



Business Consultancy Project

**Assessing CSR strategies and Stakeholder Relations in Corporate
Banking Sector:**

A Case of PASHA Bank Azerbaijan

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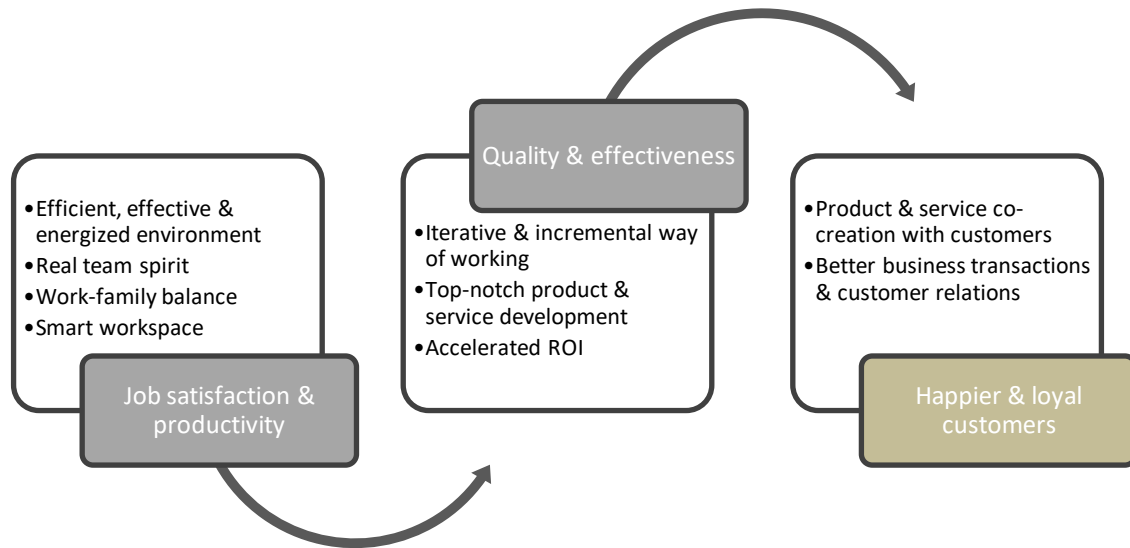
1. Introduction

1.1 Background and Problem Statement

Digital transformation means not only changing from traditional banking to a digital sphere, but more than that. It is considered a major transformation in the process of how banks and financial organizations the chance to learn and interact with customers; while at the same time satisfies them. Digital transformation enhances the understanding of digital consumer behavior, likes and dislikes, as well as preferences, which further leads the organizations to become customer-centric rather than product-centric (Peter, 2019). As an effective marketing tool, digital transformation with a particular emphasis on mobile channel can give consumers an access to their balance at anytime and anyplace. In addition, digitization of banking can allow for personalization of marketing offers and personal financial management. Transformation is worthy, while assurance is of utmost importance when it comes to building trust and managing risks (KPMG, 2018). Hence, the question arises on whether the expansion of digitization in banks can preserve business ethics, particularly consumer rights. This is where the human factor comes in. The evolution of PASHA Bank's CSR strategy also highlights the transformation from CSR activities as a marketing tool (1st Stage) to formation of strategic partnerships with charity institutions (2nd Stage), and finally to value creation for both the society and bank itself.

PASHA Bank has launched its new development strategy "Agile" for the years of 2018-2020, through which it aims for the development of advanced digital (sales) channels as well as intra-firm capabilities (PASHA Bank Agile Page, 2019). It is projected to accomplish 90% of client transactions in alternate delivery channel (ADC). Moreover, the project has three directions (see Fig. 1):

Figure 1. PASHA Bank Agile Strategy



(Source: compiled by author)

When the Ministry of Economic Development of Azerbaijan prepared the Code of Corporate Ethics in partnership with the International Finance Corporation (IFC) in 2012, it was acknowledged as groundwork of a legislative framework for the development of CSR ecosystem in the country (CESD, 2013). Moreover, the principles of the ethics promote the rights of employees, welfare protection, health, safety, as well as environmental preservation (protection of labor and ecology) with a strong emphasis on ethical principles and an application of harmless technologies. In line with the code of ethics, PASHA Bank strives to deliver high-quality products and services with maximum transparency, while preserves main values that are (1) high quality; (2) profitability; (3) integrity; (4) entrepreneurship; and (5) cooperation.

The most significant success factor in digitization in financial institutions is to meet the demands of stakeholders (Murrmann, 2018). The desired success can only be accomplished when they feel there is an added value for themselves. While taking into account customers as one of the major stakeholders of banks, 24/7 availability of information and transparency of banking process become increasingly important. However, besides customers, the society must be considered another stakeholder of the banks. As customers and banks' own employees come from the same society, banks must have positive societal impact. It can be either social campaigns or environmental initiatives. Former academic studies also confirm that stakeholder engagement positively affects competitive advantage of companies (Vachon & Klassen, 2008; Madsen & Ulhoi, 2001). Hence, companies can achieve better performance by incorporating environmentally friendly activities in their functions (Amankwah-Amoah et al., 2018). The analysis of the PASHA Bank's CSR strategy shows that it implements a strategy regarding the natural

resource utilization for maintaining global environmental sustainability. For instance, new technology and infrastructure help for the minimization of natural resources usage, which is not limited to reduction and managing the efficiency of water usage and electricity consumption in the headquarter and in branch offices (Sustainability Report, 2017). PASHA Bank also increases the environmental awareness of the subordinates. In the past years, the need for paperwork and cash payments reduction required the bank to invest in Internet and mobile banking technologies. Regardless the challenges for the advancement of recycling industry in Azerbaijan, PASHA Bank managed to launch its own recycling facility, where vehicle batteries are recycled, waste papers are collected, while at the same time electronic equipment is disposed.

1.2 Rationale and Objectives of the Project

Although the banking sector in Azerbaijan, especially PASHA Bank has achieved significant milestones towards to CSR development and its integration with their business and marketing functions, the Bank still needs to overcome several challenges as mentioned below:

- Clear understanding of the bank's CSR by its subordinates. Since they are also stakeholders of PASHA Bank, better understanding and active inclusion in CSR may also increase the bank's performance (e.g., financial, marketing, and etc.)
- The overview of PASHA Bank shows that some statistics related to CSR indicators and their impact on bank's performance are missing, which requires further investigation
- It is believed that long-term strategies are more impactful on firm performance and value creation for society. Hence, some CSR projects of the bank are short-term, which also requires an investigation the bank's attitude and intention towards long-term projects
- In line with the application of digital tools in banking activities, transactions, auditing, and management functions, it is still unclear how the bank maintains the transparency as well as the stakeholder's personal data protection. Hence, further investigation is needed to shed a light on the back-end of stakeholder relationship management
- The introduction of Global Reporting Systems (GRS) and compliance with "ISO 26000 standards" could have straight effect on the bank's global reputation and its involvement in international trade finance. Besides issuing sustainability report, it can also align its business processes accordingly. With regular reporting of sustainability, measures for societal and environmental development, role of digitalization in this process might be useful to keep stakeholders updated.

By summing up the above-mentioned discussion regarding the banking sector and PASHA Bank, four major CSR-related concepts are retrieved, which are: (1) ethics – the protection of all stakeholders'

personal data and rights as well as the awareness of how digital transformation may impact bank-to-stakeholder relationship; (2) transparency – openness to public regarding the banking operations; (3) environmental – bank’s environmental impact by utilization of digital transformation in its functions; (4) sustainability reporting (expenses on sustainability initiatives and returns as financial or marketing means). Moreover, the main objective of this research is:

- To investigate the role of digital transformation in PASHA bank’s engagement with corporate ethics, transparency, environmental protection, and sustainable business performance
- To run diagnoses and identify key gaps in CSR strategies by conducting critical scrutiny of implemented initiatives and planned actions, and gauge the impact of CSR activities through stakeholder survey
- Prepare set of recommendations establishing strategic roadmap for the client company that will entail certain action plans and financial analysis
- Provide suggestions how to upgrade the CSR strategy of PASHA Bank in order to align its digital transformation inspirations and initiatives that will drive the business performance, particularly in achieving marketing goals.

1.3 Research Questions

In line with the research objective, we set the research questions as following:

- How does PASHA Bank implements digital transformation to protect stakeholder rights and personal data against the cyber risks? And are stakeholders take active roles in this process?
- What are the attitudes of major decision-makers regarding the openness to society? (Identification of what can and cannot be open to the public)
- How does digital transformation contribute to the bank’s environmental impact?
- How can digital transformation contribute to the regular sustainability reporting in digital media for public awareness on the bank’s success and for ultimate business performance?

1.4 Structure of BCP

This Business Consultancy Project report consists of six major chapters. The first part is an introductory chapter which sets out the primary background, rationale and research directions of the project. The second chapter is entirely dedicated to the review of CSR literature. This part scrutinizes several key definitions, academic and empirical debates about the impact of CSR engagement on firms, correlations between the performance and CSR activities. The third chapter illustrates the conceptual model and methodologies applied for collecting and analyzing the data employed in this research. The next chapter focuses on the assessment of the client company’s CSR engagement through examining the major CSR

related activities and documents. The fifth chapter is concentrates on rather empirical attempts investigating stakeholder relations and engagement in a particular CSR context of PASHA Bank. The last chapter provides extensive financial and gap analysis based on the outcomes of previous sections, and sets forth several key recommendations.

2. Literature Review and Theoretical Insights

2.1 Understanding the Phenomenon of CSR

Firms, individual shareholders, authors have begun to attach a great deal of significance to Corporate Social Responsibility (CSR) and researchers have become motivated to further discuss the topic due to the CSR's growing influence on the dynamics of the competitive market and apply it to various other market dynamics, increasing financial prudence or economics and various business policies that numerous organizations adopt nowadays. Another factor that has led to discuss this topic in length is CSR's significance in real-world situations. An analysis of how CSR is described by various authors has also been conducted for this discussion. CSR was defined by Sims (2003) as an ongoing responsibility taken by businesses for acting in an ethical manner that is conducive to economic growth whilst yielding a positive impact on employees' life, their families and wider society.

Criticism regarding CSR has been present for a long time in spite of its increasing demand. One of the most outspoken critics of CSR is a Nobel laureate named Milton Friedman who states that businesses must be only responsible for generating wealth ensuring the profits of shareholders keep increasing as much as possible (Friedman, 1970). Friedman, however, has also faced many criticisms as plethoras of studies have opposed his statements, stating that it is not only the major shareholders that businesses must please and accommodate but also the minor shareholders (McGuire, 1988).

Further emphasis is placed on the belief that the demands made by all the shareholders must be kept balanced and no separation can be made between ethics and business. Matten and Jeurissen have highlighted a phenomenon known as 'Corporate Citizenship' (CC) that has taken hold of the world currently. The beliefs of CC are simple; organizations operate in the society in the form of any regular citizen and are awarded duties and rights similar to those of any other regular citizen living in the society.

The firm will be held accountable for all its activities and its operations will also be monitored (Matten, 2003). The entire community is affected by these activities which chiefly put a spotlight on the shareholders and how the workings of the firm affect them. Another version of Corporate Citizenship, one that is more formal than before has been provided by Jeurissen, whose argument states that the institutional responsibility of being a participant of the community should be taken up by the firms, that they (the firms) become responsible for its actions and take precautionary and necessary measures. He

further states that a social contract of business must be established by the firms that hold it responsible for the company's financial state as well as the commitments made to the company's shareholders (Jeurissen, 2004).

2.1.1 CSR and Business Environment

According to Ullmann, the concept of CSR has been existing for a long time and is not entirely a new concept (Ullmann, 1985). The history of how CSR had been defined from the year 1950 till 1990 has been illustrated in the article written by Carroll (Carroll, 1999) which explains that CSR was considered to be a mundane phenomenon by the businessmen initially and was developed into completely diverse thinking about corporate citizenship and business ethics. Thus, we are able to realize that the act of taking on social responsibilities by firms is an old phenomenon and not a new one.

Multinationals have increasingly begun to influence the global economy which has led to an increase in CSR due to the simple fact that the demands of the society in regards to the responsibility of caring for the environment and society at large have also increased. Martin has stated that the society can thus be seen increasingly becoming more anxious over how multinationals conduct their actions (Martin, 2002). Shareholders and consumers would assume about the support provided to social programs by the firms and would, in turn, reward them for these actions and hence a large number of businesses began to adopt more social causes but consumers and shareholders would not do so thoughtlessly and blindly (Levy, 1999).

McGuire, Sundgren, and Schneeweis conducted additional research which confirmed that businesses are required to satisfy both the claims of the shareholders and stakeholders (McGuire, 1988) and their theory mainly stated that corporate ethics and business can be separated from one another as they go hand in hand. Sims (2003) also pointed out that businesses are expected to act as responsible corporate citizens along with undertaking discretionary responsibility which means committing philanthropic acts voluntarily. The community must also benefit from human and financial resources provided by the businesses and these businesses are also charged with the responsibility of improving the way of life. The major components highlighted by Sims in his research are monetary aid provided to those struck by calamities, giving back to the society and community by undertaking different tasks such as building trust in the citizen, building orphanages for children and providing support to thousands of children who are homeless (Sims, 2003).

Cone also conducted major research that highlighted CSR's increasing impact and which could assess its influence on consumer buying behavior (Cone, 2002). Based on the results of the conducted survey, 80% of stakeholder and consumers were of the opinion that they would trust those corporations that supported a social cause more than other corporations. 86% out of all the total surveyed consumers were willing to

change brands to another product if both were of similar quality and price, based on whether the other product supported a cause or not.

From the same survey, 85% of the consumers' decision regarding which company they would do business with, in their locality depended on how committed it was to a social cause. Increasing literacy rates have led to an increase in consumer concerns in regards to how we interact with the environment and society and how we can give back to society. Firms need to ensure that not only proper attention is paid towards maximizing profit in the production activity but that the concerns of all the stakeholders are also addressed as they are a consumer too.

Businesses are compelled to satisfy and serve the basic human needs of their clients (Kotler 1969) as well as internal-external people (Kotler 1972) as they feel obligated to the society and wish to attain positive rewards from their consumers even while the firms' marketing strategies focus on influencing, persuading and selling products to their customers.

2.1.2 Critiques on CSR

Despite numerous theories that support CSR's increasing concern and its resulting influence on how both stakeholders and consumers observe and assess a product, numerous critics still argue against the phenomenon exist, the most popular amongst them being Milton Friedman, a noble prize winner who is of the opinion that CSR is just another method of destroying the money that an organization has worked hard to generate (Friedman, 1970). According to Friedman, an organization must only work to increase its shareholders' wealth and be concerned about nothing else. He is of the opinion that a firm's sole objective should be on becoming more lucrative and to guarantee maximum profit to its shareholders.

Friedman, in turn, has also faced a lot of criticism for his work, mainly from Carroll (1991) and Levitt (Levitt, 1980), both of whom are of the opinion that businesses must maintain a suitable tradeoff amidst profits generated in the present and in the future so as to guarantee sustainability in the long run. Furthermore, they present arguments in favor of CSR and state that it should be looked upon as an investment project which would result in similar results as any other investment plan. 'The impact of perceived corporate social responsibility on consumer buying behavior' by Karen (2005) is another significant research paper that must be included here since it has researched about how the perception of the consumers regarding the timing, fit and motivation that led to corporations being involved in social initiatives is manipulated with the help of promotions.

The study has identified and distinguished between low fit initiatives and high fit initiatives undertaken by any organization. The initiatives that are temporarily undertaken by an organization are known as Low fit initiatives and help in supporting or launching a product with the help of this socially responsible

initiative. Those initiatives that are backed up by an organization from the onset are known as High fit initiatives; they as such do not support any specific product.

Authors also define Low fit initiatives to be strictly self-serving (for instance, to boost the sales, profit or popularity of a particular product or brand), while high fit initiatives are intended to serve the public (for instance, provide help to citizens in need, developing the community, help in raising awareness for an important social cause). Society initiatives and profit-motivated initiatives are the two key determining factors, the third being the timing of introducing initiatives. The researchers adopted a statistical survey as a prior methodology and technique that was supported by a hypothesis.

The survey resulted in showcasing how not only the beliefs of the consumer but also their intentions and attitudes were negatively influenced by low fit initiatives despite the conforming motivation behind the firms' actions. On the other hand, high fit initiatives had a more positive influence on the beliefs, intentions, and attitudes of the consumer. Furthermore, it has also been mentioned that low fit initiatives are bound to lessen as time goes by and will most likely disturb the position of the corporation along with its credibility and purchase intention.

According to the survey, 80% of the respondents are of the opinion that corporations must undertake social initiatives while 76% were of the opinion that the firms would benefit from such initiatives. In another research survey conducted by these authors, 52% of the consumer population was of the opinion that the products of those firms having no social responsibility should be boycotted if another product by a socially responsible firm is made available to them. Based on the results from the author's survey, it could be concluded that those corporations that take part in social initiatives without any ulterior motive of promoting a product are rewarded more by the consumers.

2.1.3 Supporters of CSR

It has been advocated by Johnson (2009) that businesses must take the initiative to attain sustainability by going green and managing its operations responsibly. When the firms take such initiatives, they not only benefit from financial and human resources but also from the moral and legal ones as well as manage to build their brand. Those firms that adopt the policies of CSR manage to attract new managers who benefit the business in the long run as they help to present the firm as a company that undertakes social responsibility.

Any business that manages to keep hold of its productive employees and motivates them to keep on working will have ensured a successful future with financial growth for itself as employees are thought to have a significant stake in the country. Johnson is also of the opinion that CSR initiatives can help build the image of a brand by utilizing CSR as a tool to generate publicity for the business. Johnson also

believes that the firm's value will increase by going green since numerous employees will become attracted and help in building the reputation of the firm.

According to Mitchell (1997), one must also highlight how the stakeholders are impacted by CSR initiatives. Mitchell is of the opinion that all stakeholders must be analyzed by the management which can then come up with strategies and policies based on this analysis. The stakeholders in any corporation have been categorized into three divisions by Mitchell; one possessing the power, the other possessing legitimacy and the last one possessing a sense of urgency towards conducting operations in the business. It is important for corporations to conduct a complete and detailed analysis of all stakeholders, after which they can come up with the optimal approach with which all concerns can be satisfied and value can be created for the corporations.

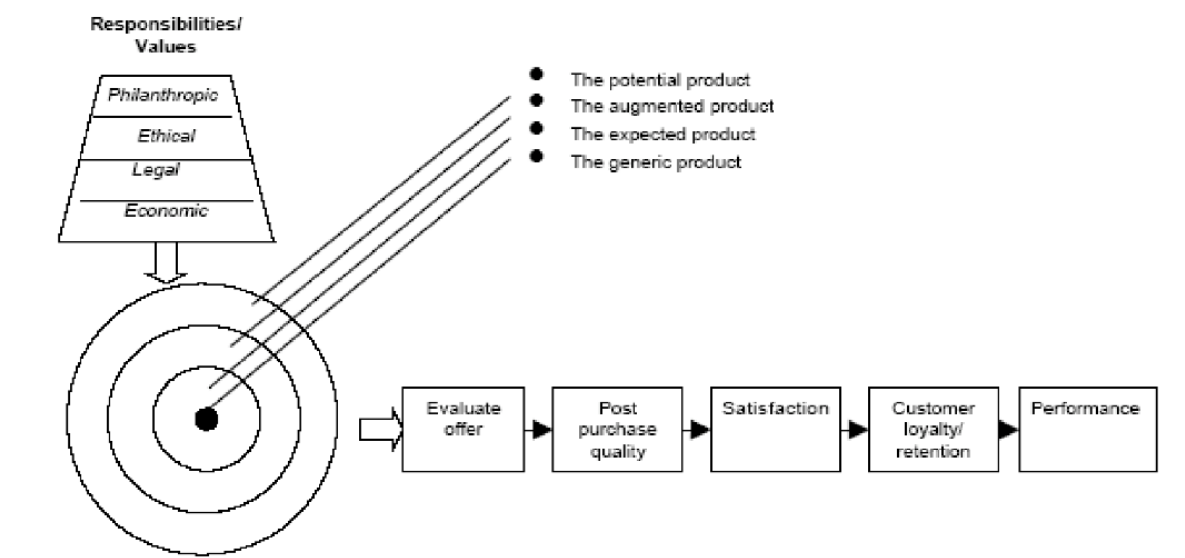
2.2 CSR and Value Creation

An attempt was made to figure out how the financial performance of a company can be impacted by CSR by Casson and Dahlstrom (Humayun & Parveiz, 2010). However, the authors could not gather sufficient evidence in support of their theory and were forced to utilize. Yet, no satisfactory amount of empirical evidence was found to prove the direct impact on performance. Therefore, indirect impacts factored in to measure the correlations and magnitude of CSR effect on business performance. The technique utilized here observed how the buying behavior of a consumer is impacted by CSR and the resulting impact on a firm's financial probability.

The researchers adopted the qualitative technique which focuses on the clothing industry's consumers. The Value Linking Chain model was established that indicated the four main responsibilities of a firm specifically being ethical, economical, philanthropic and legal. Illustrated in Figure 2, the value linking chain displays the method in which various values are placed in an offer, along with how an offer is evaluated by consumers before and after purchasing which therein impacts the performance of a firm.

The author further explains the working mechanism of the model and states different merchandise means different things to different customers. The next step of the model is the evaluation conducted by the consumer before the product is purchased. The consumer can accept or reject the product based on the evaluation they conducted. If they accept the product and purchase it, they enter a post-purchase state of evaluation wherein the customer will become satisfied by the product if they deem it to be of excellent quality, thereby becoming loyal to the manufacturing firm. The firm's performance can benefit greatly from loyal customers as they are more profitable.

Figure 2. Value Linking Chain



Source: Humayun & Parveiz (2010: 33).

2.3 CSR Pyramid Model

Illustrated in Figure 3, Carroll’s (1991) pyramid of corporate social responsibility revolves around the four main responsibilities that make-up CSR, mainly economic, philanthropic, ethical and legal responsibility. The foundation of all other responsibilities is Economic responsibility which mainly focuses on profits and being lucrative. How to obey law is the main focus of Legal responsibility wherein the society is taught about what is right and wrong with the help of Law and according to the author, one must always “play by the rules of the game”.

The compulsion to act on what is fair, just and right fall under the banner of Ethical responsibility. The last responsibility of people as responsible citizens is to avoid harm by becoming good citizens who contribute to the community in terms of all types of resources that are needed in the community as well as improve the way of living for everyone. By combining all these responsibilities together, a complete corporate social responsibility can be created (Carroll, 2003).

Figure 3. CSR Pyramid



Source: Carroll (1991).

2.4 Porter and Kramer's CSR Model

Strategic philanthropy has been discussed by Porter and Kramer (Kramer, 2002) by stating that it is a misconception to believe that economic and social objectives are separate. The two authors support their statement by explaining how charitable or social efforts made by companies can benefit them economically as illustrated in Fig.4.

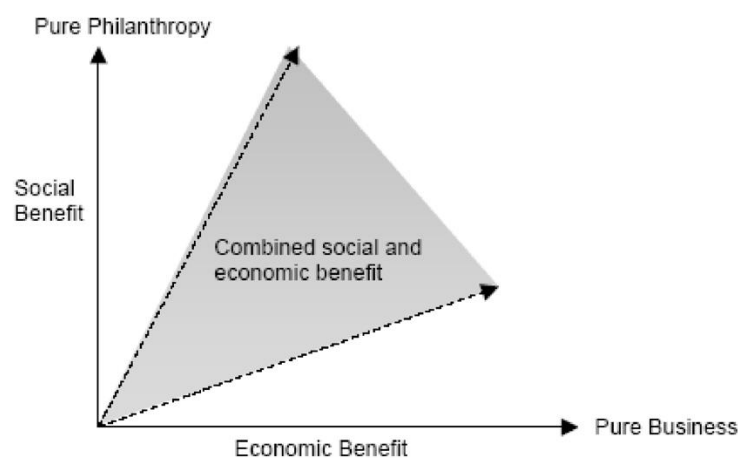


Figure 4. Porter and Kramer's Model

An increasing amount of attention on how CSR and business performance are linked together can be observed. The research conducted by scholars on how stakeholders had responded to CSR initiatives, as well as how important ethics and social responsibility were perceived by business practitioners and what benefits a business could attain from undertaking corporate activities that are connected to a social cause was summarized by Maignan and Ferrel (2004) when they first thought of providing a basic framework as to how business operations could incorporate CSR. Both the authors had previously researched about the role of “corporate citizenship” as a tool for marketing (Ferrell, 2004), and concluded that if initiatives would generate consumer support then there will be a greater chance of firms investing in CSR.

After having gone through the facts made available regarding the support of consumers for corporate citizenship, it was suggested by the authors that overall product evaluation could be negatively affected by being associated with negative CSR while on the other hand, customer loyalty and product evaluations can be enhanced with positive associations. They concluded with the findings that companies can promote their merchandise with the help of corporate citizenship; however, extended research is required to explain in detail how strong the link between consumer behavior and CSR is in reality. Another technique that can be applied and tested in regards to CSR in the banking sector is the Stakeholder theory.

2.5 CSR and stakeholders: The stakeholder theory

The stakeholders such as the suppliers, customers, shareholders and employees in any organization are significantly impacted by the CSR. The firm’s value is also significantly impacted by how important the impact of the CSR is on the stakeholders. Any group of people or individual personalities that are or can be impacted by any variation that occurs in the policy or accomplishment of an organization’s objective are referred to as stakeholders. The organization is viewed as being in the middle of a web of stakeholders and their various relationships with one another (Solomon, 2010). Illustrated in Diagram 1, four key stakeholders have been identified for the basis of this research and explained in detail below.

Firms have been unable to completely understand what ‘stakeholders’ as a term means for more than 10 years now. The vision of the management concerning its responsibilities and roles in regards to only focusing on how to maximize profit can be broadened with the help of the stakeholder approach which is an influential device that can aid the management in including the non-stockholding groups’ demands and the interests (Mitchell, 1997). The theory also attempts to answer which groups do the stakeholders, that require the company’s management’s attention, belong in. Thus, for us to comprehend what the various types of stakeholders are, we must first comprehend what exactly a stakeholder is.

2.6 Impact of CSR on Performance

Investors, management and business areas both find the association between financial performance and CSR to be of great importance (Weber, 2008). This association has also been examined in numerous

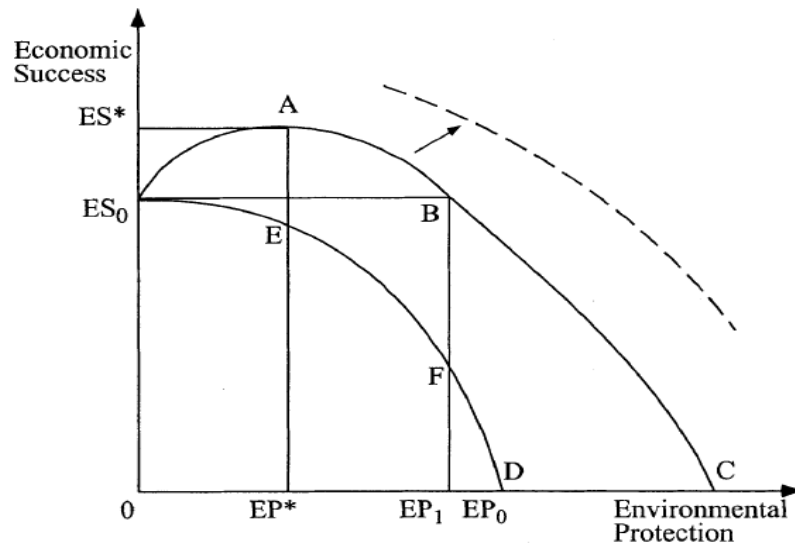
theoretical research and empirical papers; the potential conflict present between the two along with their correlation has also been studied and researched upon for the past 40 years (Bird et al., 2007).

The companies have also managed to accomplish their environmental and social goals even though their main responsibility has been towards generating profit. Social responsibility can be integrated by the companies as a form of strategic investment in the business as well as the central corporate strategy and the management instrument. However, no assurance can be provided in regards to shareholders possessing greater value based on activities that are deemed socially responsible.

We can divide the empirical papers compiled on the association between firm performance and CSR into two types of studies; qualitative and quantitative. The association between how competitive a firm is and CSR has been the main focus of the qualitative studies more often than not as this association is an indicator of an augmented financial performance. The latter studies have resulted in inconclusive results and were more likely undertaken as event or regression studies (Weber, 2008). For instance, McWilliams & Siegel (2000) researched profitability and socially-responsible activities and discovered that there was a neutral link between the two, whereas it was discovered by other studies that firm performance could improve due to CSR activities (Kim et al, 2019). Though not so common, it was also discovered that there were negative correlations between the two (Hassel et al, 2011). The methodology and the contradiction of the variables that were utilized in the research were subject to much criticism. Doubts about the past research regarding factors that could have been lost which may have resulted in misleading outcomes such as industry differences, the difference in understanding the importance of CSR in different cultures, the connection between financial performance and CSR along with the dependence of a correlation on an unseen variable, for instance, advertising or Research and Development (McWilliams & Siegel, 2000).

The association between environmental/social performance and economic performance tends to follow an inverse U-shaped curve, as discussed in the past theoretical research (Weber, 2008). The decrease in the net marginal benefits obtained by the environmental efforts has been shown through this curve which is based on the reasoning that economic performance cannot be infinitely increased by an unspecified amount of environmental activities (Schaltegger & Synnestvedt, 2002).

Figure 5. Economic Success and Environmental Protection Relationship



Source: Schaltegger and Synnestvedt (2002)

This can help to explain the results of the empirical research since it is an indication that the individual company strategy plays a key role in the analysis of how the economic performance is affected by CSR (Tontowi et al, 2013). The economic success, as seen in the curve in above figure is dependent on the management that has been applied to the environmental strategy (Schaltegger & Synnestvedt, 2002). Thus, it can be concluded that corporations do not need to discuss whether or not they can benefit from going green, instead they should discuss when and where they can benefit from going green and for this purpose, it is relevant that a discussion be held on the relation between financial performance and CSR (Schaltegger & Synnestvedt, 2002). If one were to assume that the dependent variable is the economic performance than the relationship can be affected by a number of aspects, such as how willing the consumers are in purchasing products that are environment-friendly, what is the country's environmental situation, depending on the industry, the setting will have different types pressures from the stakeholders, how strong the competition is and the quality of the technological solutions available. This relation or connection will be discussed in detail.

2.7 Conclusion of Literature Review

No logical explanation has been devised that would clarify the reasoning behind companies taking part in activities involving CSR or what their motives might actually be. According to McWilliams et al (2006), it has been found that asymmetric information results in this uncertainty. The managers in charge may exhibit reluctance in revealing what their CSR strategy is as engaging in CSR is a reflection of on the firm and whether or not it is only focused on the bottom line or is concerned about other aspects as well. Numerous theories have been presented regarding the motives behind the companies' decision of taking part or not in CSR activities and have been offered below.

According to Sprinkle and Maines (2010), the simplest explanation is that engaging in CSR activities is the ‘right thing to do’; which is simply what a good citizen of a global world does. Among other reasonings, one could be that CSR is used, essentially for apparent ‘window dressing’ or to achieve an appearance that is appreciated and supported by stakeholders. Thus, in this manner, firms, believing that it will reflect on them negatively in regards to their publicity if they were not to engage in CSR activities (Sprinkle & Maines, 2010).

Stakeholders such as customers and employees play a key role in the firms’ decision-making process in regards to which CSR activity they should participate in (Dechant & Altman, 1994). A general observation has been raised by stakeholders regarding environmental performance; companies are thus expected to be more responsible. If a company is deemed irresponsible regarding environmental performance, the stakeholders proceed with taking actions against such firms.

Furthermore, it has also been observed that the willingness exhibited by employees towards working for a particular firm depends on how they perceive the environmental performance of the firm and whether or not it matches the values the firm is said to possess as this provides a motivational factor for the firm to engage in CSR activities more willingly. According to McWilliams et al (2006), one must apply a resource-based view (RBV) if the CSR engagement of a company is being examined. It is assumed by the RBV’s theory that advantage against competitors can be gained with the help of the firm’s capabilities and resources, as they are not only rare and valuable but also non-substitutable as well as imitable.

When CSR is observed through the RBV-lens, it is consequently proved that CSR can be used to gain competitive advantage. McWilliams and Siegel (2001) assumed that if two companies were to manufacture identical merchandise, a cost/benefit analysis could be helpful in the assessment of the ideal level of CSR activities, such as the demand of CSR vs. the cost of completing the demand. In addition to this, it is also implied by the theory of the firm perspective that engaging in CSR can be viewed as a strategic investment and can improve the reputation of a firm even if it cannot be used as a fundamental component of the core business (McWilliams et al., 2006).

Numerous strategic areas can be analyzed to find the value of CSR. The characteristics of CSR in many industries can be fused into merchandise and thus when differentiated vertically, they can be considered as a strategic choice. According to McWilliams et al. (2006), there are numerous consumers who are aware of the fact that a hybrid type of a car is better than a non-hybrid/original one and if this “CSR-characteristics” holds more value for them, they will willingly pay more to purchase a hybrid car.

Furthermore, when this differentiation meets the demands of the stakeholders, it adds more value to the reputation of the firm. It has also been pointed out by Bhattacharya and Sen (2004) that firms can encounter irrational customers who are not willing to alter their purchasing behavior but demand that the

firms engage in CSR activities. The authors contribute helpful suggestions that possible internal outcomes of CSR activities, for instance, the attitudes, awareness, and attributes of the consumers be brought under excessive focus by the companies which help to bring about external outcomes.

The five alternative dimensions of corporate strategy have been identified by Burke and Logsdon (1996) that are necessary for a firm to achieve success, specifically; proactivity, specificity, centrality, visibility, and voluntarism. These dimensions are used to assess how a firm's value can be enhanced with the help of CSR activities. The company can benefit in different ways with the help of these various dimensions; benefits such as environmental management, employee benefits, and philanthropic contributions that bring about an increase in productivity gains, customer loyalty as well as new markets and products while simultaneously create value. The theories formulated in regards to an increase in employee motivation is supported by Greening and Turban (2000) who are of the opinion that job applicants find social performance to be attractive. The authors strongly maintain that when job applicants work in socially responsible firms, they possess a higher self-image in comparison to when they work for firms that are less focused on CSR.

The beneficial impacts of the activities that involve CSR are divided into five areas and proposed by Weber (2008) below:

➤ **Company Image and Reputation:**

According to Weber (2008), the competitiveness of a company can be influenced by image and reputation and can be beneficial as well. Based on research, it has been found that engaging in CSR on a long-term basis can positively influence both image and reputation, particularly reputation.

➤ **Employee motivation, Retention, and Recruitment:**

Enhanced reputation can result in the above mentioned positive effects. Employee motivation can also be increased with CSR as the working environment is also improved and the employees begin to participate in activities willingly. Productivity and cost savings can also be increased as a result of retention and employee motivation which will ultimately attract future employees to the company (Weber, 2008).

➤ **Cost Savings:**

The authors Eptein and Roy (2001) are of the opinion that time savings, material efficiency, and energy consumption among other things can be improved if a sustainable strategy is implemented and this could result in cost savings. Furthermore, customers, after being benefitted by the improvements of the products or the cost-savings would generate a positive review in favor of the company. This can be viewed as a positive indication in regards to the company's manufacturing performance by the investors or the financial analysts, argues both the authors.

- Turnover grows owing to increased market share and sales:
Such benefits are gained when the brand image is improved in an indirect manner or with the aid of a product or service specifically modified with CSR in a direct manner, for example, a hybrid car.
- CSR-associated risk:
Negative publicity or pressure from NGOs can be reduced by utilizing CSR and it can also help in avoiding fines which is an excellent example of direct financial effects (Weber, 2008).

CSR has both monetary and non-monetary benefits; the primary value drivers are the direct monetary benefits while the secondary value drivers are the indirect ones. In addition to this, the stakeholder relations can also be improved if the ‘license to operate’ of the company in the spotlight is secured. This also ensures the support and the goodwill from the governments which can be critical when treading into unexplored markets or regions or countries that have not been traded with before.

However, Barnett (2007) is of the opinion that the number of stakeholders determines the future value that is acquired after engaging in CSR-related activities and the above-mentioned benefits. He also argues that an angle where the company is associated with a high-level stakeholder is required if investments in CSR are to be made. The concept of SIC (Stakeholders Influence Capacity) is introduced by Barnett (2007) that can be distinguished as “the ability of a firm to identify, act on, and profit from opportunities to improve stakeholder relationships through CSR”. Furthermore, he also states that the occurrence of the different effects on financial performance and the reactions exhibited by the stakeholders rely on the firm and its history as well as the timing of the occurrence and this is all due to the path-dependent nature of the stakeholders.

He also argues that the stakeholders of firms possessing a lower SIC and still engaging in CSR may soon become skeptical or ignore the efforts undertaken by the firm in regards to CSR. He concludes that due to this reason contributions made to CSR require upper bounds/limits and the determining factor regarding whether or not positive or negative reviews will be generated from financial results and stakeholders through CSR efforts is the firm’s SIC.

El Ghoul, Guedhami, Kwok, and Mishra (2011) have presented a separate and last benefit of CSR that is linked to the risk and valuation of a company. As claimed by the authors, there should be a lesser cost of equity for companies that engage in CSR on a higher level as compared to those companies that don’t engage in CSR or do so on a limited basis which tend to have a higher perceived risk and a reduced investor base. Information asymmetry and investor preferences explain how it is possible for a company’s

positive image to spread when the news of its CSR activities is disclosed and this leads to investors being attracted to the company.

It is implied by the study that those companies that engage more in CSR have more investors which results in a lesser cost of capital, thereby reducing the costs of finance and increasing the value of the company.

Engaging in CSR can result in different types of costs. Engaging in CSR only once should, according to Weber (2008), be viewed as a single occurrence and separated from continuous costs. A few examples of one-time CSR costs can be a one-time donation, installation costs and other investment costs of similar nature (Weber, 2008). Patents, licenses or material, as well as recurring personnel costs along with campaigns and marketing costs that are labeled as CSR-promotion activities, are distinguished as continuous costs.

The risks of engaging in CSR on an active basis can lead to excessive scrutinization and more exposure in the form of nongovernmental organizations and press, which can be considered as another potential cost (Weber, 2008).

If the motives behind engaging in CSR are found to be insincere, the image of the company can be hurt by that particular CSR. For instance, if the consumers perceive or suspect that a company only wished to improve their image and had thus engaged itself in CSR activities, they would stop purchasing that particular company's products or services (Yoon et al., 2008).

The reputation of a company can be negatively affected if it makes even a single mistake that attracts negative publicity, more so than a company that hasn't participated in any CSR-related activities and these results in CSR risk-related costs (Yoon et al., 2008; Weber, 2008). It has also been pointed out by Bhattacharya et al (2011) that a company's competitiveness can be harmed by the risk of CSR activities, even if engaging in said activities had been done so on with good intentions; this risk can be reduced significantly with the help of some basic principles.

Initially, the market motives have been highlighted by the authors who state that companies can lower the risk by being open and genuine with the customers along with participating in CSR activities with a genuine intention. Customers will, moreover, appreciate and approve of a company engaging in CSR if the company takes priority in satisfying the specific requirements of the customers.

The CSR activities can finally create value for all the parties involved if the stakeholder and company goals are constantly kept aligned. It is difficult to estimate the CSR costs and it should be highlighted that no differentiation is made by the accounting systems between the costs that are linked to CSR and the costs

that are not linked to it. Cost distortion is another risk that can arise because of the overhead being assigned to the units available.

3. Research Methodology

3.1 Conceptual framework

Waddock (2004, 10) describes CSR as “*the degree of accountability as showcased in a company’s way of doing things, in addition to the operational standards, even as they make an impact on specified groups and the environmental circles on a day to day basis.*” Equally, another scholar defines CSR as “actions and activities that are relative to a company and that involve its stakeholders’ predictions and tripartite outcomes of social, financial and environmental roles.” (Aguinis & Glavas, 2012: 339). As outlined, it is evident that CSR actions involve primarily, two items: (i) Work-associated actions/events that largely allude to company-employee relations, for example, constructing harmonious working settings, by providing every employee with equality and taking into consideration their needs as well; (ii) Societal-associated actions or events that take place away from the company, for example, working towards reaching societal/community objectives, adopting sustainable programs that will benefit the entire community, for instance, conducting charity events, programs for protecting the environment, donations and much more. According to Matten and Moon (2008), the mentioned directions are referred to as the alleged implicit and explicit CSR. Research, such as Carroll (1979), shows that company CSR activities need to be carried out voluntarily instead of being considered a control obligation or projects aimed at growing or sustaining the financial interests of a company. Moreover, merely being a significant stakeholder of an implicit CSR of a company, employees are as well significant actors in the company’s explicit CSR projects.

In modeling stakeholder-PASHA Bank relations with the value of CSR practice, researcher integrated a model that was coined by Hillenbrand et al. (2013) with the aim of studying how stakeholders’ perspectives and views impact on their attitudes, including their primary behavioral objectives in the perspective of PASHA Bank (see Fig 6).

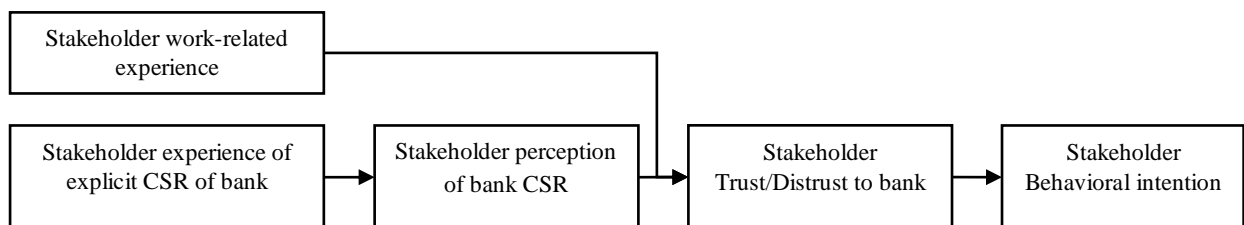


Figure 6. Conceptual model of stakeholder-PASHA Bank relationship in light of CSR

According to the results of European Survey in CSR, nearly 70% of consumers take the ethical reputation of firms into account when purchasing products and services from them (Lee and Yoon, 2018). Consumer response to survey is taken as point of reference in the process of

decision-making. If consumers show willingness to buy socially responsible or sustainable products and services, sooner or later they will practically do it.

A global survey conducted by KPMG regarding the Global Fortune 250 firms revealed that reporting level of sustainability has experienced a significant growth since 1999. According to O'Sullivan and O'Dwyer (2009), active involvement of non-governmental organizations (NGOs) in response with the socially and environmentally harsh activities of international commercial and investment banks, emerged the formation of transparency in banking activities, such as lending, risk management and decision-making process.

Brand strength is assessed by consumer loyalty to it, which is explained to the extent that consumers socially identify with that brand, shows positive attitude, and loyalty. Advertisement featuring CSR features is believed to increase reliability of a brand in the mind of consumers (Servaes & Tamayo, 2013). Hence, CSR becomes as a foci playing a determining role and significance for the consumer decision and behavior which has more rigor and impact than advertising. Employing the CSR activities companies reap the utmost benefits, which lead to relatively less advertisement of a brand (Luo & Bhattacharya, 2009). Henceforth, the client company of this consultancy project endeavors to adopt this strategy to attain a positive feedback with growing number of clients. Digitalization of information flow has paved the way to the advent of a different age in market. The magnitudes of competitiveness became altered and companies have embarked onto align the strategies and policies (Lee and Yoon, 2018). In a new age of marketing, companies are urged to attain their essential objective steering towards enhancing sustainable competitive advantage and establishing loyal customer base.

3.2 Secondary and Primary Research

The stakeholder theory is used to initially identify the internal and external stakeholders of PASHA Bank. The theory suggests prioritizing the needs of stakeholders before taking any initiative or action. Hence, it is necessary to understand what PASHA Bank stakeholders' needs are and how the bank treats them. According to Murrmann (2018), in line with the digital transformation, they key stakeholders of banks are customers, bank clerk, investors, audit, risk manager, and IT (see Fig. 7).



Figure 7. Bank stakeholders in digital transformation

This research used secondary and primary sources of data.

Document analysis – By reviewing annual sustainability reports, corporate ethics documents of the bank, this consultancy will attempt to identify the bank’s measures for the protection of stakeholders and their personal data against any cyber risks that are and may potentially be arisen in future. In addition, document analysis can also help retrieve the transparency measures of the bank on what to and not to report to the public. Sustainability reports, annual reports and financial documents of the bank were collected and screened for document review analysis.

Survey – This method can allow investigating the perceptions of bank’s major decision-makers and subordinates. In addition, survey also helped understand the perception of the bank regarding the role of digital transformation in business performance through the utilization of sustainable reporting and CSR engagement. Questionnaire items are provided in Appendix 1.

Survey also was applied to PASHA Bank customers to investigate their perceptions and expectations on bank’s CSR activities and overall business conduct.

In order to conduct the survey and collect data from both bank and its customers, questionnaire was prepared on the basis of items adopted from the CSR literature. The section of Empirical Research

provides details of measure and scale development. Questionnaire was shared with Corporate Communications department of the Bank. This department used intranet system called SnapCom to communicate the purpose of survey and requested to fill in the form. SnapCom tool was useful to reach out employees of bank in particular. Top management of the bank was requested to take quick survey via official e-mail sent to their personal assistance. Contacts of Pas were provided by coordinators of Internal Communications unit of Corporate Communications department. Moreover, the same department's External Communications coordinators helped communicating to few customers of the Bank in order to obtain their views and insights through survey. Hence, e-mail addresses were provided, and author communicated through e-mail. The convenient sampling technique was applied for the survey process with bank decision-makers and stakeholders (including customers). Convenient sampling was relevant in terms to reaching out to as many samples as possible within very limited time of period.

The responses of survey participants on scales were assessed with 5-Point Likert scale, ranging from "1-Strongly disagree" to "5-Strongly agree". The final data of the study was analyzed with the use of statistical software tools, namely SPSS version 24.

Unstructured Interview – Despite survey, unstructured interview was conducted with CSR Outreach Manager of the bank to collect more primary data and inputs. The interview enabled author have broad level conversation with the key person who is involved in planning and implementation of CSR engagement. Insights gathered through conversations with CSR Outreach Manager were used to formulate 3P analysis and SWOT analysis of PASHA Bank's CSR strategy and actions.

3.3 Limitations

The primary limitation of this research is due to restricted number of customers that were covered during the survey. Another main limitation is lack of access to regional offices of the Bank based in Guba and Ganja. Collecting primary data from these geographical units could provide more solid findings with regards to impact of bank's CSR engagement out of Baku. It is also worth noting that the current research relies on data about societal impact provided from the Bank's sustainability report. Collecting primary data from local communities in which PASHA Bank has sphere of influence can yield impartial and objectives assessment of stakeholder relations and overall impact of bank on society.

Moreover, this BCP report provides several financial analysis and assumption testing which are subject to cross validation. Therefore, generalizing the results of this analysis to the whole bank need thorough revisions by the bank's experts. Provided recommendations are based on an academic and practical research attempts by the author of this BCP. The validity and feasibility of the recommendations are limited to data analysis of this research; hence their implementation must be carefully considered as variations on topicality and feasibility can occur depending on time and other external/internal factors.

4. CSR Engagement of PASHA Bank

Although PASHA Bank has achieved significant milestones towards CSR development and its integration with their business and marketing functions, PASHA still needs to overcome the challenges, including the understanding of its CSR by its subordinates, who are also its stakeholders, measuring the impact of CSR on its performance, creating long-term projects and vision, providing transparency in all business units as well as stakeholders' individual data protection, and finally introducing Global Reporting Systems (GRS) and compliance with "ISO 26000 standards" in order for increasing the bank's reputation in international trade finance.

Besides issuing a sustainability report, it can also align its business processes accordingly. With regular reporting of sustainability, measures for societal and environmental development, the role of digitalization in this process might be useful to keep stakeholders updated.

As seen from the challenges and opportunities, stakeholders are and can become the major driving forces of PASHA Bank's ongoing and future business and CSR activities. Hence, the consideration on ethics – the protection of all stakeholders' personal data and rights as well as the awareness of how digital transformation may impact bank-to-stakeholder relationship; transparency – openness to public regarding the banking operations; environmental – bank's environmental impact by utilization of digital transformation in its functions; and sustainability reporting (expenses on sustainability initiatives and returns as financial or marketing means) can lead to the further success.

To understand how to accommodate CSR practice and bank's stakeholders together, the Stakeholder Theory (ST) by Freeman (1984) is an obvious candidate, which originated from management theory with three primary aspects (Donaldson & Preston, 1995):

- Morally normative and imperative guidelines for managers to act for the legitimate interest of various stakeholders, instead of acting solely as the agents of firm shareholders
- Identification of the major stakeholders and their interests, as well as their roles in a firm
- Investigation of the connection between stakeholder management and organizational outcomes (e.g., performance)

In the banking context, Murmann (2018) identified six main stakeholders of banks, namely customer, bank clerk, investor, audit, risk manager, and IT, while at the same time the author listed their major needs. Channels specializing in superior communication are provided to the bank's stakeholders by PASHA Bank to ensure instant interaction and enable the stakeholders to recommend changes as well.

Depending on the categories of the stakeholders, different channels for enabling communication are present. PASHA Group of companies, Azerbaijani banking community (Associations), Azerbaijan state agencies along with numerous local and international non-profit institutions, customers and regulators as well as employees and management team are some of the key shareholders of PASHA Bank.

4.1 PASHA Group companies

First established in the year 2006, PASHA Holding LLC has always strived to contribute in investing in various economic sectors such as construction, banking, tourism, insurance, and development of real estate and PASHA Bank is likewise associated with this union (PASHA Bank Annual Report, 2016). If an estimate is to be made, the complete list of assets owned by the consolidation would range over AZN 4 billion, whereas AZN 800 million is estimated to be its complete equity with the list consisting of employed personnel ranging over 2500 people.

Since it shares capital of AZN 50 million, PASHA Insurance OJSC is also considered a key in this matter. Both corporate and individual clients are offered voluntary as well as mandatory insurance in as many as 35 categories. The main objective of PASHA Travel is to provide a necessary boost to the tourism sector of the country and for this purpose it has begun to provide the finest quality of services to corporate as well as individual clients.

Also established in the year 2006, PASHA Construction has been able to complete various projects of significance in the capital of Azerbaijan, Baku. An estimated 830 thousand sqm is being constructed at present whereas more than 1 million sqm has been included in its project portfolio due to completion. Similar to PASHA Insurance, PASHA Life was established in the year 2010 with capital that was authorized and estimated at AZN 40,250 million. PASHA Capital is one more key shareholder in the union tasked with providing dealership, asset management services, brokerage, and advisory services to institutional and individual investors.

PASHA Holding is also the major stakeholder of Kapital Bank as it controls 99.75% of the capital shares. Approximately 3 million customers make use of the services provided by Kapital Bank in Azerbaijan and it is believed to be amongst the largest banks in the country with more than 90 branches serving the people.

4.2 Wider banking community (Associations)

Numerous institutions and associations have had the opportunity to come into partnerships with PASHA Bank in order to organize social events and maintain sustainability. In one case the bank was able to partner with Azerbaijan Microfinancing Association (AMFA) and organize a workshop on “New Opportunities on the Horizon: Let’s Change Difficulties into Prospects”. The participating individuals

held sessions about economic expertise in regards to investments and long-term saving, advanced solutions and how they should be applied to agricultural capitals so as to improve the methods utilized by the farmers, thereby boosting their functionality and make most of the pricing policy installed in numerous monetary establishments.

Nationwide campaigns were the main focus of various other establishments that had partnered with the bank to encourage craftsmanship amongst artistic workers, academic distinction and aiding the youth in developing their professional skills in regards to journalism and financial literacy. In another case, the bank partnered with the Financial Markets Supervision Chamber of the Republic of Azerbaijan, and the “Training Program to Ensure Transparency in Financial Transactions” was accomplished by the Chamber of Auditors of the Republic of Azerbaijan in the year 2017. It is vital to mention the Center for Economic Reforms Analysis and Communication, US-Azerbaijan Chamber of Commerce (USACC), amongst others that the bank entered partnerships with later on.

4.3 Azerbaijan state agencies

It is with pride that PASHA Bank distinguishes itself as an institution possessing impartiality, not being affiliated nor being a party to funding any particular political party or politician, and neither their political agenda, objectives or campaigns.

4.4 Local and international non-profit institutions

Global ethics, morals, and standards selected by the United Nations (UN) Human Rights Declaration and various other pacts have been incorporated in the recruitment policy adopted by PASHA Bank. The policy does not discriminate based on a person’s gender, their marital status, their race, color or creed during the process of granting employment.

4.5 Customers

PASHA Bank’s top priority is its customers and to ensure their complete comfort and ease in regards to using the bank’s services, it has ensured that digital services and solutions are to be designed at regular intervals along with making sure its customers can physically access the service centers with convenience. Furthermore, PASHA Bank has also taken the responsibility of providing their SME, commercial and corporate sector customers with top quality services.

Ever since business-to-business (B2B) services were introduced to its large scale commercial customers, a boost has been seen in the competitive advantage of the bank. Even the transactions speed has been enhanced due to integrating the ERP systems of the bank and the customers. Most recently, a mobile

banking application has also been launched which has helped to increase the number of individual clients and digital services penetration.

PASHA Bank is not only concerned with the business end of operations as it continuously engages in helping the Azerbaijan society to develop itself by providing scholarships to deserving and skilled individuals, organizing training sessions that focus on preservation of the traditional craftsmanship and crafts that are on the verge of disappearing as well as holding seminars that focus on shaping the youth of the country and promoting entrepreneurship in them.

4.6 Regulators

Each and every business operation has been implemented by PASHA Bank based on the firm institutional measures. The Procurement Guidelines and Tender Procedures were accordingly utilized to structure the Supply chain policy. All the rules set by the Central Bank as well as all the national regulations must be adhered to by its suppliers.

The procurement activities conducted by the bank are done so in accordance with safeguarding transparent, fair and universal competition. Furthermore, the prevention of fraud, theft and similar matter is the responsibility of the internal control department. The corporate governance system formulated by PASHA Bank is based on the international procedures and standards set forth by the Central Bank and its unique corporate governance policy which focuses on ensuring:

- ✚ The firm's interest be placed ahead of individual interests by the executive staff
- ✚ Any conflict of interest is prevented by the shareholders and executives so that operational and financial results may be delivered to stakeholders holding any interest in the firm.
- ✚ Adherence of the bank to the ethical standards and International Financial Reporting Standards and ethical standards.

4.7 Employees

The Business Process Management (BPM) was adopted by PASHA Bank and used to introduce the latest method of working ecosystem. The BPM draws inspiration from the lean organization philosophy and method so as to structure the firm's initiatives to improve its procedures continuously in such a way that the workflow becomes more efficient, effective and can be adopted into a continuously altering environment in a capable manner.

Furthermore, PASHA Bank considers human capital to be equally valuable as improving the process of workflow and has managed to align its performance management and motivation system based on how the organization is structured and its strategic targets. The staff that directly deals and remains in

communication with clients undergo specific and detailed employee training programs that are conducted by the Compliance Department and guides the employees on how to identify and distinguish pointers indication terrorist financing or money laundering.

4.8 Management team

PASHA Bank uses accessible relationship management (RM) development as a basis for all strategic actions. The RM factory was brought into reality by PASHA Bank to increase its efficiency and bottom line by recognizing the lucrative market sectors, by improving the infrastructure of the business process implemented by the bank. Customer profitability analysis was also conducted by the bank.

The upgrading of the bank's business process infrastructure is supported by organizational enablers and finest design practice. The competence of the management team can also be increased by utilizing the latest cross-selling tools and analytical instruments. A fraud management acquiring system has also been launched by the bank. The administration utilizes the Avaya Call Management System (CMS) to recognize and categorize operational problems, come up with instant solutions so as to solve them and also aids in managing the contact center.

The functionality can be enhanced with the help of historical reporting and real-time monitoring and this allows the management team to make effective operational choices in an efficient manner. Lastly, NICE Interaction Management was launched by PASHA Bank to boost its customer satisfaction as well as management efficiency and used it to conduct analysis of customer calls, keep a record of the interactions and enhance the quality of the management by allowing the management team to use one server through which calls can be listened to and disputes can be resolved while also storing all forms of interactions.

4.9 Digitalization in stakeholder relations

In its sustainability report, PASHA Bank states that it invests in human resource training and advanced technology projects to maintain a competitive advantage in the market (Sustainability Report, 2016-2017). In order for customer segmentation (corporate, commercial, and SME), the bank digitalizes the business process and integrates cutting-edge IT tools. Based on the bank's stakeholder analysis, in the context of customers, the major need is for the availability of mobile and internet banking solutions that customers can open account 7/24 from anywhere by paying fees online with digital signatures and get their accounts ready for operations (PASHA Bank Digital, 2019).

This does not only apply for regular customers but also the bank's other segments, including commercial, corporate and SME clients. What other stakeholders, such as government agencies and partnering organizations mostly need is the transparency, which is not only provided in reports but also in stored data in the database that contains official numbers and so on. Besides that, PASHA Bank is the first bank

that introduced the electronic segmentation system, through which the customers can identify themselves via Queue Management System (QMS), while at the same time the operators are assigned to them automatically.

This system is also efficient for bank staff that customer profiles and preferences are transferred to them by which the staff can offer more efficient and seamless customer service experience to these customers. Personalization of the banking services is one of the other stakeholder needs that PASHA Bank considered and launched the universalization of service points to allow all customer segments to experience one-on-one experience.

In terms of security, the security of transactions conducted through the B2B channel is ensured with electronic signature certificates. By considering that banking associations are one of the major stakeholders of PASHA Bank, it collaborated with Azerbaijan Republic Central Bank and its Certificate Service Centre, as well as ASAN Imza to improve the digital signature efficiency. This is also one type of transparency that is provided not only by the bank itself but also in collaboration with highly advanced government agencies.

In 2017, PASHA Bank deployed Oracle FLEXCUBE financial platform that is mostly used by A-class banks for managing the evolving customer expectations with better equipped and more customer-centric tools and services, at the end of the same year, 86% of client transactions were processed via online banking (Annual Report, 2017).

While applying the ST and the digitalization practices to the case of PASHA Bank, the following conceptual model is proposed in Figure 8.

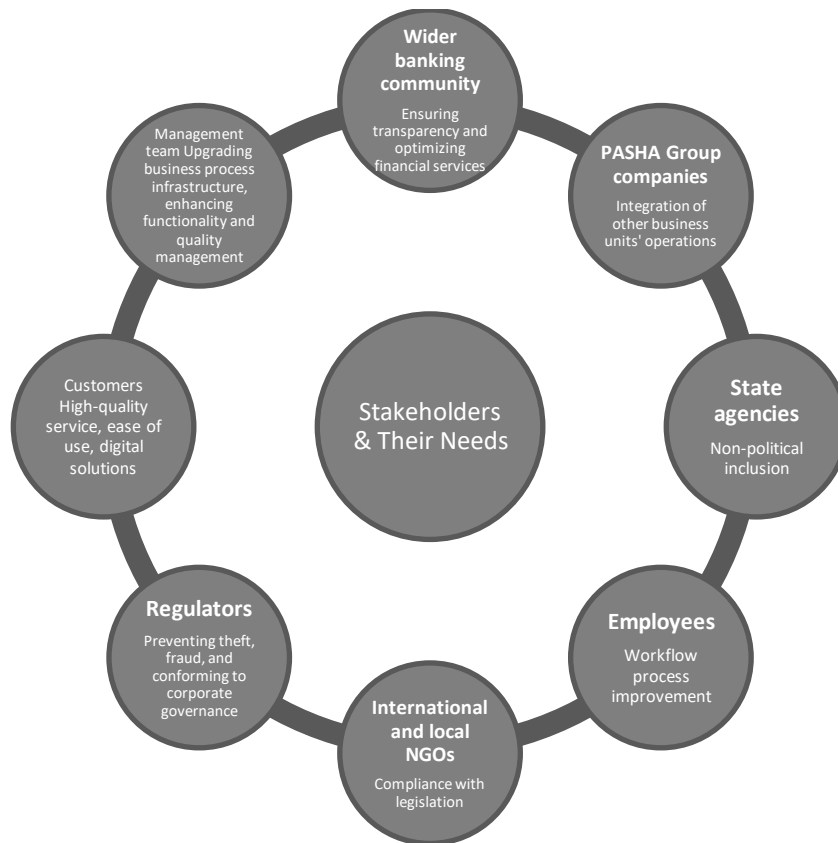


Figure 8. PASHA Bank stakeholders and their needs

The primary rationale for including above-mentioned key stakeholders stems from the fact that this scope provides the blended standpoint of both external and internal factors which are very central for the Bank. To put into context, shareholder(s) is important in terms of financial investment, customers for generating revenue, and employees for maintaining the productivity and performance. Therefore, these selected stakeholders have a significant role in value creation for the client company, and thus in achieving and sustaining competitive advantage.

5. Empirical Research and Analysis

5.1 Document analysis

PASHA Bank sets its sustainability priorities as investing in the securities market of Azerbaijan, enhancing the economic development with innovative banking products and services by supporting SMEs, while at the same time to benefitting the strategy that is designed for economic diversification with a particular concentration on non-oil sectors. In addition, the bank prioritized the contribution to the Azerbaijani human capital through long-term projects aiming to improve financial literacy and media capacity.

Sustainability practices of PASHA Bank are undertaken to enhance the competitive advantages. The bank mainly started to define the sustainability practices starting from 2014 with a special consideration of stakeholders’ interests and demands. The Materiality Analysis below shows that stakeholders have middle and high priorities, such as middle level priorities being non-discrimination, environmental concerns (e.g., energy consumption and emissions), employment, while high-level priorities were defined as more impactful practices such as product diversification, economic performance, compliance, engagement with local communities as so on (Table 1).

Table 1. Materiality Matrix of PASHA Bank

Impact on PASHA Bank	High	<ul style="list-style-type: none"> • Energy • Emissions • Employment • Diversity & Equal opportunity 	<ul style="list-style-type: none"> • Economic performance • Indirect Economic performance • Product & services • Training & education • Anti-corruption • Compliance • Product portfolio • Audit • Active ownership • Investment 	
	Middle	<ul style="list-style-type: none"> • Transport • Non-discrimination 	<ul style="list-style-type: none"> • Product responsibility • Equal remuneration for women and men • Local communities 	
	Low			
		Low	Medium	High

Stakeholder priorities

PASHA Bank shifted to Corporate Stakeholder Engagement (CSE) model from conservative CSR approach and managed to attain a justifiable growth that aided the bank in diversifying entrepreneurship empowerment along with paying detailed attention to the B2B segment. The bank also aimed to provide support with the help of launched projects to the SMEs specifically the “Ideya Qazandi”, the “Sustainable Enterprise Development Program”, “Business Class” and the “BARAMA Center”. The bank also thought of the society (especially the student) and how they could provide support to the community and thus launched simultaneous projects, such as the “Banks in Action”, “Azerbaijan Business Case Competition”, “PASHA Bank Scholarship” etc. (Sustainability Report, 2015-2016).

5.1.1 Operational highlights

Employment indicators and the proportion of female employees show that from 2014 to 2017, employee number has increased from 416 to 608, with a light decrease in 2015. By looking at the proportion of women employees in the bank, in 2017 their percentage has reached up to 42.0% from 39.8% in 2014 (see Fig. 9). It can be concluded that the bank’s employee diversification as well as equal opportunity challenges have been gradually solved in the past 5 years. This is one of the critical issues that has also been reflected in the Materiality Matrix that stakeholders have medium to high expectations on it. In this regard, more efforts on gender equality and opportunities will have a huge impact on PASHA Bank’s CSR policy.

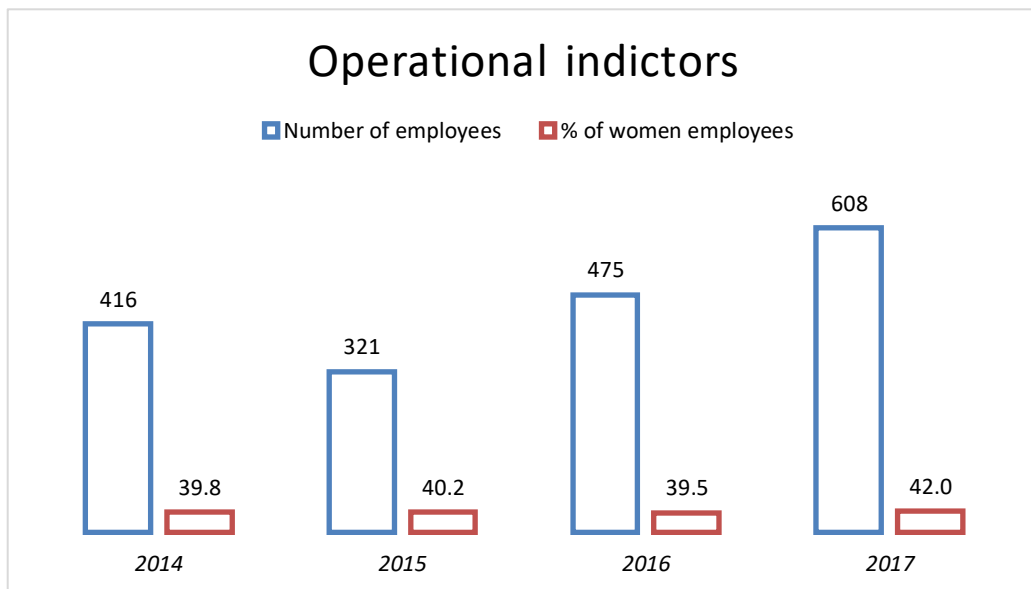


Figure 9. Operational highlights of PASHA Bank

5.1.2 Environmental highlights

Regarding the environmental practices of PASHA Bank, energy consumption has significantly increased from 46,851.20 KVh in 2014 to over 2 million KVh in 2017, whereas water consumption has decreased from 4,8 tons in 2014 to 3.9 tons in 2017 (see Fig. 10). Besides the energy consumption factor, PASHA Bank aimed to increase the role of digital transformation in banking products and service to boost the management effectiveness. It is obvious that bank has expanded its physical locations as well as operational capacity. However, using the most advanced technology infrastructure is highly recommended to reduce the consumption. In 2014 the weight of paper and other stationery materials was approximately 4.9 tons, which reached up to 7.0 tons in 2015 and over 11.0 tons in 2017 (Sustainability Report, 2017). Therefore, it is one of the scopes of this study to highlight the role of digital transformation in the bank's sustainability practices. According to Capgemini (2017), conventional banking systems result in inefficient manual and paper-based process with 10,000 pages paper consumption per year, where 50% of paper work is used in account openings/rejections. In addition, manual process also increases costs.

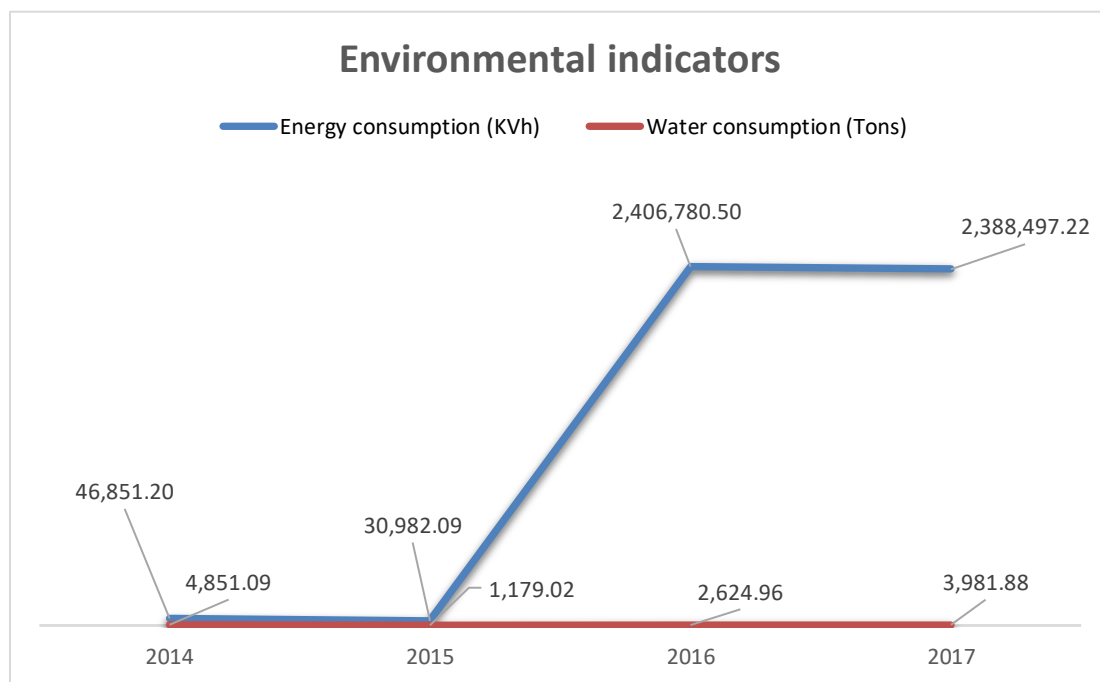


Figure 10. Environmental highlights of PASHA Bank

Noteworthy that the expectations of the stakeholders are not restricted to environmental and economic gauges as they must also take into account decisions made to gain a digital lead. Big data intelligence has helped to digitally transform banks to the next level by powering the banks with algorithm execution in regards to the financial and customer data amongst other elements. This has led to some concerns being highlighted regarding the functionality of these algorithms; questions such as “Do algorithms do what they were built for or are they taking over our lives?” are also being asked. There is

now a great need for understanding how socially acceptable is the outcome of the algorithms as well as whether or not they can be audited and controlled. In order to do so, it is vital that there be transparency and ethics involved. For the sake of society, it is important to understand the obligation of the financial institutions in regards to grasping the value of data. Banks have set guidelines, principles, rules, and regulations as well as give importance to duty of care, assurance and corporate responsibility as a digital lead can only be gained by making the right choices. With the help of the B2B digital platform, the clients of PASHA Bank can easily process and approve of local as well as international transactions which include both urgent and standard modes of payments, intra-company transactions, methods of making tax payments, exchanging currency, control over the payment status and obtain reports regarding the benefits gained from this product. The targets placed on transitioning to a digital banking model and sustainable development principles set in place by the Bank in the Development Strategy of 2018-2020 are completely aligned with how this project is being executed.

5.2 Stakeholder Survey Results

5.2.1 Demographic statistics

According to the results of demographic part of the survey, more than the half of research samples (53.0%) are male respondents, but 47.0% are females. Survey unveils that 36% of PASHA Bank employees have completed postgraduate level of education, followed by undergraduate level with 31%. The demographic analysis also specifies the relationship of stakeholders with PASHA Bank. Based on the findings, majority of stakeholders are employees (66.7%), followed by customers (15.4%). Finally, the stakeholders are about 1 to 3 years have built relationship with PASHA Bank (30%). The details of the demographic indicators are depicted in Appendix 2.

5.2.2 Constructs and Measures

The creation and establishment of the survey instrument were founded on the efforts of two researchers: West et al. (2015) and Rossiter (2002). The factors associated to common method bias in the research design, for example making efforts to lower respondent apprehension evaluation apprehension, making absolute anonymity of responses, and including reverse-scored factors of the final instrument were tackled as founded on Podsakoff et al. (2003). Furthermore, the study by single factor tests unveiled specific elements in the unrotated factor solution. The scales for this survey was adopted and modified from the literature, and they were tested with the Bank staff from Corporate Communication Department to ensure that there was clear description of purpose in the context of the stakeholder-PASHA Bank relations as well as CSR activities. This process brought about the integration of the Stakeholder behavioral intention (BEH), stakeholder perception of Bank CSR (PCSR), Stakeholder experience of explicit CSR of PASHA Bank (EExCSR), Stakeholder trust to the firm (TST), including Stakeholder work-related experience (WREX). PCSR is operationalized as indicated in the work of Fombrun et al.

(2000) that is evaluated by 3 factors that examine the degree that the staff agree or disagree that they perceive that PASHA Bank is in favor of “goodwill”, “PASHA Bank is in compliance with high standards when communities concerned” and also operate in “environmentally conscious manner”. TST, as operationalized by Cho (2006), presents trusting accounts as the company “running the business in a dependable manner”, “responsible and reliable while dealing with stakeholders”, while on the same note, it presents distrusting accounts, which include the following: the Bank “establishes a relationship with stakeholders in a dishonest manner” and “demonstrates a destructive conduct to stakeholders for maximizing own benefits.” BEH construct scale is formulated as founded on Mowday et al. (2004) and Whitener (2001) that is operationalized as the employee dedication and advocacy initiatives. It is also evaluated with 5 factors; for example, the Bank staff think “it is important to maintain relationship with PASHA Bank,” “it is important to stay loyal to PASHA Bank” and much more. WREX, according to Hillenbrand et al. (2013), points towards work-associated activities, for example, staff benefits, work design, and work-linked training, whereas EExCSR is connected to the staff’s experience of how the firm relates with its stakeholders, considering that the employees are the primary actors. It was evaluated with 6 items/factors, for instance “PASHA Bank is treating all stakeholders equally”, “PASHA Bank is always behaving ethically and honestly,” whereas WREX was evaluated with 5 factors/items, for instance, “PASHA Bank is supporting to get our job tasks done accurately,” “PASHA Bank is always rewarding me fairly” and “PASHA Bank is helping stakeholders for their self-development.” The items of the scales were evaluated with a 5-point Likert scale (see Appendix 1).

5.2.3 Stakeholder evaluation of PASHA Bank CSR activities

The stakeholders were invited to evaluate the perceived CSR activities, trustworthiness, and likeliness to continue partnership with the PASHA Bank. The mean scores of constructs based on the various stakeholder groups show that PASHA employees and managers are more aware of work-related experience of PASHA Bank during its CSR activities, while customers followed by PASHA Group partners highly appreciate the bank’s explicit CSR activities, since customers are external stakeholders and therefore the bank’s CSR practice can be explicitly evaluated by customers. In addition, customers also have higher perception of PASHA Bank’s CSR practice, followed by PASHA Group partners and employees. Trust versus Distrust analysis show that stakeholders have higher trust in PASHA Bank and its CSR practice. Finally, managers and PASHA Group partners are more likely to continue partnership with the bank in a long-run (see Fig. 11).

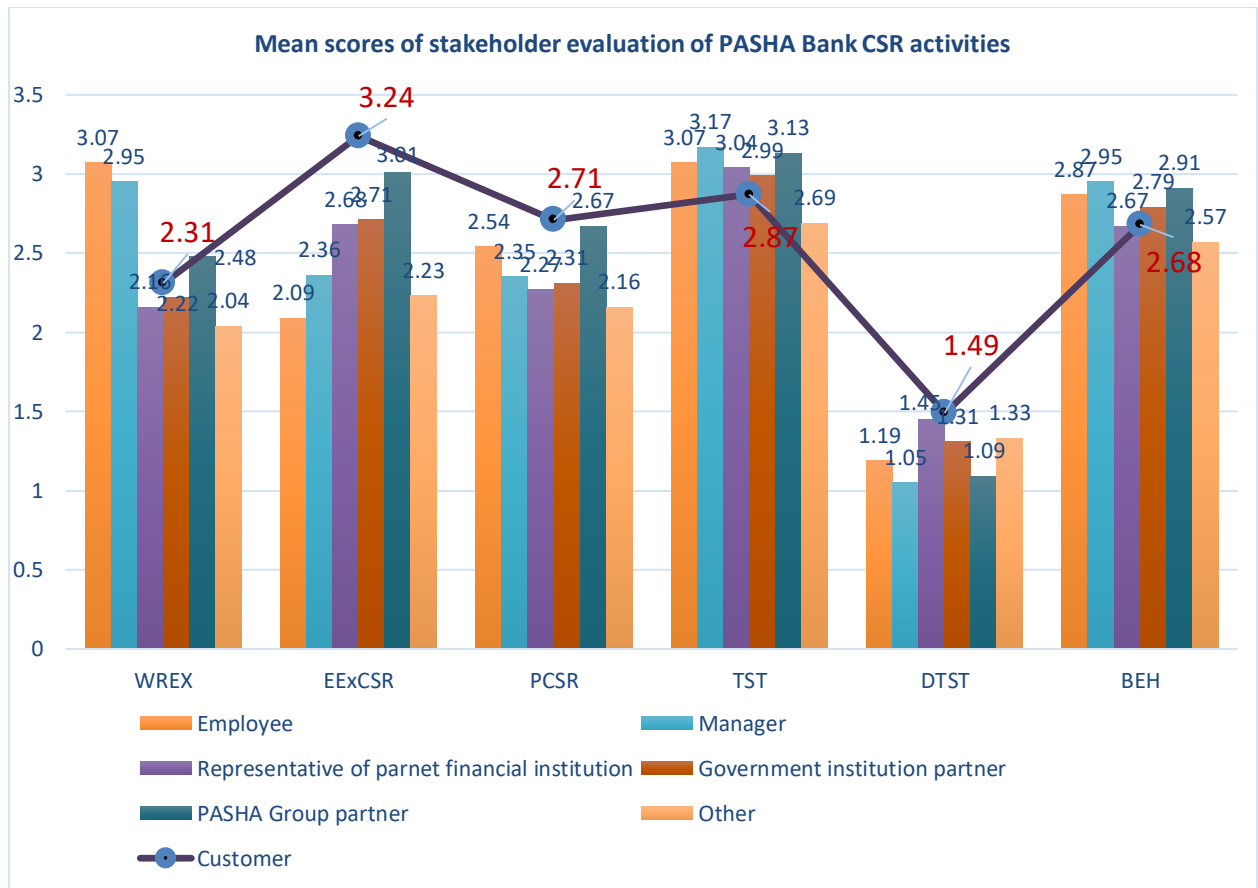


Figure 11. Stakeholder evaluation of PASHA Bank CSR activities

5.2.4 Data Reliability and Validity

Following actions were applied to ensure data reliability and validity: (i) Descriptive statistics; (ii) Reliability and validity analysis and (iii) Structured models analysis. Descriptive statistics factored in arithmetic average scores (M) and standard deviations (SD) that assisted in establishing the respondent employees' familiarity with and the weight on the employee-company relations in the perspective of the practice of CSR activities. Furthermore, the constructs, as well as the underlying items, were analyzed for reliability and validity.

According to Table 2, the descriptive statistics results show that BEH (M = 3.39, SD = 1.37), WREX (M = 3.06, SD = 0.96), and PCSR (Mean = 2.91, Standard Deviation = 1.01) was observed to gain biggest mean scores.

Table 2. Results of Descriptive Statistics

Variables and items	M	SD
WREX	3.06	0.96
WREX1	3.08	1.01
WREX2	3.22	0.98
WREX3	3.13	0.85
WREX4	2.79	0.99
EExCSR	2.72	0.86
EExCSR1	2.19	0.89
EExCSR2	3.01	0.96
EExCSR3	2.97	0.78
EExCSR4	2.67	0.89
EExCSR5	2.78	0.78
PCSR	2.91	1.01
PCSR1	3.11	0.99
PCSR2	3.18	1.08
PCSR3	2.45	0.96
TST	2.70	0.83
TST1	2.36	0.89
TST2	2.46	0.87

TST3	3.01	0.99
TST4	2.89	0.63
TST5	2.76	0.78
BEH	3.39	1.37
BEH1	3.34	1.73
BEH2	3.28	1.47
BEH3	3.76	1.24
BEH4	3.18	1.03

Prior to testing the regression analysis examining the PASHA Bank and employee relationship through the CSR activities, the variables, as well as their pertinent items, were checked to test reliability and validity. The reliability factor is the measure of the uniformity levels between several measurements of a construct, according to Hair et al. (2010) that need to be conducted prior to carrying out the validity test. The internal consistency among the variables was measured to check the data reliability; hence Cronbach's alpha was tested.

Four reliability levels of the constructs, proposed by Hinton et al. (2004) are available. They include the following: i) over 0.90 – outstanding reliability; ii) 0.70-0.90 very good; iii) 0.50 – 0.70 moderate levels; iv) below 0.50 – very low-level reliability.

The results demonstrate that three variables, which include the following: BEH (α - 0.89), EExCSR (α – 0.77), and TST (α – 0.72) showcased high-reliability levels, whereas PCSR (α – 0.69) and WREX (α – 0.64) showcased moderate reliability levels.

In the succeeding stage, convergent validity is tested. 3 measures exist, which use the convergent validity test: (1) Confirmatory factor analysis (CFA) for measuring scale validity with indicator factor loadings (Anderson & Gerbing, 1988). The indicator loadings should go beyond threshold of 0.5 (Hair et al., 2006); (2) Composite reliability (CR), which must be above 0.6 acceptance level (Bagozzi & Yi, 1988); and (3) Average variance extracted (AVE) that need to be higher than 0.5 (Fornell & Larcker, 1981). Table 3 proves that every standard surrounding the convergent validity test are met. In the CFA, WREX2, EExCSR1, TST3, and BEH2 were left out as a result of the evidence that those items could not load on

pertinent constructs. CR values varied between 0.73 and 0.82, while AVE values varied between 0.53 and 0.62.

Table 3. Outcomes of measurement analysis

Variables and items	Standardized factor loading	Cronbach alpha	CR	AVE
WREX		0.64	0.80	0.53
WREX1	0.71			
WREX2	0.73			
WREX3	0.76			
WREX4	0.69			
EExCSR		0.77	0.82	0.57
EExCSR1	0.72			
EExCSR2	0.77			
EExCSR3	0.71			
EExCSR4	0.76			
EExCSR5	0.70			
PCSR		0.69	0.73	0.62
PCSR1	0.69			
PCSR2	0.71			
PCSR3	0.73			
TST		0.72	0.79	0.57
TST1	0.75			
TST2	0.72			
TST3	0.71			
TST4	0.68			
TST5	0.71			
BEH		0.80	0.81	0.59
BEH1	0.66			
BEH2	0.70			
BEH3	0.79			
BEH4	0.77			

Conclusively, a discriminant validity test is applied. In reference to Fornell and Larcker (1981), the square root of AVEs for every construct needs to be higher than correlation coefficients between the constructs. Table 4 shows that this standard is also met.

Table 4. Discriminant validity test

	WREX	EExCSR	PCSR	TST	BEH
WREX	0.53				
EExCSR	0.42	0.57			
PCSR	0.14	0.06	0.62		
TST	0.15	0.12	0.34	0.57	
BEH	0.11	0.37	0.26	0.23	0.59

5.2.5 Regression analysis results

The findings from the regression analysis indicates that R-square scores endogenous latent variables vary from 0.312 (Distrust - DTST) to 0.429 (PCSR) as well as 0.433 (TST). Moderate R-square scores on account of DTST and PCSR are applicable when the inner paths between latent variables are projected by two exogenous predictors, whereas PCSR was projected by merely one variable. The connection between WREX and TST was highly significant ($\beta = 0.446^{**}$, $p < 0.01$), whereas WREX failed to have any effect on DTST ($\beta = -0.051$, $p = 0.412$). EExCSR had a significant effect on PCSR ($\beta = 0.387^{**}$, $p < 0.01$), whereas PCSR was not connected to DTST ($\beta = -0.017$, $p = 0.667$). Conversely, PCSR was somewhat connected significantly to TST ($\beta = 0.251^*$, $p < 0.05$). Ultimately, the relationship between TST and DTST with BEH was assessed. The findings were that TST had a positive and significant effect on stakeholders' objective of remaining the active partners of PASHA Bank ($\beta = 0.438^{**}$, $p < 0.01$), while DTST had a negative effect on bank membership behavior ($\beta = -0.318^{**}$, $p < 0.01$). The details of regression results are given in Appendix 3a, b and c.

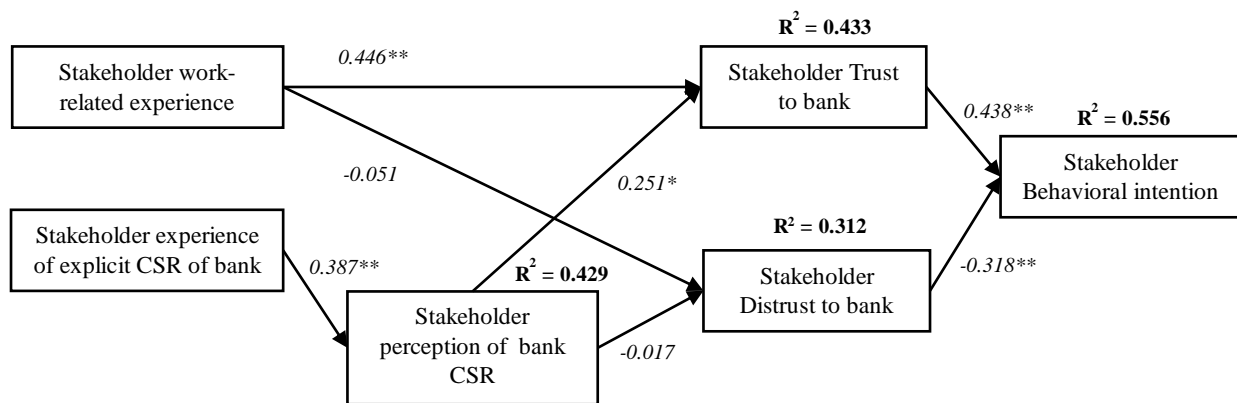


Figure 12. Regression Analysis Results

5.2.6 Discussion of findings

The empirical section of this present research studied the stakeholder- PASHA Bank relations on account of CSR. This research was carried out among the stakeholders of PASHA Bank, for instance, staff, clientele, PASHA Bank group members, legal groups' agents, and many more. By factoring its size, the business sections controlling almost every sphere of the nation's economy, it was espoused that PASHA

Bank could have a significant effect on the immediate society on account of financial and social features, especially in the CSR-associated practices with a vital role of both internal and external stakeholders.

The regression analysis revealed that a lot of the relations between the studies constructs had a proven effect, whereas only two connections had an insignificant impact: (WREX – DTST, PCSR – DTST). It was established that WREX had a substantial relationship with the TST, whereas it could not have any effect on DTST, showing that when the bank gives stakeholders sufficient confidence on account of skills, as well as motivation to the CSR practices, it builds an internal trust among the staff members, including between the management team and the staff members, whereas, on the same note, it can become significantly useful in bank's entire CSR practices and actions to the society (external effect). The results are equally closely related to the outcomes achieved by West et al. (2015).

It was established that EExCSR had a meaningful and positive relationship with PCSR, unveiling that stakeholders' experience of company CSR is a robust driving force of their views and opinions. In case stakeholders already view the bank's CSR activities to be authentic, dependable, and ultimately nothing close to a push for financial and lawful benefits, they will achieve elevated levels of trust to the banks. This is since their earlier experience with the bank's CSR practices already creates a clear picture of the bank in their minds.

5.3 Interview Results and the 3P Framework Analysis






PASHA Bank have been significantly investing in CSR activities in comparison with the local banks. These activities can be analyzed via 3 Ps (people, profit and the planet). These 3 Ps are PASHA Bank's CSR activities contributions. They can be considered as a two – way traffic: the benefits to the society and to the bank itself. Besides, bank's shareholders are also benefitting from this. PASHA Bank's CSR activities and the various above – mentioned sponsorship of different projects have made immense contribution to *people*. These people have become successful in their own fields ranging from education, medicine, public health, engineering and the entrepreneurship for participating in the projects initiated by the Bank. The people have become leading specialists, well – known entrepreneurs and the top executives of their own fields (J. Atayev, personal communication, July 18, 2019). The *profit* of the PASHA Bank's is these people's successes. Their achievements and the uplifting in the society are the major profits for the bank. PASHA Bank conducts CSR voluntarily and since the major of these activities is not to seek profits, then the beneficiaries of these activities are the investment and their success and achievements are PASHA Bank's Return on Investment (i.e. return on the level of CSR activity the bank invested, spent) (J. Atayev, personal communication, July 18, 2019)..

In terms of the *planet*, it must be perceived as PASHA Bank's contribution to the macro economy. CSR activities have already helped various sectors to witness boost and progress. For example, Barama project funded by PASHA Bank has developed various entrepreneurs in the business and IT fields. Their development and growing in the market and becoming a going concern is helping the economy. Azerbaijan is on the path of diversification of the economy. These young entrepreneurs who are benefitting from PASHA Bank's CSR activities (Barama project) help to diversify the economy. Thus, PASHA Bank's major focus is on the Azerbaijan becoming a more prosperous country and its economy turning into a more developed economy (PASHA Bank Sustainability Report, 2016 – 17). PASHA Bank is realizing that economic growth shouldn't rely on the single – resource dependency. Thus, it is favoring those entrepreneurs who have innovative, bright ideas and if given chance they can become the spark in terms of value – adding services.

According to Jeyhun Atayev (personal communication, July 18, 2019), the contributions via CSR activities of the PASHA Bank are not only towards the economy, business and finance sector. It is a diversified and multi – dimensional strategy. PASHA Bank is also implementing a strategy which is helping to utilize the natural resources of the country. This is an environmental project which assists in achieving sustainability. Currently these issues are being addressed by large corporates around the world. Many large MNCs (multi - national corporates) are trying to address the challenges of the third world countries such as water, electricity and the lack of other necessities such as education, health and nutrition as part of their CSR activities. PASHA Bank is doing this in local scale. It has started this internally and trying to prevent the wastage of such resources within its own premises. All the branches, units and headquarters must prevent the wastage of resources. Bank is implementing a highly designed internet and mobile banking, developed online payments for preventing the cash payment and contributing to the digitalization which is considered as being eco – friendly. These achievements are bank's contribution to the *planet*. PASHA Bank is planning to create more awareness about the prevention of resource wastage and increasing the recycling. The major purpose behind this CSR activity is to maintain the enough level of resource utilization. These will help to use the resources in an optimal fashion.

5.4 PASHA Bank and Competitors

Azerbaijan has over 30 commercial banks. Their major function is taking deposits from clients and disbursing loans. Besides, being involved in the commercial activities, these banks are also conducting various social activities. The major purpose of their social activity is supporting the needy portion of population in terms of education, social services, and providing necessities. There are top 5 large banks which attain more than 50 % of the market share in banking sector (EY, 2018). These 5 major players are as following:

-  International Bank of Azerbaijan (IBAR)
-  Kapital Bank
-  PASHA Bank
-  Xalq Bank
-  ASB (Azerbaijan Sanaye Bank)

The following Table 5 illustrates the competitors' CSR activities.

Table 5. PASHA Bank Top Competitors

Banks	CSR Activity
IBAR	'Kitabi Dinle' Project
Kapital Bank	Sponsoring education programs
PASHA Bank	Higher education support, scholarship, green eco program, support of start – up entrepreneurs
Xalq Bank	“Xalq Emaneti”
ASB	No Publicly available information

These banks have different corporate social activities. The largest bank in Azerbaijan in terms of the volume of assets is IBAR. It is implementing the CSR activities which are related to promoting the literacy in Azerbaijan and attracting young and old generation towards reading books. IBAR is collecting the Azerbaijan's major literature books ranging from poems to different plays and stories in audit format.

Kapital Bank is also very active in various social programs. It is generally sponsoring the education competition programs conducted in the state channel. It is to make the young talented students with knowledge and wit popular in the country.

Xalq Bank is implementing the project which is publishing the books of well – known artists (their paintings), poets, writers and the young talented artists as well. The books are printed in high - quality and distributed freely to society.

PASHA Bank attains the largest share in terms of contributing to society in various sectors. It spends the largest amount on CSR in comparison with the rivals. Its impact can be felt in educational, environmental and social setting for all segments of the population.

5.5 SWOT Analysis

This model is considered as an analytical tool that helps the company to become fully aware of the internal and external factors which have impact on the company's operations (H. Albert,

2005). It will be elaboration of the Bank’s strengths, weaknesses, opportunities and threats. The facts and evidences shown in this analytical framework are drawn upon the insights provided during the conversation with CSR outreach manager of the client company, and review of CSR related documents such as Annual Reports and Sustainability Reports of PASHA Bank.

Recently many large companies have engaged in CSR activities with the major objective to have the proper implementation of the CSR activities in the country. PASHA Bank is also implementing CSR activities as part of the digitalization and the AGILE system that Bank is going to implement. According to the Bank’s strategic vision, Digital transformation in the bank will enhance and smooth not only the banking daily processes but also achieve the positive image of the bank in the country and the region (Annual Report, 2018). Digitalization is a process in which PASHA Bank is going to use big data and artificial intelligence in processing it for understanding the customer behavior. Some of the facts about the customer ranging from their likes and preferences and the tastes are revealed by the iteration of the large data via artificial intelligence. Understanding customers are very important for PASHA Bank, because it will make the bank customer – centric rather than product – centric (J. Atayev, personal communication, July 18, 2019). Table 6 demonstrates the SWOT Model for PASHA Bank’s CSR Activities.

Table 6. SWOT Analysis

Internal Factors

Strengths of PASHA’s CSR activities

- ✚ Strong qualified marketing specialists
- ✚ Managerial experience and skills
- ✚ Domain knowledge and experience about the social side of clients
- ✚ Simple, user - friendly digitalization process
- ✚ Human resources management (HRM)
- ✚ Availability of funding
- ✚ Customer loyalty is the priority
- ✚ Large market share

External Factors

Opportunities of PASHA’s CSR activities

Internal Impacts

Weaknesses of PASHA’s CSR activities

- ✚ Low number of clients
- ✚ Automation / Digitalization of processes prevents face to face contacts with customers
- ✚ Dependence on large clients creates concentration
- ✚ CSR policy can be imitated by competitors
- ✚ Cooperation with foreign suppliers and software solutions

External Factors

Threats for of PASHA’s CSR activities

- ✚ Society's well – being and social standards are rising
- ✚ Economy is being diversified
- ✚ Banking sector is developing
- ✚ Stabilization of economy with stable currency
- ✚ State is providing support for companies involved in CSR activities
- ✚ PASHA Bank is providing diverse CSR activities
- ✚ Political stability is prevailing in the market
- ✚ Lack of digitalization in the banking sector
- ✚ Negative perception can be harmful for CSR activities of the PASHA Bank
- ✚ Digitalization can be costly if the assumptions aren't considered properly
- ✚ Another external threats which can happen is the possible currency shocks
- ✚ Competition among the banks can be harmful for PASHA Bank's CSR activities

5.5.1 Strengths

PASHA Bank has various strengths which can help to achieve its CSR objectives. These objectives can help to contribute to increasing the brand equity and the revenues eventually. PASHA Bank's strong and skilled market specialists will help to design its CSR activities in an efficient manner, so that it can benefit the society directly and the positive message to be delivered to society. These marketing specialists will address the societal problems and the lacking problems. Thus, the digitalization can become part of the CSR activities because it will be using big data, and this can be publicly available to society. Today, the digitalization and the ability and access to information sources have become new universal human rights (Eileen, 2014).

PASHA Bank's management and leadership are considered as one of the top skilled managers and directors in the market (EY, 20180). Their successful stints have enabled PASHA Bank to increase its market share and earn large revenues. Thus, the management of the PASHA Bank will properly analyze the CSR activities and take necessary action for the successful implementation of CSR. They will make sure that CSR will be beneficial for both company and the society. The management will oversee that CSR activities are in budget and their ROI is attainable. Other responsibilities of the bank's management are the making sure that CSR will indirectly help to increase sales (J. Atayev, personal communication, July 18, 2019).

PASHA Bank has another strength which lies in its knowledge about the social factors which can be beneficial for bank. They range from the tastes and preferences of the customers to their dislikes. This is based on the bank's collection of the big data and its processing via artificial neural network and other processes.

Digitalization is a process which can be considered as user – friendly and easy to achieve in the banks (Dufva, 2019). The user – friendliness will help to understand the clients better. In this stage, company can become the client – centric. Their priority towards the customers will help the society to benefit from this. Otherwise, company can concentrate its activities on the profit – earning and avoid its social contribution.

PASHA Bank also has strong Human Resource Management functioning within bank (Annual Report, 2018). The effective human resource activities will help to achieve the CSR objectives successfully. Its proper implementation will benefit both parties. The bank and society will benefit from this by earning profits and getting the right services in return. Thus, human resource management is an integral part of CSR activities (Christian, 2016).

PASHA Bank is considered as the third largest bank in terms of the size of assets. Its assets of more than 4 billion AZN are an indication of how strong and firmly the bank is positioned in the market (Audit Report, 2018). The bank has the large amount of loan portfolio (interest earning assets) in the company assets. PASHA Bank also has the necessary funding for carrying out its CSR objectives. Its approximately 400 million AZN of capital will allow bank to fund CSR activities at ease (Sustainability Report, 2016-17). However, a certain budget will be allocated for such activities. On average bank has been allocating CSR budget of 450 000 AZN on average (Financial Statements, 2019). Bank will make the enough level of CSR which will be proper in the market to become beneficial for society.

Customer loyalty is also a strength for the bank. PASHA Bank has a client base which consists of loyal clients. On average a single customer is assumed to have an average of 3-5 years of business relations with the bank. Most of the client base is the returning clients. These clients who are both business, SME, and individual clients have taken several loans over the course of their business relations. The business relations of the clients and bank are based on loyalty. Thus, bank can convey the message through CSR activities by being more familiar with their clients and behaviors (J. Atayev, personal communication, July 18, 2019).

PASHA Bank has a large market share. They can address this portion of society who are benefiting from the PASHA Bank’s products and services. The objectives of the CSR activities will be managed successfully.

5.5.2 Weaknesses

PASHA Bank is having some weaknesses. These weaknesses might prevent the bank from achieving CSR objectives and will stop the bank from getting enough revenues.

PASHA Bank has a large market share in terms of the amount of total market assets. But the number of individual clients (companies, individuals and SME) are very few. Bank has issued large loans to few clients and they are considered as bank's VIP clients. Besides, on the liability side of the balance sheet, bank has taken large deposits from few depositors. The small number of clients will be a weakness. The small number of clients cannot help to understand client behavior. For this, bank requires to have diverse client base and gather big data on them.

Digitalization has some impacts on the bank which might prevent bank from totally understanding its clients. Digitalization has an aim of preventing customer visiting bank and instead letting him or her to do banking activities via mobile or internet. On the other hand, bank becomes deprived of meeting client face to face. This can stop banks from knowing the customers personally.

PASHA Bank's large client base and few clients forming the large parts of its loan or deposit portfolio is a concentration. This concentration is a weakness for bank. Thus, bank's insistence on the corporate and investment banking is creating this concentration and prevents from understanding the customer behavior (J. Atayev, personal communication, July 18, 2019).

CSR activities of the bank can become an easy target for other competitor banks imitating it. Thus, bank will be prevented from successful implementation of CSR activities.

PASHA Bank is cooperating with large, well – known foreign companies for its supplying activities. Ranging from the digitalization to the bank's core program, MIS and other software, PASHA Bank prefers to purchase the highest quality and well – known brand programs, rather than preferring the local products and software for supply chain management. This is a negative impact on its banking operations and CSR activities.

5.5.3 Opportunities

PASHA Bank is having various opportunities available in the market, which can help to achieve the CSR activities successfully. One of the opportunities in the market is the growing social standards and raised living standards. This can be beneficial for CSR activities. Company will be

assisted in this regard. The people will perceive the CSR activities of the bank in a positive fashion. Thus, company must increase its allocation of budgetary expenses for CSR because this will bring more returns for the company in the long – run (Sustainability Report, 2017). Rising standards will be beneficial because CSR activities will urge clients to cooperate with the bank, once their life standards improve.

After the devaluation period, Azerbaijan’s economy started to recover. This was largely due to government’s insistence on reducing the oil – dependency and investing in other sectors of the economy. It has resulted in diversification of the economy. Thus, diversified economy will make the CSR activities of the PASHA Bank effectual not only in oil – related but in many sectors. It can be impactful both in rural and urban areas. PASHA Bank must invest in CSR in the both urban and rural areas. In urban areas it should support the new start – ups, through collaboration with incubators and angel investors. In the rural area, such as agriculture, an agricultural support statewide to farmers should be provided. PASHA Bank can also provide various CSR activities in these regions.

In 2015, when devaluation hit the whole economy, Azerbaijan’s banking sector has witnessed its worst shock since the mid – 1994 (CESD, 2015). It has resulted in increase of the NPL in banking sector up to 40 – 50 %. More than 10 banks were liquefied. However, banking sector has recovered and is achieving stable growth. It is considered as a reliable sector in the Southern Caucasus region. PASHA Bank is also benefitting from this growth. It must speed up its digitalization process and as a result increase the level of CSR activities. This will help the company to be shock – resistant in the future. Increasing its activities of digitalization will assist bank in creating transparency and more clients will be attracted to bank as a result of this.

Azerbaijan’s currency lost more than 100 % of its value against USD in two rounds of devaluation in 2015. Today, the currency is stable, and it remains at USD / AZN rate of 1.70 exchange rate. This rate is established by the market forces of supply and demand. Customers are satisfied with the exchange rate. Favorable exchange rate will help company to have steady growth and increase the CSR activities proportionally. As a result, the revenues of the bank can grow more, and it can diversify its loan portfolio more in terms of foreign currencies rather than relying on single currency. PASHA Bank is facing the right time in investing in CSR activities, because the currency is stabilized and the needy small - scale entrepreneurs can benefit from the social support provided to them. Thus, CSR activities will be highly effective in this period.

Azerbaijan's government is providing its support for the businesses who are involved in doing voluntary services to society. PASHA Bank can also benefit from this state policy, since it is providing a large voluntary CSR activity (J. Atayev, personal communication, July 18, 2019). Some of the benefits that it can derive from state policies are the favorable tax rates and other exemptions, which will help the bank to reduce its costs. Bank's raising the digitalization and increasing of CSR will push government to close collaboration with bank. It can be beneficial to both parties and the society can benefit from this collaboration as well.

Besides economic progress and growth, Azerbaijan political arena is also considered as stable and it remains steady. It's upper hands in the negotiations process with the foreign occupants – Armenia - is an indication of Azerbaijan's political will and strength (Fuad, 2019). Country's political stability attracts more foreign direct investment to country (FDI). PASHA Bank can benefit from the FDI inflow. There can be interested parties which will be willing to invest in PASHA Bank's equity or its subsidiary companies. This will generate extra revenues for the company. Thus, PASHA Bank must seek the alternative cheaper sources of funding such as FDI for its operations, rather than costlier client deposits or the bank loans. This will help to reduce the costs and allocate more CSR activities' budget for the bank.

5.5.4 Threats

Azerbaijan's banking sector are posing some threats which can have direct impact on the bank's CSR activities. It can harm bank's activities from achieving its true purpose. Thus, PASHA Bank must be aware of those threats which will have impact on its CSR policy.

Currently, digitalization process is very slow in the banking sector of Azerbaijan. Some banks aren't even willing to invest in digitalization. Slow macro - digitalization process can have negative impact on overall CSR activities (J. Atayev, personal communication, July 18, 2019). Non – bank sectors, including the non - bank credit organization and the non – oil sector, alongside tourism and agriculture aren't implementing any digitalization and this negative trend is still prevalent. Thus, PASHA Bank must create a solidarity with other banks and act in union with toward digitalization process. This will help for faster implementation of digitalization and smooth execution of the CSR activities. Digitalization and CSR hand in hand can help society to achieve progress and growth.

According to bank's CSR outreach manager, another important point to consider is the negative perception of society towards the digitalization (J. Atayev, personal communication, July 18, 2019). They are still not fully aware of the benefits of digitalization process. "On average a person views this as threat for his bank accounts. He/she assumes that it can help in evading his bank accounts and pave way for the use of his private data" (J. Atayev, personal communication, July 18, 2019). The negative perception is clouded around digitalization process. PASHA Bank must make clients aware of the benefits of digitalization in terms of it being cost – effective and much less time – consuming and other benefits. Consumer who can be persuaded of the importance of digitalization will contribute to the betterment of his own living standards.

Digitalization process itself can be costly and lengthy (Carbo, 2017). Bank should properly consider its side effects. Otherwise, it can waste large resources ranging from financial to human capital and bank's infrastructure. Bank require the servers, financing and the IT skilled professional for the digitalization. These are very costly and can be considered as capital expenditures (CAPEX). PASHA Bank must instead monitor its costs in detail and shouldn't allow any waste in the implementation process. This will both help to a better digitalization and smooth implementation of the CSR activities.

Another currency shock is a possibility of the creation currency instability. Azerbaijan's economy is still heavily reliant on oil resources. Thus, any global move on oil prices can reverse the economic growth. This in its turn will harm all sectors including banking and finance. PASHA Bank must diversify its loan portfolio. It must invest in those clients which have highly negative correlations with each other. Otherwise, they might end up bankrupting the whole bank. Having the clients from the non – oil sectors will help to achieve diversification. It will also be beneficial to conduct CSR for such clients who are having various needs.

The various strength and weaknesses, threats and opportunities have been elaborated in detail. PASHA Bank must be aware of these factors and should take precautions and act accordingly. A priority must be automated credit and deposit loan information collection. This also should be done via building of proper database with backups. These systems must be developed locally, and preference must be on local suppliers. The supply chain process must include local suppliers. It will be part of the CSR activities for the bank and help to achieve higher sales eventually.

6. Recommendations

6.1 Financial analysis and recommendations

For this consultancy report, the actual statements of PASHA Bank for the first six months of 2019 have been considered. The assumptions were made as following:

- ✚ Bank keeps doing the same level of CSR activities and growth assumption is on historic trend of past 5 years;
- ✚ Bank instead prefers to increase the level of CSR activities and measures growth tendency in comparison to the above - mentioned growth with the same level of CSR activities of past.

Table 7. Balance Sheet of PASHA Bank (FIMSA, 2019)

Assets	2019-II	2020 (Reg CSR)	2020 (Reg CSR)	2021 (Reg CSR)	2021 (Reg CSR)	2022 (Reg CSR)	2022 (Reg CSR)
Cash and Cash Equivalent of the Bank	785 774.00	825 062.70	840 778.18	882 817.09	899 632.65	944 614.29	962 606.94
Tradable securities	8 842.00	9 284.10	9 460.94	9 933.99	10 123.21	10 629.37	10 831.83
Amounts due from non - bank credit unions	679 455.00	713 427.75	727 016.85	763 367.69	777 908.03	816 803.43	832 361.59
Tradable investment notes' value	1 293 902.00	1 358 597.10	1 384 475.14	1 453 698.90	1 481 388.40	1 555 457.82	1 585 085.59
Loans to customers	1 402 114.00	1 472 219.70	1 500 261.98	1 575 275.08	1 605 280.32	1 685 544.33	1 717 649.94
Investment property	1 590.00	1 669.50	1 701.30	1 786.37	1 820.39	1 911.41	1 947.82
Property and equipment	15 377.00	16 145.85	16 453.39	17 276.06	17 605.13	18 485.38	18 837.49
Intangible assets	31 165.00	32 723.25	33 346.55	35 013.88	35 680.81	37 464.85	38 178.47
Subsidiary company investments	148 987.00	156 436.35	159 416.09	167 386.89	170 575.22	179 103.98	182 515.48
Current Year Net Income Assets	10 089.00	10 593.45	10 795.23	11 334.99	11 550.90	12 128.44	12 359.46
Other Assets	53 062.00	55 715.10	56 776.34	59 615.16	60 750.68	63 788.22	65 003.23
Total Assets	4 430 357.00	4 651 874.85	4 740 481.99	4 977 506.09	5 072 315.73	5 325 931.52	5 427 377.83
Liabilities							
Liabilities for state and municipality organizations	296 464.00	311 287.20	317 216.48	333 077.30	339 421.63	356 392.72	363 181.15
Liabilities to customers	3 626 765.00	3 808 103.25	3 880 638.55	4 074 670.48	4 152 283.25	4 359 897.41	4 442 943.08
Investments securities of other companies	-	-	-	-	-	-	-
Liabilities to other credit unions	-	-	-	-	-	-	-
Current year Net Income liabilities	-	-	-	-	-	-	-
Provisioning for guarantees and letters of credit	7 028.00	7 379.40	7 519.96	7 895.96	8 046.36	8 448.68	8 609.60
Other Liabilities	74 295.00	78 009.75	79 495.65	83 470.43	85 060.35	89 313.36	91 014.57
Total liabilities	4 004 552.00	4 204 779.60	4 284 870.64	4 499 114.17	4 584 811.58	4 814 052.16	4 905 748.40

Capital							
Share Capital	333 000.00	349 650.00	356 310.00	374 125.50	381 251.70	400 314.29	407 939.32
Net Income of Current Year	91 939.00	96 535.95	98 374.73	103 293.47	105 260.96	110 524.01	112 629.23
Unrealized income for securities available for sale	866.00	909.30	926.62	972.95	991.48	1 041.06	1 060.89
Total Capital	425 805.00	447 095.25	455 611.35	478 391.92	487 504.14	511 879.35	521 629.43
Total Liabilities and Capital	4 430 357.00	4 651 874.85	4 740 481.99	4 977 506.09	5 072 315.73	5 325 931.52	5 427 377.83

Another financial statement to be analyzed in this section is the Income Statement of the company. The projections are made based on the historic trend and the same level of CSR that bank has been doing (on average 450 000 AZN budget allocated for past 5 years) and the projections in which bank prefers to increase CSR activities (Table 8).

Table 8. Income Statement

Income Statement	2019-II	2020 (Reg CSR)	2020 (Reg CSR)	2021 (Reg CSR)	2021 (Reg CSR)	2022 (Reg CSR)	2022 (Reg CSR)
Interest Income	100 265.00	201 365.54	201 699.76	211 433.82	215 818.74	222 005.51	230 926.05
Interest Expense	- 18 759.00	- 37 674.33	- 37 736.86	- 39 558.04	- 40 378.43	- 41 535.94	- 43 204.93
Net Interest Income	81 506.00	163 691.22	163 962.90	171 875.78	175 440.31	180 469.57	187 721.13
Provisioning for the assets' valuation loss	- 7 806.00	- 15 677.05	- 15 703.07	- 16 460.90	- 16 802.28	- 17 283.95	- 17 978.44
Provisionion for interest earning assets valuation loss	73 700.00	148 014.17	148 259.83	155 414.88	158 638.02	163 185.62	169 742.68
Net fees and commission income	11 199.00	22 491.33	22 528.66	23 615.89	24 105.66	24 796.69	25 793.06
Net Income (loss) from tradable securities	- 219.00	- 439.83	- 440.56	- 461.82	- 471.39	- 484.91	- 504.39
Net Income (expense) from foreign exchange:	9 818.00	19 717.82	19 750.54	20 703.71	21 133.08	21 738.89	22 612.40
Other Income	541.00	1 086.51	1 088.31	1 140.83	1 164.49	1 197.88	1 246.01
Non-Interest Income	21 339.00	42 855.83	42 926.96	44 998.62	45 931.84	47 248.55	49 147.07
Expenses on Payrolls of staff	- 23 018.00	- 46 227.82	- 46 304.54	- 48 539.21	- 49 545.86	- 50 966.17	- 53 014.07
Gross and administration expenses	- 16 142.00	- 32 418.52	- 32 472.32	- 34 039.44	- 34 745.39	- 35 741.41	- 37 177.56
Depreciation and amortization expenses	- 4 513.00	- 9 063.61	- 9 078.65	- 9 516.79	- 9 714.16	- 9 992.63	- 10 394.15
Non-interest expenses	- 43 673.00	- 87 709.94	- 87 855.52	- 92 095.44	- 94 005.40	- 96 700.21	- 100 585.78
Income (loss) before the Income Tax	51 368.00	103 164.07	103 335.29	108 322.27	110 568.76	113 738.38	118 308.58
Income tax expense	335.00	672.79	673.91	706.43	721.08	741.75	771.56
Current year net Income (loss)	51 703.00	103 836.86	104 009.20	109 028.70	111 289.85	114 480.14	119 080.13

The above reports are the actual financial statements of the PASHA Bank, with included projections for the total assets, liabilities and capital with the regular CSR activities that PASHA Bank is conducting, including the projections after increasing the level of CSR activities. The impact on the Balance Sheet of

the company is an increasing trend. In the current scenario it is assumed to have the projected growth of annual 5% for the bank with the actual level of CSR activities that bank is conducting. At this point bank is assumed to reach 4.43 billion AZN to 4.61 billion AZN assets. Considering that bank will increase its level of CSR activities then the bank's total assets of 4.43 billion in 2019 will reach 4.74 billion AZN. Thus, bank should do CSR in a small proportion to its assets, because it will help to increase the company's assets in a proportion to normal growth.

On the other hand, bank's major interest is to increase its income - generating assets such as loan portfolio, securities and the investments. In this regard if there won't be any change in CSR activities bank's total loan portfolio will rise from 1.4 billion AZN to 1.47 billion AZN. If the bank will increase its CSR activities and conduct digitalization, then its projected that total loan portfolio will rise from 1.4 billion AZN to 1.5 billion AZN. Increased level of loan portfolio will be beneficial for PASHA Bank's assets, because they will be generating income. Digitalization will help bank to have a better understanding of the client behavior in its loan portfolio. Thus, bank can conduct CSR which will directly aim the clients who can be interested in bank's loan products.

Other major components of the balance sheet of PASHA Bank are assumed to increase at different proportion given that PASHA Bank keeps the CSR activities at same level and doesn't speed up the digitalization process and vice versa. In the first case, bank will have its cash position increasing from 786 million AZN to 830 million AZN, while in the latter case bank's liquid cash will rise from 786 million AZN to 841 million AZN. This change is a favorable situation for the bank, because its liquidity will increase. CSR's impact on bank's liquidity can be explained by the increased in the sales of the company after the brand equity and brand image increases, those cash sales also will rise. Another suggestion is for the bank to speed up the digitalization and to use the cashless services, which will contribute to bank's cash position.

Bank's security portfolio (tradable security notes) will also witness large changes in the balance sheet. Currently bank's security portfolio makes a large portion of the bank assets by being 1.29 billion AZN. These securities also make up bank's liquidity position. They can be easily traded. If bank's CSR activities will remain stable, then security portfolio is expected to become 1.36 billion AZN in 2020, 1.45 billion AZN in 2021 and 1.56 billion AZN in 2022. These figures can become 1.38 billion AZN, 1.48 billion AZN and 1.59 billion in 2020, 2021 and 2022 respectively. PASHA Bank currently is trying to diversify its income – generating asset portfolio. Unlike, other commercial in Azerbaijan it prefers large portion of securities in its portfolio. A large portion of securities that PASHA Bank invests and trades in are the Central Bank of Azerbaijan's notes, Ministry of Finance of Azerbaijan's notes and the SOCAR (State Oil Company of Azerbaijan Republic) bonds. Since Azerbaijan's government is providing favors to those companies who are doing voluntary, charitable activities such as CSR, PASHA Bank can also

benefit in this regard. Thus, increased CSR activities will allow a favorable partnership with the above – mentioned state agencies, and companies. It might help the bank to be exempt from the taxation on earnings from trading on state related agency and companies’ bonds and securities. Bank should consider investing in various state securities, notes and commercial bonds rather choosing foreign papers. This will help bank to allow the government benefits from provisioning of funding to it and the society also to be benefited by this cooperation. The latter segment’s benefit will be government’s improvement on its financial position and in returning improving social services for taxpayers.

The above – mentioned changes in company’s balance sheet can be supported with CSR activities. It will increase the close cooperation with government and increase the brand equity of the PASHA Bank. PASHA Bank is seeking to get into retail banking in near future. It might help bank to know the customer’s psychology, taste and preferences which are necessary for the retail banking. Thus, the bank can benefit from CSR in the retail banking if it will choose to enter.

On the income and expenses side, PASHA Bank will also see the positive impacts from its CSR activities. For example, the bank’s actual sales for the first 6 months of the year 2019 (second quarter) is 100 million AZN. It also has expenses of 18.76 million USD. If bank continues operating in the same trend and with same amount of CSR that it is implementing then the total revenues of the Bank will become 200 million AZN (in comparison it must be mentioned that it is for the whole twelve months of the year, unlike the actual figures which represent only 6 months) in 2020, 211 million AZN in 2021 and 222 million AZN in 2022. The figures will be slightly different if bank instead prefers to conduct its digitalization process and maintain the increased level of CSR activities. As a result, it is expected PASHA Bank to have 201.7 million AZN interest income in 2020, 211 million AZN in 2021 and 230 million AZN in 2022. These interest incomes are formulated from the interest generating assets such as loan portfolio and securities’ portfolio which are discussed under balance sheet analysis. Bank’s CSR activities and Digitalization are having positive correlation. If bank used digitalization, then it is doing CSR activities. Bank must use digitalization because it will help to increase the cashless payments and the sales will improve eventually, since bank can better understand to whom to should give loans.

Another impact which CSR activity have on the indirect expenses related to the implementation of CSR is the interest payments. The impact will be on the interest expenses. Since CSR will increase the brand image, then more customers will be interested in investing their savings in the banks, which will bring more interest expense to bank. For example, bank’s total interest expenses for the first 6 months of the 2019 is 18.76 million AZN and it is expected to be 37.74 million AZN for the whole 12 months of 2020 and increase to 40.38 million AZN and 43.20 million AZN in 2021 and 2022 respectively. These figures will be less if bank will keep the CSR activities at the same level which it operates at. Thus, the figures will be 37.67 million AZN, 39.56 million AZN and 41.54 million AZN in 2020, 2021 and 2022

respectively. Bank should do CSR in the society, which can contribute to people conceiving the brand image of bank and trusting their money in bank.

Provisioning of the bank will also change proportionately. However, there will be less difference with the provisioning for the loans if bank increases CSR activities. This is due to bank attracting new clients after CSR and the provisioning is calculated for those which are already sub – performing and below their prime grades. The reason for increase in their level is due to NPL will have slight growth because of the initial provisioning requirement for the new loans as well.

PASHA Bank will hold the CSR activities and for this bank might require the new staff and personnel. They will oversee optimal designing of the banks CSR activities and preparing the necessary budgeting for the bank’s CSR activities. Thus, the personnel expenses of the bank are expected to change, given that CSR activity increase and the bank is hiring new staff. The payroll expense for employees will deviate from the previous one in which there is any change to existing level of CSR in the bank. Payrolls will increase to 46.30 million AZN, 49.55 million AZN and 53.01 million AZN in 2020, 2021 and 2022 respectively. The steady growth in payroll expenses will also be observed in the bank given same level of CSR activity remains. This is due to, bank distributing bonuses based on the financial performance of the bank at the end of the year. Bank must hire individual experts who can clearly formulate a plan for PASHA Bank about the CSR and its benefits returned to bank in future. This plan must conduct of contribution to retail and corporate clients (including SME).

PASHA Bank’s other expenses such as depreciation, amortization and administration expenses will also change in different proportion depending on the changes of the CSR activities. Thus, such expenses will amount to 43.67 million in 2019 (including payrolls) and with current CSR activities, it will be 87.71 million AZN, 92.1 million AZN and 96.7 million AZN in 2020, 2021 and 2022, respectively. These figures will be 87.86 million AZN, 94 million AZN and 100.59 million AZN in the coming years with increased CSR. This is due to bank using new equipment for digitalization, which can improve bank’s CSR activities.

Overall bank’s total net profit in the year of 2019 (for the first 6 months) is 51.7 million USD. It is expected to become 103.84 million USD in 2020, 109.03 million USD in 2021 and 114.48 million AZN in 2022 if bank doesn’t invest further in the CSR activities. However, the figure will be different if CSR activities increase as the bank further progresses on its digitalization process. Then company net profit for the year ending in 2020 will be 104 million AZN. 111.29 million AZN in 2021 and 119.08 million AZN in 2022.

The reason for PASHA’s steady growth and increases in the total income of the company is due to investment in the profitable sectors of the country. The CSR activities will contribute further by bringing

more profitable clients to the bank. Already PASHA Bank actively participates in financing the entrepreneurial activity in the country as part of its social responsibilities for society. Barama, IdeyaQazandi are one of the few successes of PASHA Bank in this field. Some of the entrepreneurs who are outcome of these incubators funded by PASHA Bank have become self – enough and became an SME in the market. They are actively participating with PASHA Bank as part of their thanking for the Bank’s support when they required assistance. Thus, PASHA Bank’s financial figures are mark of its CSR activities being successfully implemented in the country. The bank keeps educating the young generations for their future endeavors. There are educational programs, trainings and various activities are constantly provided by PASHA Bank. Some of the youngsters who have benefited from such programs have grown to become the leading specialists and some of them joined PASHA Bank’s team. The social contribution that PASHA Bank is providing is returning back to them in the various forms and helps the society to benefit from this as well. The number of countless contributions has done by PASHA Bank in other fields besides education. These activities range from public health, administration and transportation. These activities help to raise the bar of living standards in the country.

6.2 Gap analysis and digitalization policy recommendations

Above-outlined competitor analysis in banking sector, from CSR perspectives, reveal that the client company’s key counterparts view the CSR engagement as a short-term promotional and charity event. On the contrary, PASHA Bank’s take on CSR is rather aspirational. Hence, the company places an especial strategic significance in attaining sustainability pertained to CSR engagement and incorporating CSR account for guaranteeing that social responsibility takes a central proportion of the revenue that the bank is striving to achieve.

It is also worth mentioning that the client company is one the very few private banks operating in Azerbaijan that prioritizes brand promotion along with the asset growth. From this perspective, PASHA Bank made a significant investments in sustainability and thus in CSR, as the company strives to live up its core values such as ‘quality’ and ‘integrity’. Staying true to the corporate values of the bank has been quite conducive to growth and successfully escaping from the trap of economic recession that hit Azerbaijan against the backdrop of plummeted value of national currency in early 2015. PASHA Bank’s key brand promotion strategy does not only encompass a leader position in corporate banking industry, but also entails value creation in a wider society in which the bank owns a direct and indirect sphere of influence.

The previous chapter of this BCP report provided the detailed strength and weaknesses of Client Company employing the SWOT analysis framework. Consequently, the report finds out following gaps that the bank needs to concentrate on and improve in the future:

- ✚ PASHA Bank needs to continue on publishing its traditional sustainability report; however the annual report must be a segregated document. Adopting this practice is also in line with the CSR related global regulations;
- ✚ Bank's several CSR projects were halted at a short term due to lack of effective follow up actions, although those could be a long-term activity;
- ✚ Bank has vague strategy and plans to raise public awareness on CSR, which in turn, can create challenges for PASHA Bank to rip the benefits of "giving back to community" vision
- ✚ Despite extensive background and significant investment in social responsibility and sustainability, the Bank fails to store and generate clear and solid statistical data with regards to its CSR engagement. Lack of data makes it difficult to gauge the effectiveness and plan future CSR actions.
- ✚ Screening of sustainability and annual reports of the bank identified that the internal customer – employees of PASHA Bank, engagement is not clear defined or stated. The majority of CSR related decisions are made at a top management and/or board members level. Therefore, this BCP highlights importance of employee engagement in CSR related decision making process to reinforce activeness of associates in sustainability and ethical business conduct.
- ✚ PASHA Bank is a strategic asset of PASHA Holding – a group of companies. Nonetheless, there are very handful of integrated CSR initiatives planned and implement in cohort with other holding members. This fact was observed in document analysis whilst screening the CSR related report, as no strategic partnership attempts pertained to CSR were observed. Co-organized joint CSR projects can be very effective in terms of joining the forces to create diversity, encompass multiple industries and at the same time multiple societies and communities. This will also be very conducive to sustaining long-term impact of initiatives across Azerbaijan due to expedient cost and resource sharing.
- ✚ Despite Azerbaijan's exponential growth during the oil and boom, and successful recovery from the economic recession owing to diversification actions, the inequality is a persistent issue. The development gap is particularly huge between the periphery and center i.e capital and rural areas. However, PASHA Bank's CSR activities primarily covers and bases in capital city Baku. For instance, the most recent and successful initiative – 'Barama', triggering development of young entrepreneurs and innovation, engages and entails young people in Baku only, and the established innovation center doesn't operate beyond the capital city. Establishing branch units of the center in rural areas can promise great opportunities for younger generation to transfer best practices and combat exacerbating development divide between the regions and urban areas.

Banks can effortlessly modernize their processes with the help of digital technologies without any substantial expense which will aid in considerable cost saving in the future. This BCP report can

categorize these technologies as *tactical*, *transformational*, and *strategic solutions* depending on how significant the annual savings they bring about as well as how much investment will be required in implementing these solutions (Capgemini, 2017).

Tactical solutions – these don't need any massive infrastructure or any IT systems, rather only a simple low level investment is required. The most basic of banking operations, for instance, opening an account, loan processing, mortgage, having a digital signature are included in this and help to lessen costs related to paper since 20% of the information workers' time is spent on filling paper document or searching for them. According to Capgemini (2017) estimations, the time workers spend looking for papers, filing or retrieving official documents can be reduced by the Document Management System (DMS) by approximately 75%. An estimate also shows that roughly \$120 are spent on locating a document that was misfiled by organizations and to produce it again, \$220 must be spent again. Transfer to a digitized system from a paper-based one helps to lessen the costs related with misfiled or lost documents, distribution and printing costs. Even the risk of errors or reworks is lowered. Approximately 6% of cost savings is usually delivered by DMS.

Strategic solutions – the process effectiveness delivered by tactical solutions is significantly extended by Business Process Management (BPM). This is a combined platform that integrates real-time process monitoring, optimization capabilities, and modeling. Over the past years, numerous banks have implemented various programs to reduce cost. Despite this, the costs begin to creep back into the bank's system. This specific issue is addressed by the BPM solution is based on the principle of continuous improvement, unlike the tactical solutions which are more often than not, simply static implementations. Due to this, higher and sustainable savings are achieved as all processes are regularly monitored and optimized.

Transformational Solutions – these solutions provide benefits that cover more than cost savings and help to build a digital future for the bank. All the levels of the organization are able to feel the impact of these solutions as they allow applications and product of customers to be developed and aiding in providing newer ways to improve the customer experience as well as boost the potential of the revenue. Looking at best practices out of Azerbaijan demonstrates that six-year core modernization program was undertaken by the Commonwealth Bank of Australia, which enabled the bank to provide its customers with innovations that included real-time banking and settlement through a mobile app (Capgemini, 2017). A Smart Sign service has also been launched by the bank which enables the customers to electronically complete and implement load documents from the comfort of their homes with the help of a secure online portal.

The facts and examples provided above can help in summarizing that PASHA Bank has managed to utilize strategic and tactical solutions along with placing an emphasis on BPM. All customer segments can utilize mobile and online banking systems with ease. The transformational changes may need an estimated 4.5 or more year with the addition of 9% cost saving based on the expected outcomes per year and will require large investments. By utilizing data intelligence and big data systems, transformational changes can be achieved by PASHA Bank which can establish a local database in the country's banking ecosystem along with the execution of customer data which can aid banks in responding to the varying market requirements and providing a unified customer experience.

The last but not the least, document analysis unveiled the client company utilizes important attempts in protection of environment. Nonetheless, environmental sensitivity and general awareness is a very nascent stage in Azerbaijan. Particularly, the lack of education and perception of environmental issues persisting across the country is rather vivid in rural geographic areas, where people have limited access to resources and educational opportunities fostering environmental awareness. In this regard, the client company is highly recommended to put a particular emphasis on educating and equipping general public with necessary competences and information in order to combat certain ecological problems together. This will yield long-term effects, cultivate environmentally conscious young generation for mobilizing to fight for the brighter future.

6.3 Recommended Further CSR Activities

PASHA Bank has already been covering various CSR in different parts of Azerbaijan and the neighboring countries including the green project in Georgia (building trees in Borjomi in the burnt area).

However, PASHA Bank can increase its level of CSR activities to the rural areas and the places where the needy individuals and small - scale entrepreneurs are functioning. Azerbaijan is hosting over 1 million internally displaced people. They have been forced to migrate due to war with Armenia. Currently, Azerbaijani government has established refugee settlements for them. These people reside in various IDP settlements.

The refugee residents of the IDP settlements in Bilasuvar are having various challenges in life ranging from lack of employment opportunities to the lack of basic needs such as education, social care, and health care and transportation facilities. PASHA Bank can address some of these problems by providing regular educational programs, interest – free loans to the small – scale entrepreneurs and farmers. Already there are various financing programs provided by the SKMF (State Fund for Entrepreneurial support). But usually this funding becomes problematic due to intermediary banks and micro credit organization, non - bank credit organizations creating hurdles. PASHA Bank can help to eliminate these burdens by cooperating with these segments of the population. It can also be in tune with PASHA Bank's long – term

strategy of entering the retail sectors. If these people can uplift themselves and increase their lifestyles, then it will be contribution to overall economy, and it will also help PASHA Bank to have healthier, potential retail or business clients. Grameen Bank is an example in this case, when it started as an organization for elimination of poverty in Bangladesh and now the bank is successfully cooperating with those clients. PASHA Bank also has enough resources and the expertise to embark on such a mission. It will increase the brand image of the company and make the bank entitles to large support from the government for its charity activities. This can be part of the contribution to *people* (one of 3 Ps), and their betterment of lifestyles can become a *profit* for PASHA itself and it return on income (CSR activities). Thus, bank must consider these activities. There are various large companies around the world doing similar activities in poverty - stricken regions. They either build artisans, water wells, tanks, build school etc. These are all examples of the CSR contributing to both **people** and **planet**. Such contribution by PASHA Bank in Azerbaijan helps the country a more prosper country and a more developed economy, which is part of the sustainability project of the bank.

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Unstructured Interview

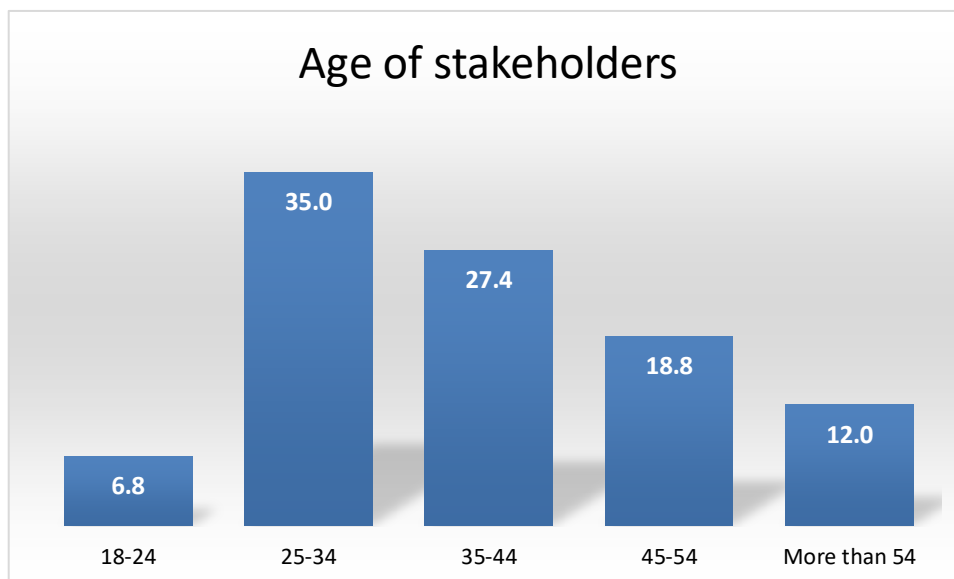
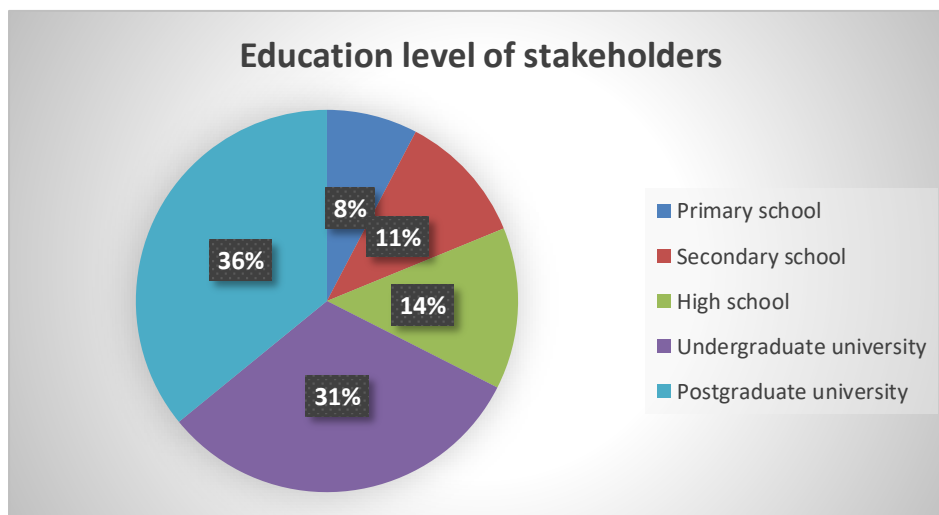
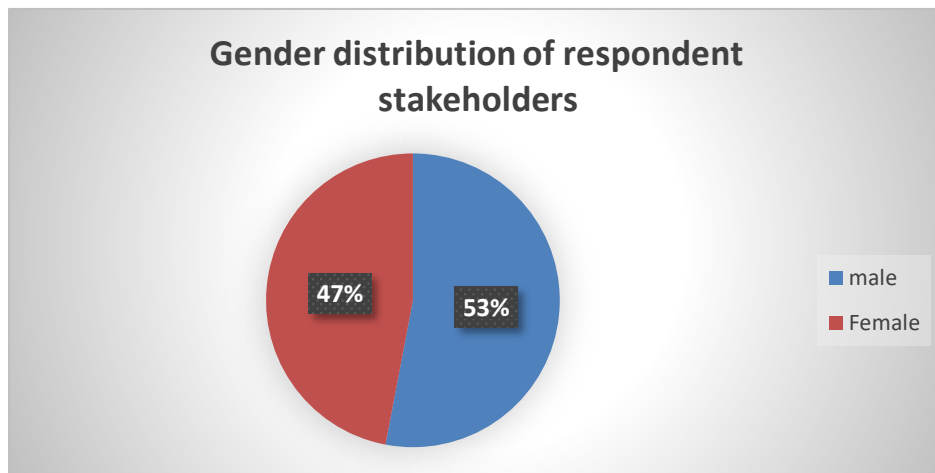
Atayev, Jeyhun – PASHA Bank CSR Outreach Manager, Corporate Communication Department.

Appendices

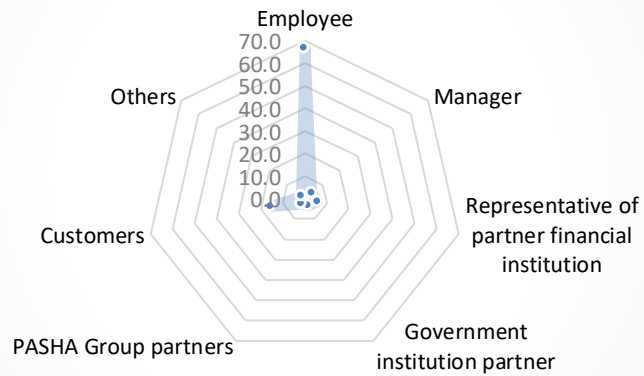
Appendix 1. The Stakeholder theory analysis survey items

Construct	Item	5-Point Likert scale				
Work-related experience (West et al., 2015)	PASHA Bank is always rewarding me fairly	1	2	3	4	5
	PASHA Bank regularly updates on new relevant developments(products/changes/policies)	1	2	3	4	5
	PASHA Bank is listening to stakeholders	1	2	3	4	5
	PASHA Bank is helping stakeholders for their self-development	1	2	3	4	5
	PASHA Bank is providing support to get job done properly	1	2	3	4	5
Experience of explicit CSR of bank (West et al., 2015)	PASHA Bank treating all clients equally	1	2	3	4	5
	PASHA Bank is caring of communities where it is operating	1	2	3	4	5
	PASHA Bank is attempting to have positive impact on society	1	2	3	4	5
	PASHA Bank is always acting ethically and honestly	1	2	3	4	5
	PASHA Bank is aiming to have long-term success	1	2	3	4	5
	PASHA Bankgives back to community and societies within its sphere of influence	1	2	3	4	5
Perceptions of bank CSR (West et al., 2015)	PASHA Bank is always supporting good things that have positive influence	1	2	3	4	5
	PASHA Bank is acting in an environmentally conscious manner	1	2	3	4	5
	PASHA Bank is in compliance with high standards when communities are concerned	1	2	3	4	5
Trust/Distrust (West et al., 2015)	PASHA Bank is running the business in a dependably fashion	1	2	3	4	5
	PASHA Bankactsreliably and responsiblyin relations with stakeholders	1	2	3	4	5
	PASHA Bank is promoting both its and stakeholder 's benefits	1	2	3	4	5
	PASHA Bank is taking the advantage of stakeholder vulnerability	1	2	3	4	5
	PASHA Bankdemonstrates a destructiveconduct to stakeholders for maximizing own benefits	1	2	3	4	5
	PASHA Bankestablish a relationship with stakeholders in a dishonest manner	1	2	3	4	5
Behavioral intention (Mowday et al, 2004)	It is important to stay loyal to PASHA Bank	1	2	3	4	5
	My relationship with the firm is something I intend for long-term	1	2	3	4	5
	It is important to maintain relationship with PASHA Bank	1	2	3	4	5
	PASHA Bank can be likely to be recommended to others	1	2	3	4	5
	Working with PASHA Bank will have a positive influence	1	2	3	4	5

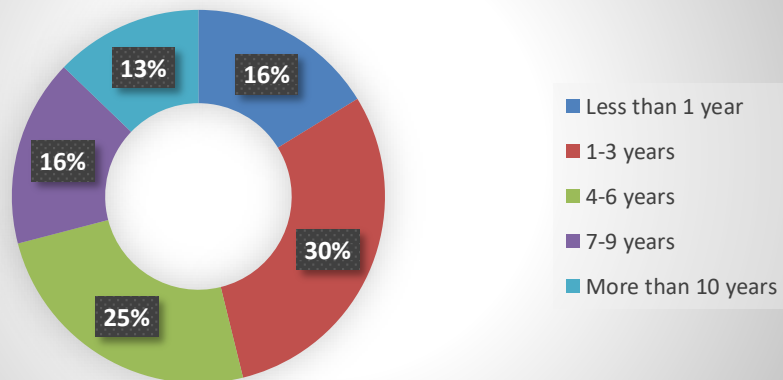
Appendix 2. Demographic statistics



Relationship status of stakeholders with bank



Length of partnership with Bank



Appendix 3: Regression Analysis Outputs

a. The results of regression between EExCSR and PCSR

IV	PCSR	
	Model 1	Model 2
	Beta value	Beta value
Gender	0.046	0.019
Education	-0.055	-0.072
Age	0.062	0.067
Relationship status	-0.039	0.083

Length of partnership	0.003	0.014
EExCSR		0.387**
F	1.736	5.322
R2	0.089	0.349
Adjusted R2	0.091	0.429

Note: IV = Independent variable

b. The results of regression between WREX, PCSR and TRS/DTRS

IV	TST		DTST	
	Model 1	Model 2	Model 1	Model 2
	Beta value	Beta value	Beta value	Beta value
Gender	0.036	0.079	0.043	0.014
Education	0.016	0.042	0.015	0.054
Age	-0.032	-0.059	0.062	0.031
Relationship status	-0.041	0.063	-0.039	-0.056
Length of partnership	0.031	0.027	-0.005	-0.045
WREX		0.446**		-0.051
PCSR		0.251*		-0.017
F	1.419	4.572	2.133	6.721
R2	0.034	0.167	0.075	0.278
Adjusted R2	0.078	0.433	0.084	0.312

Note: IV = Independent variable

c. The results of regression between TRS/DTRS and BEH

IV	BEH	
	Model 1	Model 2
	Beta value	Beta value
Gender	-0.033	-0.056
Education	0.037	0.061
Age	-0.041	-0.082
Relationship status	-0.019	-0.024
Length of partnership	-0.041	-0.086

TST		0.438**
DTST		-0.318
F	1.445	7.108
R2	0.093	0.411
Adjusted R2	0.107	0.556

Note: IV = Independent variable