

**CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES  
AND CORPORATE PERFORMANCE IN MANUFACTURING SECTOR:  
EVIDENCE FROM SAUDI ARABIA**

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المسؤولية الاجتماعية وأداء الشركات في القطاع الصناعي: دراسة تطبيقية في المملكة العربية  
السعودية

**CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES  
AND CORPORATE PERFORMANCE IN MANUFACTURING SECTOR:  
EVIDENCE FROM SAUDI ARABIA**

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**ABSTRACT**

This study examines the associations of corporate social and environmental responsibilities with corporate performance in Saudi Arabia for the period of 2007-2011. A pooled OLS regression analysis is used to estimate the associations proposed in the hypothesis. The final sample consists of 164 listed companies in Tadawul. The study finds that corporate social and environmental responsibilities are negatively associated with corporate performance in a form of return on equity. Additionally, this study reports insignificant associations between corporate social and environmental responsibilities and corporate performance in forms of Tobin's Q and ROA. Importantly, the study suggests that regulators, especially Saudi stock exchange, should mandate companies to disclose all relevant information related to corporate social responsibility in a transparent and timely manner, and increase law enforcement to enhance good corporate governance practices. For companies, this study proposes that they should emphasize more on enhancing the role and the quality of their social and environmental responsibilities, board of directors and the audit committee members, as this enhancement may positively influence their performance.

**KEYWORDS:** CSR, CS, Saudi Arabia

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ملخص:

تتناول هذه الدراسة اختبار علاقة المسؤولية الاجتماعية والبيئية للشركات مع أداء الشركات (باستخدام العائد على الاصول ومقياس تبنس كيو) في المملكة العربية السعودية للفترة من 2007 وحتى 2011. تم استخدام تحليل انحدار المربعات الصغرى الاعتيادي للمجموع لتقدير هذه العلاقة المفترضة. العينة النهائية تمثلت بعدد 164 شركة مسجلة في السوق المالي السعودي (تداول). اوجدت هذه الدراسة بان هناك علاقة عكسية ذات دلالة احصائية بين المسؤولية الاجتماعية والبيئية للشركات وأداء الشركات. تقترح هذه الدراسة بانه يجب على المشرعين في المملكة العربية السعودية وخاصة السوق المالي السعودي بان يلزموا الشركات المسجلة بالإفصاح بشفافية عالية وبالتوقيت المناسب على المعلومات الملائمة ذات العلاقة بالمسؤولية الاجتماعية والبيئية وذلك للتعرف على درجة الالتزام بهذه المسؤوليات. تقترح هذه الدراسة على الشركات بان تشدد على تعزيز وجودة دور المسؤولية الاجتماعية والبيئية بما لذلك من تأثير ربما يكون ايجابي على أداء الشركات. **كلمات البحث الاساسية:** المسؤولية الاجتماعية والبيئية للشركات، أداء الشركات، السعودية.

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## INTRODUCTION

Our planet faces several threats related to global climate changes and socioeconomic issues (Barrio, 2010). Based on the indicators, the earth's ability to serve as reservoir of pollution and as a source of resources is declining due to the rapid increase of humanity's environmental footprint (Milton, 2010). Corporation leaders are seeing themselves obliged to become involved with corporate social responsibility (CSR) and sustainable business practices (Pomoni, 2009). CSR advocates believe that businesses, governments, and other stakeholders can work together to develop a better world (Pava, 2008). These advocates ask companies to go beyond addressing their commercial activities in their decision-making processes and address their impact on their local communities and society (Kermani, 2006). Freeman and Hasnaoui (2011) indicate that CSR proponents make a call for business models with triple bottom lines that take into consideration the satisfaction of the shareholders' needs with the social and environmental needs of societal stakeholders. Companies incorporate corporate social and environmental responsibilities into their marketing strategies to sustain and grow competitive advantage. Consequently, they obtain greater levels of financial performance. CSR is considered an expensive investment through which organization can ensure a high intrinsic value and build a strong foundation within a community. As a result, they achieve a greater degree of financial performance and performance (Husted & Allen, 2007). In general, justifying the expenditures, including the CSR activities, the incorporation of CSR activities into the existing business structures is considered as a concern for corporate leaders. This is because business executives are the agents of shareholders aiming at strengthen the financial and competitive positions of their firms (Yuan et al., 2011; Karnani, 2011).

Although much research, based on stakeholder theory, has been conducted on the topic of CSR documenting that there is a positive association between CSR level and firm performance, concerns still exist regarding how companies in Saudi Arabia sustain and grow competitive advantages in their businesses using corporate social and environmental responsibility activities. In a broad sense, the topic of CSR and CS is expected to influence the whole aspects of life in the country since there is a concern empirically evidenced that CSR does not necessarily contribute to the financial performance of the organizations or compromises return on

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investment (Husted & Allen, 2007). Furthermore and in particular, different industries may vary in their view of CSR because of different CSR requirements. This study is distinct from the previous studies in a manner that it examines the association of CRS and firm performance in petrochemical cement, retail, energy and utilities, agriculture and food, IT and telecommunications industries. These industries represent a prototype for studying the link between CSR and financial performance. The research problem involves identifying the significance of a relationship, or lack of significance of a relationship, of CSR and CS in these industries in Saudi Arabia based on stakeholder theory.

The rest of the paper continues as follows. The next section briefly discusses the literature review and the hypotheses development. The third section describes the research design and methodology. The empirical results and discussions of the study are reported in the fourth section while in the final section, conclusions and implications are drawn.

### **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

Although the majority of the studies examining the association of CSR and CS found a positive relationship (Pava & Krausz, 1996), still the extant scholarly researches remains mixed (Aras et al., 2010; Baird et al., 2012; Baron et al., 2011; Callado-Munos & UtreroGonzalez, 2011; Fu & Jia, 2012; Mishra & Suar, 2010; Robinson, Kleffner, & Bertels, 2011; Schreck, 2011; Surroca et al., 2010). It is worth to highpoint that the prior research on corporate performance has been examined in different regulatory business environments and audit markets with more focus on Anglo-Saxon countries, several methodological weaknesses such as omission of important variables, population definition; and sample size and type; weak empirical tests, different typical statistical analysis, and weak theoretical constructs. Particularly, the aforementioned reasons cause contradictory and limited results in the previous studies of CS. While studies on the relationship between CSR and Corporate Financial Performance have grown in the past two decades, study results vary (De Bakker, Groenewegen, & Den Hond 2005). Several meta-analysis studies found positive correlation between CSR and companies' financial performances (Orlitky, Schmidt, & Rynes, 2003; Allouche & Laroche, 2005; Margolis, Elfenbein, & Walsh 2007).

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Researches carried out previously have utilized ROE as an accounting-based performance which has centered on historical results, such as earnings, operating profits, and operating revenues. It is described as net income divided by the equity of the shareholder (Alzharani et al., 2011; Anderson & Reeb, 2003; Arslan, Karan & Eksi, 2010; Maury, 2006). This is an all-inclusive measure of performance, highlighting expropriation in the income statement as well as the balance sheet. The view is posed that accounting-based performance tool is more efficient than market-based ones (Sun & Tong, 2003). This is owing to the fact that, when the share market displayed a lack of efficiency, share prices are less likely to reflect all data available. On the other hand, however, the accounting-based performance measure is more keenly linked with financial survivability as opposed to share market value, thus enabling the performance assessment of publicly-traded organizations.

In the context of Saudi Arabia, issues of CSR and CS are unknown due to lack of studies in this discipline. In addition, Saudi setting of regulatory framework, audit market, and unique culture compared to those of the prior studies are different. Therefore, the hypothesis of this study is developed based on the suggestions of the stakeholder theory and the empirical studies' findings. In specific, Kanji and Chopra (2010) report that CSR failures cost firms too much of their resources. Examples of this failure is the case of Bhopal Gas Tragedy, General Electric failure to clean up Hudson River of organic pollutants, Exxon Valdez incident in Alaska, recall of millions of toys globally by toy giant Mattel for using lead poisoning paint, etc. Societies look at CSR as a strategy that have to be included into the corporate planning which thus influence the triple bottom line (3Ps): People (social bottom line), Planet (ecological bottom line), and Profit (economic bottom line). Importantly, CSR is seen as a direct and indirect contribution to business' bottom line and it can guarantee the long run performance (Bihari & Pradhan, 2011; Kanji & Chopra, 2010). They provide evidence that firms incorporating CSR activities in their business strategies live longer than those who do not. In the same vein, Raghbir et al. (2010) report that firms are continually explore the association between their CSR activities and performance. Kapoor and Sandhu (2010) document that CSR is a detrimental variable influencing the firm's performance. In addition, several studies find that there is a positive association between CSR and firm value (Sharma, 2011; Pava & Krausz, 1996; Preston & O'Bannon, 1997).

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The foregoing arguments are summarized in expecting direct evidence on the association between CSR and CS. The testable hypothesis is stated in a direct form:

*H<sub>1</sub>: Ceteris paribus, there is a positive association between corporate social responsibility and corporate performance.*

## RESEARCH DESIGN AND METHODOLOGY

### Sample and Data

The data regarding the CSR and CS are hand-collected from the annual reports of the listed companies in Saudi Stock Exchange (Tadawul) for the period of 2007-2011. The sample of the corporate performance models comprises petrochemical, cement, retail, energy and utilities, agriculture and food, IT and telecommunications companies. Samples selected for the five years are depicted in Table 1. For the other financial data, they are retrieved from annual reports and DATASTREAM. Excluding outliers and incomplete data, the sample size was reduced to 164 companies as a final sample eligible for inclusion in the analysis of corporate performance model.

Table 1: Analysis of the sample

No.	Sectors	Number of companies per year				
		2007	2008	2009	2010	2011
1	Petrochemical Industries	10	13	14	14	14
3	Cement	8	8	8	9	10
4	Retail	7	8	9	9	10
5	Energy and Utilities	2	2	2	2	2
6	Agriculture and Food Industries	12	13	13	14	14
7	IT and Telecommunications	2	3	3	4	4
	Total	41	47	49	52	54
	Total observation					243
	Observations discarded (outliers) and					(79)

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incomplete data

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Final sample

164

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Model Specification

The economic model is used to develop a model of CSR and CS. The variables proposed for inclusion in the model captures differences in the costs of agency relationships. Since the dependent variable is a continuous, metric scale measurement, to estimate this model, Multivariate Analysis is applied using pooled OLS regression. The functional equation of the pooled OLS regression model is utilized to determine the extent of the association of each of the independent variables on the CS.

$$CS = \beta_0 + \beta_1 CSR + \text{Control Variables} + e \dots \dots \dots (1)$$

Where:

- CS = Corporate Performance (Tobins Q, & ROA),
- CSR = Corporate Social and Environmental Responsibilities,
- Control Variables = Board of directors effectiveness, audit committee effectiveness, firm size, leverage, and firm age, and
- e = error term.

Since the pooled OLS regression is used to test the hypothesis, outliers are detected and handled, assumptions of multicollinearity, normality, heteroscedasticity, linearity and autocorrelation are also evaluated.

We also control for the effect of five agency-related variables found by related literature for their potential confounding effect on the CS. It is expected that CS to be positively associated with board of directors effectiveness *BDE\_SCORE*, audit committee effectiveness *ACE\_SCORE*, firm size *LASSET*, firm leverage *LEV*, and the firm age *FIRM\_AGE*. As for the board of directors' effectiveness, previous studies in the firm performance discipline have examined board of directors'

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characteristics as individual determinants associated with firm performance. For example, Alexander et al. (1993); Birnbaum (1984); Cicero et al. (2010); Goodstein et al. (1994); Pfeifer (1972, 1973) found a positive link between firm performance and board size. With regard to audit committee effectiveness, according to agency theory, the role of the audit committee is assumed to be centered on supervising and monitoring financial reporting integrity, which enhances the overall value of the firm. The studies carried out thus far in the field of audit committees have provided a link between audit committee characteristics and the performance of the firm through individual tests. For example, Raghunandan and Rama (2007) found a positive link between firm performance and audit committee size.

Concerning firm size, in the empirical literature of CG, firm size has been adopted as a control variable impacting the performance of the firm (Aljifri & Moustafa, 2007; Alzharani et al., 2011). Ghosh (2001) suggests that larger firms perform better than smaller ones owing to their capacity to achieve risk diversification. In this same regard, it is held by Helmich (1977) and Kumar (2004) that larger entities are more effective than smaller ones due to skills of staff, economies of scale, and market power. Regarding firm leverage, debt or leverage is the utilization of borrowed funds in an attempt to enhance firm performance. This could decrease agency costs by lessening the cash flows available for the expropriation of negative net present value projects and opening the business to greater supervision by the market. This could increase management pressure in terms of enhancing firm performance as it decreases the moral risk through lessening free cash flow at the disposal of management (Alzharani et al., 2011; Jensen, 1986; Harris & Raviv, 1991; Myers, 1990). For instance, Grossman and Hart (1982) detailed the fact that debt financing means management is more aware of consuming fewer perks, and ultimately become more effective in circumventing bankruptcy, and thus the loss of reputation and control. As for the firm age, the age of the firm is a critical factor in firm development, firm dissolution likelihood, and the variability of business growth (Evans, 1987a). The link between firm performance and firm age has been detailed well, with some research utilizing age as a proxy for the experience a firm has gained through its business (Geroski, 1995). With the increase of firm age, management garners much more insight into their abilities and skills over time (Stinchcombe, 1965; Evans, 1987b). Younger firms are more vulnerable with firm age expected to last only between five and 10 years, as noted by Ward and Mendoza (1996).



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As for the measurements of the variables, Table 2 exhibits the dependent, test and control variables measurements.

**Table 2: Summary of the Operationalization and the Expected Sign of the Research Variables**

Variables	Acronym	Operationalization	Coefficient Predictions
			<u>Pooled OLS</u>
<b>Dependent Variable</b>			
Corporate Performance	<i>Tobin's Q</i>	The market value of equity plus the book value of the debt divided by the book value of the total assets.	d.v
Corporate Performance	<i>ROA</i>	Net income divided by book value of total assets	d.v
<b>Test Variable</b>			
Corporate Social and Environmental Responsibilities	<i>CSR</i>	An index score	+
<b>Control Variables</b>			
Board of Directors' Effectiveness Score	<i>BDE_SCORE</i>	Proportion of board of directors effectiveness,	
Audit committee's effectiveness score	<i>ACE_SCORE</i>	Proportion of audit committee effectiveness,	
Firm Size	<i>LASSET</i>	$\log_{10}$ of total assets	
Firm Leverage	<i>LEV</i>	long term debt-to-total asset ratio	
Firm Age	<i>AGE</i>	the number of years since the company was established	

Note: d.v – dependent variable

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## EMPIRICAL RESULTS AND DISCUSSIONS

Table 3 shows the descriptive statistics of the variables. It depicts the mean, standard deviation, minimum and maximum of each variable in the sample data set.

Table 3: Descriptive statistics ( $N = 164$ )

Variables	Mean	Minimum	Maximum	Std.Deviation
TOBINS_Q	1.70	0.44	4.95	0.92
ROA	8.19	-11.99	29.80	8.15
CSR	0.36	0.05	0.67	0.17
<b>Control variables</b>				
BDE_SCORE	0.52	0.00	1.00	0.26
ACE_SCORE	0.58	0.00	1.00	0.26
LASSET	23018687.03659	65319.00	332783648.00	56485091.838744
LEV	22.45	0.00	69.170	19.34
FIRM_AGE (years)	23.69	0.80	56.99	14.77

Table 3 displays that there is a significant range of variation among the considered sample of this study. It is shown that the range of *Tobin's Q* is from 0.44 to 4.95 with an average of 1.70 and a standard deviation of 0.92. The mean of *ROA* is 8.19 with a maximum of 29.80 and a minimum of -11.99 and a standard deviation of 8.15. As the for hypothesized variables, Table 3 illustrates that the mean of *CSR* is 0.36 with a maximum of .67 and a minimum of 0.05 and a standard deviation of 0.17. The range of *BDE\_SCORE* is from 0.00 to 1.00 with an average of 0.52 and a standard deviation of 0.26. The mean of *ACE\_SCORE* is 0.58 with a maximum of 0.00 and a minimum of 1.00 and a standard deviation of 0.26. With respect to the control variables, Table 4.2 exhibits that the mean of *LASSET* is S.R 23018687.03659 with a maximum of S.R 332783648.00 and a minimum of S.R 65319.00 and a standard deviation of S.R 56485091.838744.. The *LEV* ranges from 0.000 to 69.170 with an average of 22.45 and a standard deviation of 19.34. The

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range of *FIRM\_AGE* is from 0.80 to 56.99 with a mean of 23.69 and standard deviation of 14.77.

Table 4: Correlation matrix of independent variables ( $N = 164$ )

	CSR	BDE_SCOR	ACE_SCOR	LASSE	LEV	FIRM_AG
CSR	1					
BDE_SCOR	-	1				
ACE_SCOR	-.077	.065	1			
LASSET	.230*	.012	.112	1		
LEV	.309*	-.266**	-.080	.231**	1	
FIRM_AGE	-.031	.247**	.111	-.130	-	1

As shown by Table 4, the correlation matrixes verify that no multicollinearity exists among the variables, as none of the variables correlates above 0.90. All the variables have a correlation of equal to or less than .416.

Pooled Ordinary-Least Square (*OLS*) was used to evaluate the level of effect of the hypothesized variable on the corporate performance using SPSS. Tables 5, 6 and 7 report the estimated model coefficients, the associated significant test results, the adjusted  $R^2$ s and the  $F$ -values for the corporate performance models. In particular, Tables 5, 6 and 7 portray the results of the Pooled *OLS* regressions for each of the three corporate performance models. The  $F$ -values for each of the three models are statistically significant at the 1% level, indicating that the overall model can be interpreted. The adjusted  $R^2$ s for the *ROA* and Tobin's *Q* models are 21.50% and 18.80, respectively. The statistics show that the *ROA* model has explained 21.50% of this variance and the Tobin's *Q* model has explained 18.80% of the total variance in the corporate performance. This indicates a moderately good fit of the each of the three corporate performance models.

Table 5: Pooled *OLS* Analysis Results–Tobin's *Q* Model

Variables	Expected Sign	Coef.	$t$	$P >  t $
<b>Hypothesized Variables</b>				
CSR	+	-0.001	-0.008	0.993

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<b>Control Variables</b>				
<i>BDE_SCORE</i>	+	-0.078	-0.994	0.322
<i>ACE_SCORE</i>	+	-0.242	-3.374	<b>0.001</b>
LASSET		-0.208	-2.052	<b>0.042</b>
LEV		-2.011	-2.011	<b>0.046</b>
FIRM_AGE		0.050	0.576	0.565
Adjusted $R^2$			18.80	
Model $F$ -stat.			7.286	
$P$ -value			0.000	
No. of Observations			164	

**Bold** = significance at 1%, 5% and 10%

Table 5 displays that *ACE\_SCORE* was associated with corporate performance in a form of *Tobin's Q* ( $p$ -value = 0.000, one-tailed significance). *LASSET* and *LEV* ( $p$ -values = 0.021 and 0.023, respectively, one-tailed significance) were significantly associated with corporate performance in a form of *Tobin's Q*. The largest  $t$ -statistics in the corporate performance in a form of *Tobin's Q* were *ACE\_SCORE* ( $p$ -value < 0.00), *LASSET* ( $p$ -value < 0.00), and *LEV* ( $p$ -value < 0.00), suggesting that these variables among others in the model have significant associations with corporate performance in a form of *Tobin's Q*.

Table 6  
*Pooled OLS Analysis Results–ROA Model*

<b>Variables</b>	<b>Expected Sign</b>	<b>Coef.</b>	<b><math>t</math></b>	<b><math>P &gt;  t </math></b>
<b>Hypothesized Variables</b>				
<i>CSR</i>	+	-0.068	-0.848	0.398
<b>Control Variables</b>				
<i>BDE_SCORE</i>	+	0.049	0.630	0.530
<i>ACE_SCORE</i>	+	-0.076	-1.081	0.282
LASSET		0.355	3.554.	<b>0.001</b>
LEV		-0.302	-2.925	<b>0.004</b>
FIRM_AGE		0.400	4.687	<b>0.000</b>

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Adjusted $R^2$	21.50
Model $F$ -stat.	8.453
$P$ -value	0.000
No. of Observations	164

**Bold** = significance at 1%, 5% and 10%

Table 6 exhibits that *LASSET*, *LEV* and *FIRM\_AGE* were significantly associated with corporate performance in a form of *ROA* ( $p$ -values = 0.000, 0.002 and 0.000; respectively, one-tailed significance). The largest  $t$ -statistics in the corporate performance in a form of *ROA* were *FIRM\_AGE* ( $p$ -value < 0.00), *LASSET* ( $p$ -value < 0.00), and *LEV* ( $p$ -value < 0.00), suggesting that these variables among others in the model have significant associations with corporate performance in a form of *ROA*.

In particular, inconsistent with expectations, *CSR* is insignificantly related to *CS* in forms of *ROA* and *Tobin's Q* ( $p$ -values = 0.119 and 0.4965; respectively, one-tailed significance). Thus, hypothesis  $H_1$  is rejected. This implies that corporate social and environmental responsibilities has either a negative or no impact on the degree of corporate performance in Saudi setting. Although these results are inconsistent with stakeholder theory, several previous empirical studies have supported these findings (Pava & Krausz, 1996; Iskyan, 2010; Brammer, Brooks, and Pavelin, 2006; Makni, Francoeur, and Bellavance; Cardebat and Sirven, 2009; Bello, 2005; Nelling and Webb, 2009; Demacarty, 2009; Chih et al., 2010; López, Garcia, and Rodriquez). As for the negative association, Iskyan (2010) argued that it would be very difficult for companies to achieve growth if they decide to always be socially and environmentally responsible. By the same token, Moore (2001) argued that this positive relationship between financial performance and subsequent social performance could distract companies from the business and therefore lead them to poor financial performance in the future. Moreover, López, Garcia, and Rodriquez (2007) found that *CSR* expenses incurred by responsible organizations put them at a short-term financial disadvantage. As for the no association of corporate social and environmental responsibilities with corporate performance, Nelling and Webb (2009) argued that companies *CSR* activities do not affect their financial performance. Demacarty (2009) argued that in imperfect measures of *CSR*, more skillful managers can lead companies to generate higher profits and better credits whether or not these companies are socially responsible. In the vein, Aupperle,

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Carrol, and Hatfield (1985) argued that much of the research addressing the relationship between *CSR* and profitability have been incomplete and frequently characterized by lack of adequacy measuring *CSR*, and either ideological bias or limited methodology procedures.

With regard to the association between *BDE\_SCORE* and *CS* in forms of *ROA* and *Tobin's Q*, an insignificant relationship has been reported. This suggests that there is no association between board of directors' effectiveness and corporate performance. The role of the effective controlling and monitoring functions of the board of directors has no impact on corporate performance in Saudi Arabia. One possible explanation is that the board's ability to perform its governance role by being effective in controlling, monitoring and addressing the various agency problems is weakened due to the dominance of concentrated ownership that are often affected by political ties and family involvement. So that, the control of the company's board of directors and its ownership structure is closely aligned as the same corporate owners occupy seats on the board. Hence, the board is vulnerable to the effects of Arab culture and historical legacies; more particularly, the bureaucracy of its colonial status and the Bedouin culture. This is evident in the hierarchical authority and patriarchal method employed by Arab managers who practice nepotism in their selection of upper-level managers (Ali, 1990; Chahine & Tohme, 2009). This type of environment is underpinned by the "hegemony theory" where the board is considered as a passive mechanism that depends on top executives for their information (Kosnik, 1987; Demb & Neubauer, 1992) or owing to their other important commitments, the members of the board are not free to effectively carry out their duties (Lin *et al.*, 2003). Along a similar line, according to Aljifri and Moustafa (2007), a typical Arab firm does not select their board members optimally which often results in lack of coordination, communication and decision making issues. These are barriers to internal improvements in the effectiveness of corporate governance practices.

An alternative explanation is that mechanisms of corporate governance (i.e. board vs. ownership) substitute each other in Saudi context. The reason lies in the fact that Arab owners who are also board members exercise their power to indicate their monitoring objectives. Moreover, this may be related to Arab financial markets that are characterized by under development when compared to their Western developed countries based on many aspects such as regulatory frameworks, regulatory enforcement, and markets for corporate control (Chahine & Tohme,

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2009). This is owing to the novelty of the code of corporate governance in Saudi Arabia and hence, its full implementation in the business markets is impossible. Its implementation takes time and experience. Additionally, the attitudes and practices encouraged by Saudi government is still confined by legislations and government decrees. Saudi government views the situation in light of their tribal system and consider it invaluable for their political stability where tribal attitudes and loyalty are highly valued (Abdel-Halim & Ashour, 1995; Ali & Azim, 1996; Helms, 1991).

As for the association between *ACE\_SCORE* and *CS* in forms of *ROA*, and *Tobin's Q*, an significant association has been reported between *ACE\_SCORE* and *CS* in form of *ROA*. And, a significantly negative relationship has been documented between *ACE\_SCORE* and *CS* in a form of *Tobin's Q* ( $p$ -value = 0.000, one-tailed significance), suggesting that there is either a negative or no relationship between the effectiveness of audit committee and corporate performance. This result implies that one of the most effective monitoring roles of the audit committee which is enhancing the *CS* of the company is deteriorated. This finding is inconsistent with the suggestions of agency theory.

A justification may well lie in the audit committee's newness in Saudi business environment and the absent of serious penalties for non-implementation of the codes. Additionally, the audit committee's duties, objectives, their concept of independence and scope are still ambiguous. In this regard, there is still lack of academic and professional qualifications among the members of the committee in a sense that it hinders them from keeping abreast with increasing developments. Also, in Saudi Arabia, some firms are unable to establish detailed rules and regulations identifying the audit committee's function (Al-Qarni, 2010; SCOPA, 2004). Another explanation for the lack of association between audit committee and corporate performance is the reflection of support for the substitution hypothesis. Concentrated ownership generally takes over the decision making involving the selection of the degree of audit quality to complement the monitoring needs.

## CONCLUSIONS AND IMPLICATIONS

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The main objective of this study is to examine the association between corporate social and environmental responsibilities and corporate performance in Saudi Arabia. A total of 164 non-financial companies listed on Tadawul stock exchange, over the period 2007–2011, were selected. A quantitative approach was adopted to answer 1 specific hypothesis developed for the corporate performance three models.

From the analyses conducted, no association has been documented with corporate performance in forms of ROA and Tobin's Q. These results are inconsistent with the stakeholder theory, but they are in line with what has been empirically reported by the extant empirical research (Pava & Krausz, 1996; Iskyan, 2010; Brammer, Brooks, and Pavelin, 2006; Makni, Francoeur, and Bellavance; Cardebat and Sirven, 2009; Bello, 2005; Nelling and Webb, 2009; Demacarty, 2009; Chih et al., 2010). As for the negative association, Iskyan (2010) argued that it would be very difficult for companies to achieve growth if they decide to always be socially and environmentally responsible. By the same token, Moore (2001) argued that this positive relationship between financial performance and subsequent social performance could distract companies from the business and therefore lead them to poor financial performance in the future. Moreover, López, Garcia, and Rodriquez (2007) found that CSR expenses incurred by responsible organizations put them at a short-term financial disadvantage. As for the no association of corporate social and environmental responsibilities with corporate performance, Nelling and Webb (2009) argued that companies CSR activities do not affect their financial performance. Demacarty (2009) argued that in imperfect measures of CSR, more skillful managers can lead companies to generate higher profits and better credits whether or not these companies are socially responsible. In the vein, Aupperle, Carrol, and Hatfield (1985) argued that much of the research addressing the relationship between CSR and profitability have been incomplete and frequently characterized by lack of adequacy measuring CSR, and either ideological bias or limited methodology procedures.

With regard to other control variables related to corporate governance, the board of directors effectiveness, the results indicate to an insignificant association between board of directors effectiveness and corporate performance in forms of ROA and Tobin's Q. The main reason for this insignificant relationship could be attributed to the fact that the role of the effective controlling and monitoring functions of the board of directors has no impact on corporate performance in Saudi Arabia. One

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possible explanation is that the board's ability to perform its governance role by being effective in controlling, monitoring and addressing the various agency problems is weakened due to the dominance of concentrated ownership that are often affected by political ties and family involvement. So that, the control of the company's board of directors and its ownership structure is closely aligned as the same corporate owners occupy seats on the board. Hence, the board is vulnerable to the effects of Arab culture and historical legacies; more particularly, the bureaucracy of its colonial status and the Bedouin culture. This is evident in the hierarchical authority and patriarchal method employed by Arab managers who practice nepotism in their selection of upper-level managers.

In terms of the association of audit committee effectiveness with corporate performance in forms of ROA and Tobin's Q, no association has been found. This result could be justified as audit committees are new in Saudi business environment and there is an absence of serious penalties for non-implementation of the codes. Additionally, the audit committee's duties, objectives, their concept of independence and scope are still ambiguous. In this regard, there is still a lack of academic and professional qualifications among the members of the committee in a sense that it hinders them from keeping abreast with increasing developments. Also, in Saudi Arabia, some firms are unable to establish detailed rules and regulations identifying the audit committee's function. The main limitations of the study lie on the measurement of CSR and the proxy for corporate performance. Future line of research should put an effort to introduce these issues. Further research should replicate this model to determine its validity in different contexts of GCC countries, in different time periods, and with different sample size. These limitations may motivate more future research in the GCC market.

One important implication of these findings relates to the issue of corporate performance in Saudi Arabia. Saudi government, stock market, and accounting and auditing regulators would gain new insights from this study in terms of the extent to which regulations, laws, codes of corporate governance, decrees, and resolutions are implemented by companies especially those related to social and environmental issues. Further, the findings of this study will be useful to regulators in deliberating policies on issues related to corporate social and environmental and corporate governance issues in order to prevent the society and environment from being impaired. One possibility is to make it mandatory for companies incorporated in Saudi Arabia to disclose in their annual reports their CSR activities and corporate governance

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information in a manner to determine the direction of future governance policies for Saudi corporations. Thus, regulators would be able to decide when and how CSR, corporate governance, accounting, and auditing practices are being carried out in Saudi setting. Moreover, the findings of this study may serve to enhance the financial performance, practices of CSR, corporate governance by the management and shareholders. The significance of enhancing financial performance by CSR activities and better practices of corporate governance. It has not been considered a suitable practice for listed firms which have lower CSR activities and weak internal system of corporate governance to enhance the financial performance. In this environment, the shareholders who control the listed firms have the tendency of depriving the private benefits of exploiting small shareholders. The results of this study would benefit societal and environmental agencies in the way they assess the level of social and environmental protection of incorporating companies in Saudi Arabia. Investors and financial analysts depend on audited financial statements to make decisions related to social and environmental, bond rating, and all other decisions related to investments in Saudi market. Accordingly, increased understanding and prediction of companies' events are important to this user group. Furthermore, the results of this study will be of interest to researchers and the academic community, due to a lack of a formal research body addressing the issues of CSR activities and corporate performance in the Saudi Arabia. Therefore, this study will provide them with substantial information about issues in the market of the Saudi Arabia, as well as premise data in the future. This study contributes to the body of knowledge and the growing empirical literature about CSR and CS, and encourages further research on such association.

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