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Impact of corporate social responsibility disclosure on financial performance for listed companies in the GCC Countries

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Abstract

Objectives: This study examined the effect of different dimensions of corporate social responsibility disclosure (community, employees, environment, and governance) on corporate financial performance using return on assets, return on equity, and net profit margin as measurement for corporate financial performance. **Method**: Secondary data for this study was obtained from CSRHub, and 2020 and 2021 annual reports of top companies in gulf stock markets were analysed through correlation and regression analysis to examine the relationship between two research factors. **Results**: The study found that only employee- and corporate governance-related disclosures information positively influenced the companies' market-based measures of financial performance (net profit margin) but not the accounting-based measures (return on assets, return on equity). **Conclusion**: This study is considered one of the recent studies that highlights the importance of practising corporate social responsibility (CSR) in the GCC. Additionally, this study is deemed to be one of the most important studies that discuss the theories that explained the relationship between corporate social responsibility (CSR) and financial performance for companies listed on the GCC stock exchanges.

Keywords: corporate social responsibility (CSR), disclosures, net profit margin, return on assets, return on equity

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تأثير الإفصاح عن المسؤولية الاجتماعية على الأداء المالي للشركات في دول مجلس التعاون الخليجي

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ملخص

الأهداف: هدفت الدراسة إلى اختبار أثر الإفصاحات المختلفة للمسؤولية الاجتماعية (المجتمع، الموظفين، البيئة، الحوكمة) على الأداء المالي للشركات (معدل العائد على الأصول ومعدل العائد على حقوق الملكية وصافي هامش الربحية). **المنهج**: تم الاستعانة بالبيانات المقدمة من منظمة CSRHub لعام 2021 هذا بالإضافة إلى التقارير السنوية لأعلى الشركات ربحية في بورصات الخليج لعامي 2020 و2021. وعولجت البيانات إحصائياً باستخدام تحليل الانحدار والارتباط لفحص العلاقة بين متغيرات الدراسة. **النتائج**: أظهرت النتائج وجود تأثير إيجابي للإفصاح عن الحوكمة والموظفين فقط على الأداء المالي للشركات عند استخدام صافي هامش الربح كأساس للأداء المالي. حيث لا توجد أي علاقة تذكر بين عناصر الإفصاح المختلفة بشكل عام والأداء المالي للشركات عند استخدام كل من معدل العائد على الأصول ومعدل العائد على حقوق الملكية. **الخاتمة**: تعتبر هذه الدراسة من أحدث الدراسات التي سلطت الضوء على أهمية زيادة اهتمام الشركات بالمسؤولية الاجتماعية والإفصاح عنها في دول الخليج العربي. وأيضا تعتبر هذه الدراسة من أهم الدارسات التي تطرقت إلى النظريات العلمية التي تشرح علاقة الإفصاحات المختلفة لعناصر المسؤولية الاجتماعية على الأداء المالي للشركات المدرجة في بورصات دول الخليج العربي.

الكلمات المفتاحية: المسؤولية الاجتماعية للشركات، الإفصاحات، هامش صافي الربح، معدل العائد على الأصول، معدل العائد على حقوق الملكية

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Introduction

The concept of corporate social responsibility (CSR) was first recognised by Howard Bowen. Bowen (1953), in his seminal book *Social Responsibilities of the Businessmen*, described the concept as ‘the obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of action, which are desirable in terms of the objectives and values of our society’. According to McGuire et al. (1988), the concept of CSR acknowledges the capabilities of a business to look beyond fulfilling its financial and legal responsibilities by voluntarily considering responsible behaviours for the community in which it operates. In other words, it is a firm’s voluntary activities ‘that appear future some social good, beyond the interests of the firm and that which is required by law’ (McWilliams & Siegel, 2001, p. 117).

CSR is well established in the literature in the business disciplines and receives amplified attention from academics, participants and governmental bodies. It can be found in economics, marketing, management and accounting (Aguinis & Glavas, 2012; Crane & Glozer, 2016; Khan et al., 2020). Since the year 2000, CSR accounting literature began focusing on the association of corporate social responsibility disclosure (CSRD) including various accounting and financial variables (Malik, 2015). CSRD is an accounting area that offers an opportunity to monitor and control firms’ CSR activities and communicate these activities with various stakeholders (Adams & Evans, 2004; Cho et al., 2015; Gray, 1992). Gray et al. (1996, p.3) broadly defined CSRD as ‘the process of communicating the social and environmental effects of organizations’ economic actions, to particular interest groups within society, and to society at large’. Today, most companies around the world are willing to provide extra voluntary disclosure about their CSR activities in different ways for different stakeholders' purposes (Huang & Watson, 2015; KPMG, 2020).

Gulf Cooperation Council (GCC) countries are well known for oil production and export, which has significantly impacted the entire region through the wealth it generates and the labour it uses. Recently, many of the countries in this region have made an effort to diversify their economies by following development plans to achieve economic diversification beyond oil through encouraging private sector participation, promoting foreign investment in non-oil sectors (industry, technology, tourism, services, banking and investment) and achieving a more equitable distribution of surplus funds. To achieve these plans, the government has imposed several regulations and laws. However, these countries must focus on building and applying solid strategies contributing to societal prosperity and environmental development. Such plans must feature sustainability and CSR-related concepts (Zaidan et al., 2019).

Several reasons/motivations for disclosing CSR information were discovered in the accounting literature: (1) transparency and communication, (2) good corporate citizen, (3) long-term financial, (4) stakeholder influence, (5) competitive advantage and (6) image/reputation (Huang & Watson, 2015; Lubisa et al., 2019; Thorne et al., 2014). Furthermore, a number of CSRD frameworks were found to reflect a different theoretical approach, such as, (1) triple bottom line framework, based on people, planet and profit, (2) stakeholders' framework, based on different types of stakeholders such as internal and external stakeholders and (3) Carroll's framework. In addition to these different disclosure indexes that have been developed by a number of international independent standards organizations, such as the Global Reporting Initiative, Bloomberg SEG disclosure scores, Dow Jones Sustainability index and KLD rating (Siew, 2015). CSR Hub databases is of these indexes utilized to provide information of a company's social performance in four main categories (community, employees, environment, and governance). Alongside the community, employees and environment dimensions for CSR activities, several scholars have started examining corporate governance mechanisms and its relationship with corporate performance. Some evidence has been discovered highlighting that stronger corporate governance leads to a better financial performance in developing countries (Arora & Sharma, 2016; Khan et al., 2013; Puni & Anlesinya, 2020).

Practising CSR in developing countries including GCC countries is still voluntary for listed firms despite the establishment of some international and national laws. Companies in this part of the World are starting to publish their CSR activities within their annual reports or in separate CSR or sustainability reports. In addition, each country has developed its own national code or followed an international guideline to present its CSR information, such as the Global Reporting Initiative (GRI) and the 10 principles of the United Nations Global Compact. Some regional guidelines have been developed, such as the S&P/Hawkamah Pan Arab ESG Index.

Since more literature focusing on CSRD in developed countries this study aims to fill a gap by exploring the impact of CSRD on the corporate financial performance (CFP) of the top firms listed in GCC stock markets. Examining the relationship between CSR and CFP using a sample of GCC countries is particularly worthwhile as research on this region is scarce, and little is known about the region's relationship between CSRD and CFP. Specifically, the following research question is answered: how do different CSRD dimensions affect corporates financial performance? By doing this, several contributions can be made, such as improving the understanding of the role of CSRD on CFP in developing countries. Furthermore, this study extends our understanding of the role of legitimacy theory and stakeholder theory when applied to a developing country to recognise the CSR phenomena in the developing countries.

Theoretical framework

Several different theoretical approaches have been used to investigate the relationship between CSRD and CFP. Saleh et al. (2011) divided these theoretical approaches into three main groups: trade-off, supply and demand and finally the social impact hypothesis. The first group, introduced by Friedman in 1970, stated that the main target of a firm's social responsibility should be enhancing its shareholders' wealth by making a profit. The second group, constructed by Freeman in 1984, asserts that a firm must add value to its various stakeholders, including the community. The third group, constructed by Cornell and Shapiro in 1987, predicts that improving a firm's CSR activities may also improve CFP. Therefore, numerous studies started examining the link between CSRD and CFP. In this regard, several theories were used to examine this relationship, such as stakeholder theory and legitimacy theory.

Stakeholder theory explains that a company's obligations are to a wide range of stakeholder groups instead of just its shareholders. According to stakeholder theory, management must understand both CSRD and CFP to build a bridge between them. Vast knowledge is needed to transfer economic thinking into CSRD actions (Belkaoui & Karpik, 1989). Firms that want to survive and succeed must meet economic (profit maximisation) and non-economic (CSR) objectives in the interests of their stakeholders (Kang et al., 2010). When they increase their CSR expenditure, they improve their relationship with their stakeholders, reducing their transaction costs and increasing market opportunities and pricing premiums, which generates positive financial benefits.

Legitimacy theory posits that firms continually seek to ensure that they operate within the bounds and norms of their respective societies (Patten, 2019). These bounds and norms are not fixed but change over time, requiring the firm to be responsive. In a sense, there is a social contract between the firm and those affected by its operations. A firm is expected to comply with the terms of this ‘contract’ (Brown & Deegan, 1998) and is obliged to show that its profits are earned following certain norms and ethical conduct. From this perspective, CSRD fairs well in situations where high profits are explained to the public. It also fairs well in situations where poor performance must be explained and where future improvement is promised based on competitive advantage (Porter & Kramer, 2006).

Stakeholder theory and legitimacy theory have much in common. Stakeholder theory claims that firms must add value to both their shareholders and stakeholders, including their employees and community. Legitimacy theory claims that achieving the items of the social contract between a firm and the society in which it operates will enhance its financial position and maximise shareholders’ expectations and wealth. According to Deegan and Blomquist (2006) and Fernando and Lawrence (2014), these two theories state that companies use CSRD to enhance their status, provide information to stakeholders regarding their activities and fulfil the social contract between companies and social and environmental organisations. However, as Deegan (2002) points out, legitimacy theory refers to society understood as a whole and to general social expectations. Contrastingly, stakeholder theory assumes the existence of specific groups with different expectations and capacities to pressure companies to communicate CSR information. In addition, Practising CSR varies from country to country and region to region (Adams & Kuasirikun, 2000; Fifka, 2013). Developing countries are expected to have different political, economic and social environments than developed countries, which all could affect CSR involvement (Ali et al., 2022; Khan et al., 2013; Nguyen et al., 2021). Therefore, practicing CSR in the GCC region would differ.

Literature review and hypothesis development

Numerous studies have explained why companies perform CSRD, however, financial performance is the most extensively investigated reason. Practicing CSRD and CFP are linked by some means, and many studies in the accounting literature have aimed to investigate the actual relationship between these two factors. Actually, these studies produced contradictory results, and the relationship remained unclear; there were no consistent results showing that the relationship was positive, negative or neutral (Aras et al., 2010; Wang et al., 2016). This was supported by a number of literature reviews such as Griffin and Mahon (1997), Margolis and Walsh (2009), and Raza et al. (2012), in addition to some of the meta-analysis studies such Orlitzky et al. (2003), Gallardo-Vazquez et al. (2019), and Rojas Molina et al. (2022).

The studies that focus on the relationship between CSRD and CFP can be classified into three groups (Tran et al., 2021). The first group examines the impact of CSRD on CFP (e.g., Batae et al., 2020; Buallay et al., 2020; Malik & Kanwal, 2018). In contrast, the second group examines the impact of CFP on CSRD (e.g., Mallin et al., 2014; Ta & Bui, 2018), and the final group examines a possible nexus relationship between them (e.g., Taskin, 2015; Nguyen et al., 2021; Niresh & Silva, 2018). Third, group studies combine the two above areas to evaluate the relationship between CFP and CSRD (e.g., Nguyen, 2018).

Kang et al. (2010) noted that a positive relationship between CSRD and CFP assumes that a firm's survival and success are attributed to the achievement of its economic (profit maximisation) and non-economic (corporate social performance) objectives in the interest of its stakeholders. Increasing expenditure on social activities improves stakeholder relationships, reducing the firm's transaction costs and increasing the market opportunities and pricing premiums, leading to higher net financial performance. A negative relationship between CSRD and CFP portends that practising CSR is costly and does not favour investing a company's resources in practising CSR (e.g., Barnett & Salomon, 2012, Buallay, 2018; Sameer, 2021). This idea supports Friedman's viewpoint that the only obligation of a business is to use its resources to increase profit for its shareholders and owners. Finally, a neutral relationship view between CSR and CFP believes that this relationship is complex, that there are too many other dynamic variables that intervene, and that there is insufficient theoretical support to expect a direct relationship between CSR and financial performance (e.g., Alareeni & Hamdan, 2020; Chetty et al., 2015; McWilliams & Siegel, 2001).

Many studies examining the relationship between CSRD and CFP are conducted on developed countries (Ali et al., 2017; Fifka, 2011). Since the first study from the developing-country literature occurred in Malaysia by Saleh and others. Saleh et al. (2011) analysed the relationship between the CSRD and CFP of the 200 highest market capitalisation companies listed on the Kuala Lumpur Stock Exchange from 2000 to 2005. They indexed CSR disclosure to measure the CSR and return on assets (ROA), return on equity (ROE) and Tobin's Q to measure the firms' financial performances. They found that employee relations and community involvement had a positive and significant impact on CFP; however, products and environment dimensions had a significant negative impact on CFP. Likewise, Yusoff and Adamu (2016) used annual reports of the top 100 Malaysian companies from different sectors to find the relationship between four independent dimensions of CSR activities (environmental, community, marketplace and workplace) and two dependent variables of financial performance (ROE and earnings per share) over five years (2009–2013). They revealed that only the CSR activities regarding the community and employees influenced CFP. This result was supported by Abdul Wahab et al. (2017), who examined the level of CSRD of 31 companies listed on Bursa Malaysia in the years 2003–2013 in two sectors (consumer product and trading and services) by studying annual reports and stand-alone sustainability reports. In the trading and services industry, they found a positive and significant relationship between community, environment and marketplace disclosure with ROA; however, workplace disclosure had a significant negative association. In the same study, community, environment, marketplace and workplace disclosure had a significant positive relationship with Tobin's Q. In the consumer product industry, they revealed a positive relationship between community, environment and workplace disclosure with ROA but a negative relationship with marketplace disclosure and ROA. A positive relationship was found between all CSR disclosures and Tobin's Q.

In Nigeria, Uadiale and Fagbemi (2012) attempted to investigate the relationship between CSRD and CFP for 40 listed companies in the Nigerian Stock Exchange in 2007. They examined three dimensions of CSRD performance (community, environment and employees) and two types of CFP (ROA and ROE). They revealed that only community performance had a positive and significant relationship with financial performance measures. In the same country, Usman and Amran (2015) sampled 68 companies in 2010 and 2011. A panel data approach was used to analyse the data collected from the companies' annual reports in addition to a hierarchical multiple regression analysis. They employed four categories for measuring CSRD (environmental, community involvement disclosure, human resources and product/customer disclosure), two factors of CFP (ROA and share price) and used the firms' size as a control factor. They found that disclosing environment-related and product/customer information had a significant negative relationship with CFP (ROS and share price). Community involvement disclosure had a significant positive relationship with only ROA, and human resources disclosure had a significant negative relationship with ROA and a neutral relationship with SP. Therefore, they found the relationship between CSRD and CFP to be mixed.

In India, Aggarwal (2013) examined the impact of the sustainability (CSR) rating of 20 companies from different sectors listed in the National Stock Exchange of India in 2012. Four CSR ratings were used as independent variables (community, employee, environment and governance), which were obtained from the CSRHub database, five dependent variables were used as a proxy for CFP (ROA, ROE, return on capital employed, profit before tax and growth in total assets) and the firm's size was employed as a control variable. Secondary data was collected from company websites, annual reports and Moneycontrol.com. They found that the community and governance dimensions had a positive influence, while employee and environmental dimensions had a negative influence on CFP. Cherian et al. (2019) followed a similar approach to analyse 50 manufacturing companies listed on the National Stock Exchange of India from 2011 to 2017. A simple regression analysis was employed to test data collected from company websites and annual reports. They found that the corporate governance CSR component positively impacted ROE, return on capital employed and profit before tax. The environment CSR component negatively impacted profit after tax. Employee and environment components positively impacted the market to book value, but the community component had a negative influence. In addition, both community and corporate governance components positively affected leverage. Overall, the analyses revealed a significant positive relationship between CSR and financial performance.

In Bangladesh, Hossain et al. (2015) examined the CSR–CFP relationship for 131 listed companies on the Dhaka Stock Exchange from 2008 to 2012. A content analysis approach was used to measure the CSRD in companies' annual reports. The five categories for CSRD were: governance, codes and policies; workplace/human resources; products/services; environment; and community and development. ROA, ROE and Tobin's Q were the proxy for CFP. They found that corporate governance, products/services and community activities positively influenced ROA and ROE. However, workplace/human resources and environmental activities had an insignificant relationship. Community and development activities had a consistently significant positive impact on all three CFP proxies.

Moosa et al. (2020) used data for all companies listed in the Maldives Stock Exchange database from 2004 to 2017 extracted from their annual and CSR reports. Their CSR dimensions were independent variables, and their CSR scores were obtained from the CSRHub database (community, employees, environment and governance). The dependent variables of CFP were ROA and Tobin's Q. The study revealed a significant relationship between overall CSR ranking and CFP. However, among the dimensions of CSR, only community and governance had a significant positive relationship with CFP. In addition, governance only had a significant relationship with Tobin's Q. The other dimensions (employees and environment) had no significant relationship with financial performance. Sameer (2021) examined six publicly listed companies in the Maldives Stock Exchange from 2014 to 2018. A content analysis approach was used; the independent variables (community, environment, workplace and diversity) and dependent variables (ROE, ROA and earning per share) were collected from annual reports. A panel regression analysis revealed a significant negative relationship between diversity and ROA and earning per share and a similar relationship between environment and ROE. The study did not show a significant correlation between the other CSR and CFP dimensions.

In Arab region, Bayoud et al. (2011) examined the relationship between the CSRD and CFP of 40 companies in Libya in different sectors (services, industrial, banking and mining) from 2007 to 2009. Four dimensions of CSRD were examined: employees, community involvement, consumers and the environment, and the ROA and ROE measured CFP. The study used a multiple regression analysis to test the research hypothesis. The results revealed a significant relationship between CSRD and CFP. Environment disclosure and community disclosure had a positive and significant impact on ROA, while employee disclosure had a positive and significant impact on ROE.

In Egypt, El Moslemany and Etab (2017) identified the relationship between CSR and CFP of three commercial banks from 2008 to 2011. The study performed a content analysis on the banks' annual reports to examine the relationship between four independent CSR variables (environment, community, customer and employee) and the dependent CFP measures (ROA, ROE, NPM and earning per share). The study found an insignificant relationship between the independent and dependent variables. The relationship between CSR dimensions and CFP variables was mixed. For example, a significant negative relationship was found between earning per share and customer CSRD, but a significant positive relationship was found between earning per share and community CSRD.

In Jordan, Azzam et al. (2020) examined this issue using a panel of data from all listed firms on the Aman Stock Exchange from 2009 to 2018. Environment, social and governance (ESG) variables were employed as measures of CSRD, and ROA was used as a proxy for CFP. Firm size, leverage and market listing status were the control variables. The study revealed that both social and governance disclosures had a positive relationship with CFP (ROA), while environmental disclosure did not have this relationship.

Finally, from the CGG region Zaman and Ellili (2022) examined this relationship in five banks listed on the Abu Dhabi Securities Exchange (ADX) and Dubai Financial Market (DFM) from 2014 to 2019. They employed content analysis to examine CSR built on ESG scores extracted from the Bloomberg dataset and data from firm websites, CSR reports, corporate governance reports and annual reports. The empirical results revealed that CSR performance had a significant positive effect on banking financial performance. The regression results showed that ROA and ROE only had a significant positive relationship with community CSRD.

Collectively, this review of prior studies suggests that each CSR dimension has a unique impact on CFP. In addition, different proxies have been used for CFP: accounting-based measures, market-based measures, or both. Based on the above empirical research, it can be hypothesised that CSRD dimensions have some impact on CFP. The following hypotheses can be drawn:

- **H1.** CSR ratings (community, employees, environmental, governance and an overall rating) of the top listed firms in the GCC region significantly contribute to their financial performance as measured by return on assets and return on equity.
- **H2.** CSR ratings (community, employees, environmental, governance and an overall rating) of the top listed firms in the GCC region significantly contribute to their financial performance as measured by net profit margin.

Methodology

Study sample

The samples for this study are the top firms in CGG region, as pointed by Gandhi (2021) in Forbes Magazine article titled 'Top 100 Companies in the Middle East in 2021', to analyse the relationship between CSRD and their financial performance. These 100 firms are the largest and most profitable listed on the region's stock exchanges. They collectively made \$670 billion in sales and \$148 billion in net profits, have 3.5 trillion US dollar in assets and are worth \$2.3 trillion in market capitalisation for the 2019/20 financial year. 90% of these firms from the GCC countries. Our sample end up with 81 firms spread over six GCC countries, while 9 firms were excluded because no data available. Saudi Arabia dominates the list with 33 firms, followed by the UAE with 21 firms. Third is Qatar, with 18 firms.

Study variables

Measuring CSRD as the independent variable

Scholars have used four major approaches to evaluate CSR activities: content analysis, survey, single or multiple issue indicators, and reputation indices and databases (Igalens & Gond, 2005). This study employs the latter approach. Reputation indices and databases represent a multidimensional index produced by specialised agencies such as Fortune, KLD, Bloomberg, Thomson Reuters, Dow Jones Sustainability, ISO 26000, GRI and CSRHub.

CSRD is the independent variable of this research and is obtained from the CSRHub database. This database is explicitly designed to evaluate five dimensions (community, employees, environment, governance and an overall rating) of a company's social performance in North America, Europe and Asia. CSRHub is the first company to combine data from 10 of the premier socially responsible investment analysis firms (also known as ESG) and over 600 nongovernmental organisations, government agencies, news feeds, social networking groups, smaller for-profit organisations and publishers (www.csrhub.com). The total CSR score and its components are calculated as a percentage from 0% to 100%. The higher the percentage, the higher the quality of CSR performance. This database is one of the most recent indices that researchers used to measure corporate social performance (e.g., Aggarwal, 2013; Keong et al., 2018; Lin et al., 2019; Moosa et al., 2020). CSR ratings of the 90 top listed firms in the GCC region were obtained from the CSRHub website for the year 2020. Data for nine of the firms were not found; therefore, the final number of samples is 81, representing 90% of the total.

Measuring CFP as the dependent variable

CFP is an important measurement for both managers and investors and is used as a dependent variable in this study. CFP is one of the guidelines managers use to manage and control resources, research their firm's targets and foresee financial futures, such as predicting willing investors. In the literature, CFP is classified into two main measurements: financial performance and non-financial performance. Financial performance indicators include for example sales growth and profitability (reflected by ratios such as return on investment, return on sales, and return of equity). It represents the efficiency of a company's use of its assets during a given fiscal year, capturing the short-term financial performance of the company. While non-financial performance represents investors' perceptions of a firm's market value relative to its book value. It is well known as a market's evaluation profitability. These two types of measures have been used by researchers, separately or jointly, to explore a possible relationship between CSRD and CFP (Raza et al., 2019). According to Mahmood et al. (2020), a firm's CFP can be measured through three distinct indicators: perception-, market- and accounting-based indicators. A perception-based indicator measures the rate of corporate managers' perception towards CSR involvement; therefore, questionnaires are used in this study to collect managers' perceptions. ROA and ROE are used as accounting-based indicators, and Tobin's Q and NPM are used as market-based indicators.

In this study, we consider three dependent variables (ROA, ROE and NPM) as proxies for CFP (El Moslemany & Etab, 2017; McGuire et al., 1988; Ompusunggu, 2016; Roberts, 1992). Blackburn et al. (1994) suggest that accounting-based measures are more easily manipulated and are historical rather than reflective of performance expectations. In addition, they do not allow for easy incorporation of risk considerations and economic and market factors. Conversely, accounting-based measures are equally relevant for most stakeholder groups, whereas market-based measures have limited relevance for stakeholder groups outside the investment community. The most common accounting-based measures used in CSR and CFP research are ROA and ROE (Aupperle et al., 1985; Griffin & Mahon, 1997;

McWilliams & Siegel, 2000; Mohamud, 2018; Raza, 2012). ROA indicates how profitable a company is related to its total assets. That is, it indicates how well a company is able to use its assets and keep its fixed costs low related to profits. Another widely used measure for CFP is ROE, which measures profit derived from capital/equity provided by company owners. The higher the ROE, the better the company is in investors' eyes. This means that CSR activities that increase ROE also improve investors' assessments of the company. ROA is used to measure CFP in the short term, and ROE is used to measure CFP in the long term. Prior studies have used ROA and ROE together as indicators of CFP when examining the relationship between CSR and CFP (Boaventura et al., 2012; Orlitzky et al., 2003).

In addition to accounting-based measures assessing financial performance, this research employs a market-based measure: NPM. This is a financial ratio used to calculate the percentage of profit a company produces from its total sales. It is used to demonstrate the company's ability to generate net profit. The greater the NPM, the more efficient the company is in issuing expenses in association with its operations; therefore, a low ratio value NPM precisely reflects a low level of sales to a particular cost level and is considered inefficient.

Control variables

Several control variables were found in the quantitative literature that examined the relationship between CSRD and CFP (e.g., Aras et al., 2010; Buallay, 2018; Sameer, 2021) In the current study, five control company variables (size, age, leverage, liquidity and sector) are included, as these variables may have an impact on the CSRD–CFP relationship (Khan & Tariq, 2017; Raza et al., 2012). Firm size is extensively used, as a large firm usually has many resources to engage in CSR activities to generate profit. Firm size is measured in this study by total assets at the end of 2020. Firm age is also used as a control variable measured by the years since the company was established. Similarly, financial leverage is employed as a surrogate for risk, and it is measured by the ratio of total debts to total assets. It predicts management's risk tolerance, which influences its attitudes towards CSR activities. Firm liquidity is measured by the ratio of total debt to total assets. A further control factor added is sector, as the type of industry influences the relationship between CSRD and CFP. Table 1 summarises this study's variables and their measurements.

Table 1

Variable Definitions

Types	Variables	Labels	Measurement
Independent variable	Corporate Social Responsibility Disclosure	CSRD	
	Environmental Score	ENV	Scores index captured from CSRHub database
	Community Score	COM	
	Employees Score	EMP	
	Governance Score	GOV	
Dependent variable	Return on Assets	ROA	Net income/ total assets
	Return on Equity	ROE	Net income/shareholders' equity
	Net Profit Margin	NPM	Net profit/ total assets
Control variable	Size	SIZ	Total of assets
	Age	AGE	Establishing year
	Leverage	LEV	Total debit / total assets
	Liquidity	LIQ	Current assets/current liabilities
	Sector	SEC	0 for financial sector, 1 for others

Note. Prepared by authors.

To examine the impact of CSRD on CFP, both descriptive and inferential statistics, including Pearson correlation and different regressions tests, were employed to analyse the impact of the five components of firms' CSR disclosures (community, employee, environment, governance and overall) on their financial performance (ROA, ROE and NPM).

Results

Descriptive statistics of the variables

Table 2 presents descriptive statistics for search variables, including the independent variables (CSRD score and individual dimensions) in Panel (A), dependent variables (financial performance measures: NPM, ROA and ROE) in Panel (B), and control variables (size, age, leverage, liquidity and sector) in Panel (C). It is clear from Table 2 that there are differences in the descriptive statistics of the research variables, for independent variables, minimum score related to employees, environment, and overall = 0, and maximum score related to community = 77, for dependent variables minimum score related to NPM = -694.2, and the maximum score related to NPM also = 76.5, for control variables minimum score related to sector = 0, and maximum score related to liquidity = 916.7. It is also noted that all the arithmetic means of the independent variables are less than 50.

Table 2

Summary of Descriptive Statistics

	n	*M*	*Mdn*	*SD*	Min.	Max.
Panel A: Independent variables						
Community Score (COM)	81	49.12	50	10.03	22	77
Employees Score (EPL)	81	45.88	48	13.49	0	73
Environment Score (ENV)	81	44.65	45	12.81	0	76
Governance Score (GOV)	81	47	47	8.06	22	68
Overall	81	44.41	47	13.57	0	70
Panel B: Dependent variables						
Net Profit Margin (NPM)	81	8.42	18.2	84.17	-694.2	76.5
Return on Assets (ROA)	81	2.72	1.3	4.72	-5.4	25.1
Return on Equity (ROE)	81	7.86	7.7	15.28	-61.9	70.3
Panel C: Control variables						
Size	81	41.56	16.8	73.73	.973	510.5
Age	81	35.79	38	17.51	4	87
Leverage	81	63.42	66.05	23.47	2.02	91.38
Liquidity	81	181.17	121.46	162.04	31.88	916.7
Sector	81	.49	0	.50	0	1

Correlation matrix and linear regression results

To test the first hypothesis, the Pearson correlation coefficient was used to reveal the relationship between CSR and the ROA and ROE. This is shown in Table 3, and the strength of the correlation was judged using the following rules:

- The correlation is considered low if the correlation value ranges between 0.100 and 0.290.

- The correlation is considered moderate if the correlation value ranges between 0.300 and 0.490.
- The correlation is considered high if the correlation value ranges between 0.500 and 1.

Table 3

Correlation Coefficients Matrix between CSRD, ROA and ROE

Variable	CSR Dimensions				
	Community	Employees	Environmental	governance	overall rating
ROA	.078	.011	.019	.121**	-.011
ROE	.149	.003	.199**	.196**	-.028

It is obvious from Table 3 that there is a low correlation between governance and (ROA) ($r = .121$), and there is no correlation between the rest of the (CSR) and (ROA) variables. It is also remarkable that there is a low correlation between environmental and (ROE) ($r = .199$), there is a low correlation between governance and (ROE) ($r = .196$), and that there is no correlation between the remaining (CSR) and (ROE) variables. To find out the effect of (CSR) on (ROA) and (ROE), Stepwise multiple regression was used, and the following two tables show that:

Table 4

Results of Linear Regression Analysis between (CSRD) as an Independent Variable and (ROA) and (ROE) as Dependent Variables

Model		R	R^2	Adjusted R^2	SE of the Estimate	F	p
1	ROA	.47[a]	.002	-.010	4.744	.174	.678[a]
1	ROE	.119[b]	.014	.002	15.262	1.133	.290[b]

Note. a. Dependent Variable: ROA, b. Dependent Variable: ROE.

Table 4 indicates that R Square for (ROA) and (ROE) reached (.002) and (.014) respectively, and the level of significance is greater than (.05), which indicates that there is no effect of (CSR) (the nature of corporate social responsibility) on (ROA) and (ROE) of the top listed firms in the GCC region. This is also confirmed by Table (5).

Table 5

Regression Coefficients between (CSRD), (ROA), and (ROE)

Model			Unstandardized Coefficients		Standardized Coefficients		
			β	*SE*	*β*	*t*	*p*
1	ROA	(Constant)	-1.203	3.626		-.332	.741
		Community	.058	.092	.124	.631	.530
		Employees	.038	.081	.108	.463	.645
		Environment	-.029	.066	-.079	-.442	.660
		Governance	.064	.084	.110	.765	.447
		Overall	-.054	.090	-.155	-.598	.551
1	ROE	(Constant)	-11.519	11.327		-1.017	.312
		Community	-.008	.288	-.005	-.027	.979
		Employees	.327	.254	.289	1.287	.202
		Environment	.323	.205	.271	1.577	.119
		Governance	.253	.262	.134	.965	.338
		Overall	-.486	.281	-.432	-1.731	.087

It is remarkable from Table 5 that all significant level values are greater than .05. This indicates that there is no effect of (CSR) on (ROA) and (ROE). This result leads to the rejection of the alternative hypothesis and the acceptance of the null hypothesis.

Regarding the second hypothesis, which aims to reveal the relationship between CSRD and NPM, the Pearson correlation coefficient was used, as shown in Table 6. The strength of the correlation was judged using the previous rule.

Table 6

Correlation Coefficients Matrix between (CSRD) and (NPM)

Variable	CSR Dimensions				
NPM	Community	employees	Environmental	governance	overall rating
	.233**	.434**	.251**	.285**	.423**

Note. ** Correlation is significant at the 0.01 level.

The previous table shows the matrix of correlations between the independent variables (CSR) and the dependent variable (NPM), and it is notable that there is a low correlation between community and NPM (r = .233), and a moderate correlation between employees and NPM (r = .434), and a low correlation between environmental and NPM (r = .251). Also, there is a low correlation between governance and NPM (r = .285), while there is a moderate correlation between overall rating and NPM (r = .423). To find out which variables are more influential in NPM, Stepwise multiple regression was used as shown in the following tables:

Table 7

The Results of Multiple Regression Analysis between (CSRD) as an Independent Variable and (NPM) as a Dependent Variable

Model	R	R^2	Adjusted R	SE of the Estimate	F	p
1	.529b	.280	.232	73.769	5.829	.001[b]
2	.434c	.188	.178	76.304	18.337	.001[c]

Note. Predictors: (Constant), Employee [b], Predictors: (Constant), Employee, Governance [c].

It is clear from Table 7 that the level of significance is less than .05, the factors with low relationship were excluded, in the first model only the employees variable was introduced and the rest of the variables were excluded because their effect is low, and it was found that the employees variable explains 28% of the variance in NPM, in the second model the employees and governance variables were introduced and the rest of the variables were excluded, and it was found that they explain 18.8% of the variance in NPM. Based on this result, the null hypothesis was rejected, and the alternative hypothesis was accepted. The control variables played a role in reducing the potential error rate from the influence of the independent variables on the dependent variables, Table 8 shows the statistical significance of the regression coefficients.

Table 8

Regression Coefficients between (CSRD) and (NPM)

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	***SE***	***B***	***t***	***p***
1 (Constant)	-115.774	30.216		-3.832	.001
Employees	2.707	.632	.434	4.282	.001
2 (Constant)	-217.526	55.888		-3.913	.001
Employees	2.344	1.247	.376	1.879	.024
Governance	3.412	1.287	.327	2.651	.010

It is evident from Table 8 that there are only two of the independent variables, (employees and governance) respectively, that have an effect on the NPM of the top listed firms in the GCC region, where the value of statistical significance was less than .05, and that the effect size of employees (β = 0.434) is greater than the effect size of governance (β = .327), and we can use these variables to predict NPM through the following equation:

$Y=b_0+b_1*x_1+b_2*x_2$ =-115.774+2.344*x1a(employees) + 3.412*x2a(Governance), where:

a: Constant.

b: the slope of the regression of the dependent variable over the independent variable.

Y: NPM.

x : CSR dimension.

Discussion

Over the last five decades, the relationship between firms' CSRD and their financial performance has been inconclusive. Some managers believe that practising CSR is associated with a series of bottom-line benefits, while others argue that practising CSR is a costly affair and negatively affects the company's financial performance. Accounting researchers have attempted to explore the association between CSRD and CFP, and the results have reported positive, negative and no effect or neutral relationships. Our study aims to shed some light on this relationship from the perspective of developing countries. This quantitative research examines the effect of CSRD on the financial performance of the top listed firms in the GCC region. It uses five rating scales of CSR (employee, community, environment, governance and overall) as independent variables and CFP as the dependent variable (measured by ROA, ROE and NPM). The control variables were a panel of company characteristics and are considered explanatory variables.

Statistical results revealed that no association exists between the overall rating of CSRD and CFP for the sampled firms, including accounting-based measures (ROA and ROE) and the market-based measure (NPM) of financial performance. In addition, regression analysis supports the notion that CSRD does not lead to improved financial performance. Therefore, it cannot be guaranteed that firms practising CSR perform better financially. Several reasons may explain this. First, the costs involved in CSR activities may neutralise the arising benefits, leaving no trace of a relationship between CSRD and CFP. Second, the measurement problems that have plagued CSRD research may also mask any existing link. There are many intervening variables between CSRD and CFP, so a relationship may not be expected to exist. The findings of the current study are in line with studies such as Aras et al. (2010), El Moslemany and Etab (2017), Sammer (2021) and Szegedi et al. (2020) who found that there was no impact of any dimensions of CSR on accounting performance measures (ROA and ROE). However, this result is contrary to those discovered in many other studies conducted in developing countries, who found that firms' CSR practices benefited financial performance (e.g., Abdul Wahab et al., 2017; Aggarwal, 2013; Fahad & Busru, 2020; Hossain et al., 2015; Moosa et al., 2020; Saleh et al., 2011; Yosoff & Adamu, 2016). Further, our result shows that the control variables do not moderate the relationship between CSRD and CFP.

The second part of the current study examined the impact of each component of CSR on a company's financial performance. Statistical analysis showed a statistically significant positive link between CSRD related to employee and corporate governance and CFP measured by NPM; however, no relationship was found when CFP was measured by ROA and ROE. This finding is similar to a study by Arbogast and Agrawal (2019), who discovered that employee-related practice has a significant positive relationship with NPM, and to Aggarwal (2013), who found that governance-related CSR activities had a significant positive impact on CFP.

The relationship between both types of CSR information (employees and governance) has been examined with the level of corporate financial performance. Some scholars believe that information of CSR regarding employee commitments would boost the corporate financial performance (e.g., Brammer et al., 2007; Rettab et al., 2009). Therefore, engagement of employees with the firms' CSR agenda will help further enhance the influence of CSR activities towards improvement of financial performance. For governance information, several empirical studies revealed a positive association between governance characteristics and CFP. For example, Naushad and Abdul Malik (2015) found that 24 different banks operating in GCC countries proved this positive relationship. This was later supported by Abdallah and Ismail (2017) while they examined this relationship for all firms listed in the GCC markets from 2008 to 2012. Furthermore, Al-ahdal et al. (2020) and Almaqtari et al. (2020) discovered similar results while studying this link for some firms in India and GCC countries.

Our results show that firms engaging in CSR activities could positively affect their long-term performance (i.e., NPM). Firms tend to focus on employees and governance-related performance; however, they should focus more on environmental and community issues. NPM, as a market-based indicator, relies on the idea that shareholders constitute a primary stakeholder group whose satisfaction affects a company's overall goals (Cochran & Wood, 1984). External stakeholders seem not have a significant relationship with companies' financial performance. Despite practising CSR incur high costs with the hope of improving their company's financial performance; managers should do so for other sustainability reasons. The finding is in line with stakeholder theory, where companies operate in line with their powerful stakeholders' interests rather than provide benefits for external stakeholders such as communities. However, the findings do not support legitimacy theory, since a company's CSR seems not focusing on benefit of having a good public image while meeting their expectations. Companies continue to strive to ensure that they operate within the framework and norms of the community and the environment in which they are located to ensure that their CSR activities are accepted. This suggests that managers must communicate their CSR activities to their stakeholders (internal and external) by adequately disclosing their CSR activities, which would, in turn, accrue some future financial benefits.

Conclusion

This study attempts to find the relationship between different types of CSRD (community, employees, environment, and governance) and CFP using return on assets, return on equity and net profit margin as measurement. For the purpose of this study, CSRHub scores and other data were obtained from annual reports for 81 companies from five GCC countries. Statistical results have shown that market-based measure (net profit margin) will only be positively impacted through employee and corporate governance information. However, this was proven to be false when dealing with accounting-based measures (return on assets, return on equity). Furthermore, it was found that other types of CSR information (community and environment) had no influence on companies' performance when measured by both accounting-based and market-based.

Undoubtedly, CSRD has not been practiced by GCC listed companies. This was highlighted through the database of CSRHub since on average the top 81 firms report less than 50% of their CSR activities. Hence, the study outcomes provide significant contributions to the CSR–CFP literature in the GCC countries context. Based on the results, it can be suggested that listed firms in GCC markets should fulfil their overall CSR, which leads to a healthier CFP to ensure its survival and long-term sustainability.

The findings of this study have various contributions. First, it adds to the accounting literature where the dearth of scholarly evidence on the impact of CSR activities on CFP in developing countries is limited. Second, it highlights a serious need for companies in this region to demonstrate a high level of commitment to CSR, as suggested by stakeholder and legitimacy theories, to enhance their financial performance in the long term. Third, the use of CSRHub to measure CSRD is novel in the GCC context. Fourth, company managers in this region must practice CSR as a strategic, mutually beneficial tool to benefit from spending more resources on their CSR activities. Consequently, their companies will satisfy legitimacy demands by stakeholders and, in the long term, improve financial performance. Finally, the study highlights the vital role that the government could play by introducing policies on how companies practice CSR and how compliance is monitored.

Like any empirical study, the present study is subject to certain limitations. First, this research focused only on how CSRD in the top firms in the GCC region in 2020 only affects their current financial performance; however, in the long term, CSRD can have different effects. Second, only 6 of the 22 Arab countries were included in this study. Therefore, generalisation of the results may not be possible in a large population. Further research could focus on exploring a possible nexus relationship between CSRD and financial performance, as described by Taskin (2015), Niresh et al. (2018) and Mahmood et al. (2020).

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