



05-4506832



pustaka.upsi.edu.my



Perpustakaan Tuanku Bainun
Kampus Sultan Abdul Jalil Shah



PustakaTBainun



otbuosi

THE RELATIONSHIP BETWEEN CSR DISCLOSURE AND FINANCIAL PERFORMANCE IN THE IRAQ PUBLIC LISTED COMPANIES: FIRM SIZE AS A MODERATOR

MUSTAFA ABD OUN SAUD



05-4506832



pustaka.upsi.edu.my



Perpustakaan Tuanku Bainun
Kampus Sultan Abdul Jalil Shah



PustakaTBainun



ptbupsi

UNIVERSITI PENDIDIKAN SULTAN IDRIS

2022



05-4506832



pustaka.upsi.edu.my



Perpustakaan Tuanku Bainun
Kampus Sultan Abdul Jalil Shah



PustakaTBainun



ptbupsi

THE RELATIONSHIP BETWEEN CSR DISCLOSURE AND FINANCIAL
PERFORMANCE IN THE IRAQ PUBLIC LISTED COMPANIES:
FIRM SIZE AS A MODERATOR

MUSTAFA ABD OUN SAUD

THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENT
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

FACULTY OF MANAGEMENT AND ECONOMICS
UNIVERSITI PENDIDIKAN SULTAN IDRIS

2022



Please tick (☐)
Project Paper
Masters by
Research Masters
by Mix Mode
Ph.D.

<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>
<input type="checkbox"/>

INSTITUTE OF GRADUATE STUDIES

DECLARATION OF ORIGINAL WORK

This declaration is made on the **13/ 12 / 2022**

i. Student's Declaration:

I, MUSTAFA ABD OUN SAUD - P20172000859- Faculty of Management and Economics hereby declare that the dissertation / thesis titled (The Relationship Between CSR Disclosure And Financial Performance In The Iraq Public Listed Companies: Firm Size as a Moderator) is my original work. I have not plagiarized from any other scholar's work and any sources that contain copyright had been cited properly for the permitted meanings. Any quotations, excerpt, reference or re-publication from or any works that has copyright had been clearly and well cited.

Signature of the student

ii. Supervisor's Declaration:

I, Dr. Rohalia Binti Yusof hereby certify that the work entitled (The Relationship Between CSR Disclosure And Financial Performance In The Iraq Public Listed Companies: Firm Size as a Moderator) was prepared by the above-named student, and was submitted to the Institute of Graduate Studies as a partial / full fulfillment for the conferment of the requirements for Doctor of Philosophy (By Research), and the aforementioned work, to the best of my knowledge, is the said student's work.

Date

Signature of the Supervisor



SULTAN IDRIS EDUCATION UNIVERSITY

**INSTITUT PENGAJIAN SISWAZAH /
INSTITUTE OF GRADUATE STUDIES**

**BORANG PENGESAHAN PENYERAHAN TESIS/DISERTASI/LAPORAN KERTAS PROJEK
DECLARATION OF THESIS/DISSERTATION/PROJECT PAPER FORM**

**Tajuk / Title: The Relationship Between CSR Disclosure and Financial Performance In The Iraq
Public Listed Companies: Firm Size as a Moderator**

No. Matrik / Matric No.: P20172000859

Saya / I : Mustafa Abd Oun Saud

mengaku membenarkan Tesis/Disertasi/Laporan Kertas Projek (Kedoktoran/Sarjana)* ini disimpan di Universiti Pendidikan Sultan Idris (Perpustakaan Tuanku Bainun) dengan syarat-syarat kegunaan seperti berikut:-

acknowledged that Universiti Pendidikan Sultan Idris (Tuanku Bainun Library) reserves the right as follows:-

1. Tesis/Disertasi/Laporan Kertas Projek ini adalah hak milik UPSI.
The thesis is the property of Universiti Pendidikan Sultan Idris
2. Perpustakaan Tuanku Bainun dibenarkan membuat salinan untuk tujuan rujukan dan penyelidikan.
Tuanku Bainun Library has the right to make copies for the purpose of reference and research.
3. Perpustakaan dibenarkan membuat salinan Tesis/Disertasi ini sebagai bahan pertukaran antara Institusi Pengajian Tinggi.
The Library has the right to make copies of the thesis for academic exchange
4. Sila tandakan (✓) bagi pilihan kategori di bawah / Please tick (✓) from the categories below:-

- | | | |
|--------------------------|---------------------------------------|---|
| <input type="checkbox"/> | SULIT/CONFIDENTIAL | Mengandungi maklumat yang berdarjah keselamatan atau kepentingan Malaysia seperti yang termaktub dalam Akta Rahsia Rasmi 1972. / Contains confidential information under the Official Secret Act 1972 |
| <input type="checkbox"/> | TERHAD/RESTRICTED | Mengandungi maklumat terhad yang telah ditentukan oleh organisasi/badan di mana penyelidikan ini dijalankan. / Contains restricted information as specified by the organization where research was done |
| <input type="checkbox"/> | TIDAK TERHAD /
OPEN ACCESS | |

(Tandatangan Pelajar/ Signature)

(Tandatangan Penyelia / *Signature of Supervisor*)
& (Nama & Cop Rasmi / *Name & Official Stamp*)

Tarikh: **31/ 12 / 2022**

Catatan: Jika Tesis/Disertasi ini **SULIT @ TERHAD**, sila lampirkan surat daripada pihak berkuasa/organisasi berkenaan dengan menyatakan sekali sebab dan tempoh laporan ini perlu dikelaskan sebagai **SULIT** dan **TERHAD**.

Notes: If the thesis is CONFIDENTIAL or RESTRICTED, please attach with the letter from the organization with period and reasons for confidentiality or restriction.



ACKNOWLEDGEMENT

First of all, I would like to express all praise to Allah S.W.T, Who has given me the opportunity, strength, and health to complete my study.

I would like to express my sincere gratitude to my grateful and helpful main supervisor Dr. Rohalia Binti Yusof, for her guidance, support, patience, motivation, and immense knowledge. Her guidance helped and inspire me throughout my Ph.D. journey.

I could not have imagined having a better advisor for my Ph.D. study. Without her support and encouragement, this thesis could not have been completed. Many thanks also to my co-supervisors Dr. Azam Abdelhakeem Khalid and for all the people who helped to complete the research even if it was with just a prayer. A special thanks dedicated to for all his support and encouragement. Last but not least, I would like to thank my wife and my family from the bottom of my heart for their patience with me to complete my study. I would never forget all the sacrifices they have done for me. Their prayers and unconditional support provided me with force and determination.





05-4506832



pustaka.upsi.edu.my



Perpustakaan Tuanku Bainun
Kampus Sultan Abdul Jalil Shah



PustakaTBainun



ptbupsi

v

DEDICATION

Dedicated to my beautiful family.

To the most precious people in my life: my wife, parents, brothers, siste



05-4506832



pustaka.upsi.edu.my



Perpustakaan Tuanku Bainun
Kampus Sultan Abdul Jalil Shah



PustakaTBainun



ptbupsi



05-4506832



pustaka.upsi.edu.my



Perpustakaan Tuanku Bainun
Kampus Sultan Abdul Jalil Shah



PustakaTBainun



ptbupsi



ABSTRACT

Iraq corporations still perform below expectation and are yet to fully comply with the requirement of International Accounting Standards (IAS). Past research on corporate social responsibility (CSR) practices had shown positive effects on financial performance. Thus, this research aims to examine the relationship between the CSR dimensions disclosure and financial performance in Iraq corporations and the effect of firm size on CSR and financial performance. This study further analyses the moderating effect of firm size on the relationship between CSR dimensions and financial performance. CSR in this study refers to reporting in the environment, employee, community, product and governance dimensions. Financial performance is represented by Return on Assets (ROA), Net Profit Margin (NPM) and Earning per share (EPS). Stakeholder's theory, legitimacy theory and agency theory are used to support the linkage among CSR disclosures, firm size and financial performance in Iraq corporations. Data were collected from annual reports of 27 selected companies listed on the Iraq Stock Exchange (ISE) from 2016 to 2019. Panel data regression techniques namely Fixed Effects Estimation and Random Effects Estimation in addition to Pooled Ordinary Least Squares regression were carried out. The results showed that CSR dimensions of employees and products positively influence the ROA and EPS, while environment and governance negatively influence ROA, NPM and EPS. There is a significant relationship in community dimension influence the ROA, NPM and EPS. Furthermore, firm size significantly moderates the relationship between environment, employee, community and product dimension of CSR with financial performance. This indicates advantages for companies with a high level of firm size enable them to gain investors' confidence. The study provides insights into the need to formulate policy on the practice of CSR disclosure and firm size in Ira





HUBUNGAN ANTARA PENDEDAHAN CSR DAN PRESTASI KEWANGAN DALAM SYARIKAT TERSENARAI AWAM IRAQ: SAIZ FIRMA SEBAGAI MODERATOR

ABSTRAK

Syarikat Iraq masih belum mencapai tahap yang memuaskan dan belum sepenuhnya mematuhi keperluan piawaian perakaunan antarabangsa. Terdapat banyak penyelidikan mengenai amalan tanggungjawab sosial korporat (CSR) telah menunjukkan kesan positif terhadap prestasi kewangan. Oleh itu, penyelidikan ini bertujuan untuk mengkaji hubungan antara pendedahan dimensi dalam CSR dengan prestasi kewangan syarikat di Iraq, kesan saiz firma terhadap keatas pendedahan CSR dan prestasi kewangan. Kajian ini turut menganalisis kesan moderasi saiz firma terhadap hubungan diantara pendedahan CSR dan prestasi kewangan syarikat di Iraq. Pendedahan CSR dalam kajian ini merujuk kepada pemboleh ubah dimensi persekitaran, pekerja, komuniti, produk dan tadbir urus. Prestasi kewangan merujuk kepada Pulangan atas Aset (ROA), Margin Keuntungan Bersih (NPM) dan Perolehan Sesaham (EPS). Teori pihak berkepentingan, teori kesahan dan teori agensi digunakan untuk menyokong hubungan antara pendedahan CSR, saiz firma dan prestasi kewangan di syarikat Iraq. Data dikumpulkan daripada laporan tahunan 27 syarikat terpilih yang tersenarai di Bursa Saham Iraq (ISE) dari 2016 hingga 2019. Teknik regresi iaitu Anggaran Kesan Tetap dan Anggaran Kesan Rawak sebagai tambahan kepada regresi Pooled Ordinary Least Square telah dijalankan. Keputusan menunjukkan bahawa dimensi pekerja dalam CSR dan dimensi produk mempengaruhi ROA dan EPS secara positif, manakala persekitaran dan tadbir urus mempunyai pengaruh negatif terhadap ROA, NPM dan EPS. Terdapat hubungan yang signifikan dimensi komuniti terhadap ROA, NPM dan EPS. Seterusnya, saiz syarikat secara signifikan menyederhanakan hubungan antara persekitaran, pekerja, dan masyarakat dengan dimensi produk dengan prestasi kewangan. Ia menunjukkan kelebihan bagi syarikat yang menghasilkan tahap saiz firma yang tinggi dan membolehkan mereka mendapat keyakinan pelabur. Kajian ini memberi pandangan mengenai keperluan untuk merangka dasar mengenai amalan pendedahan CSR dan saiz firma di Iraq.



TABLE OF CONTENT

	Page
DECLARATION OF ORIGINAL WORK	ii
DECLARATION OF THESIS/DISSERTATION/PROJECT	iii
ACKNOWLEDGEMENT	iv
DEDICATION	v
ABSTRACT	vi
ABSTRAK	vii
TABLE OF CONTENTS	viii
LIST OF TABLES	xiv
LIST OF FIGURES	xvi
LIST OF ABBREVIATIONS	xvii
LIST OF APPENDIXES	xix
CHAPTER 1 INTRODUCTION	
1.1 Introduction	1
1.2 Background of Study	2
1.3 Problem of Statement	6
1.4 Research Objectives	8
1.5 Research Questions	8
1.6 Research Hypothesis	9
1.7 Conceptual Framework	11
1.8 Significance of the Study	14
1.9 Scope of Study	15
1.10 Operational Definition	15

1.10.1 Corporate Social Responsibility	16
1.10.1.1 Environmental Dimension	16
1.10.1.2 Employee Dimension	17
1.10.1.3 Community Dimension	17
1.10.1.4 Product Dimension	17
1.10.1.5 Governance Dimension	18
1.10.2 Financial Performance	18
1.10.2.1 Return on Asset (ROA)	19
1.10.2.2 Net Profit Margin (NPM)	19
1.10.2.3 Earnings per Share (EPS)	19
1.10.3 Firm Size	20
1.11 Summary	21

CHAPTER 2 LITERATURE REVIEW

2.1 Introduction	22
2.2 Overview about Iraqi Companies	23
2.2.1 Iraqi companies in the Iraqi Stock Exchange	23
2.2.2 Industrial companies in oil sector	25
2.2.3 Development of the Iraqi Market for Securities and Listed Companies	26
2.3 Corporate Social Responsibility	29
2.3.1 Defining CSR	33
2.3.1.1 Early Definitions of CSR	35
2.3.1.2 Recent Definitions of CSR	36
2.4 Dimensions of Corporate Social Responsibility	39

2.4.1	Environmental Dimension	42
2.4.2	Employee Dimension	43
2.4.3	Community Dimension	44
2.4.4	Product Dimension	46
2.4.5	Governance Dimension	49
2.5	The Importance of Corporate Social Responsibility Disclosure	51
2.6	Empirical Research in CSR Disclosure	53
2.6.1	Corporate Social Responsibility in Developed Countries	53
2.6.2	Corporate Social Responsibility in Developing Countries	54
2.6.3	Corporate Social Responsibility in Iraq	59
2.7	Underlying Theories in CSR Research	68
2.7.1	Stakeholder Theory	69
2.7.2	Stakeholder Theory and Corporate Social Responsibility	71
2.7.3	Legitimacy Theory	74
2.7.4	Legitimacy Theory and CSR Disclosure	76
2.7.5	Agency Theory	80
2.7.6	CSR Disclosure and Agency Theory	82
2.8	Financial Performance (FP)	84
2.9	The Importance of Financial Performance	91
2.10	Financial Performance Indicators	92
2.11	Relationship between CSR and Financial Performance	96
2.12	Firm Size	114
2.13	Hypothesis Development	119
2.14	Summary	134

CHAPTER 3 RESEARCH METHODOLOGY

3.1	Introduction	135
3.2	Research Design	136
3.3	Population and Sample of the Research	137
3.4	Data Sources	140
3.5	Research Instrument	141
3.5.1	Measuring Corporate Social Responsibility	142
3.5.1.1	Content analysis	144
3.5.1.2	Scoring Method	145
3.5.2	Measuring the Financial Performance	151
3.5.3	Measures of Moderator Variables	153
3.6	Data Analysis	154
3.6.1	Descriptive Analysis	155
3.6.2	Correlation Analysis	156
3.6.3	Regression Analysis (Multivariate analysis)	157
3.7	Validity and Reliability	165
3.7.1	Validity	165
3.7.2	Reliability	166
3.8	Summary	167

CHAPTER 4 FINDINGS AND ANALYSIS

4.1	Introduction	168
4.2	Normality Assessment (Skewness and Kurtosis)	169

4.3	Descriptive Statistics	170
4.4	Correlation Matrix and Multicollinearity Assessment	172
4.5	The levels of CSR Disclosure, Firm Size and FP (Descriptive Analysis)	175
4.5.1	The Levels of CSR Disclosure	175
4.5.2	The levels of Firm Size and Financial Performance	182
4.6	The Relationship between CSR Disclosure and FP	188
4.7	Hypotheses Test	199
4.8	Summary	201

CHAPTER 5 NUMERICAL EXPERIMENTS

5.1	Introduction	204
5.2	Summary of Research	205
5.3	Discussion of Findings	208
5.4	Relationship between Corporate Social Responsibility Disclosure and Financial Performance	212
5.4.1	Relationship between CSR (Environmental) and Financial Performance	212
5.4.2	Relationship between CSR (Employee) and Financial Performance	213
5.4.3	Relationship between CSR (Community) and Financial Performance	214
5.4.4	Relationship between CSR (Product) and Financial Performance	216
5.4.5	Relationship between CSR (Governance) and Financial Performance	217
5.4.6	Moderation of TA and TR *(CSR and FP)	218
5.4.7	Discussions of the Research Objectives	219

5.5	Implications of the Study	220
5.5.1	Theoretical Implications	220
5.5.2	Practical Implications	222
5.5.3	Methodological Implication	225
5.6	Limitations of the Study	225
5.7	Recommendations	226
5.8	Suggestion for Future Research	227
5.9	Conclusions	229
	REFERENCES	231
	APPENDIX	275

LIST OF TABLES

Table No		Page
2.1	Iraqi Companies Listed in the Iraqi Stock Exchange (ISE).	72
2.2	Selected Definitions of CSR	99
2.3	CSR Dimensions	41
2.4	Examples of relationship between CSR and FP	99
3.1	The companies used for the current study	139
3.2	Environmental Category Indicators	147
3.3	Employee Category Indicators	148
3.4	Community Category Indicators	149
3.5	Product Category Indicators	150
3.6	Governance Category Indicators	150
3.7	Measuring the Financial Performance	153
3.8	Measuring of Moderator Variables	154
3.9	Cronbach's Alpha Assessment of CSR Disclosure	157
4.1	Skewness and Kurtosis Results	169
4.2	Number of Companies and Different Categories	170
4.3	Number of Cases and Different Categories	171
4.4	Number of Cases and Different Companies	171
4.5	Correlation Matrix between the Proposed Variables	173
4.6	Multicollinearity Assessment of CSR indicators	175
4.7	Descriptive Statistics for the CSR Disclosure	176
4.8	Descriptive Statistics of Environment	177
4.9	Descriptive Statistics of CSR-Employee	178

4.10	Descriptive Statistics of CSR-Community	179
4.11	Descriptive Statistics of Products	180
4.12	Descriptive Statistics of Governance	181
4.13	Descriptive Statistics for the Firm Size and FP	182
4.14	Descriptive Statistics of Return on Assets	183
4.15	Descriptive Statistics of Net Profit Margin	184
4.16	Descriptive Statistics of Earning Per Share	185
4.17	Descriptive Statistics of Total Assets	186
4.18	Descriptive Statistics of Total Revenue	187
4.19	Model 1 Criterion to Choose the Regression Model	189
4.20	Regression Analysis of Model 1	190
4.21	Model 2 Criterion to Choose the Regression Model	191
4.22	Regression Analysis of Model 2	191
4.23	Model 3 Criterion to Choose the Regression Model	192
4.24	Regression Analysis of Model 3	193
4.25	Model 4 Criterion to Choose the Regression Model	194
4.26	Regression Analysis of Model 4	195
4.27	Moderation Interaction Analysis (TA)	197
4.28	Moderation Interaction Analysis (TR)	198
4.29	Research Hypotheses Status	200
5.1	Summary of Regression Result for the Influence of CSR on FP	206
5.2	Moderation of TA and TR *(CSR and FP)	207

LIST OF FIGURES

Figure No		Page
1.1	The Conceptual Framework	13
2.1	Diagrammatic presentation of Financial Performance Indicators	94
2.2	Research framework	199
3.1	Process for Awarding Scores in Content Analysis	146
4.1	Level of Environment Dimension of CSR (CSRENV) Means for Oil and Gas, Agriculture and Agro-based	177
4.2	Level of Employee Dimension of CSR (CSREMP) Means for Oil and Gas, Agriculture and Agro-based	178
4.3	Level of Community Dimension of CSR (CSRCOMM) Means for Oil and Gas, Agriculture and Agro-based	179
4.4	Level of Product Dimension of CSR (CSRPROD) Means for Oil and Gas, Agriculture and Agro-based	180
4.5	Level of Governance Dimension of CSR (CSRGOV) Means for Oil and Gas, Agriculture and Agro-based	181
4.6	Level of Return on Assets (ROA) Financial Performance Indicators for Oil and Gas, Agriculture and Agro-based and Manufacturing	183
4.7	Level of Net Profit Margin (NPM) Financial Performance Indicators for Oil and Gas, Agriculture and Agro-based and Manufacturing	184
4.8	Level of Earnings per Share (EPS) Financial Performance Indicators for Oil and Gas, Agriculture and Agro-based and Manufacturing	185
4.9	Level of Total Asset (TA) firm size index for Oil and Gas, Agriculture and Agro-based and Manufacturing	186
4.10	Level of Total Revenue (TR) firm size index for Oil and Gas, Agriculture and Agro-based and Manufacturing	187



LIST OF ABBREVIATIONS

BSX	Baghdad Stock Exchange
CD	Product Dimension
CD	Communities Dimension
CFP	Financial Performance
CG	Corporate Governance
CGQ	Corporate Governance Quotient
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index
DJSI	Dow Jones Sustainability Index
DSI	Domini Social Index.
ED	Environment Dimension
ED	Employees Dimension
EPS	Earnings Per Share
FE	Fixed Effect
FZ	Firm Size
GD	Governance Dimension
GRI	Global Reporting Initiative
ISE	Iraq Stock Exchange
KLD	Kinder, Lydenberg, And Domini
LT	Legitimacy Theory
MMR	Moderating Multiple Regression





MVA	Market Value Added
NPM	Net Profit Margin
OLS	Ordinary Least Squares
OPEC	Organization of Oil Exporting Countries
RE	Random Effect
ROA	Return On Asset
ROCE	Return On Capital Employed
ROE	Return On Equity
ROS	Return On Seals
ST	Stakeholder Theory
TA	Tatal Asset
TBL	Triple Bottom Line
TR	Tatal Ravrnue
TQ	Tobin's Q
UK	United Kingdom
USA	United States Of America
VIF	Variance Inflation Factor





APPENDIX LIST

A List of publications

B Additional Analysis





CHAPTER 1

INTRODUCTION



1.1 Introduction

The current chapter deliberates on the study background, corporate social responsibility (CSR) concept, firm size, and financial performance of Iraqi corporations. The introduction is followed by the problem statement section, which elaborates on the focus of the study. The other sections in this chapter include the research objectives, research questions, hypotheses, significance of study, conceptual framework, research scope, and operational definition of the terms. A brief summary closes the whole chapter.





1.2 Background of Study

Over the last decade, Iraq has achieved development in several sectors. Socio-economic development is one of them. Following the culmination of the Iraq war in 2003, it was essential to reconstruct and develop the republic of Iraq. Falah and Ali (2010) stated that there was an intense financial crisis in the 1980 and 1990 period due to the consequences of the war which led to significant damages and weakness to the international environment. Thus, in such a condition, there exists severe poverty everywhere in Iraq. Nowadays, there is a significant change in Iraq's infrastructures as well as political and economic conditions which are transforming tremendously.

Hamid (2017) stated that Iraq's economy is adapting to the global economic system after the war in 2003 and the country was nominated as one of the most attractive destinations in Asia for foreign investors. Although the economic growth rate was high during the last decade, it was not sustainable as there were some side effects on the environment and the society of Iraq. The human demographics change was significant because the poor from the countryside moved to the cities to find work. Rahima (2018) illustrated that several major environmental problems had occurred related to waste management, energy savings and so on. Urban living increased rapidly and with the increase in population, there was a shortage in agricultural land and natural areas as well as higher consumption of energy and materials. Corporations are regulated by the Iraqi Stock Exchange (ISE) with the aim of achieving synergies, diversifications and growth in earnings. The ISE was established in 2004; however, it soon became less popular as a result of the difficulties in managing separate business units.





Apart from that, conglomerates in developing economies such as Iraq are also facing difficulties in managing existing conflicts in the environment in which they operate. As such, many of these conglomerates engage in Corporate Social Responsibility (CSR) initiatives. The notion of CSR is that in their effort of profit making, companies should also take into account the effect of their daily activities on the surrounding community and ascertain that their operations are environmentally sustainable. In Iraq, the notion of CSR began with the discovery of oil in southern Iraq which led to a huge environmental-business conflict. The surrounding communities complained of environmental dilapidation which caused numerous negative social impacts, but the companies were unwilling to take responsibility. Such conflicts eventually became the starting point of the practice of CSR in Iraq. Its main objective is to protect the rights of the surrounding community against corporate exploitation, which led to the establishment of numerous legislations for regulating the operations of businesses and industries in Iraq towards recognizing and safeguarding the public's interest (Taha, 2006).

Literatures on CSR have put forth numerous perspectives on the subject. Friedman (1962), for example, believe that businesses should focus on making profit and any actions that prevent them from doing so have no legal backing. On the other hand, Freeman and Liedtka (1991) are of the view that companies are liable for all the stakeholders and that they need to be more responsible for the welfare of the society as well as solve existing social and environmental issues in their marketplace. Currently, most corporate managers believe that their businesses should operate beyond the objective of making profit. They believe that their decision making should take into account the interests of all the employees, business partners, products, shareholders and





the whole society which would in turn ensure continuous profitability. However, there are difficulties in measuring the actual profitability of companies due to the various ratios involved. Globally, CSR is a major concern for all organizations. It has now become a business strategy for companies to voluntarily incorporate environmental and social concerns into their business operations, hence improving stakeholder engagement as explained by McGill, Enquist, Weiher and Westoby (2016) and Turker (2009) that CSR is basically a relationship between the business, the environment, and the society. CSR focuses on numerous issues including poverty, social equity, human rights, corruption, and community relationships.

Economically, CSR focuses on employment matters, growth rates, and gross domestic product (GDP) (Ioannou & Serafeim, 2014; Vigneau, Humphreys & Moon, 2015). CSR highlights a company's voluntary relationship with the environmental and societal stakeholders under certain circumstances (McGill, Etienne, Gray, Alonso, Anderson, Benecha & Hurlbert, 2016; McGill et al., 2016). Awareness on environmental issues started in the early 1960s, leading to the emergence of a society with a new ecological vision. Karaye, Ishak and Che Adam (2014) expounded that CSR is a matter of integrating and balancing a company's economic, social, and environmental relations and the impact of its activities. Okur (2015) stated that CSR involves the incorporation of social and environmental matters into company operations, as well as stakeholder interaction in relation to their voluntary initiatives. The three basic aspects of CSR that are measured by the triple bottom line (TBL) are social, economic, and environmental concerns. Apart from these aspects, a business organization can prepare its own CSR report for internal and stakeholder use.





For example, the global reporting initiatives are one of the most commonly used reports for CSR disclosure (Bidari, 2016). These initiatives provide a comprehensive and detailed information on all aspects of a company's sustainable processes (e.g., environmental, social, economic), as well as the quantitative and qualitative data which improves understanding regarding the progress achieved in sustainable performance, enhanced risk management, and awareness of opportunities (Okur, 2015). However, the issue of CSR and financial performance has been extensively debated, leading to the possibility of an independent CSR that can function without financial assistance. Maqbool and Zameer (2018) stated that there may be numerous arguments that interject the variables between CSR and financial performance. However, Rodriquez-Fernandez (2016) stated that a large, global multi-stakeholder network often collaborates and develops a framework that reports sustainability. Furthermore, this framework can be used internationally by companies that endeavour to report how they deal with social, economic, and environmental issues. Such CSR-financial performance framework is established to enable companies to stake their resources (Santoso & Feliana, 2014).

Additionally, this framework indirectly drives companies to engage in proper behaviours, including being environmentally responsible and aware of labour matters (Rodriquez-Fernandez, 2016). When companies are negligent of their social obligations, costly outcomes may occur leading to financial impacts including loss of profit and weak social consciousness. In comparison, socially responsible companies would achieve better profits due to higher business incentives. Hence, CSR investments result in positive impacts including greater financial results and lower risks, thus improving long-term growth in various aspects (Lin, Ho, Ng & Lee, 2017).





1.3 Problem of Statement

A firm's willingness to engage in CSR activities depends on its economic perspectives. According to Jones, Christensen, Mackey and Whetten (2014), there are two types of firms namely those that believe in maximizing profits, and those that believe in maximizing shareholder value. However, CSR is a profitability factor which can attract, motivate and retain the desired workforce and enhance financial performance (Surroca, Tribó & Waddock, 2010). According to Odhiambo (2015), an increase in CSR score also increases financial performance. CSR positively affects not only financial performance, but also the shareholders. In short, the more the CSR activities, the higher the financial performance. Dumitrescu, Simionescu and Roman (2015) further argued that financial performance is boosted by CSR, at least in the long run.



Some other studies indicated that CSR and financial performance are negatively correlated. Baird, Geylani and Roberts (2012) and Peng and Yang (2014) for instance found that CSR neither improves nor deteriorates the financial achievements of a firm. On the contrary, Yaqoub and Hussein (2014) found that the financial performance of listed Iraqi companies has declined and that stakeholders are becoming more concerned about their company's financial performance. In fact, stakeholders of various companies have been concerned about the companies' financial performance because it can affect the companies' image (Fayha & Emad, 2014). However, most Iraqi companies are not interested in disclosing their social responsibility initiatives in their financial statements in a way that clearly reflects their positive social role, as well as the financial sacrifices they have undertaken to develop their employees, interact with the society, improve the quality of products, and protect the environment, as the modern





world is a great threat to the lives of societies. According to Mohammed et al. (2016), the size of Iraqi firms is relatively smaller compared to international standards. They are also not interested in disclosing their CSR information although they have weak financial performance; even the annual financial performance of the Iraqi Stock Exchange is weak and inefficient. Fayha et al. (2014) conducted a study on the Iraqi Stock Exchange covering the years of 2016-2019 and found that it has a weak and inefficient performance.

The researchers then recommended for the authorities to take the needed measures to boost its efficiency. Despite such findings, no empirical study has been carried out to determine the impact of CSR on FP with the consideration of firm size as a moderator. Therefore, the present study is conducted to fill this gap. The existing studies on CSR only concentrate on the effect of CSR on FP, and came out with mixed findings. Therefore, this present study focuses more on the effect of CSR on FP. This study firm size as the moderator and its effect on the said relationship. As no prior study in the Iraqi context had considered firm size as a moderator, this current study hence investigates the link between CSR and the financial performance of Iraqi corporations by considering firm size as a moderator and exploring whether the relationship is positive, negative or neutral.



1.4 Research Objectives

By combining the areas of CSR, firm size and financial performance, this study aims of fulfill the objectives below:

- 1- To determine the levels of CSR disclosure, firm size and financial performance in Iraqi companies.
- 2- To examine the relationship between CSR disclosure (environment, employee, community, product and governance) and financial performance (ROA, NPM and EPS).
- 3- To determine whether firm size (total assets and total revenue) moderate the relationship between corporate social responsibility (environment, employees, community, product and governance) and financial performance in Iraqi companies.

1.5 Research Questions

- 1- What are the levels of CSR disclosure, firm size and financial performance in Iraqi companies?
- 2- Is there a relationship between CSR disclosure (environment, employee, community, product and governance) and financial performance (ROA, NPM and EPS)?
- 3- Do firm size (total assets and total revenue) moderate the relationship between corporate social responsibility (environment, employee, community, product and governance) and financial performance in Iraqi companies?



1.6 Research Hypothesis

Hypothesis 1: CSR environment has a positive relationship with Financial Performance

H1a - CSR environment has a positive relationship with ROA

H1b - CSR environment has a positive relationship with NPM

H1c - CSR environment has a positive relationship with EPS

H1d - CSR environment has a positive relationship with Overall FP

Hypothesis 2: CSR employee has a positive relationship with Financial Performance

H2a - CSR employee has a positive relationship with ROA

H2b - CSR employee has a positive relationship with NPM

H2c - CSR employee has a positive relationship with EPS

H2d - CSR employee has a positive relationship with Overall FP

Hypothesis 3: CSR community has a positive relationship with Financial Performance

H3a - CSR community has a positive relationship with ROA

H3b - CSR community has a positive relationship with NPM

H3c - CSR community has a positive relationship with EPS

H3d - CSR community has a positive relationship with Overall FP





Hypothesis 4: CSR product has a positive relationship with Financial Performance

H4a - CSR product has a positive relationship with ROA

H4b - CSR product has a positive relationship with NPM

H4c - CSR product has a positive relationship with EPS

H4d - CSR product has a positive relationship with Overall FP

Hypothesis 5: CSR governance has a positive relationship with Financial Performance

H5a - CSR governance has a positive relationship with ROA

H5b - CSR governance has a positive relationship with NPM

H5c - CSR governance has a positive relationship with EPS

H5d - CSR governance has a positive relationship with Overall FP



Hypothesis 6: Total Assets moderate the relation from CSR variables and Financial Performance

H6a - TA moderates the relationship between CSR environment and FP

H6b - TA moderates the relationship between CSR employee and FP

H6c - TA moderates the relationship between CSR community and FP

H6d - TA moderates the relationship between CSR product and FP

H6e - TA moderates the relationship between CSR governance and FP



Hypothesis 7: Total Revenue moderate the relation from CSR variables and Financial Performance

H7a - TR moderates the relationship between CSR environment and FP

H7b - TR moderates the relationship between CSR employee and FP

H7c – TR moderates the relationship between CSR community and FP

H7d - TR moderates the relationship between CSR product and FP

H7e – TR moderates the relationship between CSR governance and FP

1.7 Conceptual Framework

In this conceptual framework, CSR comprises the dimensions of environment, employees, community, product, and governance. These dimensions are the independent variables of the current conceptual framework whereby CSR is synthesized to be associated with firm size and financial performance. Concurrently, firm size is measured by two indicators namely total assets and total revenue (Oh & Park, 2015). Thus, financial performance is the dependent variable in the current study and is measured via accounting-based financial performance (i.e. ROA, NPM, and EPS). The explanation of the association among the independent, moderator, and dependent variables is provided as follows. In general, companies should measure their sustainable performance (SPM) to determine how they perform and measure sustainability progress with GRIS (Hartmann & Slapničar, 2012). SPM or the three-dimensional performance (TBL) was found based on the notion that companies should measure their performance on the basis of the relationship of the stakeholders with the local communities and governments, and not just with the stakeholders with which they



have direct connections (Giannarakis, Kontos, Zafeiriou & Partalidou, 2016). Reports outside of the financial reports require accounting standards, in which companies can benefit from two aspects. On one hand, companies are able to add legitimacy to their financial performance without undermining their social and environmental performance. Thus, community support is ensured and potential risks to the companies are reduced or minimized. On the other hand, disclosure will improve the companies' reputation in the market as well as their market value, enhance product loyalty, and satisfy the employees and other stakeholders, thereby reflecting positively on future financial performance.

Overall, recognition of a company's interest in taking social actions beyond economic activities and strict compliance with the law are the starting points for the theoretical analysis of the impact of firm size on the effectiveness of CSR in achieving financial performance. This section explains the association between the variables in the conceptual framework with firm size as a moderator in the CSR-financial performance relationship. The selection of firm size as a moderating variable rests on the assumption that CSR generates better firm size, thereby leading to better financial performance. Previous studies on firm size have employed this concept as a moderator to explain the relationship between justice judgments and intrinsic motivation (Hartmann & Slapničar, 2012) as well as the roles of firm size and trust in examining the link between corruption and citizen satisfaction (Park & Blenkinsopp, 2011). The researcher uses the preceding description and hypotheses as the bases to explicate the conceptual framework as shown in Figure 1.1.



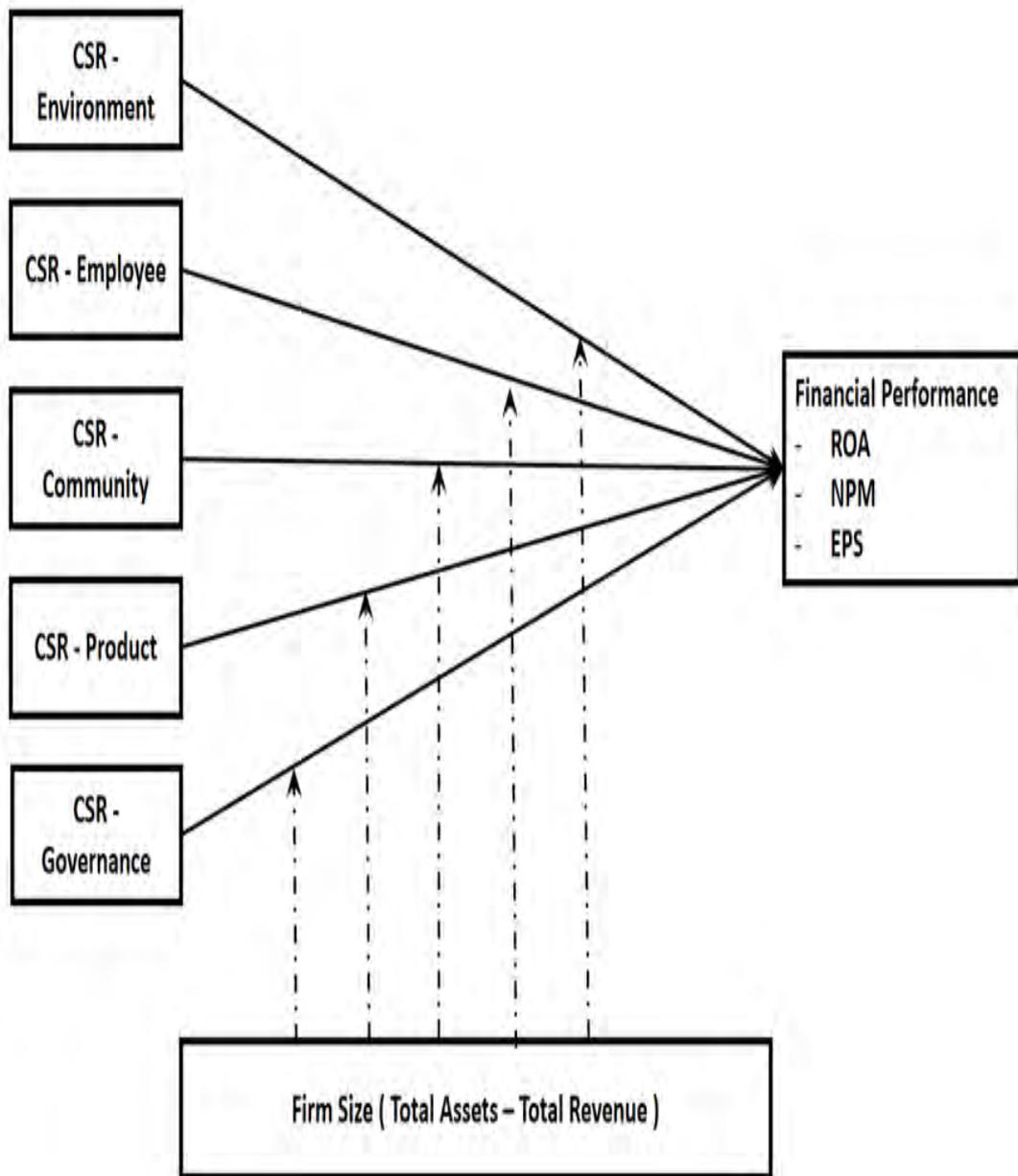


Figure 1.1. Conceptual Frameworks



1.8 Significance of the Study

From the theoretical aspect, this study's significance is rooted in the issue of social responsibility, firm size and financial performance of the Iraqi companies. Moreover, this study aims to gather knowledge on the social responsibility of organizations and the firm size, as well as their relationship and effects on financial performance. Although numerous foreign studies have been conducted on this topic, only minimal research has been undertaken on the local level and in the Arab context. Therefore, the current study serves as a reference for the local context through a novel research on social responsibility and firm size, and the relationship and impact on financial performance.

This study constitutes scientific information from previous similar studies to address the impact of firm size on the aspects of environment, employees, community, product, and governance. Their needs should be met to achieve fair profit for investors and support corporate responsibility. Methodologically, this study contributes significantly to CSR disclosure studies in the Iraqi context via the application of the CSR index. This study is the first of its kind to apply a dichotomous process for gathering CSR information and creating a CSR index for firms in Iraq. Practically, this study examines the impact of firm size on the link between CSR disclosure and financial performance among Iraqi firms. Local companies play important roles in the Iraqi economy and the outcomes can be of immense economic and social importance because they can help companies to practice CSR, thereby possibly improving their ability to meet the challenges of current and future competitions.





Moreover, this study can help decision makers and policy makers in the studied companies and those concerned with the subject of social responsibility by focusing on areas that need considerable attention, thereby reflecting positive outcomes on economic and social development. The findings can also aid the studied companies in creating an appropriate work atmosphere, thereby enhancing their financial performance. This study explicates the impact of company characteristics on CSR disclosure in Iraq.

1.9 Scope of Study

This study focuses on industrial companies. It investigates the link between CSR and financial performance. The study concentrates on the financial data of the companies over the four year period of 2016-2019. The study collects data from Iraqi Stock Exchange listed firms entailing 111 companies of which 27 are from the industrial sector.

1.10 Operational Definition

For clarification purposes, below are the definitions for the terms used in this paper. Further explanation on the definitions will be discussed in Chapter 2.





1.10.1 Corporate Social Responsibility

In the context of Iraq, CSR is delineated as a voluntary business group created by companies to create positive effects on the environment in which they operate. The objective of CSR is to fulfill the needs and expectations of the consumers, employees, and stakeholders in order to establish a favourable image and perception regarding the firm and its social obligations (Asmaa & Ala, 2015). As companies draw their strength from competitive factors, good stakeholder relationship is hence crucial. This also entails high social consciousness as the company operates hand-in-hand with the society (Doda, 2015; Jabr & Shamki, 2012). In this current investigation, CSR entails the moral responsibility of any organized or individual entity to work for societal benefits. It also embodies a crucial aspect for maintaining economic, ecosystem and social balance. Social responsibility is the obligation of both organizations and individuals who leave a mark on their surrounding environments. In general, CSR in this research is measured in terms of the environment, employee, community, product, and governance.

1.10.1.1 Environmental Dimension

The environmental dimension of CSR is an indicator of biodiversity and the fulfilment of environmental compliance and others including the ecological impact of products and services (GRI, 2016; Edvardsson & Enquist, 2008; Malsch, 2012; Aggarwal, 2013; Rodriguez-Fernandez, 2016). The environmental dimension that relates to the effects of a company's activities must include the direct and indirect effects of third parties related to the company's reports, such as suppliers and customers (GRI, 2014). Environmental dimension is defined as the result of an organization's management of its environmental aspects.





1.10.1.2 Employee Dimension

This dimension refers to the employees' inclination and capability to facilitate their company's success, mainly via the provision of proper discretionary effort. Lee (2021) stated that engagement is driven by emotional and rational work-related factors. Gallup delineated employee engagement as work participation and passion. In Skousen and Sun (2019), Gallup describes employee engagement as the employees' positive emotional attachment and commitment to the company and their work.

1.10.1.3 Community Dimension

A community program is deemed to be effective if it covers various aspects such as human rights, diversity, employee relations, and product safety initiatives (GRI, 2016).

A community initiative can be achieved through the implementation of cause-related marketing and corporate philanthropy. This dimension explains the influence of a company on aspects that directly affect the social environment where it operates. In the aforementioned aspects, whether positive or negative, this information is included in sustainability reports (Searcy, 2014).

1.10.1.4 Product Dimension

A product can either be an item for sale or a service offered. Each is sold or offered at a certain price based on the cost involved. According to Jung-Gun Lee and Kim (2021), the determination of the price is based on the market, the quality, the marketing and the target segment. All products have a certain life span in which upon expiry would require replacement or re-invention. To maintain the relevancy of products, they can either be refurbished, re-launched or extended, while maintaining the key aspects.





1.10.1.5 Governance Dimension

Corporate Governance ensures the protection of stakeholders' interests (Said, Hj Zainuddin & Haron, 2009). This requires the company's transparency in its economic, social, and environmental performance disclosure. The concept of Good Corporate Governance can boost the execution and revelation of a company's CSR efforts (Said et al., 2009) as it can maximize both company and shareholder values (Jacobsson, Pierre & Sundström, 2015). According to Choi, Lee and Park (2013), CSR efforts in weakly governed companies can be used for personal benefits by opportunistic managers who would exaggerate CSR investments. Hence, debates on the actual value of CSR persists.

1.10.2 Financial Performance

This refers to a company's financial achievement as disclosed in its financial statement, thus reflecting its health (Raza, Ilyas, Rauf & Qamar, 2012). A firm's financial performance reflects its capability in earning profits and thus its overall viability that would serve to guide investors. Being profitable means that the company can boost its growth and survivability, as well as provide dividends for its shareholders (Maksum & Tamba, 2018). A company's financial performance determines its operating and financial characteristics based on the disclosed accounting and financial statements (Brammer & Pavelin, 2016), which in turn enables the determination of its overall efficiency and performance. By measuring the company's liquidity, profitability, and other relevant indicators, it can provide a rational basis of the company's ability to guarantee adequate shareholder returns i.e. the market value at minimal (Chang & Taylor, 2016; Gan, Shek, & Mueller, 2015; Mohammed, Gawdan & Babela, 2017).





There is a high correlation between accounting-based measures and CSR as opposed to market-based performance. CSR also has a high correlation with return on assets (ROA), Net Profit Margin (NPM) and Earnings per Share (EPS) (Jitaree, 2015). In this research, financial performance is indicated by the ROA, NPM and EPS.

1.10.2.1 Return on Asset (ROA)

Refers to net profit less taxes and total assets. ROA is determined as net profit after taxes divided by the total assets. Furthermore, it measures the operating efficiency of a company based on the organization's profits from the total assets (Katmon, Mohamad, Mat Norwani & Al Farooque, 2017).



1.10.2.2 Net Profit Margin (NPM)

Refers to the remaining revenue percentage following the deduction of all the operating expenditures, interests, taxes and preferred stock dividends (except common stock dividends) from the total revenue of the firm (Rinati, 2012).

1.10.2.3 Earnings per Share (EPS)

Refers to a firm's income amount from each common stock share. As a crucial investor tool, EPS is typically utilized for identifying stock value (Stevens, 2012).





1.10.3 Firm Size

Firm size describes assets owned by a company in a certain period. According to Salah, Yusof and Mohamed (2021) in Putri and Merkusiwati (2014), firms with large total assets can diversify more easily due to their positive cash flow and favorable long term prospects. It also indicates the firm's stability and profit-generating ability as compared to firms with small overall assets. Companies with small total assets indicate financial distress (Guillet et al., 2013; Wang et al., 2019).





1. 11 Summary

This section had discussed CSR and financial performance along with the impact of firm size on the correlation between the two aforementioned variables. CSR is often considered by companies that want to improve their reputation and financial performance. Meanwhile, financial performance indicates the company's efficiency as well as revenue and profit generation capability. Several researchers highlighted that the practice of CSR keeps the business viable and sustainable for long, regardless of the nature of the business. Although most companies in emerging countries use CSR to enhance corporate reputation and FP, Iraqi companies are still doubtful about whether CSR can affect their financial performance positively or negatively.

Apart from discussing the research background, this chapter also presented the research problem and research questions to identify the link between CSR, firm size, and financial performance, hence enabling the formulation of the research approach to achieve the study objectives. The research scope and study methodology were also explained. Chapter Two will present the literature review to gain further insight about the research topic.

