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Corporate Governance Drivers and Corporate Social Responsibility Financial Performance Outcomes: Evidence from Saudi Arabia

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Abstract Mixed findings for corporate social responsibility and financial performance have illustrated in the prior studies. In order to clarify the past mixed findings, a call for inquiries has made for mediators and moderators. This study responds to the calls by analyzing the mediation effects of CSRDS on corporate governance and financial performance. We find that CSRD mediates the relationships between corporate governance and financial performance by using a study of 36 firm-year observations from the KSA petrochemical companies in the years 2012 through 2017. The findings show that it plays an important role to affect the financial performance of companies if they implement corporate governance efficiently to produce good CSR results. The findings of our research add to the CSR literature by describing the meditation effects of CSRDS on the previous heterogeneous conclusions on the relationship between CSR and the financial returns

Keywords Corporate Governance; Corporate Social Responsibility Disclosure; Financial Performance

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1. Introduction

The interface between corporate governance and corporate social responsibility has become global, and is more fascinating than ever before in a world marked by severe business breaches and management failures, and gross society and environmental excesses, on the one side (Ryan et al., 2010; Walls et al., 2012; Jain and Jamali, 2016; Wang and Sarkis, 2017; Hussain et al., 2018).

Firms may participate in two CSR strategies styles (Kim et al., 2012; Chen et al., 2018). One solution is to take serious and comprehensive steps to ensure corporate governance (CG). Corporate governance organizations may take up considerable resources with a higher propensity to "talk" and deliver significant CSR performance (Clarkson et al., 2011). In addition, the other CSR strategy entails a symbolic and opportunistic approach to corporate governance to enhance the corporate image or resolve emerging problems, without allocating the resources required for the deep or strategic implementation of the CSR activities. In the latter case, corporate management may be exercised from an organizational image enhancement viewpoint, which is emblematic or "greenwashed" (Testa et al., 2018). Therefore, substantial CSR and financial payments for the latter group could be reduced due to a wider credibility gap (Seele and Gatti, 2015). Moreover, Sethi (1975) reports that a difference in legitimacy arises when the actions of an Entity vary from that of the community. There would also be a credibility gap if businesses not producing the assured results. A longstanding credibility gap will lead to lower financial results over the long run and likely to a business loss (Leng Chu et al., 2012; Wang and Sarkis, 2017).

Some studies of CSR indicate that corporate social responsibility disclosure (CSRD) is positively linked to financial success of businesses (e.g., Reverte et al., 2016; Wang and Sarkis, 2013; Malik and Kanwal 2018). The mixed results of these studies were due to an absence of consideration for modest or mediating factors (Endrikat et al., 2014; Javed et al., 2016; Reverte et al., 2016). Corporate governance also impacts CSRD news (see for example, Jizi et al., 2014; Fifka and Pobizhan, 2014; Ortas et al., 2015; Javaid Lone et al., 2016; Adnan et al., 2018). Failure to implement CG or misfit planned CSR practices can also contribute to the absence of productive relationships between CSRD and financial performance. Therefore, we believe that corporate governance will only lead to improved financial performance if businesses are "thinking" to enforce corporate governance seriously and achieve successful CSRD. In addition, in the growth or emerging market sense, there are a variety of important reasons to research CSR according to Visser (2008). First, the potential for financial growth and investment in these countries is increased that can have more social and environmental impacts (Visser, 2008). Secondly, the rest of the world typically faces strong social and environmental crises in developed countries (UNDP, 2006). Third, there are distinct CSR issues in developed countries that are very different from those in the developing countries (Visser, 2008). With the recent expansion of CSR studies, the possible contextual factors that influence CSRD are, however, sparse and inconclusive (Adnan, 2009; Jian et al., 2017). The lack of successful incorporation of CSR into established organizational structures and governance framework remains (Asif et al., 2013). Since CSR research in the countries of the Arab Gulf is still limited, this study aims to investigate the impact on financial performance of corporate governance and CSRD. This research contributes in the following ways to CSR literature. In order to locate research gaps in CSRD and relationship results literature, we follow the legitimacy theory and legitimacy difference lens (Deegan et al., 2002; leng Chu et al., 2012; Seele and Gatti, 2015). In order to resolve the study gaps, we then analyze the impact of both CG and CSRD on corporate financial performance. Our findings indicate that selective implementation of corporate governance may create an increased legitimacy gap that could damage market environments such as loss of investors and wage growth. This wider legitimacy gap will lead to lower financial performance. The results will encourage businesses to take serious steps for implementing corporate governance and produce higher CSRD results to achieve financial returns.

The rest of this paper has been structured accordingly. The literature review and the formulation of the hypothesis in Section 2 are discussed. In Section 4, research design is defined, and the findings are presented in Section 5. The last segment examines the observations and draws conclusions.

2. Literature review

Corporate governance is the broad connection between the company and its stakeholders or between the company and society. High levels of corporate governance will protect the rights and social responsibility of stakeholders. An effective way to meet corporate social responsibility and achieve permanent sustainability is a standard corporate governance framework. With good governance systems, companies will deter illegal activities or short-term conduct and be more ready to report information about social responsibility to the public, revealing company accomplishments and attracting more investors (Khan and Muttakin, 2013; Liu and Zhang, 2017). Having an efficient corporate governance system is also the foundation for social responsibility undertakings. Of necessity, the divulgation of corporate social responsibility knowledge has various factors. According to the World Bank 'CSR's dedication is to contribute businesses in a way that is beneficial for the business and growth by collaborating with staff, family members, local communities and society as a whole' (Starks 2009, p. 465).

CSR can have financial as well as strategic market advantages. Companies build the trust and will of stakeholders by taking part in social activities and reports on CSR, which can give them competitively advantages (Aguilera et al., 2007; Gill, 2008; Kolk and Pinkse 2010; Jizi et al., 2014). Research indicates, as stakeholders relate to beneficial benefits sharing, that CSR reporting facilitates and boosts the reputation of companies (Gray et al. 1995; Li et al. 2010; Vanhamme et al. 2012; Aouadi, and Marsat 2018). (Bear et al. 2010). Corporations that are socially conscious tend to have higher customer satisfaction and employee loyalty (Mackenzie 2007; Abaeian et al. 2019). (Matten 2006). CSR participation also decreases the likelihood that market performance would have a negative impact on labor disputes, product protection and consumer fraud (Waddock and Graves 1997). There is also less specific risk for businesses that are considered to have high CSR standards due to a reduced variability in cash flow (Salama et al. 2011; Abaeian et al., 2019).

As dedication to CSR and CSRD will affect company risks and profitability in investment decisions, investors are more and more concerned with corporations' social behaviour (Aguilera et al., 2007; Hussain et al., 2018). US businesses show that investment in ties with workers, CSR product strategies, and environmental policies leads to lower capital costs for firms (Ghoul et al., 2011). As a result, investors are increasingly demanding that CSR boards and management report on this commitment (Abaeian et al., 2019).

The Board of Directors (BOD) is eventually responsible to create sustainable business strategy and track management's use of company resources at national and international levels, while governments are to define regulatory mechanisms for operations in companies (OECD 1999). Both domestic and corporate, good corporate governance is required "to make sure the companies are accountable to the shareholders in a broad range of constituencies as well as to their respective communities" (OECD 1999, p. 5). However, there has so far been little research on the effect of 'healthy' corporate governance at board level in relation to corporations' involvement in CSR (e.g. Jo and Harjoto 2011). Given possible interest disputes between shareholders, other stakeholders and the general public, this is of special concern. As most of the company governance structures were designed to protect the interests of shareholders (Fama, 1980; Kock and Min, 2016), the inference is by no means foregone that 'strong' corporate governance also benefits other players and civil society interests.

3. Development of hypotheses

Numerous of previous studies have indicated that, the adoption of Western models in developing economies should be encouraged by governments and policymakers' efforts to improve credibility with global actors such as international assistance organizations and external governments, (for example, in the sense of Mukherjaereed 2002; Reed 2002; Siddiqui 2010; Fayiaz, Lund-Thomsen and Lindgreen 2017). In the CSR literature the validity hypothesis is often sometimes used to describe the motivation of CSR communications. The theory is based on the idea of a 'social contract' that restricts an organization's actions within societal borders (Gray et al. 1996). Essentially, the organization, as a consequence of the work carried out or at least not detrimental to society, will enjoy the support of its stakeholders. According to this theory, the organizations are continuously trying to ensure that they work within their respective societies' bounds and guidelines, that is, that external parties regard their actions as "legitimate.". Legitimacy is a general impression or inference that a corporation's behaviour under certain socially constructed norms, principles, beliefs and meanings are desirable, reasonable or appropriate (Perrow, 1970).

Although companies may function within institutional constraints, failure to comply with vital, institutionalized acceptability requirements can threaten the credibility and eventually the survival of the company (DiMaggio and Powell, 1983; Oliver, 1991; Scott 1987; Aguilera, Judge, and Terjesen, 2018). Therefore, an organization, through its top leadership, tries to align corporate behavior with its public, public and stakeholders' principles (Dowling and Pfeffer 1975; Lindblom 1994; Montecchia, Giordano, and Grieco, 2016). Sethi (1979) argues that if there is a real or possible discrepancy between social and organizational values, organizational credibility will be eroded and legitimacy will be established. An growing distance will lead to a lack of credibility for an entity. An organization can assume several public information strategies for the survival of its members under such circumstances (Lindblom 1994; Dowling and Pfeffer 1975; Leung and Snell, 2017).

Many scholars believe that CSR disclosures can be used by an entity to minimize the credibility risk and reduce the legitimacy gap in social and environmental reporting (see for example, Chen et al. 2008; Deegan et al. 2002; Khan, 2016). The theory of legitimacy therefore implies the acknowledgement of the legitimacy gap and the introduction of required social practices in the top management of an entity and transparency that the stakeholders are accountable in order to make sure the accountability. Corporate management, especially the internal governance system (e.g., ownership and board arrangement), is expected to play an important role by expanded CSR disclosures in reducing the legitimacy gap.

3.1 Application of corporate governance and social responsibility

3.1.1 Independence of the Board

Boards with many independent directors are expected to be more effective in tracking and managing management from the theoretical viewpoint of an agency. It is therefore predicted that the management will be best oriented towards the enhancement of long-term market value and a high degree of accountability. Independent managers should be more analytical than executive directors to determine management performance, because they are less directly to involve in the implementation of business plans and policies. Furthermore, independent managers are less dependent on the goodwill of the CEO than managing directors and non-management associates with business relationships to the organization. A higher percentage of independent board directors is also expected to contribute to improved management oversight and control (Hussain et al., 2018). In addition, in comparison with high management compensation and corporate prospects of associated, non-executive director compensation is not connected with the economic success and economic development of the organization. Independent directors, therefore, are required to concentrate less on short-term financial performance goals and more on actions to improve the long-term sustainability of businesses, such as the involvement in and reporting on CSR (Ibrahim et al., 2003). Companies with independent boards should therefore be more interested in monitoring CSR and CSRD (Jamali et al., 2008; Arora and Dharwadkar 2011; Shaukat, and Trojanowski, 2016). In reality, empirical research indicates that independent directors endorse firms' investments in CSR activities more than executive or affiliate non-executive managers (Johnson and Greening, 1999; Chang et al., 2017) and pay more attention to perceiving the social impact of the organization. Previous studies have showed a high degree of openness and voluntary disclosure among the directors with a high proportion of independent managers (Cheng and Courtenay 2006; Sila, Gonzalez, and Hagendorff 2017; Elsayih, Tangii and Tango, 2015; Patelli and Prencipe 2007; Donnelly and Mulcahy 2008; Chau et Gray 2010; Liao, Luo, and Tang 2015; Torchia and Calabrò, 2016; This indicates that the disclosure of CSR activities to reduce the asymmetry of information between insiders and externals is most likely sponsored by independent directors. This leads to our first inference.

H1: The CSR disclosure positively linked to an improved degree of board independence.

3.1.2 Size of the board

In view of group dynamics, smaller boards in tracking and managing corporations are also expected to be more effective than larger boards. Because of their small size, they are required to improve communication and teamwork and to increase individual board members' engagement and transparency (Ben-Amar et al., 2017). However, small boards tend to have a broad workload, which can restrict the Board's monitoring capacity the workload of individual members (John and Senbet 1998; Jizi et al., 2014). Furthermore, smaller boards will draw on a less diversified spectrum of expertise than large boards that can affect the quality of the consultation and monitoring available (Guest 2019). Empirical research has shown that a range of factors, including business, company size and company complexity, are deciding the size of the management (Krishnan and Visvanathan 2009; Aldamen, Hollindale, and Ziegelmayer, 2018; Aldamen, Hollindale, and Ziegelmayer, 2018). Since petrochemical enterprises in KSA are complex organizations subject to wide-ranging laws, we expect that considerations of workload are extremely relevant in this context. Thus, we expect larger boards to be better able to handle CSR operations and communicate their social success efficiently with the company's stakeholders. This contributes to the below second hypothesis.

H2: The size of the board is positively related to the disclosure of CSR.

3.1.3 CEO Duality

The Agency's theory indicates that managers interests would have an influence on the level of participation in CSR and CSR disclosure. The duality of CEO can be understood in this context as both a symbol and a tool of management power. CEOs are more susceptible if they have a strong record or control a significant shareholding of the company as Chairman of the Boards of Directors (Hermalin and Weisbach 1998; Muttakin, Khan, and Mihret, 2018). Furthermore, as Chairs of Directors will set the agenda and monitor the information provided to other members of the Board, chairmen who also hold positions as Chairs will more easily withhold information from others, especially from non-leaders (Muttakin et al., 2018; Tamimi, and Sebastianelli, 2017). As a President, CEOs may also have an effect on board appointments (Haniffa and Cooke 2002; Muttakin, Khan, and Mihret, 2018). Management decisions could be more likely to be made by non-executive directors, for example to prevent confrontations with influential CEOs, in order to protect their position on the board (Dey, 2008). Empirical research indicates that CEO duality is adversely influencing the attention of Boards for monitoring, as is the extent of voluntary disclosure (Tuggle et al. 2010; Deman, Jorissen and Laveren, 2018) (Donnelly and Mulcahy 2008; Chau and Gray 2010; Wang et al., 2019).

Hagendorff and Vallascas (2011) observed that the share of equity-based compensation under their performance contracts increased in a number of US banks' CEOs increasingly involved in risky business transaction between 1993 and 2007. The structure of executive compensation packages has therefore undermined the traditional managers' propensity to curtail their risk exposure to protect their human resources. As the participation and disclosure of CSRs are generally reduced, companies' risk profiles can be counterproductive to optimizing their pay for CSR reporting (Chiang et al., 2019). If influential CEOs, rather than shareholders and other stakeholders, are willing to use CSR to add their own personal gain and moral values, they are unlikely to provide detailed, superior transparency of CSR activities. Since it increases the efficacy of external regulation by knowledgeable investors, finance analysts and corporate media, and by other main stakeholders (Healy, Li etal. 2008, Joseph, and al. 2010; Joseph etal. 2016, Chiang et al. 2019), powerful CEOs are required to use their leverage for the purpose of curtailing voluntary disclosure, including CSR disclosures, Due to the growth of management pay in petrochemical companies in the last ten years and CEOs' capacity to control the board's behaviour, who are also the chairmen of directorates, we expect:

H3: The duality of CEO has a negative relationship with the CSRD.

3.2 Transparency and financial results of corporate social responsibility

Researchers including Gray et al. (2001) and Platonova et al. (2018) conducted research into the disclosure of corporate social responsibility to recognize the value of CSRD from the perspective of corporations, which is correlated with other variables such as the corporate size, the board of directors, the amount of revenue, and the efficiency of corporations. In both of these stories, an analysis of print and electronic media and social data from annual reports were performed in developing and developed countries. Some studies between CSRD and financial performance have been carried out worldwide: some show negative outcomes, while others show positive results, which are mixed in many cases. Tsoutsoura (2004) did not find any association between financial results and social disclosure in large corporations over a period of five years. A mixed relationship between these variables is considered a positive and a reverse relationship (Griffin and Mahon, 1997). Uwuigbe and Egbide (2012) research the disclosure of corporate social responsibility in Nigerian companies. The ratios of return on asset and return on equity are used to calculate financial efficiency. These proportions reflect the product of internal policymaking in the form of investment planning for various projects. The relationship between the CSRD and the industry and company size has been studied in KSA. The result showed that these variables are related positively (Bayoud, 2012). They claimed that the divulgation of corporate social responsibility was positive and negative with financial leverage. Patterson (2013) argued that businesses are required to increase their revenue more than historically, boost employee productivity hired, and decrease the cost of equity capital because of their disclosure of CSR. In exchange, corporate valuation is improved by increased anomalous CSR transparency to improve profitability. A positive link between CSRDS and firm results has been identified in Qiu, et al. (2016). They designed the index to evaluate them and produced a positive and meaningful result. That is why we recommend,

H4: The disclosure of CSR is linked positively to financial performance.

4. Research Design

4.1 Sample

The aim of this paper is to analyze the relationship between corporate governance and Corporate social responsibility disclosure and to investigate its impact on financial performance, using the companies listed by KSA in the petrochemical industries. In the petrochemical industry, listed companies have to spend more money on social responsibility, considering several things including environment safety, working conditions for employees. The petrochemical sector therefore offers a representative sample in relation to other sectors to study corporate social responsibility disclosure. From 2012 to 2017, the sample contains all 14 KSA petrochemical firms. Due to lack of or incomplete information we exclude 8 firms. The final sample contains the remainder (6) of the companies with 36 observations in total. The study considered 2012 as the period of the study because it coincides with the introduction of the CSR regulation which was implemented in accordance with corporate governance code and the Saudi stock market (Khan et al., 2013) . These codes enable organisations, in their yearly reports, to disclose their CSR-related information. The data from various sources was used for our study. From the sample companies' annual reports we collect financial and ownership data. Information on corporate Social Responsibility was compiled by hand from governance disclosures, CSRD, the management directors' report, the Chairman's statement and the notes in the annual reports. Table 1 shows the study variables definition.

4.2 Measurements

We are creating a CSR contact measure on the basis of concepts, frames and methods used in the mainstream CSR literature. Four types of CSR are examined: community involvement, environment, employees, product quality and customer service (Gray et al. 1995; Haniffa and Cooke 2005; Branco and Rodrigues 2006; Scholtens 2008; Holder-Webb et al. 2009; Wang and Sarkis, 2017; Jian et al., 2017; Liu and Zhang, 2017). The quality of information in the four categories of CSR is measured using values based on the nature and completeness of the information given in each category (see Table 2). In each CSR category, the wealth of data revealed varies from zero to three. When quantitative figures are disclosed, a further point is seen by type, and a second point is disclosed by comparative figures. As such, a maximum of five points can be allocated for each category and a total of twenty points for the consistency of CSR disclosure. The measure of disclosure (CSRDS) is the ratio of points given by a corporation with respect to its maximum points.

Table 1: Variable definition

Variables	Definition
Financial performance	ROA &Tobin's Q
ROA	Income before extraordinary items scaled by total assets
Tobin's Q	(market value of equity + total liability – deferred tax expense) / total assets
CSRD	CSRDS CSR disclosure score measured as the ratio of disclosure content points over the maximum score a company can achieve
BS	Board size as measured by the number of board members
BI	Board independence measured by the number of independent directors over the total number of board members
DUAL	DUAL chair/CEO duality: 0 if the CEO is not acting as the chair of the board of directors; 1, otherwise,
ACS	ACS audit committee size measured by the number of members on the audit committee
ACFE	ACFE audit committee financial expertise measured by the number of financial experts on the audit committee
BM	BM board meetings measured by the number of board meetings per year
ACM	ACM audit committee meetings measured by the number of audit committee meetings per year
LEV	Total debt divided by total assets
LIQUIDITY	Total current assets divided by total current liabilities
SIZE	measured by calculating the distance of each company's log total assets from the sample mean, scaled by the log total assets' standard deviation

$$\text{CSRDS} = \sum \text{points of (community, environment employees and product \& customer services categories)} /20$$

In order to ensure that the assigned results are reproducible and accurate, the reliability and accuracy of coding are critical for application of content analysis. Though reliability testing cannot guarantee total objective scoring (Linsley et al. 2006), alpha of Kripendroff is often used to determine the agreement levels between two or more coders (Holder-Webb et al. 2009; Jizi et al., 2014). Previous studies show that alpha values of 75% or higher are usually acceptable (Holder-Webb et al. 2009). A randomly selected sample was chosen from twenty annual reports to ensure the reliability of the assigned CSR disclosure ratings. Two independent coders received the corresponding annual reports. The coders were told of the scoring process, and the CSR contents of their annual reports were then to be measured and the appropriate scores given. To assess the reliability of the scoring process, the scores given by the two independent coders along with the scoring determined by one of the authors. As the Krippendorff alpha for the inter-coding arrangement disclosed a value of 80%, the findings were satisfactory.

Since the reporting of CSR is primarily voluntary, we hope that corporate governance mechanisms will also affect CSR disclosure that impacts the provision and quality of voluntary disclosure. In current context, theory for agencies indicates that efficient audit boards are possible to boost corporate reporting reliability and reduce the asymmetry of knowledge between management and external investors and others (McMullen 1996; Sultana, Singh, and Van der Zahn, 2015). The quality of audit committees would possibly depend on their size and expertise. Because of its size and complexity, the audit committees are more efficient and more pressurized to provide information freely to managers in order to improve transparency (Li et al. 2008; Goh 2009; Chalmers, Hay, and Khlif, 2019).

Table 2: CSR categories and sub-categories

	CSR category	CSR sub-category
1	Community involvement	Contributions and donations to charities, NGOs and community activities
		Provision if support to students to continue their education and sponsoring sport activities
		Sponsoring health programmes
		Sponsoring arts and culture
		Supporting sports and/or recreational projects
		Participation in social government campaigns
2	Environment	Bank's environmental policies and concerns
		Implemented systems for environmental management
		Environmental projects such as recycling and protection of natural resources
		Energy saving in performing business operations
3	Employees	Number of employees; health and safety policies and measures.
		Equal opportunities in employment (e.g. minorities, women)
		Training and education provided to employees (training policies and nature of training)
		Employee assistance/benefits
		Employee compensation
		Employee expertise and backgrounds
		Employee share purchase schemes
		The confidence and self-esteem of employees
		Employees' appreciation
		Issues related to the recruitment process
		Photos to document employee welfare (e.g. at social activities, award ceremonies)
		Discussion of employees' welfare
		Policies adopted regarding staff profit sharing
4	Social products and services quality	Diversity of social products (e.g. climate products, educational loans etc.)
		Discussion of the types of social products
		Geographical distribution and marketing network of the offered social products
		Discussions in relation to customers feedback
		Provision for disabled, frail and difficult-to-reach customers
		Investments in social responsibility activities
		Strategies and plans for future expansion in social products and services
		Loyalty programmes and gifts to customers

Source based on categories identified by Gray et al. (1995b), Haniffa and Cooke (2005), Branco and Rodrigues (2006), Scholtens (2008), Holder-Webb et al. (2009)

Literature on voluntary disclosure and consistency of disclosure indicates also a positive influence on the scope and efficiency of corporate disclosure by members of audit committees with financial expertise (Karamanou and Vafeas, 2005; Hoitash and Hoitash, 2009; Al Shaer, Salama and Toms, 2017). While the audit committee members' knowledge of CSR-associated data seems unlikely to be connected to their financial experience, we believe that they may have a more positive mindset to sharing information in general. The number of audit committee and board meetings, as reported by Lee et al. (2004), and Chalmers (2019), may be a measure of diligence, and consequently of the effectiveness of the board of directors and audit committee. In relation to corporate reporting, research carried out by Kent and Stewart (2008) suggests that board and audit committee frequency meetings are positively linked to voluntary disclosure.

In this study, accounting-based and market-based are the dependant variables of organisational financial performance. Specifically, as an accounting-based financial performance, we use Return on Assets (ROA). Tobin's Q helps to cover the market-based. In market analysis, ROA and Tobin's Q were commonly used for calculating corporate financial efficiency. ROA is calculated as Net Income (loss) before Interest and Tax (EBIT) divided by the average total asset . A higher ROA thus implies better economic performance and can be contrasted between different companies (Kimmel et al., 2013; Wang and Sarkis, 2017). After previous financial company studies (e.g. Kaplan and Zingales, 1997; Gompers et al., 2003; Nekhili et al., 2017), Tobin's Q is the market value of a company divided by its assets' replacement cost. Tobin's Q tests how the market views the operational efficiency of companies and the ability to handle good financial performance (Tobin, 1969). A value above "one" Tobin's Q value shows that the stock market recognizes a value that does not exist in the accounting books (e.g., CSR commitment as indicated by Choi et al., 2010, Jo and Harjoto, 2011; Nekhili etal., 2013) and perceives that a company has a greater financial performance than its accounting records. The literature review section addresses that previous studies have shown mixed results between the practice of corporate CSR and the transparency and financial achievement of companies based on the market. In order to study the characteristics of this mixed relationship, we follow ROA and Tobin Q.

A variety of control variables are also included. Firstly, we use the total assets of companies to control the company size. We are adopting previous research (e.g., Jo and Haryoto, 2011; Wang and Sarkis, 2017) to use the natural asset logarithm to control company size to reduce the effect of the deviation of companies with extreme sizes. Secondly, it also controls financial risk of companies with leverage ratios (debt to asset), which imply a higher levers ratio may be correlated with higher financial risks and thus poorer financial performance, as previous studies (e.g. Opler and Titman 1994, BenlemliH and Bitar 2018, etc.) have shown. The third control variable is liquidity, as liquidity level can affect business risk and the ability of companies to generate earnings by repaying short-term debt. Liquidity can affect the management of corporations as well as the profitability of companies and assessment of corporate value (Li et al., 2012). Our final control variable is revenue growth as firms with greater growth can have an impact on their short-term profitability and CSR adoption if they have to assign more working capital to their investments (Rangan, 1998). We also monitor the impact of the general economic climate and the shifts across various sectors over several years and industries.

4.3 Specification of the research model

In our approach to the mediation effects of CSRDS on corporate governance (CG OV) and financial performance, we follow Baron and Kenny's basic four-phase approach, as defined in Baron and Kenny (1986); Kenny et al (1998). The first step is to consider whether the result is related to the causal variable (CGOV) (Financial performance). The second phase will show an essential connection between the mediator (CSRDS) and the result variable (financial performance). The association between the causal variable (CGOV) and the variable (CSRDS) is explored in step three and a relevant correlation must also be demonstrated. The last step explores the influence of the causal variable (CGOV) on the resulting variable (FP) during the mediator variable control (CSRDS). In this last step, if the relationship between the causal variable and the outcome variable is insignificant, the mediator is assumed to mediate the relationship between the causal variable and the outcome variable (Baron and Kenny, 1986).If, In the last step, the importance between causal variables and result variables is considerably reduced but some importance remains, a partial mediation is carried out (Sobel, 1986).

5. Results and Discussion

5.1 Descriptive statistics

The sample contains 36 company-year observations for 2012-2017. Petrochemical companies are sample companies. Table 3 provides descriptive statistical information for the main variables including minimum values, maximum values, average values for each variable, skewness, kurtose, as well as the standard deviation of test variables (specify variance, dispersion, or dispersion of data values for each variable). The statistics show that the average ROA of 1,028 is 0,470. The mean Tobin Q is 1.870 and for all observations a standard deviation of 0.861. Our sample companies have an average environmental score of 0.27, an average community score of 0.031, a mean social concerns score of 0.005 (CSRDSSOC) and an average employee issue score of 38. (CSRDSSOC) (CSRDSEMP). Given wide variations on the average values of the four CSRDS problems, firms have high corporate governance scores but struggle to achieve good CSR results for the community and society. The ESG scores, as described by Bloomberg, range from zero to 100. The standard deviation in log assets is 6,372; the average leverage (debt to assets ratio) is 0,701 and the standard deviation is 0,371. The mean liquidity ratio in our study is 1.840 and regular 0.632. We use White's test to test for heteroscedasticity. There is no heteroscedastic threat from the findings.

Table 3: Descriptive statistics of key variables

Variables	Mean	Median	Standard Deviation	Skewness	Kurtosis	Minimum	Maximum
ROA	0.470	0.809	1.028	0.492	1.203	0.372	0.763
Tobin's Q	1.870	1.985	0.861	1.023	1.764	0.205	0.548
CSRDS	0.36	0.49	0.18	2.102	2.731	0.00	0.8
BS	10,37	9.35	4.71	0.48	2.19	4	22
BI	0.74	0.79	0.17	-0.83	2.01	0.6	0.92
DUAL	0.48	0.12	0.53	0.52	1.92	0	1
BM	8.40	8.16	5.39	1.20	2.35	6	32
ACS	3.61	3.10	1.24	1.02	2.90	2	8
ACFE	1.85	1.02	1.17	1.42	3.27	0	6
ACM	7.47	7.12	3.20	0.41	2.10	2	19
SIZE	0.75	0.68	0.51	0.29	1.26	0	4.29
LEV	0.80	0.79	0.12	-0.32	4.29	0.73	1.25
LIQUIDITY	1.24	0.82	0.32	-0.43	3.20	0.81	9.38

The Pearson correlation matrix is presented in Table 4. This table illustrates the connection between corporate governance and CSRDS. The correlation findings show that most companies with higher CSRDS scores also have higher Corporate Governance scores in our study. CSRDS is also closely and positively linked to ROA. Additional correlations show that big corporations and high-leveraging companies appear to have lower ROA. ROA is positively linked to liquidity and growth.

Table 4: Spearman Correlations Matrix

Variables	VIF	ROA	Tobin's Q	CSRDS	BS	BI	DUAL	BM	ACS	ACFE	ACM	SIZE	LEV	LIQUIDITY
ROA	1.02	1.00												
Tobin's Q	1.17	0.29	1.00											
CSRDS	1.20	-0.18	0.03	1.00										
BS	1.62	0.30	-0.18	0.20	1.00									
BI	1.20	0.17	0.21	-0.34	0.18	1.00								
DUAL	1.17	-0.23	0.10	0.18	0.11	0.20	1.00							
BM	1.08	0.12	0.19	0.11	-0.25	0.17	-0.54	1.00						
ACS	1.29	0.08	0.13	-0.20	0.16	-0.20	0.12	-0.09	1.00					
ACFE	1.23	0.17	0.07	0.10	0.17	0.09	-0.30	0.06	0.04	1.00				
ACM	1.18	0.01	-0.03	0.12	0.12	0.06	0.09	0.13	0.27	0.30	1.00			
SIZE	1.02	0.21	0.19	0.11	0.18	-0.04	-0.08	0.21	0.04	0.18	0.29	1.00		
LEV	1.12	0.06	-0.20	0.27	0.04	0.34	0.12	0.11	0.30	-0.29	0.10	-0.07	1.00	
LIQUIDITY	1.11	0.19	0.11	-0.23	-0.08	-0.01	0.48	0.31	-0.05	-0.04	-0.08	0.23	0.28	1.00

The mediation effects

Each of the four models of regression has now been implemented to assess the mediation influence on the relationship between corporate governance and financial performance of companies.

Second, the effects from the mediation impact on company financial performance based on accounting calculated by Return on Assets in table 5 are discussed (ROA). As shown in table 5 the first model measures the direct influence of corporate governance on ROA and the results show that corporate governance is slightly related to the corporate responsibility ($p=0.003$). Results from the second model indicate that CSRDS and ROA have a major direct relationship ($p<0.001$). Via the results of Models 1 and 2, the mediation effect is thus based on the assumption that CSRDS is significantly linked to ROA. We find that corporate governance is closely linked to CSRDS ($p<0.001$), if we continue with Model 3. The CSRDS variable and the Corporate Governance in the regression model 4 are the independent variable. The findings show that the ROA ($p=0.001$) still has positive relations with CSRDS.

Table 5: Mediation effect of CSRDS on the relationship between Corporate Governance and Financial Performance

Panel A: Financial performance measured by ROA

Variables**	Predicted Sign	(1) ROA		(2) ROA		(3) CSRDS		(4) ROA	
		Estimate	P-value	Estimate	P-value	Estimate	P-value	Estimate	P-value
(Constant)		0.029	0.000	0.094	<.001	0.061	0.000	0.023	0.000
CSRDS		0.000	0.003			0.018	0.000	0.000	0.102
BS		0.073	0.000	0.038	0.000	0.102	0.000	0.039	0.000
BI	+	0.018	0.000	0.071	0.000	0.008	0.000	0.120	0.000
DUAL		0.103	0.000	0.124	0.000	0.023	0.000	0.023	<.001
BM		0.230	<.001	0.093	<.001	0.108	<.001	0.107	0.000
ACS		0.192	<.001	0.067	<.001	0.006	<.001	0.289	0.000
ACFE		0.036	0.000	0.039	<.001	0.019	0.037	0.047	<.001
ACM		0.008	0.023	0.203	0.000	0.107	0.000	0.032	<.001
SIZE		0.124	<.001	0.072	<.001	0.003	0.283	0.089	0.000
LEV		0.107	0.000	0.022	0.219	0.203	0.000	0.009	0.109
LIQUIDITY		0.056	<.001	0.100	0.000	0.027	<.001	0.120	0.000
Observations		36		36		36		36	
R^2		0.437		0.493		0.582		0.493	

Panel B: Financial performance measured by Tobin's Q

Variables**	Predicted Sign	(1) Tobin's Q*		(2) Tobin's Q*		(3) CSRDS		(4) Tobin's Q*	
		Estimate	P-value	Estimate	P-value	Estimate	P-value	Estimate	P-value
(Constant)		0.038	0.000	0.027	0.000	0.037	0.000	0.078	0.000
CSRDS		0.000	0.008			0.023	<.001	0.000	0.208
BS		0.063	0.000	0.190	0.000	0.291	0.000	0.116	0.000
BI	+	0.072	0.000	0.062	0.000	0.027	0.000	0.217	0.000
DUAL		0.302	0.000	0.173	0.000	0.019	<.001	0.016	<.001
BM		0.129	<.001	0.003	0.021	0.038	<.001	0.203	0.000
ACS		0.207	0.000	0.091	<.001	0.023	<.001	0.120	0.000
ACFE		0.120	0.000	0.102	0.000	0.017	<.001	0.063	<.001
ACM		0.029	<.001	0.082	0.000	0.229	0.000	0.047	<.001
SIZE		0.106	0.000	0.067	0.000	0.037	<.001	0.028	<.001
LEV		0.218	0.000	0.053	0.000	0.102	0.000	0.179	0.000
LIQUIDITY		0.072	0.000	0.201	0.000	0.051	<.001	0.028	<.001
Observations		36		36		36		36	
R^2		0.479		0.502		0.582		0.502	

The findings indicate that CSRDS fully facilitates the relationship between corporate governance and ROA. Furthermore, implying that corporate governance is correlated with improved financial performance in accounting when companies take serious measures to introduce good CSRDS practices. In keeping with our claim, "doing good things" might not be enough to boost financial performance for companies. In reality, organizations have to do 'good things' to improve corporate credibility and financially gain from 'doing good things.'

Among the control variables, the size of firms is positively related to CSRDS, which indicates that larger companies appear to achieve higher CSRDS outcomes in line with previous research. Both the financial performance measures shows that companies that are more liquid and achieve higher income growth appear to have higher financial performance. Finally, the leverage relationship is linked negatively to ROA but to Tobin Q positively.

Next, we follow Tobin's Q, the market-based financial accomplishment, to determine how CSRDS mediates its financial success relationship. The step-by-step test results are shown in the Panel B Table5. As seen in model 1, there is initially an important direct association between corporate governance and the Tobin Q ($p=0.008$). The findings shown in model 2 indicate that Tobin Q ($p<0.001$) is also closely related to CSRDS. The three model shows the important relationship between corporate governance and CSRDS ($p<0.001$). In model 4, where corporate and CSRDS governance are included, CSRDS appears to be in line with Tobin Q ($P=0.001$), but corporate governance is not in effect ($P=0.208$). Again, these findings suggest that CSRDS mediates completely the corporate governance relationship with Tobin's Q-based corporate market financial efficiency.

Complete, empirical analyses of the mediation effects of CSRDS show that corporate governance does not lead directly to financial results. Corporate management, which has been taken seriously to encourage good CSRDS results, aims to deliver superior financial performance in the corporate books and the stock markets. However, financial payoffs may not be made when CSR governance is superficially applied and does not lead to successful CSRDS.

5.2 Summary and Conclusion

This research is one of the first longitudinal studies to examine the implications of CSRDS and corporate governance on financial results across a comprehensive database. Corporate governance structures to obtain CSR results and improve their credibility in their corporate communities are being embraced by organizations. However, symbolic or rigorous approaches may be part of building credibility. Rigorous implementation of corporate governance will deliver superior CSR outcomes through appropriate allocation of resources and improvements in business structure. Superior results of CSR help businesses gain and retain social credibility, while leading to better corporate conditions and higher income. Symbolic implementation of corporate governance can, however, create a credibility gap leading to lower returns on investment. We thus believe that corporate management should not lead explicitly to superior financial consequences for companies. Rather, good financial results have to do with good CSR results. Only when companies can 'walk the talk' by seriously applying corporate management to produce superior CSR results can companies profit from corporate governance.

In this study, we help to understand the complexities of the relationship between CSR management and the financial results in literature. This paper is part of CSR literature. In practical terms, the findings of this study indicate that corporate governance can not always produce good financial results if businesses cannot carry out the good CSR issues seriously and perform well. Enterprises should aim to incorporate corporate governance processes more efficiently and thoroughly, so that they can benefit economically. However, organizations whose goal is to achieve "win-win" results by enhancing their corporate governance financial performance have to ensure that CSR performance results are obtained in programs that are introduced. It will be important to incorporate and enforce effective management structures to communicate corporate governance concerns and track CSR outcomes.

While the current research followed strict protocols and a comprehensive database for evaluating the effects of mediation, it also faced many constraints. The analysis focuses on the petrochemical companies for a period of six years, first because of data restrictions. The findings could also not extend to other industries. Future research should aim to use a broader dataset for the long-term impact test, as certain practices will take years and returns may not be immediate.

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