IMPACT OF CORPORATE SOCIAL RESPONSIBILITY AND CORPORATE GOVERNANCE ON THE PERFORMANCE OF NONFINANCIAL COMPANIES

Omnia Ahmed *, Bashar Abu Khalaf **, Antoine B. Awad **

* *Corresponding author,* College of Business, Accounting & Finance Department, University of Doha for Science and Technology, Doha, Qatar
Contact details: College of Business, Accounting & Finance Department, University of Doha for Science and Technology, P. O. Box 24449, Doha, Qatar
** College of Business, Accounting & Finance Department, University of Doha for Science and Technology, Doha, Qatar

How to cite this paper: Ahmed, O., Khalaf, B. A., & Awad, A. B. (2023). Impact of corporate social responsibility and corporate governance on the performance of nonfinancial companies [Special issue]. *Corporate Governance and Organizational Behavior Review, 7*(4), 370–379.
https://doi.org/10.22495/cgobrv7i4sip15

Copyright © 2023 The Authors

This work is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0).
https://creativecommons.org/licenses/by/4.0/

ISSN Online: 2521-1889
ISSN Print: 2521-1870

Received: 17.07.2023
Accepted: 13.12.2023

JEL Classification: G10, G18, G19
DOI: 10.22495/cgobrv7i4sip15

Abstract

This research paper focuses on the growing importance of corporate social responsibility (CSR) in the business world, particularly in the Gulf Cooperation Council (GCC) region. The main aim is to bridge the gap by assessing the impact of CSR and corporate governance on financial performance. Ultimately, this paper emphasizes the strategic importance of CSR for improving financial performance and promoting trustworthiness and public image. This paper applied the ordinary least squares (OLS) and panel regressions (fixed and random) to investigate the impact of CSR, board size, independent directors, company size, and leverage as independent variables on the financial performance as the dependent variable (return on assets — ROA). The data were collected from Refinitiv Eikon platform for 210 listed nonfinancial companies for the last ten years (2013–2022). The results suggested that the higher the company's involvement in CSR, the more the number of board members and the more independent directors the higher the performance. In addition, the higher the leverage in the GCC the less is the profitability of firms. Finally, the larger the company the better is the performance. Such results imply that more board of directors should be hired and increase compliance with the CSR principles to achieve better performance.

Keywords: CSR, Corporate Governance, Performance, Leverage, Size of the Company, Panel Regression

Authors' individual contribution: Conceptualization — O.A., B.A.K., and A.B.A.; Methodology — B.A.K. and A.B.A.; Validation — O.A., B.A.K., and A.B.A.; Formal Analysis — O.A., B.A.K., and A.B.A.; Investigation — B.A.K. and A.B.A.; Resources — O.A.; Data Curation — O.A., B.A.K., and A.B.A.; Writing — Original Draft — O.A., B.A.K., and A.B.A.; Writing — Review & Editing — O.A., B.A.K., and A.B.A.; Supervision — O.A., B.A.K., and A.B.A.; Project Administration — O.A. and B.A.K.

Declaration of conflicting interests: The Authors declare that there is no conflict of interest.

1. INTRODUCTION

The implication of corporate social responsibility (CSR) has become a predominant concern for the improvement of the financial performance of the company. A larger number of corporate companies are considering CSR initiatives for investment and strategic decision-making. CSR has a vital contribution to the achievement of competitive advantage (Bashar, 2020). Hence, many researchers are keen to examine the effect of CSR on the organisational bottom line. CSR has become a prerequisite for any business to conform to ethical management practices (Wu et al., 2020).

Paul and Siegel (2006) claimed that organisations are striving to make a profit by adopting ethical practices, conforming with the law and becoming excellent corporate citizens. CSR has become an important strategy for the business as it is useful for the demonstration of trustworthiness and enhancement of public image. In the long run, benefits will be useful for the achievement of greater market share. CSR demonstrates the activities of the capital market aimed at improvement in popularity instead of improvement in profit and market share. CSR programs have strategic consequences for the marketing environment and organisational growth. CSR initiatives have a strategic impact on the marketing environment and organisational growth. The rising demand for disclosure of CSR from different stakeholders pressurises corporate governance to provide processes and rules about credit disclosure and a transparent credit market. CSR has become a prominent strategic tool that can impact the financial performance of a firm (Harun et al., 2020).

The rising pressure and demand from a widespread stakeholder range for pursuing different socio-economic goals of performance have become a significant and prominent research issue (Awaysheh et al., 2020). Even though, there is adequate knowledge about the advantages of implementation of CSR, the importance of CSR for shaping financial performance in the construction sector of the Gulf Cooperation Council (GCC) is also questionable. A lack of research is found about the challenges related to CSR of companies in GCC. The current research aimed to fill this gap by adding to in available literature. Based on the article by Harun et al. (2020), examined the firm value, corporate governance, and CSR disclosure in Islamic banks of GCC. Although board composition, board size, and chief executive officer (CEO) duality have substantial positive benefits on company value, the research reveals an adverse productivity effect of CSR disclosure.

CSR is a relatively new topic in the GCC, many businesses are still not in full compliance with the requirements for reporting and the extent of their CSR activities' disclosure. The processes, laws, human resources, environmental, and governance practices of the GCC countries vary. Each business determines how to incorporate social responsibility into its operational processes utilizing its unique operations. According to the GCC literature, companies listed in the markets of the United Arab Emirates frequently follow the corporate governance norms that are also observed in Oman, Saudi Arabia, Qatar, and Kuwait (Arayssi et al., 2020). According to research by Arayssi et al. (2020), there is a correlation between firm profitability and the level of environmental, social, and corporate governance (ESG) score. Their findings indicate that the more profitable a firm is, the more likely it is to use some of its profits to support social and environmental projects.

The current research aims to fill the literature gap by giving empirical evidence on the impact of CSR on financial performance in important Gulf regions. In addition, it also modifies the policymakers, regulators, executives and practitioners across the Gulf region and other developing states. A rising institutional pressure is found in GCC related to the adaptation of CSR (Mishra & Suar, 2010). The current research will help in better understanding of impact of CSR deployment on financial performance in Gulf countries. The subject matter is essential as it contains pragmatic and theoretical significance for the deployment of CSR in contemporary practices of business. The findings of this study will contribute to the literature on CSR and financial performance in GCC countries by outlining better realisation of the benefits and effects of different initiatives of CSR on organisational stakeholders. Organisational management has realised the importance and responsibility for the escalation of shareholder value by devising important strategic decisions (Alanzi et al., 2022). The different initiatives of CSR can maximise the investment of CSR by doing good for the welfare of society. In addition, CSR activities can maximise the share value and bring sustainable profits. The finding will shed light on the organisation's deployment of strategic activities of CSR for bringing positive social changes. Correspondingly, the current research will provide a wider and broader overview of CSR and its impact on financial performance in the diverse business sector of GCC. This will further help in assessing the consequences of the CSR activities and analysing the outcomes of the company's financial performance located within GCC.

The relative importance of CSR and its effect on financial performance is evident in the initiatives and development considered by global bodies. It will also develop and harmonies the international guidelines for CSR reporting. A large number of GCC countries are not aligned with global standards. Hence, it is required to build inclusive standards and support the interested parties and investors in making informed decisions related to CSR reports of the firm. The research is lacking in GCC countries and thus not helping the interested parties and investors to make informed decisions related to CSR score and its effect on financial performance in diverse business sectors of GCC. Global bodies are more interested in CSR an initiative that eventually enriches the financial performance. The implementation of research in GCC countries will fuel up the research in the context of the diversified and broader context of GCC regarding the benefits of CSR and its impact on sustainable performance. Based on the claims made by different academics, it can be said that the execution of research will minimize the research gap by further strengthening the effect of CSR initiatives on improving financial performance in GCC countries (Ghardallou & Alessa, 2022). In a nutshell, researchers tried to explain how having organizationally engaged CSR initiatives in the GCC can strengthen the link between socially responsible business practices and flourishing financial success. In light of these research gaps and academic claims, the current study will bring new literature and fill up the research gap.

The structure of this study is as follows. Section 2 is a literature review that reviews selected previous studies and an overview of theories. Section 3 contains the research method where model development and sample used is presented. Section 4 presents the findings and data analysis along with a discussion of the results. Section 5 presents the conclusion and recommendations.

2. LITERATURE REVIEW

2.1. Theoretical background

2.1.1. Signalling theory

The signalling theory aimed to examine of content expressed in sustainability reporting. Signalling has a significant impact on the perception of stakeholders and is helpful for the creation of a competitive edge and leaves a positive effect on the overall corporate image (Pekovic & Vogt, 2020). There are three types of signal necessity, intent, and camouflage. It is found that camouflage typology is biased and challenging and needs to adopt measures for the mitigation of bias. The adoption of CSR aimed to fulfil the condition of quality signal. It integrated more effort and cost for the adoption of CSR for firms that are less capable as compared to companies' highly capable firms. The accumulation of socially responsible capabilities requires the implicit cost of management and monetary cost (Ramzan et al., 2021).

2.1.2. Agency theory

According to agency theory, shareholders rely on agents to attain the goals of shareholders. An executive or agent strives to pursue their own objectives. Different agency issues are related to the implementation of ESG activities. The agency issue arises when resources of the company are allocated for different ESG activities (Okafor et al., 2021). Managers are aimed at building their image and reputation as excellent citizens at the expense of shareholders. The agency issue also arises when there is a conflicting opinion between management and shareholders. In brief, ESG is useful for the reduction of information asymmetries that are useful for the prevention of agency issues (Nirino et al., 2020).

2.1.3. Corporate social responsibility (CSR)

Corporate social responsibility is the business practice of joining environmental and social policies with a business' economic goals and operations. It is based on the idea that businesses can reduce their adverse social and environmental impact on the world (Awaysheh et al., 2020). CSR entails the recognition of social obligation beyond regulations for maintaining ethical and moral standards. Because of its diverging nature, CSR is important for strategic sustainability and the overall social ecosystem (Szegedi et al., 2020). A triple bottom line (TBL) framework provides an adequate explanation of the concepts of CSR. Three main dimensions of this model are people, planet and profit. People refer to the affected force of labour and how different CSR initiatives can fulfil the expectations of stakeholders; planet refers to how the business implements different initiatives of environmental sustainability and evaluates their consequences. The profit is related to how economically a company is beneficial for the entire society (Long et al., 2019).

CSR has become a prominent factor and topmost agenda of corporate decision-making. Many businesses are considering how to maximise their relationship with the environment, community, and customer group (Alsartawi, 2020). Jamali and El Safadi (2019) argued that GCC countries contain explicit cultural, religious, and political value structure that plays a vital role in the achievement of socially and economically responsible behaviour. The present practices of CSR are highly influenced by religious conviction and focus on the idea of giving for the welfare of society.

Many business organisations and charities are working to boost the standard of living in domestic communities. Nonetheless, the trends are not more sustainable over the prolonged time frame. It also recommends that the practice and concept of CSR in GCC are still in the preliminary phases of development and generally perceived as a philanthropic activity instead of providing strategic direction for benefiting overall businesses and communities (Jamali & Hossary, 2019).

2.1.4. Financial performance

The financial performance can be measured with the help of different market and accounting base measures. The accounting base measures return on assets (ROA) and net profit margin. Net profit margin can be measured by division of net income with sales revenue. It is cited as an important indicator for evaluating financial and social performance (Ramzan et al., 2021).

Cho et al. (2019) proclaimed that businesses are facing high pressure to engage in socially responsible activities as consumer concerns and expectations for CSR are mounting at a fast pace. Companies believe that different philanthropic endeavours specifically money donations are investments that may raise the shareholders' wealth. Nyame-Asiamah and Ghulam (2020) also confirm that greater donation expenditures will enhance the firm's financial performance and market valuation while CSR spending is broken down into expenses for donation and environmental protection and is perceived as important sub-dimensions of corporate responsibilities.

Wu and Jin (2022) affirm that being a global authority and independent agency for third-party rating termed Hexun (Beijing, China) provides the public with the most accurate and expert social responsibility assessment data. Hexun.com (https://www.hexun.com) employs the expert scoring technique to thoroughly assess the CSR initiatives of firms from a variety of angles after the publication of annual CSR reports. Different weights are assigned to each stakeholder's corporate responsibility by emphasising five perspectives from the viewpoint of the stakeholder. The performance of the company's social responsibility is measured by its score. Hexun social responsibility score is frequently applied in different past studies.

ROA is also considered an important proxy variable of ROA. Its value is gained by the division of net income with average. ROA is useful for the measurement of efficiencies of management by utilisation of assets for earning income and presentation of profitability of the company (Szegedi et al., 2020). CSR was used as a predictor variable for this research. While several CSR assessment methods have been created in earlier studies, there is a lack of a standardized method for the evaluation of CSR scores. Different studies reported a positive impact of ROA towards different initiatives of CSR

(Huang et al., 2020). On the other hand, few studies revealed that despite improved business reputation and brand equity, CSR does not immediately contribute to short-term financial success such as ROA and other profitability measures.

Factors that affect the performance of a firm in the financial aspect include liquidity, leverage, asset utilisation, and firm size. Liquidity means the company's ability to convert its assets into cash. High liquidity means a positive sign of financial sustainability (Ang et al., 2022). Leverage means the use of debt to finance operations and growth (Maqbool & Hurrah, 2021). Asset utilisation is the efficiency of an organisation to optimise its assets to generate revenue (Sekhon & Kathuria, 2019). Firm size is referred to as the scale of an organisation's operations; large firms have greater economies of resources and scale (Paul & Siegel, 2006).

2.2. Impact of corporate social responsibility (CSR) on financial performance

Past studies revealed mixed results for the evaluation of the impact of CSR on organisational financial performance. Few research studies entail a positive relationship between financial performance and CSR (Okafor et al., 2021; Maqbool & Zameer, 2018). The outcomes of CSR are useful for the achievement of social legitimacy and ensure an important contribution to financial achievements. On the other hand, Siueia et al. (2019) observed a negative relation of CSR on financial performance with respect to ESG score.

Sekhon and Kathuria (2019) asserted that a greater extent of CSR might reduce the financial risk and lead to a stable link with the financial community and overall government. In addition, it can lead to a minimal percentage of debt to assets. Maqbool and Zameer (2018) discovered that a company's involvement in CSR has a favourable influence on its stock price overall. Moreover, the outcomes of the different activities reveal that a firm's participation in ethical and environmentally friendly CSR initiatives has a beneficial influence on the bottom line as well as the price of the stock. When a company is traded on a stock exchange, its eventual goal is to boost the value of shareholders by raising revenue and profits. Firms in the financial markets must not only deal with increased competition, but they must also try to increase their stock price. Furthermore, the stock market permits society to associate with diverse enterprises, as a consequence, publicly traded companies have a better chance of building new ties with consumers and increasing their market attractiveness.

From the above analysis, it can be stated that the existing work has been done with utmost care and diligence; however, there are a few gaps unfulfilled. While doing research, it was found that the study was exclusive to GCC countries. Gulf countries have various organisations and these organisations' CSR policies could have been considered to understand the financial performance better (Jamali et al., 2020). However, due to the lack of information exclusive to the companies of Gulf nations, the present literature did not consider that information. As a result, a significant gap has been created in this segment of the literature review. In this regard, it can be noticed that the present study was able to gather sufficient information that was required in the current research context. Thus, the primary purpose of the authors is to fill this gap by producing authentic and relevant research. Based on the previous discussion the following hypotheses have been developed:

H1: There is a positive impact between corporate social responsibility and performance.

H2: There is a positive relationship between the size of the company and its performance.

H3: There is a relation between board size and the company's performance.

H4: There is a positive impact between independent directors and companies' performance.

H5: There is a positive relationship between leverage and the company's performance.

3. RESEARCH METHODOLOGY

3.1. Sample used

In this research study, nonfinancial companies from different sectors are taken into consideration, covering the whole region of GCC. The final sample comprised 210 listed companies of GCC countries. Financial years which are taken into consideration for financial and CSR-related information range from 2013 to 2022. Based on the availability of data for GCC countries, this paper collected the data starting from 2013 to expand the sample and provide relevant and reliable results. The data on CSR scores were developed by including workforce score, community score, social pillar, and environmental pillar. The following section develops the model that has been used to empirically investigate the impact of CSR and corporate governance on the performance of nonfinancial firms in the GCC countries while controlling for leverage and firm size.

Table 1. Summary of the final data statistics

Country	*Total number of companies*	*Number of companies included in the final sample*
Oman	77	24
Kuwait	95	25
United Arab Emirates	71	28
Qatar	32	23
Saudia Arabia	242	91
Bahrain	20	9
Total	537	210

3.2. Model development

3.2.1. Dependent variable (Performance)

The financial ratio defined as *ROA* illustrates the percentage of earnings an organization develops in comparison to its total resources, or assets (Khalaf & Al-Shaer, 2023). A greater ratio demonstrates that a business is managing its resources more efficiently to maximize the wealth. The measure used for performance is the return on average total assets (ROTA) which indicates a company's capability to generate revenue from its assets. The income before discontinued operations and extraordinary items (Khalaf, Awad, & Nassr, 2023).

3.2.2. Independent variables

Corporate social responsibility (*CSR*). *CSR* is a concept that promotes firms in ethical conduct that reaches beyond profit. One of the key areas of *CSR* is the environmental pillar analyses a company's influence on a alive and non-living complex world, such as water, land, and air as full ecosystems. It demonstrates how well a business employs best management practices to minimize environmental risks and take advantage of changes in the environment to maximize long-term shareholder value. The social pillar on the other hand assesses a company's ability to foster trust and loyalty among its employees, clients, and society. It reflects the business's standing and the status of its operating license, both of which are crucial components in determining its capacity to produce long-term shareholder value. Another important category of *CSR* is a community, which impacts the company's dedication to being a good neighbor, preserving the public's health, and upholding corporate ethics reflected in the category score. The efficacy of a corporation in promoting job satisfaction, a safe and healthy workplace, diversity and equal opportunity, and career chances for its employees is measured by the workforce category score (Aslaksen et al., 2021).

Size (*FirmSize*, natural logarithm of total assets — *Ln(TA)*). This factor reflects the scope or scale of a business and is regularly presented as the value of all assets that the firm earns. Total assets are a leading measure that supports analysts and investors in evaluating the size, strength, and value of a company (Khalaf, Awad, Ahmed et al., 2023). So far, it is important to be aware that each company might report its assets diversely, which makes it hard to evaluate different organisations (Javed et al., 2015). In addition, as discussed in Adelopo et al. (2018) the larger the company the easier the expected access to the market and the better the cash flow this might increase the inclusion in profitable projects and this affects the performance positively.

Board size (*BoardSize*). A stronger board might offer more different viewpoints and knowledge, but it might also be more difficult to lead and reach an agreement. The corporate governance aspect assesses a company's procedures and systems, which make sure that its executives and board members operate in the long-term best interests of its shareholders. It shows a company's ability to govern and regulate its rights and obligations via the development of incentives, in addition to mechanisms for oversight, to create long-term shareholder value by using best management practices (Javed et al., 2015). Furthermore, Bachiller and Garcia-Lacalle (2018) argued that the larger the *BoardSize* the higher expectations of incorporating *CSR*.

Independent directors (*IndDir*). As discussed in El-Chaarani et al. (2023) and Awad et al. (2022), *IndDir* are those who are not employees of the company and have no conflict of interest being members of the board of directors. In other words, their decisions on the board aim to increase shareholders' wealth and their own benefits. Therefore, the number of *IndDir* to the total number of board directors has been used to measure this variable following Rouf and Hossan (2021). In addition, the higher the number of *IndDir*, the higher the expected profitability and better performance. Such expectations are evident in Handriani and Robiyanto (2019), who confirmed that a higher number of *IndDir* will cause better decisions to include companies in positive net present value projects and this, in turn, increases the profitability and performance.

Leverage. The total debt percentage of total equity (DTE) represents the ratio of debt — total divided by the value of total shareholders' equity — including minority interest and hybrid debt multiplied by 100. A financial ratio called the debt-to-equity (D/E) ratio demonstrates the ratios of investors' capital and debt that are being used to finance the assets of a business, commonly known as risk, gearing, or leverage, is highly tied to leveraging (Seissian et al., 2018). The denominator should be positive. It applies to all industries (Ali & Fatima, 2021). Platonova et al. (2016) argued that high *leverage* provides more funds to help either in its operations or inclusion in profitable projects that might affect the performance rapidly.

3.3. Model used

The following model has been used to investigate the impact of corporate governance and CSR on the performance of nonfinancial firms in the GCC countries during the period 2013–2022.

$$ROA = \alpha + \beta_1 CSR(Workforce + Environmental + Social + Community) + \beta_2 BoardSize + \beta_3 IndDir + \beta_4 FirmSize + \beta_5 Leverage + \varepsilon \quad (1)$$

where,

- *CSR* is a score of workforce, environmental, social and community;
- *BoardSize* is measured by the number of board members;
- *IndDir* is the independent directors and is measured as the number of independent directors to the total number of board members;
- *FirmSize* is measured by the natural logarithm of total assets;
- *Leverage* is measured by the debt-to-equity ratio;
- *ROA* is return on assets and it is a proxy of performance.

4. RESULTS AND DISCUSSION

The study data that have been collected and tested will be examined and discussed in this section. based on the categorised concentrate on descriptive and inferential statistics, accordingly. Descriptive statistics, which include mean, minimum, maximum, and standard deviation. Regression analysis such as fixed effect models will be used to estimate the relationships between a dependent variable and one or more independent variables, and correlation matrix, on the other hand, are intended for use to make judgments about the data and the hypotheses being studied. The analysis's outcomes and conclusions will lead to a better knowledge of the research issue and provide insight into the relationships between the variables being studied.

4.1. Descriptive statistics

The 210 companies that were selected and their financial statements from the years 2013 to 2022 were collated, this section presents the descriptive statistics of the samples. The data set contains information about the *financial performance* and *CSR* activities of companies in the GCC region. The output will give us the descriptive statistics of the numerical variables in the dataset such as the mean, standard deviation, minimum, and maximum.

Table 2. Descriptive statistics

Descriptives	*Mean*	*Min*	*Max*	*Std. dev.*
ROA	0.032	-0.104	0.763	0.264
CSR	65.341	0	354.872	24.456
FirmSize	17.849	12.698	24.764	1.765
BoardSize	6.546	3	13	1.263
IndDir	3.645	1	6	0.973
Leverage	0.595	0.023	1.345	0.436

Based on the data provided in Table 2, these measures can provide insights into the financial health and capital structure of companies, allowing stakeholders to make informed decisions about their investments, operations, and strategic plans. For instance, knowing the average *ROA* can help investors evaluate a company's profitability while understanding the total assets and total liabilities can give them an idea of its solvency and leverage. Similarly, analysing the revenue and expenses can help management track their sales and costs and improve their bottom-line operations. (Sekhon & Kathuria, 2019). Overall, the descriptive statistics suggest that the nonfinancial firms in the GGC countries vary in size as evidenced by the standard deviation of the firms' size (1.765). In addition, the highest standard deviation is for *CSR* which implies that from 2013 to 2022 firms tend to comply with the *CSR* standards differently. This comes in line with several results reported by different researchers such as Khalaf, Awad, and Nassr (2023). To further explore the relationship between *CSR* and *financial performance* in the GCC region, we conducted a correlation analysis to examine the degree of association between the variables in the following section.

4.2. Correlation matrix

A correlation matrix is a table that illustrates the correlation coefficients across several variables. It is used to assess whether there is a relationship across two or more variables and the strength of that relationship, which can support and guide financial decision-making as evident in Table 3.

Table 3. Correlation matrix

Variables	*ROA*	*CSR*	*FirmSize*	*BoardSize*	*IndDir*	*Leverage*
ROA	1					
CSR	0.067**	1				
FirmSize	0.185*	0.326**	1			
BoardSize	-0.025***	0.054*	0.184*	1		
IndDir	0.153**	0.094*	0.056**	0.263*	1	
Leverage	-0.197**	0.121**	0.235*	0.024**	0.187	1

*Note: *, **, *** is the statistical significance of 10%, 5% and 1% respectively.*

Based on the correlation matrix, we can see the correlation coefficient between *ROA* and *CSR* is 0.067, indicating a positive correlation. This indicates that there may be the slightest trend for businesses with better *CSR* scores to have higher *ROA*. It is crucial to remember that *CSR* is a complicated term, therefore it is feasible that some components of *CSR* may be more strongly tied to *ROA* than others, this comes in line with Lins et al. (2017). In addition, there is a negative association between *ROA* and *leverage*, as indicated by the correlation value of -0.197. This is expected given that a company's financial risk can increase with large debt levels, which can also reduce its flexibility and potentially diminish profitability. Furthermore, a negative link exists between *ROA* and *board size*, as indicated by the correlation coefficient of -0025. This implies that smaller boards might be more successful and efficient at making decisions, but it is also possible that they do not have the range of perspectives and subject matter knowledge as argued by Oikonomou et al. (2012), Khalaf, Awad, and Ahmed (2023), and Khalaf, Awad, and Nassr (2023).

4.3. Regression results

The following results investigate the relationship between *CSR* and *financial performance* after considering other variables that can have an impact such as corporate governance (*BoardSize* and *IndDir*), *FirmSize* and *leverage*. The fixed effect model is the favoured result due to the significance of the Hausman test (Lins et al., 2017; Nguyen & Nguyen, 2020).

Table 4. Regression results

Variables	*OLS*		*Fixed effect*		*Random effect*		*VIF*
	Coefficient	*Sig.*	*Coefficient*	*Sig.*	*Coefficient*	*Sig.*	
(Constant)	0.452	0.621	0.534	0.564	0.489	0.865	1.497
CSR	0.059	0.048	0.096	0.000	0.072	0.000	1.584
BoardSize	-0.019	0.026	-0.046	0.000	-0.032	0.000	1.523
IndDir	0.091	0.020	0.198	0.000	0.173	0.015	1.685
FirmSize	0.153	0.064	0.173	0.000	0.164	0.010	1.576
Leverage	0.212	0.000	0.275	0.019	0.245	0.056	1.483
Adjusted R^2	0.236		0.423		0.314		
Hausman test (χ^2)			118.16				
p-value (χ^2)			0.000				
Durbin-Watson test	1.89						

Note: OLS — Ordinary least squares, VIF — Variance inflation factor.

The CSR coefficient is 0.096, showing that an increase in CSR is associated with a rise in the dependent variable. This coefficient is statistically significant at the level of 0.01. As a result, we may conclude that CSR has a positive and significant impact on the dependent variable. This result suggests that companies that invest in CSR activities are likely to see positive outcomes in terms of their overall performance (Nguyen & Nguyen, 2020). This finding is in line with previous research that has shown the positive impact of CSR on various outcomes such as financial performance, brand reputation, and employee retention, for example, Kuo et al. (2021) and Hanif and Haron (2022). Recent research also supports the positive relationship between CSR and financial performance. For example, a study by Naseem et al. (2020) and Orlitzky et al. (2003) found that firms with high levels of CSR engagement have higher financial performance, as measured by ROA and return on equity (ROE).

Furthermore, board size demonstrates a negative significant impact on the performance of GCC nonfinancial companies. Based on Nakano and Nguyen (2012), board diversity may result in more conflict and much less board integrity, which can prevent good decision-making for the company. This is because more diversified perspectives and objectives may exist in larger firms, making it more challenging to decide on vital strategic decisions and may also lead to higher costs associated with board activities, such as compensation and travel expenses, which can reduce the firm's profitability, smaller boards, on the other hand, might be more successful in terms of decision-making, collaboration, and providing a more concentrated and productive oversight of business (Barauskaite & Streimikiene, 2020; Awaysheh et al., 2020). As a result, the difficulty of managing larger boards, which can lead to reduced integration, inefficient judgment, and higher expenses, is likely responsible for the negative impact of board size on company performance (Alkubaisy, 2020; Orlitzky et al., 2003). Furthermore, the second measure for corporate governance (independent director) affects the performance significantly positively and this comes in line with Reguera-Alvarado and Bravo (2017) who argued that the higher the number of independent directors the better the performance since their decisions will lead to the selection of better projects that should aim to maximize shareholders' wealth. On the contrary, Tran (2021) argued that there is no link between independent directors and performance but the synergic impact increases intensely when CSR disclosure is amplified and suggestively enlarged in the reports of firms.

In addition, the firm size is positively significant at the 0.05 level. This suggests that larger companies are expected to have higher profitability since they have easier access to the market and they can diversify their portfolios to reduce risk (Fourati & Dammak, 2021). This result comes in line with Amran et al. (2013) who argued that larger Malaysian-listed businesses should expect higher profitability (Ghardallou & Alessa, 2022). Furthermore, accordingly to a study by Oikonomou et al. (2012) shows that larger firms are more likely to engage in CSR practices and are considered more socially responsible. This indicates that major firms may be better able to benefit from CSR initiatives since they may have more resources to devote to them.

The coefficient of leverage suggests that the relationship between leverage and company performance is significant and positive, this result suggests that GCC companies suffer less profitability where they incur higher levels of debt (Khalaf & Alajlani, 2021). This contradicts the results reported by Pillai and Al-Malkawi (2018) who highlighted the important factors that influence company performance in Jordan and found a negative association between leverage and ROA, showing that greater levels of leverage have a negative impact on firm performance. Also, according to a study by Ali and Fatima (2021), on the determinants affecting company performance in Pakistan, leverage has a negative influence on ROA, which means that higher levels of debt negatively harm profitability. An organization's profitability may suffer when it takes on more debt. Furthermore, having more debt can prevent a company from investing in new prospects for growth and innovation, which could ultimately result in poorer performance (Alsartawi, 2020).

5. CONCLUSION

The present study aimed to examine the impact of CSR on the financial performance of listed companies in the GCC region. The study collected data from 210 listed companies across various sectors and industries in the GCC. The study considered four independent variables, including CSR, total assets, board size, and leverage, and analysed their impact on the dependent variable — ROA. The results of the fixed effect model showed that CSR, board size, independent directors and leverage have a positive and significant impact on the performance proxied by the ROA. In conclusion, although the study provides evidence of a positive and significant impact of CSR on the financial performance of listed companies in the GCC region such a relationship is complex, and further research is needed to explore the factors that may moderate or mediate this relationship. The findings of the study have implications for corporate managers, policymakers, and investors, who should consider the potential benefits of CSR activities on financial performance when making strategic decisions. It is important to consider other variables that could potentially affect the relationship between CSR and financial performance in the GCC region. For example, factors such as the regulatory environment that could impact the relationship.

The main limitation of this study is the missing data of 317 companies in the GGC region for the whole period 2013–2022 but the percentage of collected data has been approximately 39% of the total population. In addition, the paper has not included macroeconomic variables to investigate if there is any impact of macroeconomic variables on following the principles of CSR and the performance of companies in the GCC.

REFERENCES

1. Adelopo, I., Lloydking, R., & Tauringana, V. (2018). Determinants of bank profitability before, during, and after the financial crisis. *International Journal of Managerial Finance, 14*(4), 378–398. https://doi.org/10.1108/IJMF-07-2017-0148
2. Alanzi, S., Ratten, V., D'Souza, C., & Nanere, M. (2022). Culture, economic, and entrepreneurial environment in the Gulf Cooperation Council (GCC) countries. In V. Ratten (Ed.), *Strategic entrepreneurial ecosystems and business model innovation* (pp. 61–74). Emerald Publishing Limited. https://doi.org/10.1108/978-1-80382-137-520221005
3. Ali, H., & Fatima, H. (2021). Determinants of financial performance: Evidence from Pakistan Stock Exchange. *International Journal of Management Research and Emerging Sciences, 11*(2). https://www.neliti.com/publications/408180/determinants-of-financial-performance-evidence-from-pakistan-stock-exchange-hass
4. Alkubaisy, A. (2020). Corporate social responsibility practice in the Gulf Cooperation Council Countries amidst the COVID-19 pandemic. *Business Ethics and Leadership*, *4*(4), 99–104. https://doi.org/10.21272/bel.4(4).99-104.2020
5. Alsartawi, A. M. (2020). Does it pay to be socially responsible? Empirical evidence from the GCC countries. *International Journal of Law and Management*, *62*(5), 381–394. https://doi.org/10.1108/ijlma-11-2018-0255
6. Amran, A., Lee, S. P., & Devi, S. (2013). The influence of governance structure and strategic corporate social responsibility toward sustainability reporting quality. *Business Strategy and the Environment*, *23*(4), 217–235. https://doi.org/10.1002/bse.1767
7. Ang, R., Shao, Z., Liu, C., Yang, C., & Zheng, Q. (2022). The relationship between CSR and financial performance and the moderating effect of ownership structure: Evidence from Chinese heavily polluting listed enterprises. *Sustainable Production and Consumption*, *30*, 117–129. https://doi.org/10.1016/j.spc.2021.11.030
8. Arayssi, M., Jizi, M., & Tabaja, H. H. (2020). The impact of board composition on the level of ESG disclosures in GCC countries. *Sustainability Accounting, Management and Policy Journal*, *11*(1), 137–161. https://doi.org/10.1108/sampj-05-2018-0136
9. Aslaksen, H. M., Hildebrandt, C., & Johnsen, H. C. G. (2021). The long-term transformation of the concept of CSR: Towards a more comprehensive emphasis on sustainability. *International Journal of Corporate Social Responsibility, 6*(1), Article 11. https://doi.org/10.1186/s40991-021-00063-9
10. Awad, A. B., Seissian, L. A., & Gharios, R. T. (2022). Corporate voluntary disclosures in emerging markets: Empirical evidence from the GCC equity markets. *International Journal of Accounting and Financial Reporting. 12*(1), 1–36. https://doi.org/10.5296/ijafr.v12i1.19453
11. Awaysheh, A., Heron, R. A., Perry, T., & Wilson, J. I. (2020). On the relation between corporate social responsibility and financial performance. *Strategic Management Journal*, *41*(6), 965–987. https://doi.org/10.1002/smj.3122
12. Bachiller, P., & Garcia-Lacalle, J. (2018). Corporate governance in Spanish savings banks and its relationship with financial and social performance. *Management Decision, 56*(4), 828–848. https://doi.org/10.1108/MD-01-2017-0079
13. Barauskaite, G., & Streimikiene, D. (2020). Corporate social responsibility and financial performance of companies: The puzzle of concepts, definitions and assessment methods. *Corporate Social Responsibility and Environmental Management*, *28*(1), 278–287. https://doi.org/10.1002/csr.2048
14. Bashar, M. A. (2020). Exploring new ways of communicating CSR to the relevant stakeholders: An empirical study. *Business and Management Research*, *9*(2), 25–48. https://doi.org/10.5430/bmr.v9n2p25
15. Cho, S. J., Chung, C. Y., & Young, J. (2019). Study on the relationship between CSR and financial performance. *Sustainability*, *11*(2), Article 343. https://doi.org/10.3390/su11020343
16. El-Chaarani, H., Abraham, R., Khalife, D., & Salameh-Ayanian, M. (2023). Corporate governance effects on bank profits in Gulf Cooperation Council countries during the pandemic. *International Journal of Financial Studies, 11*(1), Article 36. https://doi.org/10.3390/ijfs11010036
17. Fourati, Y. M., & Dammak, M. (2021). Corporate social responsibility and financial performance: International evidence of the mediating role of reputation. *Corporate Social Responsibility and Environmental Management*, *28*(6), 1749–1759. https://doi.org/10.1002/csr.2143
18. Ghardallou, W., & Alessa, N. (2022). Corporate social responsibility and firm performance in GCC countries: A panel smooth transition regression model. *Sustainability*, *14*(13), Article 7908. https://doi.org/10.3390/su14137908
19. Handriani, E., & Robiyanto, R. (2019). Institutional ownership, independent board, the board size, and firm performance: Evidence from Indonesia. *Contaduría y Administración, 64*(3). https://doi.org/10.22201/fca.24488410e.2018.1849
20. Hanif, M. F., & Haron, R. (2022). Corporate governance and corporate social responsibility in Islamic banks: A systematic literature review. *IIUM Law Journal, 30*(S2), 57–92. https://doi.org/10.31436/iiumlj.v30iS2.764
21. Harun, M. S., Hussainey, K., Kharuddin, K. M., & Farooque, O. A. (2020). CSR disclosure, corporate governance and firm value: A study on GCC Islamic banks. *International Journal of Accounting and Information Management*, *28*(4), 607–638. https://doi.org/10.1108/ijaim-08-2019-0103
22. Huang, K., Sim, N., & Hong, Z. (2020). Corporate social responsibility, corporate financial performance and the confounding effects of economic fluctuations: A meta-analysis. *International Review of Financial Analysis*, *70*, Article 101504. https://doi.org/10.1016/j.irfa.2020.101504
23. Jamali, D., & El Safadi, W. (2019). Adaptations of CSR in the context of globalization the case of the GCC. In G. Y. Wang (Ed.), *Globalization*. IntechOpen. https://doi.org/10.5772/intechopen.79035
24. Jamali, D., & Hossary, M. (2019). CSR logics in the Middle East. In B. Rettab & K. Mellahi (Eds.), *Practising CSR in the Middle East* (pp. 53–80). Palgrave Macmillan. https://doi.org/10.1007/978-3-030-02044-6_4
25. Jamali, D., Jain, T., Samara, G., & Zoghbi, E. (2020). How institutions affect CSR practices in the Middle East and North Africa: A critical review. *Journal of World Business*, *55*(5), Article 101127. https://doi.org/10.1016/j.jwb.2020.101127
26. Javed, Z. H., Rao, H., Akram, B., & Nazir, M. F. (2015). Effect of financial leverage on performance of the firms: Empirical evidence from Pakistan. *SPOUDAI Journal of Economics and Business*, *65*(1–2), 87–95. https://www.econstor.eu/bitstream/10419/169169/1/832371289.pdf

27. Khalaf, B. A., & Alajlani, S. (2021). Portfolio lending strategy and banks performance in Jordan: What to do? *Academy of Accounting and Financial Studies Journal, 25*(3), 1–11. https://www.abacademies.org/articles/Portfolio-Lending-Strategy-and-Banks-Performance-in-Jordan-what-to-do-1528-2635-25-3-676.pdf
28. Khalaf, B. A., & Al-Shaer, A. (2023). The impact of FinTech on profitability: An analysis of determinants in banks of Middle East and North Africa (MENA) region. *International Journal of Membrane Science and Technology, 10*(4), 61–67. https://doi.org/10.15379/ijmst.v10i4.1763
29. Khalaf, B. A., Awad, A. B., & Ahmed, S. (2023). The impact of dividend policy on share price volatility: Evidence from listed companies in Gulf Cooperation Council countries [Special issue]. *Corporate and Business Strategy Review, 4*(2), 289–295. https://doi.org/10.22495/cbsrv4i2siart8
30. Khalaf, B. A., Awad, A. B., & Nassr, M. (2023). Investigating the determinants of working capital in the Gulf Cooperation Council. *Journal of Governance & Regulation, 12*(3), 8–15. https://doi.org/10.22495/jgrv12i3art1
31. Khalaf, B. A., Awad, A. B., Ahmed, O., & Gharios, R. T. (2023). The role of FinTech in determining the performance of banks: The case of Middle East & North Africa (MENA) region. *International Journal of Membrane Science and Technology, 10*(3), 1525–1535. https://doi.org/10.15379/ijmst.v10i3.1748
32. Kuo, T.-C., Chen, H.-M., & Meng, H.-M. (2021). Do corporate social responsibility practices improve financial performance? A case study of airline companies. *Journal of Cleaner Production, 310*, Article 127380. https://doi.org/10.1016/j.jclepro.2021.127380
33. Lins, K. V., Servaes, H., & Tamayo, A. (2017). Social capital, trust, and firm performance: The value of corporate social responsibility during the financial crisis. *The Journal of Finance, 72*(4), 1785–1824. https://doi.org/10.1111/jofi.12505
34. Long, W., Li, S., Wu, H., & Song, X. (2019). Corporate social responsibility and financial performance: The roles of government intervention and market competition. *Corporate Social Responsibility and Environmental Management, 27*(2), 525–541. https://doi.org/10.1002/csr.1817
35. Maqbool, S., & Hurrah, S. A. (2021). Exploring the bi-directional relationship between corporate social responsibility and financial performance in Indian context. *Social Responsibility Journal, 17*(8), 1062–1078. https://doi.org/10.1108/srj-05-2019-0177
36. Maqbool, S., & Zameer, M. N. (2018). Corporate social responsibility and financial performance: An empirical analysis of Indian banks. *Future Business Journal, 4*(1), 84–93. https://doi.org/10.1016/j.fbj.2017.12.002
37. Mishra, S., & Suar, D. (2010). Does corporate social responsibility influence firm performance of Indian companies? *Journal of Business Ethics, 95*(4), 571–601. https://doi.org/10.1007/s10551-010-0441-1
38. Nakano, M., & Nguyen, P. (2012). Board size and corporate risk taking: Further evidence from Japan. *Corporate Governance: An International Review, 20*(4), 369–387. https://doi.org/10.1111/j.1467-8683.2012.00924.x
39. Naseem, T., Shahzad, F., Asim, G. A., Rehman, I. U., & Nawaz, F. (2020). Corporate social responsibility engagement and firm performance in Asia Pacific: The role of enterprise risk management. *Corporate Social Responsibility and Environmental Management, 27*(2), 501–513. https://doi.org/10.1002/csr.1815
40. Nguyen, T. T. T., & Nguyen, C. H. L. (2020). Corporate social responsibility and firm financial performance: A literature review. *VNUHCM Journal of Economics, Business and Law, 4*(3), 833–850. https://doi.org/10.32508/stdjelm.v4i3.579
41. Nirino, N., Miglietta, N., & Salvi, A. (2020). The impact of corporate social responsibility on firms' financial performance, evidence from the food and beverage industry. *British Food Journal, 122*(1), 1–13. https://doi.org/10.1108/bfj-07-2019-0503
42. Nyame-Asiamah, F., & Ghulam, S. (2020). The relationship between CSR activity and sales growth in the UK retailing sector. *Social Responsibility Journal, 16*(3), 387–401. https://doi.org/10.1108/srj-09-2018-0245
43. Oikonomou, I., Brooks, C., & Pavelin, S. (2012). The impact of corporate social performance on financial risk and utility: A longitudinal analysis. *Financial Management, 41*(2), 483–515. https://doi.org/10.1111/j.1755-053x.2012.01190.x
44. Okafor, A., Adeleye, B. N., & Adusei, M. (2021). Corporate social responsibility and financial performance: Evidence from U.S tech firms. *Journal of Cleaner Production, 292*, Article 126078. https://doi.org/10.1016/j.jclepro.2021.126078
45. Orlitzky, M., Schmidt, F. L., & Rynes, S. L. (2003). Corporate social and financial performance: A meta-analysis. *Organization Studies, 24*(3), 403–441. https://doi.org/10.1177/0170840603024003910
46. Paul, C. J. M., & Siegel, D. S. (2006). Corporate social responsibility and economic performance. *Journal of Productivity Analysis, 26*(3), 207–211. https://doi.org/10.1007/s11123-006-0016-4
47. Pekovic, S., & Vogt, S. (2020). The fit between corporate social responsibility and corporate governance: The impact on a firm's financial performance. *Review of Managerial Science, 15*(4), 1095–1125. https://doi.org/10.1007/s11846-020-00389-x
48. Pillai, R., & Al-Malkawi, H.-A. N. (2018). On the relationship between corporate governance and firm performance: Evidence from GCC countries. *Research in International Business and Finance, 44*, 394–410. https://doi.org/10.1016/j.ribaf.2017.07.110
49. Platonova, E., Asutay, M., Dixon, R., & Mohammad, S. (2016). The impact of corporate social responsibility disclosure on financial performance: Evidence from the GCC Islamic banking sector. *Journal of Business Ethics, 151*(2), 451–471. https://doi.org/10.1007/s10551-016-3229-0
50. Ramzan, M., Amin, M., & Abbas, M. (2021). How does corporate social responsibility affect financial performance, financial stability, and financial inclusion in the banking sector? Evidence from Pakistan. *Research in International Business and Finance, 55*, Article 101314. https://doi.org/10.1016/j.ribaf.2020.101314
51. Reguera-Alvarado, N., & Bravo, F. (2017). The effect of independent directors' characteristics on firm performance: Tenure and multiple directorships. *Research in International Business and Finance, 41*, 590–599. https://doi.org/10.1016/j.ribaf.2017.04.045
52. Rouf, M. A., & Hossan, M. A. (2021). The effects of board size and board composition on CSR disclosure: A study of banking sectors in Bangladesh. *International Journal of Ethics and Systems, 37*(1), 105–121. https://doi.org/10.1108/IJOES-06-2020-0079
53. Seissian, L. A., Gharios, R. T., & Awad, A. B. (2018). Structural and market-related factors impacting profitability: A cross sectional study of listed companies. *Arab Economic and Business Journal, 13*(2), 125–133. https://doi.org/10.1016/j.aebj.2018.09.001

54. Sekhon, A. K., & Kathuria, L. M. (2019). Analyzing the impact of corporate social responsibility on corporate financial performance: Evidence from top Indian firms. *Corporate Governance*, *20*(1), 143–157. https://doi.org/10.1108/cg-04-2019-0135
55. Siueia, T. T., Wang, J., & Deladem, T. G. (2019). Corporate social responsibility and financial performance: A comparative study in the Sub-Saharan Africa banking sector. *Journal of Cleaner Production*, *226*, 658–668. https://doi.org/10.1016/j.jclepro.2019.04.027
56. Szegedi, K., Khan, Y., & Lentner, C. (2020). Corporate social responsibility and financial performance: Evidence from Pakistani listed banks. *Sustainability, 12*(10), Article 4080. https://doi.org/10.3390/su12104080
57. Tran, H. T. (2021). The link between independent directors and firm's performance: The moderating role of corporate social responsibility. *Corporate Governance, 21*(5), 831–844. https://doi.org/10.1108/CG-05-2020-0176
58. Wu, L., & Jin, S. (2022). Corporate social responsibility and sustainability: From a corporate governance perspective. *Sustainability*, *14*(22), Article 15457. https://doi.org/10.3390/su142215457
59. Wu, L., Shao, Z., Yang, C., Ding, T., & Zhang, W. (2020). The impact of CSR and financial distress on financial performance — Evidence from Chinese listed companies of the manufacturing industry. *Sustainability, 12*(17), Article 6799. https://doi.org/10.3390/su12176799