, while also considering the interactive role of social responsibility. In the pursuit of academic research, pertinent information sourced from annual reports of banking institutions, financial websites, as well as the Bank of Pakistan (SI) and Iraq Stock Exchange (ISX), was systematically gathered spanning the years 2015 to 2021. The research study utilizes content analysis and panel data techniques as its methods of investigation. The findings indicate a notable uptick in the overall corporate social responsibility (CSR) disclosure by all the banks included in the sample. The empirical findings of this study indicate a favorable correlation between market discipline and the performance of individual banks. Nevertheless, the results demonstrate the engagement of commercial banks in corporate social responsibility initiatives, which have contributed to enhancing the association between market discipline and the enhancement of banks' operational effectiveness. The present research findings enhance the comprehension of corporate social responsibility (CSR) initiatives in the financial sector within an emerging nation. The organization demonstrates a proactive commitment in cultivating its financial culture, thereby fostering the advancement of the Iraqi financial sector.

Keywords: Market discipline; CSR disclosure; financial performance; Iraq Bank; content analysis

INTRODUCTION

The underlying rationale for market discipline revolves around enhancing the contribution of depositors in reinforcing regulatory discipline. The increasing intricacy of banking operations and the shift towards market-oriented banking elucidate the motivations behind the successive Basel reforms, which have progressively emphasized the significance of market discipline as a foundation for a secure and proficient financial system. Market discipline refers to an incentive scheme rooted in the market, where depositors or other creditors actively confer rewards or penalties upon banks based on their comparative performance. According to the theoretical framework of market discipline, it can be anticipated that depositors will seek increased returns on their deposits and/or opt to withdraw their funds in reaction to deterioration in bank fundamentals. This market discipline mechanism functions by means of price and quantity adjustments in bank liabilities, thereby compelling bank management to reduce their risk exposure (Peria & Schmukler, 2001).

The phenomenon of market discipline within the conventional banking markets has been extensively explored and evidenced in the scholarly discourse. The majority of the available evidence stems from nations that boast advanced and established banking systems. Price and quantity disciplining have demonstrated their significant contribution as a complement to supervisory measures, particularly concerning deposits that lack complete insurance coverage. In a study conducted by Nier and Baumann (2006), an examination of a sample of banks across thirty-two OECD countries revealed that banks with higher levels of

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risk tend to maintain a larger capital buffer. This finding supports the notion that market discipline is prevalent in more established institutional environments. Sironi (2003) arrives at a comparable finding through an examination of the risk sensitivity associated with subordinated notes and debentures spreads among European banks. Demirguc-Kunt & Huizinga (2004) discovered that in a sample encompassing both OECD nations and developing countries, banks encounter relatively less market discipline from depositors when an explicit deposit insurance system is in place.

The banking industry will be affected by the competitive surroundings. In countries that are economically advanced, where information is readily available and there is fierce competition among banks, market discipline tends to be more frequent. Consequently, there exists a built-in mechanism for oversight and regulation of the banking industry by the general public. Research conducted in countries with highly developed banking industries, like the United States, Switzerland, and Indonesia, demonstrates that depositors, including those who have savings and those who do not, actively oversee and manage their banking activities effectively (Goldber & Hudgins, 1996; Park & Peristiani 1998; Khorassani, 2000; Birchler & Maechler, 2002; Widyastuti, et al.2013). In this situation, both depositors and the banking industry will be equally invested in the security of customer funds due to the effective functioning of the reward and punishment mechanism. This implies that the level of risk encountered will be a key concern for all parties involved. The discussion on market discipline becomes intriguing as it encounters various conditions and regulations within the banking sector, where the role of market discipline serves as a mechanism to regulate bank stakeholders. In Iraq, the banking industry has the potential to become an oligopoly due to the policies implemented by Bank Iraq (Taswan, 2012).

Corporate Social Responsibility (CSR) can be seen as a belief system that shapes the connection between the company and its stakeholders. The concept of CSR is increasingly becoming a priority for businesses as it has the potential to boost a company's competitiveness. This has inspired researchers to examine the impact of CSR on the business's financial performance. In this viewpoint, previous research has produced contrasting outcomes. The prevailing view suggests that engaging in CSR can give a company a competitive advantage, ultimately improving its financial well-being (Margolis, Elfenbein, & Walsh, 2009). The stakeholder theory, proposed by Freeman in 1984, is based on the idea that CSR improves financial performance. According to the theory, building strong relationships with stakeholders and effectively managing them is crucial for creating value and achieving success for a company (Hammann et al., 2009). Another way to look at it is that there is a detrimental association between two concepts. Based on this perspective, it utilizes the limited resources of a company without yielding any significant benefits (Friedman, 2007). To put it differently, engaging in social action incurs a cost that has a detrimental impact on profitability. Engaging in various CSR activities, such as philanthropy, investing in environmentally friendly equipment, improving working conditions, and implementing pollution control measures, will reduce profitability due to the associated costs incurred.

This article adds to the limited Islamic finance literature by examining the existence of market discipline from various perspectives. As far as we know, no research has been conducted to investigate the presence of market discipline in a banking system that includes both Islamic and conventional banks. Additionally, the current body of literature does not offer us adequate understanding on the functioning of the disciplinary process within the Islamic context. We strive to address this void by analyzing how depositors exercise discipline in the Iraqi banking sector. Islamic banking is the dominant banking system in Iran and Sudan, adhering to Islamic principles. However, in countries like Bangladesh, Egypt, Malaysia, and Turkey, Islamic financial institutions coexist alongside traditional banks. The

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Iraq situation presents a unique chance to analyze how individuals who deposit money behave in different situations. The worldwide controversy surrounding the impact of CSR on performance has been extensively examined, but there is a dearth of understanding from the Iraqi viewpoint. Furthermore, there is an increasing acceptance of CSR in developing nations. This shift towards prioritizing CSR necessitates the assessment of its potential economic consequences. In light of this, the objective is to investigate how CSR affects the relationship between market discipline and the financial performance of commercial banks in Iraq.

As thus, this study asks the following research questions:

a) Are market disciplines effective in improving the financial performance of Iraqi banks?
b) Does corporate social responsibility affect the relationship between market discipline and financial performance in Iraqi banks?

LITERATURE REVIEW AND HYPOTHISES DEVELOPMENT

Bank Performance

Numerous studies have been implemented with the aim of examining the principal factors contributing to bank performance, leading to divergent findings among various scholarly sources. This suggests that bank performance is influenced by a multitude of factors, encompassing both firm-specific and macroeconomic variables. The research carried out by Muhammad & Siddiqui (2011) focused on the primary determinants, namely capital adequacy, credit risk, liquidity, deposit growth, Gross Domestic Product (GDP), and inflation. In the context of Sub Saharan Africa, Flamini, McDonald & Schumacher (2009) identify credit risk, capital size, market power, GDP, and inflation as the primary factors influencing bank profitability. According to Ahmed and Khababa (1999), business risk, market concentration, market size, and bank size are identified as the primary factors influencing bank profitability in Saudi Arabia.

Market Discipline

Market discipline refers to a collection of mechanisms by which depositors can exert implicit control over their banks. These mechanisms encompass altering deposit supply traits and modifying investment strategies in response to fluctuations in the financial indicators of risks borne by the banks. There exists a considerable body of research concerning this particular phenomenon, where interested readers may refer to Semenova's (2007) review for an in-depth analysis. In the present study, the authors delineate three prospective mechanisms for disciplining depositors.

The phenomenon of disciplining through price occurs when depositors demand elevated interest rates from banks that bear higher levels of risk, as these interest rates encompass risk premia.

The phenomenon of disciplining by quantity occurs when banks exhibit higher levels of risk in their fundamental operations, prompting depositors to withdraw their funds from said banks. As a consequence, these banks encounter heightened challenges in procuring additional deposits.

The phenomenon of disciplining through maturity shifts occurs when depositors opt for less risky short-term or on-call deposits instead of riskier long-term ones, in response to perceived increases in risk-taking behavior by banks.

The investigation of this phenomenon typically involves the application of regression analysis methodology. The indication of market discipline's existence can be observed through the degree of correlation between deposit activity (in terms of quantity) or the proportion of deposits with varying maturities in relation to total deposits (in terms of

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maturity structure shifts), or the average interest rates associated with deposits (in terms of pricing mechanism), and a range of financial indicators pertaining to the financial position and performance of banks. Typically, the CAMEL rating model is employed to assess these indicators.

CSR

CSR is the result of the influence exerted by diverse societal forces on corporations. The constituents of society, including the general public, labor unions, and societal groups, experienced growing discontent in response to the prevailing unethical practices exhibited by corporations and a lack of corporate accountability. According to Jones (1995), corporations incur significant financial burdens as a result of engaging in unethical conduct, which includes betraying trust and undermining cooperative relationships within the organization and its affiliated entities and individuals. According to Sethi (1979), firms are seen as vital components of the community, akin to other social institutions, with their development and continued existence relying on their respective societies. Society grants these organizations a certain degree of autonomy, entrusting them with the responsibility of meeting public needs. CSR initiatives within corporations aim to propel and enhance social and environmental undertakings within said firms, without resulting in significant governance implications. This research is focused on the incorporation of public benefit considerations into the fundamental operational activities of businesses. Smith (2003) asserts that the incorporation of CSR within businesses is no longer a point of contention, but rather, the emphasis lies in determining the optimal methods through which it can be effectively integrated as a central focus. According to Lee et al. (2009), corporations establish the parameters of their obligations based on CSR principles, which encompass social, economic, and environmental responsibilities that are crucial for demonstrating good corporate citizenship. According to Sheehy (2014), the concept of CSR can be described as a form of self-regulation that is undertaken by private entities on a global scale. Sheehy (2014) argued that the successful establishment and enforcement of CSR are contingent upon the involvement of various stakeholders, including civil societies, non-governmental organizations (NGOs), regulating authorities, and industry members. These parties collaborate in the formulation of CSR standards, rule-making, and administrative processes. Charitable pursuits should not be confined strictly to acts of goodwill, but rather should be embraced as a decisive course of action aimed at fostering opportunities and advancements, ultimately leading to a heightened competitive advantage vis-à-vis other enterprises within the industry.

Market Discipline and Bank Performance

Considering the reality that numerous emerging economies, particularly those categorized as middle income or above, have successfully established robust organized public equity markets, in which publicly owned firms, including banks, trade their financial securities, it can be argued that there exists a significant potential for market discipline to be exercised through the activity within these equity assets. Hence, factors such as the magnitude of publicly tradeable shares available for trading. The yield-to-maturity of tradable debentures, coupled with their credit ratings, can serve as an indicator of the level of market discipline imposed on banks (Distinguin et al, 2006; Nier and Baumann, 2006; and Curry et al., 2008)

Moreover, Market discipline can also be observed through indicators or implied costs of financial intermediation of banks, predominantly conducted privately through over-the-counter interactions. For instance, the interest rate spread serves as an indication of market discipline based on the depositors' inclination to provide funds for banks. Similarly, the interbank rate reflects the discipline exercised by other banks towards high-risk counterparts.

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(Onder & Ozyıldırım, 2014). The global financial crisis of 2007-2009 demonstrated the significant impact of banks ceasing to utilize the most secure method of funding in the banking industry: the lending of excess reserves to meet central banks' mandated statutory reserves. This phenomenon, exemplified by the collapse of Lehman Brothers, was extensively discussed in academic literature (Ioannidou & Penas, 2010; Montoro & Moreno, 2011).

An extensively probable origin of market discipline, observed in both emerging and developed economies, at a relatively modest expenditure of effort by private entities, can be attributed to regulatory (government) stimulus. This takes the form of market discipline wherein banks participating in deposit insurance coverage pay risk-adjusted premiums. Deposit insurance schemes that incorporate risk adjustments linked to the market conditions are designed to estimate the expenses associated with providing partial financial assistance to banks that may encounter financial difficulties. Alternatively, these schemes aim to mitigate the substantial costs that would arise from allowing insolvent banks to persist due to undue regulatory leniency, which could occur in the absence of insurance hindrances on regulatory authorities. It is important to recognize that market discipline does not solely rely on the establishment of a deposit insurance scheme. Instead, changes in the insurance premiums paid by banks and the potential trade-offs between mitigating runs and encouraging moral hazard are key factors that can alter bank risk-taking behavior and the likelihood of financial instability. Hence, the aforementioned suggests that there exists a complexity in the impact of deposit insurance on risk-taking, which necessitates further empirical investigation. This is particularly relevant in cases where deposit insurance premiums are adjusted for risk and/or regulated by reinsurance and market affiliations (Demirguc-Kunt et al., 2015)

In light of the information obtained from scholarly sources, it is our assertion that there exist viable indicators (constructs) to measure market discipline in relation to the widely adopted practice of subordinated debts, with a specific emphasis on emerging economies. The efficacy of subordinated debts in developed markets (Scott, 2004; Karacadag, 2001) and particularly in relation to large financial institutions (Evanoff, 1993) has been extensively debated and evidenced. However, this is not the case in emerging economies.

Bliss and Flannery (2002) identify two components of market discipline: market monitoring, which pertains to the assessment of banks' conditions by investors and depositors, and is manifested in the banks' securities prices and deposit rates or quantities; and market influence, referring to the response of banks in countering adverse changes in their condition as prompted by market monitoring. Numerous scholarly investigations have substantiated the efficacy of market monitoring, whereas limited scholarly endeavors have been undertaken to interrogate the notion of market influence, as exemplified by the works of Billett et al. (1998) and Bliss and Flannery (2002). The primary objective of the present scholarly inquiry is to assess the extent to which banks may be susceptible to external pressures exerted by market investors and depositors, thereby categorizing this research as a study on market influence. Bank performance measures have extensively been employed in studying market influence. Nevertheless, it is worth noting that these performance measures are contingent not just upon the conduct of banks, but also on the behavior exhibited by their customers and the overall economic surroundings. Efficiency measures provide a more accurate indication of banks' adherence to market discipline as they are less susceptible to external factors that could potentially influence their performance, aside from their own operations.

The Return on Assets (ROA) metric is employed to assess a company's proficiency and efficacy in generating profits through the utilization of its assets. The present study indicates that Iraqi banks have exhibited an enhanced return on assets (ROA), demonstrating an improved utilization of their resources. Banks exhibiting favorable profitability have

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demonstrated the soundness of their fundamental banking aspects. The findings presented by Barajas and Steiner (2000) indicated that depositors exhibited a preference for financial institutions possessing robust fundamentals. According to Riantika (2015), it was observed that return on assets (ROA) exhibited a favorable impact on the growth of deposits. Intense competition prevailing across various sectors, notably within the banking domain, has been found to foster efficiency. Efficiency plays a pivotal role in shaping the operational framework of a company. Efficiency within the banking sector holds a significant importance in the pursuit of establishing a robust and enduring bank performance (Abidin & Endri, 2009). In the contemporary landscape characterized by heightened levels of competition, banks have an obligation to enhance their operational efficiency. Efficiency holds significant significance within the realm of business operations, as it serves as a vital metric for gauging the overarching performance of a company's endeavors. Therefore, the organization will consistently strive to enhance its operational effectiveness. According to Wheelock and Wilson (1999), the assessment of a bank's operational condition and its success heavily relied on the measurement of efficiency, which constituted a vital indicator.

According to the contents, the first hypothesis of the research is stated as follows:

H_1: *There is a positive and significant relationship between market discipline and financial performance of Iraqi banks.*

Moderating role of Corporate social responsibility on relationship of Market Discipline and Bank Performance

CSR constitutes a significant catalyst for the enhancement of financial performance. CSR in accordance with stakeholder theory and agency theory, has been found to have a beneficial impact on financial performance. There have been numerous studies that have provided empirical evidence supporting a positive correlation between CSR and various factors. As an example, Waddock & Graves (1997) conducted an assessment involving a sample of 469 companies, employing a surrogate KLD measurement for CSR. The researcher conducted an analysis on the implications arising from the presence of surplus resources and the incorporation of effective managerial techniques. The author discovered a significant correlation between CSR and both past and future financial performance. This result lends support to both the slack resource theory and the good management theory. In their study, Kim & Kim (2014) conducted an examination of CSR within the tourism industry, with a specific focus on elucidating whether the implementation of CSR initiatives yields value enhancement for shareholders. The present examination employed ESG ratings spanning the time frame of 1991 to 2008 in order to empirically evaluate the influence of CSR) on distinct categories of equity-holder risks, namely systematic and unsystematic risks. The author posited that the incorporation of social responsibility has been observed to augment shareholder value through the elevation of Tobin's Q, whereas companies with minimal corporate social responsibility negatively impacted shareholder value by augmenting risk. The primary proposition substantiating the existence of a positive correlation posits that corporate social responsibility (CSR) serves as a catalyst for augmenting a firm's competitiveness.

From an innovation-oriented standpoint, the incorporation of CSR practices within a firm yields the benefits of cost reduction, the generation of stakeholder value, and the development of internal competencies, including the ability to establish a leadership position within an industry (Preston & O'bannon, 1997). Consequently, these combined advantages contribute to enhancing the competitive edge of a firm. CSR enhances firm competitiveness through three fundamental avenues: collaboration with diverse stakeholders, identification and acquisition of novel business prospects by addressing significant societal issues, and the enhancement of working conditions to instill worker trust and attentiveness. Therefore,

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through the allocation of resources towards ethical practices and social responsibility, a company accumulates a reserve of reputational capital, which subsequently enhances its financial performance. Moreover, CSR contributes to the cultivation of favorable customer relationships, the recruitment of highly motivated employees, the reduction of organizational risk, and the dissemination of positive word-of-mouth, which would otherwise incur expenses (Bird et al., 2007). Hammond & Slocum (1996) emphasized that the implementation of CSR has the potential to enhance corporate reputation and mitigate financial risk, ultimately resulting in reduced bankruptcy rates for CSR-adopting firms in comparison to non-CSR firms. The inclusion of the market discipline principle within the regulatory framework of banks and publicly held financial institutions is widely advocated, with the aim of promoting corporate social responsibility and thereby improving the performance and long-term viability of these institutions (Evanoff & Wall, 2001a; Blum, 2002; Benink & Wihlborg, 2002; Herring, 2004; Pop, 2006; Onder & Ozyilhdirm, 2014).

***H_2*: *Does corporate social responsibility affect the relationship between market discipline and financial performance of Iraqi banks*.**

RESEARCH METHODOLOGY

The entirety of Banks that have been registered on the Iraqi Stock Exchange from the years 2015 up to 2021 are accounted for in the statistical population. A technique of systematic elimination is employed to gather samples. By utilizing the information presented in Table 1, a conclusive statistical sample was created at the conclusion of 2021. A clever rephrasing of this text might be: Crafting an adept rewording of this text could involve:

Table 1
THE NUMBER OF COMPANIES

Companies Listed on the Iraqi Stock Exchange	Number of Companies
Total number of companies	130
Member companies of other industries	(45)
Financial intermediation, holding and insurance	(55)
The information required for this research should be accessible.	(6)
Total sample (Banks)	24

The fundamental details and primary statistics for testing a hypothesis were acquired through the employment of The database of The Iraq Stock Exchange. Our method for analyzing data involves examining it annually and from a cross-sectional perspective. For instance, intelligently rephrase this text: data Panels. Alternative phrasing: Panels of information or data sets. The hypothesis was tested using multivariate linear regression, while The collected data was analyzed using descriptive and inferential statistical techniques. To depict The information, a frequency distribution table is employed. At The deductive phase, the proposed suppositions are examined through various quantitative analysis methods such as The F-Limer and Hussmann tests, normality assessment, and multiple linear regression examination. it's important To effectively restate The content of this passage while preserving The original intended meaning.

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RESEARCH MODEL

Hypothesis 1 was tested using Equation (1), while Hypotheses 2 were assessed by means of Equations (2) and (3), respectively

Model 1

$$\begin{aligned}BP_{i,t} = b_0 + b_1MD_{i,t} + b_2LEV_{i,t} + b_3Growth_{i,t} + b_4ManagerKnowledge_{i,t} + b_5LOSS_{i,t} \\ + b_6Cash_{i,t} + b_7BordSize_{i,t} + b_8ROA_{i,t} + b_9Intrnational\ Branch_{i,t} + \varepsilon_{i,t}\end{aligned}$$

Model 2

$$\begin{aligned}BP_{i,t} = b_0 + b_1MD_{i,t} + b_2CSR_{i,t} + b_3(MD_{i,t} \times CSR_{i,t}) + b_4LEV_{i,t} + b_5Growth_{i,t} + b_6ROA_{i,t} \\ + b_7ManagerKnowledge_{i,t} + b_8LOSS_{i,t} + b_9Cash_{i,t} + b_{10}BordSize_{i,t} \\ + b_{11}Intrnational\ Branch_{i,t} + \varepsilon_{i,t}\end{aligned}$$

(The Dependent Variables)

$\mathbf{BP_{i,t}}$: Q- Tobin 's constitutes a prevalent value measure for company value. This measure is market-oriented and is construed to be the major dependent variable. It adopts a forward-mannered orientation and may catch the company's performance (Gerged et al., 2021).

Q-Tobin ratio as described in the following formula.

Q-Tobin-$\frac{MV}{BV}$

Where in:

MV- Asset market value (total market value of equity and book value of total liabilities) and

BV- The book value is the total assets.

(The Independent Variable)

Market discipline (MD): If the bank Changes in deposits Ratios, it equals one, and otherwise, zero.

(The moderating Variables)

$\mathbf{CSR_{i,t}}$: The scales constructed by Bai and Chang (2015), Youn et al., (2018), Turker (2009), and Su and Swanson (2019) were applied with some changes (e.g., adapted) to examine corporate social responsibility toward four dimensions: employee relationship information disclosure rate (EMPD), social participation information disclosure rate (COMD), production information disclosure rate (PROD), and disclosure rate Environmental Information (ENVD).

The total value of corporate social responsibility disclosure is obtained from the sum of the partial value of corporate social responsibility dimensions and can be calculated using Equation 2 (Saleh et al., 2010)

$$CSR = EMPD + COMD + PROD + ENVD$$

$$CSR_{j,t} = \frac{\sum_{i=1}^{n_j} X_{i,j}}{39}$$

(The Control Variables)

LEVi,t: This variable equals the ratio of total debts to total assets in the current year.

SalesGrowthi,t: It equals this year's sales minus last year's sales divided by last year's sales.

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Manager Knowledge$_{i,t}$: If the manager has financial knowledge in the year under review, it equals one; otherwise, zero.

LOSS$_{i,t}$**:** If the bank reports a loss, it equals one, and otherwise, zero

Cashi, t: The ratio of the bank's operating cash to total assets is used.

BordSize$_{i,t}$**:** The natural logarithm of the total number of board members.

Return on Assets (ROA): The result of dividing the net profit by the total assets' book value.

International Branch$_{i,t}$: If the bank has International Branch, it equals one and otherwise zero.

RESULTS

Results

This study employed two models to analyze the relationship between CSR and bank performance with moderating role of ITG. The panel data consists of 24 Iraqi banks from 2015 to 2021. The following variables are utilized to estimate the models. The variables include CSR, bank performance, IT governance (ITG), and other control variables. Table 2 presents the descriptive statistics.

Data on descriptive statistics

Descriptive statistics of the main variables of this research are presented in Table 2 & Table 3. BP can be interpreted as a score above 1, meaning that the firm is creating value and a score below 1, meaning that the firm is destroying wealth. The mean value variable (Tobin's Q) in this study is 3.445, which shows that the companies create value.

Table 2
DESCRIPTIVE STATISTICS OF MAIN VARIABLES

Variable	Mean	Standard deviation	Q1	Median	Q3	Min	Max
BP	3.445	2.783	1.687	2.601	4.852	0.343	15.020
CSR	0.305	0.064	0.256	0.308	0.333	0.103	0.462
Lev	0.456	0.202	0.327	0.456	0.592	0.000	0.898
Growth	0.031	0.631	-0.379	-0.055	0.217	-1.000	2.135
ROA	0.045	0.040	0.017	0.037	0.061	-0.018	0.230
Cash	0.016	0.146	-0.047	0.011	0.082	-0.749	0.502
Bordsize	1.904	0.437	1.792	1.946	1.946	1.386	7.000

Table 3
DESCRIPTIVE STATISTICS OF QUALITATIVE VARIABLES

Variable	Status	Frequency	Percentage %
MD	0	64	38.10
	1	104	61.90
	Total	168	100.00
Manager Knowledge	0	104	61.90
	1	64	38.10
	Total	168	100.00
International branch	0	64	38.10
	1	104	61.90
	Total	168	100.00

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Loss	0	156	92.86
	1	12	7.14
	Total	168	100.00

Data analysis and main results

Table 4 presents the correlation analysis of research variables. The results demonstrate a positive correlation between MD, CSR, managerial knowledge, and bank performance at the 99% confidence level (**COEFFICIENT: 0.001**).

Table 4
CORRELATION ANALYSIS OF RESEARCH VARIABLES

	BF	CSR	IT	Lev	Growth	ROA	Loss	Cash	Manager knowledge	Board size	International branch
BF	**1**										
MD	**0.750 *****	**1**									
CSR	**0.259 *****	**0.173**	**1**								
Lev	**-0.063 *****	**-0.193 *****	**0.279 *****	**1**							
Growth	**-0.012**	**-0.023**	**-0.032**	**-0.198 *****	**1**						
Manager knowledge	**0.270 *****	**0.247 *****	**-0.063**	**-0.043**	**-0.088**	**1**					
Loss	**0.036**	**0.006**	**0.191 ****	**-0.121**	**0.014**	**-0.038**	**1**				
Cash	**0.083**	**-0.027**	**0.036**	**0.197 ****	**0.040**	**0.042**	**0.033**	**1**			
Bordsize	**-0.231 *****	**-0.217 *****	**-0.040**	**0.125**	**0.032**	**-0.132 ***	**-0.104**	**-0.064**	**1**		
ROA	**0.185 ****	**0.221 *****	**-0.002**	**0.153**	**-0.012**	**0.217 *****	**-0.237 *****	**0.042**	**-0.014**	**1**	
International branch	**0.031**	**0.053**	**0.133 ****	**0.289 *****	**-0.178 ****	**0.085**	**-0.011**	**-0.032**	**-0.257 *****	**0.106**	**1**

*, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Resource: Research findings

All variables are stable, as illustrated by the fact that the significance level is less than 0.05 in the table above**.**

Table 5
THE RESULTS OF LEVIN, LIN VECHO'S UNIT ROOT TEST FOR THE ANALYSIS OF STABILITY

Variable	p-value
PF	0.037
CSR	0.025
Lev	0.021
Growth	0.012

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ROA	0.000
Cash	0.000
Board size	0.000

This study employed the Durbin and Wu–Hausman test to test endogeneity. The results of this test for research equations are reported in Table 1. Since the p-value is larger than 0.05, there is no endogeneity for the first model. However, due to the endogeneity in the second model, the 2SLS method is employed to estimate the parameters (Table 5). We compare the parameter estimation of the model (2) using the 2SLS and Robust regression techniques (Table 6).

Table 6
RESULTS OF DURBIN–WU–HAUSMAN TEST

Equation	Test	χ^2	p-value	Result
1	Durbin	$\chi^2 = 1.824$	0.323	H0 is not rejected (there is no endogeneity)
	Wu-Hausman	F=0.935	0.392	H0 is not rejected (there is no endogeneity)
2	Durbin	$\chi^2 = 22.130$	0.000	H0 is rejected (there is endogeneity)
	Wu-Hausman	F=17.600	0.000	H0 is rejected (there is endogeneity)

In accordance with the integration test results in Table 7, the null hypothesis of data integration at the 99% confidence level is rejected. Therefore, a panel data model should be utilized to estimate the coefficients of these models.

Table 7
THE RESULTS OF POOLING

Equation	F Statistic	p-value
1	12.689	0.000

In Table 8, the Hausman test statistic is 10.316. For the first research model, since the table's is greater and the null hypothesis (i.e., the proper model is the random effect model) is not rejected, the efficient model is the random-effects model.

Table 8
THE RESULTS OF THE HAUSMAN TEST

Equation	χ^2 Statistic	p-value
1	10.316	0.325

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Table 9
THE RESULTS OF THE FIRST AND SECOND MODELS

Variable (BF)	GLS Regression					2SLS Regression			
	Equation (1):					Equation (2):			
	Coef	Std. Err	Statistic t	Prob	VIF	Coef	Std. Err	Statistic t	Prob
MD	2.631***	0.261	10.057	0.000	1.183	2.425*	1.433	1.691	0.092
CSR	-	-	-	-		1.644	2.792	0.588	0.556
MD * CSR	-	-	-	-		20.629***	4.498	4.585	0.000
lev	2.343***	1.047	2.236	0.026	1.367	0.153	0.815	0.188	0.850
Growth	0.211	0.182	0.116	0.907	1.083	0.081	0.216	0.378	0.705
ROA	4.889	3.746	1.305	0.193	1.137	-0.670	3.561	-0.188	0.850
loss	0.684	0.478	1.429	0.154	1.231	0.217	0.590	0.367	0.713
Cash	-1.011	0.734	-1.377	0.170	1.069	1.370	0.932	1.470	0.143
Manager Knowledge	0.168***	0.481	0.348	0.727	1.083	0.560**	0.286	1.998	0.049
Board size	-3.559	0.656	-5.420	0.000	1.089	-0.634	0.776	-0.817	0.415
International branch	-0.827***	0.307	-2.694	0.007	1.148	-0.145	0.305	-0.477	0.633
cons	7.798	1.438	5.420	0.000	----	0.811	2.055	0.390	0.694
χ^2 Statistic	14.34(0.000)						26.78(0.000)		
R^2	0.449						0.653		
Adjusted R^2	0.418						0.629		
Durbin-Watson Statistic	1.534						1.873		
AIC	761.46						792.156		

As Table 9 shows and based on the VIF values, it is evident that the independent variables are not collinear. Because every VIF value is less than 5, Table 8 indicates with 99% confidence that the Market discipline variable has a positive and significant effect on the company's performance. Because its significance level is less than 0.01 and its coefficient is greater than 2.631 and positive. Based on GLS regression, there is a 99 % confidence that International branch control variables have a negative and significant effect. Because its significance level is less than 0.01, the Lev has a positive and significant effect with a confidence level of 95%. Since the level of significance is less than 0.05 and its coefficient value is negative and equal to 2,343.

In the second model, the Market discipline variable moderated by social responsibility has a significant effect on the company's performance with 99% confidence. It is because its significance level is less than 0.01. It also has a growing moderating function. The second hypothesis is supported with a 99% degree of confidence since the MD * CSR variable has a significant level of 0.009, and its coefficient value is equal to 20.629 and positive.

Additional Analysis

Table 10 shows the statistical results of testing the hypotheses based on the robust regression. According to robust regression, the Market discipline has a positive and significant effect on the Bank performance, According to Equation (2), CSR has a moderating role in the relationship between Market discipline and Bank performance. The

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effect of CSR on the relationship between CSR and Bank performance is 8.127 (sig < 0. 1). Therefore, the results of this test are consistent with the results of GLS.

Table 10
ROBUST REGRESSION

Variable (BF)	Robust Regression Equation (1):			Robust Regression Equation (2):		
	Coef	**T Statistic**	**Prob**	**Coef**	**T Statistic**	**Prob**
MD	2.425***	15.452	0.000	0.462	0.489	0.624
CSR	-	-	-	0.404	0.219	0.826
MD * CSR	-	-	-	8.127***	2.742	0.006
lev	-1.534***	-3.369	0.000	-1.341***	-2.495	0.012
Growth	-0.137	-1.054	0.291	-0.113	-0.795	0.426
ROA	1.455	0.678	0.497	0.004	0.002	0.998
loss	-0.481	-1.388	0.164	-0.455	-1.169	0.242
Cash	1.125**	1.999	0.045	1.136*	1.850	0.064
Manager Knoledge	0.274	1.591	0.111	0.256	1.360	0.173
Board size	-0.535	-1.156	0.247	-0.610	-1.193	0.232
International branch	-0.298**	-1.650	0.099	-0.201**	-1.000	0.317
_cons	0.062	0.030	0.973	3.767	3.485	0.000
χ^2 Statistic	46.35(0.000)				48.1942(0.000)	
R^2	0.468				0.473	
Adjusted R^2	0.444				0.446	
Durbin-Watson Statistic	1.917				2.076	
AIC	211.75				194.36	

*, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively. Resource: Research findings

DISCUSSION AND CONCLUSION

The current discourse on social responsibility largely overlooks the significant impact of external market discipline on bank performance. Previous empirical research has primarily concentrated on financial performance indicators and has attested that enhanced social responsibility is correlated with enhanced organizational performance. The extant scholarly literature further elucidates that foreign market competition holds the potential to act as a viable alternative to domestic governance, given its ability to mitigate agency problems through the reduction of such issues. This study examines the impact of social responsibility on the association between foreign market discipline and firm performance, utilizing a sample of Iraqi banks over the period 2015-2021. The primary results indicate that the presence of foreign market discipline in banks can yield favorable outcomes on their overall performance, with a notable augmentation in banks exhibiting elevated levels of social responsibility. To elucidate further, the current level of corporate social responsibility disclosure within the banking sector in Iraq can be considered as middling, necessitating enhancement, while also exhibiting indications of advancement. The findings of this study further indicate that corporate social responsibility (CSR) initiatives undertaken by the banking sector, coupled with transparent reporting of such activities, have a positive impact on economic performance. The present study aims to investigate the impact of Corporate Social Responsibility (CSR) practices and their disclosure on the economic performance indicators of Iraq. The extant literature pertaining to the association between corporate social

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responsibility (CSR) disclosure and economic performance within financial organizations lacks comprehensive reviews, with limited reporting of discernible outcomes. Thus, the present study seeks to address the existing void within the academic literature. Additionally, this research offers valuable insights into corporate social responsibility (CSR) disclosure initiatives within the specific context of Iraq. Commercial banks demonstrate a lack of reliability in their disclosures concerning corporate social responsibility (CSR) with regard to resources and environmental factors. This finding suggests that the Iraqi government should consider revising the guidelines for Corporate Social Responsibility (CSR). Moreover, the implementation of incentivization mechanisms for banks has the potential to enhance their corporate social responsibility (CSR) practices and promote greater transparency in their disclosures. This study has successfully constructed a corporate social responsibility (CSR) index based on the principles of stakeholder theory, thereby providing valuable insight for stakeholders and financial institutions into the comprehensive assessment and disclosure of CSR practices in the Iraqi context. The scope of this research is constrained to encompass twenty prominent commercial banks in Iraq. Future researchers have the opportunity to broaden the scope of the research. This undertaking could also be examined through a comparative analysis of the effects of corporate social responsibility (CSR) disclosure practices on the financial performance of traditional banking institutions.

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