

DOI: 10.5281/zenodo.19952106

# THE MODERATING ROLE OF ACCOUNTING CONSERVATISM IN THE RELATIONSHIP BETWEEN CORPORATE SOCIAL RESPONSIBILITY EXPENDITURE AND FINANCIAL PERFORMANCE: EVIDENCE FROM SAUDI LISTED COMPANIES

Ahmed Mohamed Shawki Tawfik<sup>1</sup>, Hanan Mohamed Ismail Youssef<sup>2\*</sup>, Fatma Zehri<sup>3</sup>, Sherif Aly Khamis Kaamoosh<sup>4</sup>

<sup>1</sup>Department of Accounting, Faculty of Business, Alexandria University, Egypt  
Email: ahmed.shawki@alexu.edu.eg

<sup>2</sup>Department of Accounting, College of Business, Imam Mohammad Ibn Saud Islamic University (IMSIU), Riyadh 11432, Saudi Arabia, Email: hmyoussef@imamu.edu.sa

<sup>3</sup>Department of Accounting, College of Business Administration, Dar Al Uloom University, Riyadh, Saudi Arabia, Email: f.zehri@dau.edu.sa

<sup>4</sup>Department of Accounting, College of Business, Imam Mohammad Ibn Saud Islamic University (IMSIU), Riyadh 11432, Saudi Arabia, Email: Sakaamoosh@imamu.edu.sa

Received: 15/03/2026  
Accepted: 18/04/2026

Corresponding Author: Hanan Mohamed Ismail Youssef  
(hmyoussef@imamu.edu.sa)

## ABSTRACT

*This study investigates the relationship between Corporate Social Responsibility Expenditure (CSR), accounting conservatism, and financial performance in an emerging market context, focusing on firms listed on the Saudi Stock Exchange (Tadawul). It examines whether CSR activities influence financial performance and whether accounting conservatism moderates this relationship. The study is based on a sample of 50 non-financial firms covering the period from 2022 to 2024. A multiple regression analysis is employed to test the research hypotheses. The empirical results indicate that CSR has a marginally significant effect on financial performance, suggesting that the economic benefits of CSR activities are not immediately realized and may require a longer time horizon. In contrast, accounting conservatism shows a significant positive moderating effect on the relationship between CSR and financial performance. This finding implies that firms adopting more conservative accounting practices are better able to translate CSR engagement into improved financial outcomes. Furthermore, accounting conservatism shows a direct positive relationship with financial performance, underscoring its role in improving financial reporting quality and mitigating agency problems. Importantly, these findings align with the strategic objectives of Saudi Vision 2030 by demonstrating how prudent accounting practices can maximize the impact of corporate social investments on sustainable economic growth.*

**KEYWORDS:** Accounting Conservatism, Corporate Social Responsibility, Financial Performance, Sustainability, Saudi Vision 2030.

## 1. INTRODUCTION

Corporate social responsibility (CSR) has become an integral part of today's business world, reflecting how firms manage their relationships with both internal and external stakeholders (Tanggamani et al., 2022). It requires fair distribution of the firm's wealth among various stakeholder groups, avoiding bias toward any single group, and ensuring the availability of resources to maintain stakeholder balance. Firms that actively engage in CSR activities often provide more useful information, enhance the accuracy of financial analysts' forecasts, and improve the transparency of financial reporting, thereby reducing corporate risk exposure (Francis et al., 2013; Gao and Zhang, 2015). CSR affects not just the development of the company itself but also sustainable global development and the interests of the public (Shen et al. 2020).

Despite the importance of CSR performance, significant differences exist among firms regarding the level and quality of their engagement in sustainable development and disclosure practices. This has prompted researchers to investigate the determinants of corporate performance in sustainable development, with one underexplored factor being the impact of accounting conservatism on CSR performance.

Accounting conservatism refers to the practice of deferring recognition of gains while accelerating the recognition of losses, which reduces either net assets or total income depending on the applied accounting methods (Watts, 2003). It also mitigates the likelihood of wealth distributions favoring one stakeholder group over others by limiting cash dividends due to lower reported profits (Shoorvarzy et al., 2012; Mensah et al., 2004).

Moreover, conservatism helps reduce agency problems between managers and shareholders, such as conflicting dividend policies, and addresses information asymmetry regarding good and bad news (Muhammad et al. 2024). It is also expected to protect creditors from exploitation by majority shareholders by restricting distributions, thus lowering creditor risk and enabling lenders to accept lower loan returns under reduced dividend risk (Asemay and Hematfar, 2013; Louis and Urcan, 2015).

Accounting research has examined the link between social performance and financial outcomes in two ways: first, by exploring how firms' social commitments encourage higher accounting conservatism, which in turn enhances financial performance (Feliana and Santoso, 2014; Francis et al., 2013; Kurniawan and Wibowo, 2009; Chetty et al., 2015). Second, by demonstrating that conservatism

reduces cash distributions to shareholders, preserving resources for CSR initiatives such as donations, thereby improving corporate reputation and financial performance (Pyo and Lee, 2013; Mousa, 2014; Story and Neves, 2015).

Accounting conservatism remains a fundamental principle in the field, influencing business outcomes and financial position assessment. It serves as a measurement constraint, for example, by valuing assets at the lower of cost or market and directly recognizing advertising and R&D expenses (Shoorvarzy et al., 2012; Francis et al., 2013).

This study supports the transformative goals of Saudi Vision 2030, which emphasizes corporate sustainability and social responsibility as fundamental pillars for economic diversification. As the Kingdom advances toward a more transparent and diversified market environment, integrating CSR activities into corporate strategies has become essential for sustainable value creation. By examining the moderating role of accounting conservatism within the Saudi Stock Exchange (Tadawul), this research provides valuable insights into how prudent financial reporting can enhance the credibility of social initiatives. Ultimately, the study reinforces Vision 2030's objective to develop a high-performing private sector characterized by transparency, accountability, and sustainable growth, ensuring that corporate social investments generate meaningful financial and societal outcomes.

This study is significant because firms must integrate CSR to achieve sustainable development while providing disclosure that meets the needs of diverse stakeholders. It also highlights the role of accounting conservatism in financial performance and profitability, and the growing importance of CSR in enhancing corporate credibility, reputation, competitive advantage, and potential financial outcomes.

Finally, the study addresses a critical research gap concerning the impact of accounting conservatism on corporate social performance and financial performance, particularly in emerging economies such as Saudi Stock Market.

The paper is structured as follows: Section 2 discusses the theoretical framework utilizing agency theory, slack resources theory, and stakeholder theory. Section 3 review the contextual setting of Conservatism and Corporate Social Responsibility, reviews the pertinent literature and postulate hypotheses. Section 4 outlines the research methodology, including data sources, variables, and regression models. Section 5 provides the regression analysis and empirical findings, while Section 6

concludes with key insights and implications.

## 2. THEORETICAL FRAMEWORK

Our research focuses on impact a firm's accounting conservatism on CSR, and role of conservatism and CSR on enhancing accounting Financial Performance, combining theories from three main perspectives: agency theory, slack resources theory, and stakeholder theory.

The division of ownership and management is the foundation of traditional agency theory (Jensen and Meckling, 1976). However, agency issues can appear in a number of forms, including financial data manipulation, accounting fraud, and the expropriation of shareholder money. These problems are addressed or lessened by accounting conservatism, which opens the door to CSR expenditures.

Slack Resources Theory argues that a firm's ability to engage in specific activities is contingent upon the availability of resources, which enable successful adaptation to internal and external pressures. Organizations utilize these resources to achieve their strategic objectives; thus, when financial performance improves, "slack resources" are generated. These surplus resources empower the firm to fulfill its social and environmental mandates. Accordingly, this theory suggests a positive correlation between superior financial performance and the extent of CSR disclosure (Fauzi & Idris, 2009).

Stakeholders delegate authority to firm managers; however, this delegation may lead to information asymmetry, which in turn creates conflicts between principals and agents. In this context, if a firm manager focuses solely on maximizing firm value to enhance his or her short-term managerial reputation, this may conflict with stakeholders' preferences, as they may prioritize CSR activities as a long-term strategy to ensure the firm's sustainability (BELLIKLI 2024).

### 2.1. Background, Literature Review, and Hypotheses Development

#### 2.1.1. Financial Performance and Corporate social responsibility

Previous accounting studies suggest a strong association between Corporate Social Responsibility (CSR) and financial outcomes. Santoso and Feliana (2014) demonstrate that CSR reporting positively impacts subsequent financial performance. Robust financial results enhance a firm's ability to engage in social activities for a period of up to two years. These findings consistent with Stakeholder Theory, which

posits that addressing various stakeholders' interests enhances superior management capabilities. Furthermore, Slack Resources Theory suggests that financial reserves provide the necessary flexibility to invest in social initiatives without additional capital burdens.

From the market valuation perspective, Qiu et al. (2014) found that U.S. firms with higher social disclosure benefit from increased market values and expected cash flow growth. This supports Voluntary Disclosure Theory, indicating that firms with superior economic performance have greater incentives to signal their social activities quality to the market, thereby securing competitive advantages such as employee loyalty and a lower cost of capital.

The impact of CSR encompasses valuation impacts to promote improvements in the quality of financial reporting. Huang and Watson (2015) highlighted a positive correlation between CSR and earnings quality, noting that social activities attract increased interest from financial analysts and institutional investors. Similarly, Gao and Zhang (2015) demonstrated that CSR activities strengthen the relationship between stock returns and accounting earnings, providing a "price premium" as investors reward firms that emphasize stable, long-term income predictions rather than short-term earnings smoothing. Nevertheless, the effectiveness of CSR as a driver of value is often conditioned by time and stakeholders' perspectives.

Conversely, Johnson (2015) identified that while CSR disclosure enhances legitimacy and protects against external shocks, its immediate impact on stock prices can be moderated by investor behavior. This temporal lag is evidenced by Chetty et al. (2015), demonstrated that CSR's financial benefits are primarily observed in the long term, as short-term investors often more focused on immediate profitability.

Furthermore, the relationship is frequently indirect through mediating variables. Saeidi et al. (2015) argued that CSR does not directly improve financial performance; rather, it first enhances corporate reputation, competitive advantage, and customer satisfaction. This reinforces the view of Story and Neves (2015), who categorized CSR as a "survival strategy." They emphasized that when stakeholders perceive CSR as a genuine philanthropic commitment, rather than a reactive response to pressure, it can effectively mitigate corporate risk and reinforces intrinsic employee motivation in the context of emerging markets, Cheng et al. (2016) confirmed that CSR activities such as cash donations serve as a feasible business strategy

that enhances accounting income and stock market performance. Their study recommends that government institutions actively encourage CSR practices, thereby reshaping market perceptions to recognize such activities as strategic investments rather than mere costs. According to Khalil et al. (2026), CSR significantly and positively impacts all financial performance measures.

Conversely, Boukattaya and Omri (2021) found that CSR and corporate social irresponsibility have opposite effects on firms' financial performance. Yoon et al. (2024) find that ESG scores are negatively associated with both return on assets (ROA) and Tobin's Q, contrary to prior studies reporting positive relationships. They also show that the social and governance components are negatively related to ROA, while the environmental component is not statistically significant. These results remain robust even after changing governance structure in Korea, and overall support the traditional view of the firm rather than stakeholder theory. Based on the aforementioned literature, the following hypothesis is proposed:

H1: Corporate Social Responsibility has a positive effect on financial performance

## **2.2. The Moderating Role of Accounting Conservatism**

There is no consensus among studies regarding the relationship between accounting conservatism and corporate social responsibility (CSR). Kurniawan and Wibowo (2009) indicated that Indonesian banks are, on average, conservative in their financial reporting. However, no significant relationship was found between accounting conservatism and CSR reporting in Indonesia. The study attributed these findings to the fact that CSR reporting is primarily driven by government legislation, with no specific incentive for voluntary disclosure of CSR activities. However, analysis also reveals a significant reversing trend regarding the effect of conservatism on CSR, coinciding with the post-financial-crisis period, indicating that firms prioritize commitment to accounting conservatism over the needs of non-financial stakeholders and other interest groups. Anagnostopoulou et al. (2021) found that higher levels of conservatism are negatively associated with a CSR orientation in firms.

Conversely, Francis et al. (2013) found that accounting conservatism and social performance quality were positively correlated. In contrast to the current trend in International Financial Reporting Standards (IFRS) toward fair value, this demonstrates the applicability of accounting

conservatism as a suitable accounting philosophy

Furthermore, Khanchel-Lakhoua and Irmani (2024) indicated that a positive relationship between corporate social responsibility (CSR) and financial performance. Firms engage in CSR activities for several reasons, including the potential for long-term profitability, enhanced competitiveness through improved reputation and brand value, and the ability to attract investors and customers.

According to Guo et al. (2020), socially conscious actions considerably raise the degree of conservatism in financial reporting. Additionally, conservatism is more noticeable for businesses that invest more in social responsibility initiatives; these results suggest that CSR-focused businesses are more likely to utilize conservatism to legitimately bind companies to stakeholders' best interests.

According to BELLIKLİ (2024), accounting conservatism improves a company's CSR score components, having a greater impact on stakeholder and board of directors scores. This result implies that businesses with conservative accounting practices value external stakeholders while giving internal management's interests top priority.

The study is consistent with stakeholder theory, that firms after crises attempt to satisfy all stakeholders, in addition the accounting conservatism allows firms to retain cash, which may increase the likelihood of corporate spending on social responsibility activities. Based on the previous arguments, our second hypothesis is formulated as follows:

H2: Accounting conservatism significantly moderates the relationship between Corporate Social Responsibility and financial performance.

## **3. METHODOLOGY**

### **3.1. Sample**

The study population consists of companies listed on the Saudi Stock Exchange (Tadawul). A sample of 50 non-financial firms registered and traded on the List of Saudi Companies was selected, covering the period from 2022 to 2024.

Our study employs two distinct models to examine the relationship between Corporate Social Responsibility (CSR) and Financial Performance (ROA). The first model investigates the direct association between CSR performance and ROA. The second model extends this analysis by evaluating both the direct effects of CSR performance and Conservatism (Conserv) on Financial Performance, as well as the moderating role of Conservatism. The specifications of these models are presented below as follows:

Model 1: A multiple linear regression model designed to test the first hypothesis:

$$ROA_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \epsilon$$

Model 2: A multiple linear regression model designed to test the second hypothesis:

$$ROA_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 Conserv_{it} + \beta_3 Conserv_{it} \times CSR_{it} + \beta_4 Size_{it} + \beta_5 Lev_{it} + \epsilon$$

**Main variables and models**

This study examines the effect of Corporate Social Responsibility (CSR) on financial performance, and the moderating role of accounting conservatism in this relationship. The analysis is conducted using multiple regression models, consistent with prior literature (e.g., Francis et al., 2013; Gao and Zhang, 2015; Tanggamani et al. 2022). The variables are categorized based on the hypotheses as follows:

**Dependent Variables:**

Profitability (ROA<sub>it</sub>): Firm Profitability (ROA): Measured by net profit before tax to total assets (Zhai & Wang, 2016).

Independent Variable: CSR Performance (CSR): Measured by the ratio of CSR expenditure (e.g., cash donations, employee contributions, environmental spending) to total assets, consistent with (Pyo and Lee 2013; Cheng et al. 2016). Data were collected via content analysis of financial statements.

**Moderating Variable:**

Accounting Conservatism (Cons): Measured using the inverse of the Market-to-Book Value (1/MTB) ratio of equity at the end of the period as a general proxy for total conservatism in financial reporting. Following Ball et al. (2008), since a higher MTB ratio traditionally indicates a lower level of conservatism, this study employs the 1/MTB ratio to ensure a direct relationship. Consequently, higher values of 1/MTB are interpreted as representing higher levels of accounting conservatism, assuming that as the ratio increases, the degree of financial reporting conservatism rises accordingly.

We employ the 1/MTB ratio as a proxy for accounting conservatism, given its wide use in prior accounting literature (Yu 2022) and its suitability for research in emerging markets. The 1/MTB measure captures the relationship between market value and book value, where a higher market-to-book ratio (and thus a lower book-to-market ratio) is generally interpreted as an indicator of higher accounting conservatism. Accordingly, although it is an indirect measure of conservatism (Lawrence et al. 2013), it is regarded as an economically meaningful proxy for

accounting conservatism and is suitable for empirical analysis in this study.

**Control Variables:**

Firm Size (Size): Measured by the natural logarithm of total assets (Santoso & Feliana, 2014; Francis et al., 2013). Financial Leverage (Lev): Measured by the ratio of total liabilities to total assets (Shoorvarzay et al., 2012; Mousa, 2014; Zhang, 2008).

**4. RESULTS AND DISCUSSION**

**4.1. Descriptive statistics**

Table (1) presents the descriptive statistics for the study variables, including ROA, CSR performance and conservatism, alongside the control variables (firm size, financial leverage) for the period from 2022 to 2024, as shown below:

*Table 1: Descriptive Statistics.*

Variable	Obs	Mean	Std. Dev.	Min	Max
ROA	150	.0736	0.03	-0.06	0.16
CSR	150	.032	.023	0.0	0.116
Conserv	150	1.549	1.232	-7.69	2.057
Size	150	21.852	1.465	16.026	23.016
lev	150	0.63	.317	.02	.675

The descriptive statistics in Table 1 show that the mean CSR performance for the sampled firms is 0.032, indicating a focused and strategic approach to social engagement during the 2022–2024 period. This modest level of social involvement reflects the ongoing transition toward more rigorous sustainability standards, as firms move from traditional philanthropic spending to integrated, value-driven CSR initiatives aligned with Saudi Vision 2030. Additionally, the results reveal considerable variation in accounting conservatism levels (Mean = 1.549, SD = 1.232), suggesting a lack of consistency in financial reporting policies across the sample. In terms of firm characteristics, the sampled companies demonstrate a substantial reliance on debt financing, with an average leverage ratio of 0.63.

**4.2. Discussion**

Table (2): Regression Results for Model (1)

Table 2 demonstrates the results of Model 1 to examine the first hypothesis. The model analyzes the relationship between ROA and the CSR while controlling Firm Size, Financial Leverage, as control variables. The regression results are summarized in the table below:

*Table 2: Regression Results for Model (1).*

ROA	Coef.	St.Err.	t-value	p-value	Sig
CSR	.0108564	.0065373	1.66	0.099	*
Size	-.0118862	.0070502	-1.69	0.094	

lev	-.010294	.0047207	-2.18	0.031	**
Constant	.127	.144	0.88	.381	
F	0.002				
Adj R-squared	0.1887				
*** $p < .01$ , ** $p < .05$ , * $p < .1$					

The regression results presented in Table indicate the relationship between Corporate Social Responsibility (CSR), firm characteristics, and financial performance measured by Return on Assets (ROA). The model demonstrates an overall statistically significant fit ( $F = 0.002$ ) with an adjusted  $R^2$  of 0.1887, suggesting that approximately 18.87% of the variation in ROA is explained by the included independent and control variables.

The coefficient of CSR is positive ( $\beta = 0.0109$ ) and marginally significant at the 10% level ( $p = 0.099$ ). This finding suggests a weak but positive association between CSR activities and financial performance, indicating that firms with higher levels of CSR activities tend to exhibit slightly enhanced profitability. However, the low level of statistical significance implies that this relationship is not strong enough to confirm CSR as a dominant determinant of financial performance in the sample

companies, consistent with the view that CSR benefits may emerge over a longer time horizon.

Regarding the control variables, firm size shows a negative and marginally significant relationship with ROA ( $\beta = -0.0119$ ,  $p = 0.094$ ), suggesting that larger firms may experience diminishing returns on assets, potentially due to higher operational complexity and inefficiencies associated with scale. Furthermore, financial leverage exhibits a negative and statistically significant effect on ROA ( $\beta = -0.0103$ ,  $p = 0.031$ ), indicating that higher debt levels are associated with lower profitability, due to increased financial constraints and debt-service requirements.

Overall, the findings suggest that while CSR may contribute positively to firm performance, its direct impact remains weak in statistical terms. In contrast, capital structure appears to play a more decisive role in explaining variations in profitability.

**Table 3: Model 2 Regression Results for Model (2).**

ROA	Coef.	Std.Err.	t	P>t	
CSR	0.026	0.017	1.560	0.120	
Conserv	0.003	0.001	2.450	0.015	**
Conserv× CSR	.284	.083	3.43	.001	***
Size	-0.005	0.008	-0.620	0.535	
lev	-0.004	0.001	-3.150	0.0484	**
_cons	0.080	0.029	2.800	0.006	
F	0.021				
Adj R-squared	0.2002				
*** $p < .01$ , ** $p < .05$ , * $p < .1$					

The regression results reported in Table3 indicate the effects of Corporate Social Responsibility (CSR), accounting conservatism, and their interaction on financial performance measured by Return on Assets (ROA). The model is statistically significant overall ( $F = 0.021$ ) with an adjusted  $R^2$  of 0.2002, suggesting that approximately 20.02% of the variation in ROA is explained by the explanatory variables included in the model.

The coefficient of CSR is positive but statistically insignificant ( $\beta = 0.026$ ,  $p = 0.120$ ), indicating that CSR activities do not have a direct and statistically meaningful impact on financial performance. This suggests that, in the absence of other contextual factors, CSR expenditures alone are insufficient to generate immediate improvements in profitability.

In contrast, accounting conservatism indicates a positive and statistically significant effect on ROA ( $\beta = 0.003$ ,  $p = 0.015$ ), implying that more conservative financial reporting practices are associated with higher financial performance. This finding supports the view that conservatism enhances financial reporting quality, reduces information asymmetry, and strengthens stakeholder confidence, which in turn contributes to improved firm outcomes.

Most importantly, the interaction between CSR and accounting conservatism is positive and highly significant ( $\beta = 0.284$ ,  $p < 0.01$ ), confirming the presence of a moderating effect. This result indicates that the impact of CSR on financial performance becomes significantly stronger in firms with higher levels of accounting conservatism. In other words,

conservatism acts as a facilitating governance mechanism that reinforces the credibility and effectiveness of CSR practices, permitting firms to translate social investments into tangible financial returns.

Regarding the control variables, firm size does not exhibit a statistically significant effect on ROA ( $p = 0.535$ ), suggesting that firm scale does not play a decisive role in determining profitability in this model. In contrast, financial leverage is negatively and statistically significant associated with ROA ( $\beta = -0.004$ ,  $p = 0.048$ ), indicating that higher leverage is associated with lower financial performance due to increased financial pressure.

Overall, the findings indicate that the relationship between CSR and financial performance is not direct, but conditional on the level of accounting conservatism, which serves as a significant moderator in enhancing the economic value of CSR engagement.

## 5. CONCLUSION

The empirical findings provide important insights into the complex relationship between Corporate Social Responsibility (CSR), financial performance, and accounting conservatism. Regarding the first hypothesis, the results do not provide strong evidence of a direct impact of CSR performance on financial outcomes, as the relationship was found to be statistically insignificant. This suggests that CSR activities, in isolation, may not immediately translate into improved financial performance, which is consistent with prior literature emphasizing the long-term and indirect nature of CSR benefits. While Stakeholder Theory suggests that social engagement enhances reputation and stability, the findings indicate that such effects may depend on additional contextual factors.

In relation to the second hypothesis, the results highlight the significant moderating role of accounting conservatism. Specifically, the interaction between CSR and conservatism is positive and highly significant, indicating that the impact of CSR on financial performance becomes stronger in firms that adopt more conservative accounting practices. From an Agency Theory perspective, accounting conservatism serves as an effective governance mechanism by enhancing transparency and limiting managerial opportunism, thereby increasing the credibility of CSR activities and strengthening their financial implications.

The results suggest that the Saudi Companies management should use accounting conservatism as

a governance tool to ensure the efficacy of social spending. By guaranteeing investors about resource conservation and financial discipline, conservatism increases stakeholder trust and ensures that social initiatives produce measurable financial performance in the context of CSR involvement.

Moreover, this study contributes to the realization of Saudi Vision 2030 by providing empirical evidence on how the synergy between financial integrity and social responsibility drives corporate success. As the Kingdom positions itself as a global hub for sustainable investment, the findings highlight that accounting conservatism is not just a traditional constraint but a strategic governance tool. It ensures that CSR expenditures are credible and transparent, thereby boosting investor confidence and supporting the national goal of developing a robust, diversified, and socially responsible private sector. These insights encourage Saudi firms to adopt prudent reporting standards to maximize the long-term value of their sustainability initiatives.

In conclusion, the findings suggest that accounting conservatism plays a crucial enabling role in transforming CSR engagement into meaningful financial outcomes. By enhancing the reliability of financial reporting, conservatism reinforces stakeholder trust. This study contributes to the literature by integrating accounting conservatism as a moderating mechanism in the CSR–financial performance nexus in emerging market contexts.

This synergy between prudent reporting and social responsibility contributes to enhanced financial transparency and long-term sustainable corporate performance in emerging markets.

Despite its valuable contribution, several limitations should be acknowledged. First, although the sample of 50 non-financial firms listed on the Saudi Stock Exchange (Tadawul) over the period 2022–2024 is generally representative of the study population, given the exclusion of financial institutions, due to their distinct regulatory and reporting frameworks, the findings should still be interpreted with caution. This is because the analysis is confined to a single market context, which may limit the external validity of the results.

Second, the study period is relatively short, which may restrict the ability to capture the long-term effects of Corporate Social Responsibility (CSR) on financial performance, as such impacts are often gradual and emerge over extended time horizons.

Finally, the limited statistical significance of the direct effect of Corporate Social Responsibility (CSR) on financial performance (at the 10% level) suggests that this relationship may be time dependent or

influenced by other factors not captured in this study. Accordingly, future research should extend the study period and employ alternative methodological

approaches to enhance the robustness and generalizability of the findings.

**Author Contributions:** A.T: Writing – Original draft, writing –Review and editing, Visualization preparation, Validation; Methodology. H.Y: Writing – original draft, writing – review and editing, Visualization preparation, Formal analysis, Conceptualization; Methodology, Validation Verification, Project administration, Funding acquisition; F.Z: Writing – Original draft, Methodology; review and editing, Validation Verification. S.K Writing – Original draft, Methodology, review and editing; Validation Verification. All authors have read and agreed to the published version of the manuscript.

**ACKNOWLEDGEMENTS:** The authors would like to thank Imam Mohammad Ibn Saud Islamic University (IMSIU) for their support.

**Disclosure statement:** No potential conflict of interest was reported by the authors.

**Funding:** This work was supported and funded by the Deanship of Scientific Research at Imam Mohammad Ibn Saud Islamic University (IMSIU) (grant number IMSIU-DDRSP2602).

**Data availability statement:** The data that supports the findings of this study are available from the corresponding author

## REFERENCES

- Anagnostopoulou, S. C., Tsekrekos, A. E., & Voulgaris, G. (2021). Accounting conservatism and corporate social responsibility. *The British Accounting Review*, 53(4), 100942.
- Ball, R., Robin, A., Sadka, G., 2008. Is financial reporting shaped by equity markets or by debt markets? An international study of timeliness and conservatism. *Review of Accounting Studies* .Vol.13. No.2-3. 168-205.
- Bellikli, U. (2024). The Effect of Accounting Conservatism On Corporate Social Responsibility: Evidence from the Corporate Governance Index in Türkiye. *Ege Academic Review*, 24(1), 85-100.
- Cheng C. and, F. Kung. .2016.The effects of mandatory corporate social responsibility policy on accounting conservatism. *Review of Accounting and Finance*. Vol. 15 Issue: 1.2-20
- Cheng .S.,K. Z .Lin and W. Wong .2016. Corporate Social Responsibility reporting and firm performance: evidence from China. *Journal of Management and governance*.Vol.20. no.3 .503-523.
- Chetty,S., R. Naidoo, and Y. Seetharam. 2015. The Impact of Corporate Social Responsibility on Firms’ Financial Performance in South Africa. *Contemporary Economics* 9(2): 193-214.
- Francis. R. , S. Harrast , J. Mattingly and L.Olsen .2013. The relation between accounting conservatism and corporate social performance : an empirical Investigation. *Business and Society review* .No.2 .193-222.
- Gao, L., and J. H. Zhang. 2015. Firms’ Earnings Smoothing, Corporate Social Responsibility, and Valuation. *Journal of Corporate Finance*. Vol. 32:108–127.
- Guo, J., Huang, P., & Zhang, Y. (2020). Accounting conservatism and corporate social responsibility. *Advances in accounting*, 51, 100501.
- Huang a, X. B., L. Watson. 2015. Corporate social responsibility research in accounting. *Journal of Accounting Literature* .34 : 1–16.
- Johnson, J. A. 2015. The Influence Of CSR Reporting Models On Managers’ Capital Allocation Decisions. Unpublished Dissertation Of the Requirements for the Degree Doctor of Philosophy in Accounting, the Academic Faculty, Georgia Institute of Technology.
- Khalil, A.M., Abdelraouf, M., & Shahwan, T. (2026). Evaluating the effect of corporate social responsibility (CSR) on corporate financial performance” an applied study on Egyptian stock market. *Future Business Journal*, 12(1), 15.
- Kurniawan ,M. , and D.H. Wibowo. 2009 . Analysis on accounting conservatism and CSR disclosure of Indonesian banks listed on IDX 2004 to 2007 .*Journal of Applied Finance and Accounting* .Vol.2, No.2. 13 – 30.
- Lawrence, A., Sloan, R., & Sun, Y. (2013). Non-discretionary conservatism: Evidence and implications. *Journal of Accounting and Economics*, 56(2-3), 112-133.
- Louis .H. and O.Urcan .2015. Agency conflicts, Dividend payout and the benefits of conservative financial reporting to equity-holders .*Contemporary Accounting Research*. No. 2 .455-484.
- Mensah, Y. M., X. Song, and S. S. M. Ho. 2004. The effect of conservatism on analysts’ annual earnings forecast

- accuracy and dispersion. *Journal of Accounting, Auditing and Finance* .Vol.19 .No.2: 159-183.
- Mousa,G.A. 2014. The association between Accounting Conservatism and Cash dividends : evidence from emerging markets. *International Journal of Academic Research in Accounting ,Finance and management Science* .No.4 .210-220.
- Muhammad, H., Paolone, F., & Migliori, S. (2025). Board gender diversity and accounting conservatism: the role of corporate social responsibility. *Sustainability Accounting, Management and Policy Journal*, 16(1), 107-136.
- Pyo,G. and H.Y .Lee .2013. The association between Corporate Social responsibility Activities and earnings Quality : Evidence from Donations and Voluntary issuance of CSR reports.The *Journal of Applied business Research* .May-June .No.3. 945-962.
- Qiu,Y., A. Shaukat, and R. Tharyan. 2014. Environmental and social disclosures: Link with corporate financial performance.The *British Accounting Review*, In Press, Corrected Proof, Available online 2014: 1-15.
- Saeidi, S. P., S. Sofian, P. Saeidi, S. P. Saeidi, and S. A. Saeid. 2015. How does corporate social responsibility contribute to firm financial performance? The mediating role of competitive advantage, reputation,and customer satisfaction. *Journal of Business Research* 68(2): 341-350.
- Santoso, A. H., Y. K. Feliana. 2014. The Association Between Corporate Social Responsibility And Corporate Financial Performance. *Issues in Social and Environmental Accounting* ,8(2): 82-103.
- Shen, X., Ho, K. C., Yang, L., & Wang, L. F. S. (2021). Corporate social responsibility, market reaction and accounting conservatism. *Kybernetes*, 50(6), 1837-1872.
- Shoorvarzy, M.R., M.M. Shiri and A. Kholousi, 2012. A Study of Impact of Accounting Quality on Cash Basic Requirements Model for Flow Investment Sensitivity. *World Applied Sciences Journal*, 16(1): 141-6.
- Shi ,L. and H. Zhang .2011. On Alternative Measures of Accruals. *Accounting Horizons*: December . Vol. 25, No. 4, pp. 811-836.
- Story, J., and P. Neves. 2015. When corporate social responsibility (CSR) increases performance: exploring the role of intrinsic and extrinsic CSR attribution. *Business Ethics: A European Review*, 24(2): 111-124.
- Tanggamani, Vani, Azlan Amran, and T. Ramayah. "CSR practices disclosure's impact on corporate financial performance and market performance: Evidence of Malaysian public listed companies." *International Journal of Business and Society* 23.1 (2022): 604-613.
- Watts .R.L. 2003. Conservatism in Accounting :part I : explanation and Implication .*Accounting Horizons* .No.3.207-221
- Wu, Y. (2011). Research on the relationship between controlling shareholder and accounting conservatism in China. *Applied Mechanics and Materials*.Vol.65 579-584.
- Yoon, B., Lee, J. H., & Cho, J. H. (2024). Corporate social responsibility and financial performance: New evidence from the Korean market. *SAGE open*, 14(2), 21582440241255196.
- Yu, Z. (2022). Financial report readability and accounting conservatism. *Journal of Risk and Financial Management*, 15(10), 454.
- Zhai J. and Y .Wang.2016. Accounting information quality, governance efficiency and capital investment choice. *China Journal of Accounting Research*. No. 9 . 251-266.