

Innovations

Impact of Reactive and Proactive Corporate Social Responsibility on the Financial Performance of Saudi SMEs

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Abstract: *The research investigates the impact of Reactive and Proactive Corporate Social Responsibility (CSR) initiatives on the financial performance of Small and Medium-sized Enterprises (SMEs). This study employed a cross-sectional descriptive survey design supported by 322 respondents from Saudi SMEs in the Al Qassim region. The statistical package used was SPSS v.28. The financial performance of SMEs is positively correlated with reactive and proactive CSR initiatives, indicating that reactive CSR does not result in substantial financial gains; Rather, it involves participation in a variety of economic and environmental initiatives that indirectly influence the financial performance of Saudi SMEs. In contrast, proactive CSR improves financial performance by affecting the economy, society, and environment. The results indicate that the financial performance of SMEs may not be substantially impacted by adhering to legal and ethical regulations. Another outcome of this investigation was the development of three models that used ANOVA and multiple regression to forecast the impact of reactive and proactive CSR and their constituents on the financial performance of SMEs. The results emphasize the importance of a proactive approach to CSR for SMEs in Saudi Arabia and the necessity of incorporating CSR into business strategies to achieve an optimistic improvement in financial performance among Saudi SMEs.*

Keyword: *Reactive and Proactive CSR, SMEs, Financial Performance, Saudi SMEs.*

1. Introduction

George et al. (2023) believed that the primary goal of a business is to maximise profit through business theory and practice. In the Kingdom of Saudi Arabia (KSA),

corporations and populations are becoming more familiar with corporate social responsibility (CSR). Meanwhile, small and medium enterprises (SMEs) have shown a clear pattern of failure during their initial five years of operation (Adam & Alarifi, 2021). SMEs in KSA account for 34% of the economy, generating approximately 60% of Saudi Arabia's wealth and employment (AlMaghyadi et al., 2021). Despite this, 70% of SMEs cannot sustain their operations for more than five years, primarily because some small business proprietors are oblivious to the factors that can help a company survive more than five years (Adam & Alarifi, 2021). This failure is partially the result of the numerous obstacles that small businesses encounter, limiting their capacity to expand. The failure encompasses managerial, leadership, and marketing abilities that would have granted them a competitive edge. Alwakid et al. (2021) also pointed out other failure factors caused by corruption, challenges in procuring financing, and inadequate entrepreneurship policy implementation.

The high failure rate becomes a concern at popular and governmental levels. Small business proprietors in developed and emerging countries have been critical in promoting economic growth (Van Song et al., 2022). Consequently, SMEs are profoundly considered a testament to entrepreneurship's impact on the nation's economy (Ahmed & Fahd, 2022). Meanwhile, CSR has recently attracted substantial attention in academic studies and business. Businesses use it to establish a competitive advantage and achieve a win-win situation with stakeholders, thereby establishing the concept that is gaining traction in developing nations.

The productivity of an organisation is influenced by CSR initiatives, which are further influenced by the progress of economic development (Adu-Gyamfi et al., 2021). Additionally, it is reasonable to assume that the organisation has consumers who prioritise environmentally responsible products, encouraging SMEs to produce environmentally responsible products. The critical factor is the capacity to support the community in which they operate and be receptive to societal demands. Consumers who advocate for the environment or charities can encourage their peers to support the business by purchasing products or services. Ellemers and Chopova (2021) have noted increased corporate organisations and entities engaging in CSR for various reasons. The most critical factor is the capacity to support the community in which they operate and be receptive to societal demands. As a result, CSR has demonstrated that specific businesses have addressed these concerns by designating supplementary resources to CSR (Olanipekun et al., 2021). Assessments of the economic impact of CSR must be more precise in light of this argument (Schiessl et al., 2022). Conversely, organisations have expressed opposition, claiming that their efforts to improve profitability are incompatible with including CSR expenditures (Masud et al., 2022). Russell (2018) validated the cost of implementing various CSR programs compared to the benefits they

can provide by examining the impact of CSR on the global sustainability of businesses, considering the community to which they belong. Tax incentives and cost reductions were also included as additional benefits. Implementing CSR initiatives has improved their public image and increased the popularity of their products and services in a broader context (Singh & Misra, 2022).

The definition of CSR is dynamic and may fluctuate depending on the corporate initiatives that serve the community (Chandler & Werther, 2014). In order to improve the sustainability, efficacy, and growth potential of SMEs, it is imperative to resolve the issues and obstacles they encounter through CSR (Mahmood et al., 2021). CSR is associated with sustainability principles (Wu & Jin, 2022). Organisations should make decisions based on the immediate and long-term impact of social and environmental factors rather than solely on financial ones. This decision is anticipated to have a generally beneficial impact on society (Spiliakos, 2018).

The investigation aims to determine the influence of reactive and proactive CSR initiatives on the financial performance of SMEs in the Al Qassim region. The initiatives are documented in a well-structured questionnaire containing economic, legal, ethical, social, and environmental issues. Numerous studies have been conducted to evaluate the scope and impact of CSR practices in a variety of industries on the overall performance of these companies. Nevertheless, they need supplementary assistance from SMEs. The researcher aims to determine the financial performance of SMEs and the impact of their CSR initiatives to address this gap. By establishing the relationship between the variables and the reasons they are germane to business operations, this research will facilitate the understanding of the role of CSR initiatives, particularly in the financial performance of SMEs.

2. Research Questions

The article should provide answers to the following three questions:

Q1. How do reactive and proactive CSR impact Saudi SMEs differently financially?

Q2. What potential financial risks are associated with not adopting reactive CSR for Saudi SMEs?

Q3. What are the implications of creating models for reactive and proactive CSR initiatives and the financial performance of Saudi SMEs?

3. Methodology

Research methodology suggests a substantial positive correlation between corporate performance and environmental, social, and governance disclosure. This approach indicates that companies actively participating in corporate social responsibility (CSR) initiatives are more likely to achieve favourable financial results. A quantitative research

methodology could emphasise that SMEs in KSA implement practices to improve economic performance in various industries (Hessa & Hanan, 2024). Excel software, ANOVA, and SPSS V.26 are implemented for statistical analysis.

3.1 The Questionnaire

A questionnaire was designed and employed to determine the effect of CSR initiatives on SMEs' financial performance. This systematic process is essential for obtaining data naturally within a specified time frame. The influencing variables involved in the research were correlated to show the type of setting among these variables (Siedlecki, 2020). The research design was meant to study the extent of CSR initiatives' implementation and SMEs' financial performance in the Al Qassim region in KSA between mid-January 2023 and the beginning of April 2023. This approach is suitable since the variables are not manipulated, allowing the researcher to gather information on the variables at the individual level and determine the correlation among these variables (Saunders et al., 2014).

The questionnaire consists of three parts in addition to demography (Part I). Part II is about reactive CSR, which includes three dimensions: economy (3 items), legal and ethical (7 items), and environment (5 items). Part III is about proactive CSR, which is composed of three dimensions: economy (9 items), social (6 items), and environment (5 items). The last part (Part IV) is about financial performance, which includes only three items.

The questionnaires' contents were adapted from previous and relevant studies, as shown in Table 1. This study's questionnaire comprises 38 items designed to assess the financial performance of small and medium-sized enterprises (SMEs) and their CSR involvement.

Table 1. Sources of adapting items in the questionnaire

Construct	Sources
❖ Reactive CSR	Zhang (2022)
• Economy	Williams (2020), Al-Moumany et al. (2014)
• Legal and Ethical	Fadun (2014)
• Environment	Vveinhardt and Andriukaitiene (2015)
❖ Proactive	Torugsa et al. (2013)

CSR	
• Economy	Zhang (2022)
• Environment	Chang (2015)
• Social	Torugsa et al. (2013)
❖ CSR financial performance	Fauzi and Idris (2009), Torugsa et al. (2012), Tang and Tang (2016), Venter and Turyakira (2014)

3.2 Analysis of Questionnaire Items

The items were rated using a 5-point Likert scale, where five represents strongly agree, and one represents strongly disagree, as shown in Table 2. After the reliability test, the 38-item scale was applied to all 322 respondents (Sözen & Güven, 2019).

Table 2 Scoring range of 5-Likert scale (Sözen & Güven, 2019)

Scale	Value	Range
Strongly Disagree	1	1.00-1.80
Disagree	2	1.81-2.60
Neutral	3	2.61-3.40
Agree	4	3.41-4.20
Strongly Agree	5	4.21-5.00

3.3 Study Area

The study was conducted in Al Qassim region, which is located in the heart of the Kingdom of Saudi Arabia (KSA), about 330 kilometres northwest of the capital, Riyadh, and occupies an area of about 78,500 square kilometres or nearly 4% of the total area of the KSA. According to the last estimate, Al-Qassim's population totalled nearly 980,000, which gives a population density of 12.6 people per square kilometre, while KSA's density is nine people per square kilometre. Moreover, the Al Qassim Region comes 7th out of 13 provinces in population, and the main economic activity is agriculture (Aldagheiri, 2024).

4. Results and Discussion

4.1 Demography of Respondents

The participants are the owners or any of the appointed representatives by the business owners of SMEs. A total net population of 322 qualified employees participated in the survey. The demographic profile of the participants in terms of sex, age, degree, experience, position, company category, company age, and company activity is shown in Table 3. There were almost double the number of males compared to females (65.2% compared to 34.8), which might be attributed to the nature of the conservative society in the KSA. Regarding the respondents' age, about a quarter of the participants are still between 26 and 30 years old, while the lowest age belongs to very young people between 20 and 25 years old. The sector of more than 46 years is the second low in the survey.

Regarding the degree obtained, BSc holders constitute about half of the respondents (49.4%), while the high-degree holders are about a quarter (23.3%). This distribution is critical as educated people are a cornerstone in running Saudi's SMEs. Concerning experience, there is good news, as 43.2% of the respondents have more than eight years of experience. The administrator position is very encouraging as they represent 56.5%, followed by employees (23.3%), while the managers represent the lowest sector (7.8%). The company categorising shows that small enterprises represent more than three quarters (78%), while medium enterprises hold the rest (22%). The company's age between 1 and 10 years represents the highest portion (51.2%), followed by those enterprises of more than 11 years (29.8%). The companies surveyed show that industrial companies represent the highest percentage (42.9%), followed by service companies (28%).

Table 3. Demographic distribution of the participants

Construct	Category	Number (n)	%
Sex	Male	210	65.2%
	Female	112	34.8%
Age	20-25	32	9.9%
	26-30	38	11.8%
	31-35	82	25.5%
	36-40	62	19.3%
	41-45	61	18.9%
	>46	42	13.0%
Degree	Secondary	32	9.9%
	Diploma	56	17.4%
	BSc	159	49.4%
	High Degree	75	23.3%

Experience	1-3 Years	78	24.2%
	4-7 Years	105	32.6%
	>8 Years	139	43.2%
Position	Manager	25	7.8%
	CEO	40	12.4%
	Admin	182	56.5%
	Employee	75	23.3%
Company Category	<50 Employees	251	78.0%
	50-249	71	22.0%
Age of Company	<1 Years	61	18.9%
	1-10 Years	165	51.2%
	>11 Years	96	29.8%
Company Activity	Service	90	28.0%
	Commercial	58	18.0%
	Industrial	138	42.9%
	Transportation	36	11.2%

4.2 Levels of CSR Initiative Items

The 38 items are categorized as follows: Reactive CSR is equipped with 15 initiatives distributed at three items belong to the economy (RCE01-RCE03), seven items belong to legal and ethical (RCL01-RCL07), and five items belong to the environment (REF01-REF05). Additionally, proactive CSR initiatives are composed of 20 items divided as follows: nine items belong to the economy (PED01-PED09), six items belong to social (PSF01-PSF06), and five items belong to the environment (PEF01-PEF05). The financial performance of the Saudi SMEs contains three items (FPF01-FPF03). As shown in Table 4, the 38 items were presented with two statistical variables: the mean and relevant standard deviation. The levels of the RCSR-economy (RCE), PCSR-economy (RCE), PCSR-social (PSF), and EPF initiatives lie between agree and strongly agree. In contrast, the level of the initiatives of RCSR-legal (RCL), RCSR-environment (REF), and PCSR-environment (PEF) includes at least one initiative at a neutral level. These two statistical variables indicate the strength of each item, as presented in Table 2 and shown in Table 4.

Table 4. The level of CSR initiatives

C			L	C			L
S			e	S			e
R			v	R			v
I			el	I			el

t e m s				t e m s			
RCSR				P E D 0 5			A g r e e
R C E 0 1			St ro n g l y A g r e e	P E D 0 6			St ro n g l y A g r e e
R C E 0 2			A g r e e	P E D 0 7			A g r e e
R C E 0 3			St ro n g l y A g r e e	P E D 0 8			St ro n g l y A g r e e
R C L 0 1			A g r e e	P E D 0 9			St ro n g l y A

							gr e e
R C L 0 2			A gr e e	P S F 0 1			A gr e e
R C L 0 3			A gr e e	P S F 0 2			St ro n gl y A gr e e
R C L 0 4			A gr e e	P S F 0 3			St ro n gl y A gr e e
R C L 0 5			A gr e e	P S F 0 4			St ro n gl y A gr e e
R C L			N e u t	P S F			A gr e

06			ra l	05			e
R C L 0 7			A gr e e	P S F 0 6			A gr e e
R E F 0 1			A gr e e	P E F 0 1			A gr e e
R E F 0 2			A gr e e	P E F 0 2			A gr e e
R E F 0 3			N e u t r a l	P E F 0 3			N e u t r a l
R E F 0 4			A gr e e	P E F 0 4			A gr e e
R E F 0 5			A gr e e	P E F 0 5			N e u t r a l
PCSR				EPF			
P E D 0 1			A gr e e	F P F 0 1			St ro n g l y

							A gr e e
P E D 0 2			St ro n gl y A gr e e	F P F 0 2			St ro n gl y A gr e e
P E D 0 3			A gr e e	F P F 0 3			A gr e e
P E D 0 4			St ro n gl y A gr e e				

4.3 Descriptive Normality Analysis

Table 5 shows the data's normality test as presented by the respondents. Two factors of skewness and Kurtosis can achieve the normality test. The skewness and Kurtosis values were presented for individual factors (RCE, RCL, REF, PED, PSF, PEF, and FPF) and the significant constructs (RCSR and PCSR). All individual factors show negative skewness,

which means that the mean and the median are less than the mode of the data set (Blanca et al., 2013). The skewness values range between -0.822 (the least negative skewness), which is the case with the proactive CSR economy (PED). The highest skewness was reported at -1.324, which appeared with the reactive CSR economy (RCE). The skewness of other factors lies between the lowest and highest skewness mentioned above. The majority of the factors have shown skewness very close to -1.00. In general, the skewness values are within the accepted level recommended between -2.000 and +2.000 (Karlsson et al., 2023).

The other factor used to determine the normality test is Kurtosis, which measures the direction of the heavy-tailed or light-tailed relative to a normal distribution. Based on a previous report, the normal distribution's Kurtosis values lie between -3 (heavy-tailed on the left side) and +3 (Heavy-tailed on the right side). In contrast, the 0 value represents the normal distribution (Hair et al., 2013). The Kurtosis results in Table 5 suggest that Kurtosis values lie on the positive side and range between 0.347 for proactive CSR environment (PEF) and 1.572 for reactive CSR economy (RCE). The positive values of Kurtosis suggest that the data are slightly tailed to the right side of the normal distribution. One possible reason for this behaviour is that more respondents were satisfied with the questionnaire, as depicted in Table 5.

Table 5 Normality test in terms of skewness and Kurtosis values

V a r i a b l e	N	M e a n	S t a n d a r d D e v	Skewness		Kurtosis	
				St a t i s t i c s	S t d D e v	St a t i s t i c s	S t d D e v
R C S R	3	3	1	-	0		0
	2	.	.	1.	.	1.	.
	2	0	1	31	1	43	2
		8	3	3	3	4	6
		5	2		1		1
R C E	3	3	0	-	0		0
	2	.	.	1.	.	1.	.
	2	9	9	32	1	57	2
		9	8	4	3	2	6

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		8	3		1		1
R	3	3	1	-	0		0
C	2	.	.	0.	.	0.	.
L	2	8	0	93	1	33	2
		0	5	2	3	2	6
		5	8		1		1
R	3	3	1	-	0		0
E	2	.	.	0.	.	0.	.
F	2	6	2	89	1	55	2
		8	8	3	3	1	6
		9	6		1		1
P	3	3	1	-	0		0
C	2	.	.	0.	.	0.	.
S	2	5	0	93	1	36	2
R		8	8	4	3	4	6
		7	6		1		1
P	3	3	1	-	0		0
E	2	.	.	0.	.	0.	.
D	2	6	0	82	1	41	2
		1	8	2	3	1	6
		8	6		1		1
P	3	3	1	-	0		0
S	2	.	.	0.	.	0.	.
E	2	6	0	95	1	53	2
		0	6	0	3	9	6
		9	2		1		1
P	3	3	1	-	0		0
E	2	.	.	0.	.	0.	.
F	2	5	1	91	1	34	2
		0	0	9	3	7	6
		4	7		1		1
E	3	3	0	-	0		0
P	2	.	.	0.	.	0.	.
F	2	8	9	94	1	53	2
		0	9	2	3	4	6
		8	7		1		1

5. Correlation Analysis

There are three constructs represented by two independent variables (IVs) belonging to reactive CSR (RCSR) and proactive CSR (PCSR) and one dependent (DV) variable of the financial performance of Saudi SMEs in the Qassim region. The correlation process is performed between the IVs constructs and DV, as illustrated in this section. It may be noted that the correlation coefficients (r) indicate only the strength of relationship between the variables and not the direction of causality (R). To establish the relationship between the various dimensions of dependent and independent variables, detailed analyses were carried out using correlation coefficients, as depicted by Chan (2003) and shown in Table 6.

Table 6. Correlation coefficients and their effects (Chan, 2003)

Domain of correlation (r)	Relationship
$r \geq 0.7$	Very strong
$0.5 \leq r \leq 0.69$	Substantial
$0.3 \leq r \leq 0.49$	Moderate
$0.1 \leq r \leq 0.29$	Low
$0.01 \leq r \leq 0.09$	Negligible

5.1 Correlation Matrix

The Correlation Matrix of independent variables (RCSR and PCSR) and Dependent Variable (EPF) was tested with the multi-collinearity test(Hair et al. 2013). However, according to Youssef et al. (2023), the correlation between independent variables (RCSR and PCSR) is not a concern in many studies because the focus is about the output factor. Adversely, the correlation between IV's represented by RCSR with its components of RCE, RCL, and REF and PCSR with its components of PED, PSE, and PEF is very important, as shown in Table 7. The diagonal of the correlation matrix table consists of ones (unity) always, because the correlation between a variable and itself is always 1.0. The correlation between off-diagonal entries is repeated between any two variables; hence, the correlation matrix is also a symmetric matrix. The correlation matrix was examined, and the values of the correlation test were found between 0.538 (REF and RCE) and 0.850 (PCSR and PED). Mostly, the correlation values are considered within the

high-correlation region (Hair et al., 2010) since the most variables has shown tendency towards the high level of 5-Likert scale, as shown in Table 2.

Table 7. Correlation matrix of independent and dependent each variable

F a c t o r s	R C S R	R C E	R C L	R E F	P C S R	P E D	P S E	P E F	E P F
R C S R	1 .0 0 0								
R C E	0 .6 9 7	1 .0 0 0							
R C L	0 .7 2 5	0 .7 9 1	1 .0 0 0						
R E F	0 .6 1 5	0 .5 3 8	0 .7 5 9	1 .0 0 0					
P C S R	0 .7 9 5	0 .8 1 9	0 .7 8 5	0 .7 2 2	1 .0 0 0				

P E D	0 . 7 0 4	0 . 7 3 1	0 . 6 6 2	0 . 7 9 3	0 . 8 5 0	1 . 0 0 0			
P S E	0 . 7 5 2	0 . 7 8 5	0 . 7 2 9	0 . 6 9 6	0 . 7 3 6	0 . 7 1 7	1 . 0 0 0		
P E F	0 . 6 6 8	0 . 8 2 5	0 . 8 4 7	0 . 8 0 5	0 . 7 9 8	0 . 8 2 9	0 . 8 3 9	1 . 0 0 0	
E P F	0 . 7 3 4	0 . 7 3 7	0 . 6 8 8	0 . 7 1 8	0 . 8 2 7	0 . 7 8 1	0 . 7 4 3	0 . 7 8 7	1 . 0 0 0

In addition to the correlation in Table 7, Table 8 shows the correlation matrix between the dependent construct variables (RCSR and PCSR) and the dependent variable (EPF) and the correlation between RCSR and PCSR. The independent variables (RCSR and PCSR) are weakly linked at 0.407. Conversely, the dependent variable RCSR and the dependent variable (EPF) is 0.617, while the correlation between PCSR and EPF is much higher at 0.891. The results agree with the estimated initiative level discussed above. The correlation test shows that the *r*-value is low (0.407) between RCSR and PCSR. This result highlights that RCSR and PCSR are separate entities in setting the social responsibility toward Saudi SMEs' financial performance, as noted by Gupta & Das (2022), who presented a meta-analytical review of 168 industries.

Table 4.8. Correlation matrix of independent and dependent variables

Vari able s	R C S R	P C S R	EP F
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RCS R	1	0	
	.	.	0.
	0	4	61
	0	0	7**
	0	7	*
		*	
PCS R	0	1	
	.	.	0.
	4	0	89
	0	0	1**
	7	0	*
		*	
EPF	0	0	
	.	.	1.
	6	8	00
	1	9	0
	7	1	
	*	*	
	*	*	

**Correlation is significant at 1% level

5.2 Multicollinearity Test

The multicollinearity test can be assessed by performing tolerance and variance inflation factor (VIF) (Pallant, 2007). The values of VIF should be less than 10, while the values of tolerance should be between 0.1 and 1.0 (Kline, 2005). Tolerance is a measure of collinearity reported by most statistical programs such as SPSS. Table 9 shows the two variables of tolerance and VIF for the eight factors that belong to IVs (RCSR and PCSR). The tolerance ranges between 0.255 for PEF and 0.395 for RCSR; both values are much higher than the threshold of 0.1 (Cheng et al., 2010). The small values of the tolerance suggest that the variables under consideration are almost a perfect linear combination of the independent variables since any tolerance value of less than 0.1 needs more careful investigation. Significant standard errors accompany any small tolerance value, so the test of multicollinearity could be insignificant (Bell, 1999). The other variable, VIF, defined as the reciprocal of the tolerance, has also been used to test the impact of the multicollinearity of the variables in the regression model. The maximum accepted value of VIF should be 10, where values less than ten are considered a source of concern,

which may refer to instability (Bell, 1999). When R^2 and VIF values are high for any of the variables in the proposed model, multicollinearity is probably an issue. Table 9 contains the assessment of tolerance and VIF for the independent variables.

Table9. Multi-collinearity statistics

F a c t o r	To le ra nc e	V I F
R C S R	0. 39 5	2 .5 3 5
• C E	0. 34 8	2 .8 7 3
• C L	0. 27 3	3 .6 5 7
• E F	0. 30 7	3 .2 5 3
P C S R	0. 29 6	3 .3 7 9

• E D	0. 32 4	3 . 0 8 9
• S E	0. 30 0	3 . 3 3 3
• E F	0. 25 5	3 . 9 2 1

5.3 Independent *t* Test for RCSR

A one-sample *t*-test is used to determine whether a single group deviates from a known value, an independent two-sample *t*-test is used to determine whether two groups differ, and a paired or dependent samples *t*-test is used to determine whether there is a significant difference in paired measurements (Lakens & Caldwell, 2021). The results of the independent *t*-test supported by Levene’s test are shown in Table 10. Levene’s test considers only the option of equal variance. It seems that only the legal and ethical factor (RCL) is not valid, as the significance is 0.158 (greater than 0.05); otherwise, the RCSE, RCE, and REF factors are all valid. The same results are obtained from the *t*-test where RCL under equal or non-equal variance is significant with values lower than 0.05.

Table 10. Independent *t* test for RCSR (RCE, RCL, and REF)

Particular	Levene's Test for Equality of Variances	<i>t</i> -test for Equality of Means
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		F	S i g .	t	df	Si g. (2 - ta il e d)	Mea n Diffe renc e
R C E	Equ al vari anc es ass um ed	2 . 0 0 6	0 . 0 3 0	- 1 . 1 4 8	32 0	0. 0 2 2	- 0.33 439
	Equ al vari anc es not ass um ed			- 1 . 1 8 6	29 3. 01 3	0. 0 1 6	- 0.33 439
R C L	Equ al vari anc es ass um ed	4 . 7 6 6	0 . 1 5 8	- 2 . 3 0 8	32 0	0. 2 5 2	- 0.14 438

	Equal vari- anc- es not ass- um- ed			- 2 . 4 2 8	30 7. 58 1	0. 2 3 7	- 0.14 438
R E F	Equal vari- anc- es ass- um- ed	4 . 2 6 1	0 . 0 4 0	- 3 . 3 4 0	32 0	0. 0 0 1	- 0.49 541
	Equal vari- anc- es not ass- um- ed			- 3 . 4 4 4	29 1. 38 8	0. 0 0 1	- 0.49 541
R C S R	Equal vari- anc- es ass- um- ed	2 . 0 4 1	0 . 0 1 5	- 3 . 3 3 5	32 0	0. 0 0 1	- 0.45 263

	Equal vari anc es not ass um ed			- 3 . 4 3 4	29 0. 08 4	0. 0 0 1	- 0.45 263
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5.4 Independent *t*-test for PCSR

Table 11 expresses the statistical results of Levene’s *t*-test for proactive CSR with its three components: economy (PED), social (PSE), and environment (PEF). Levene’s test shows that proactive CSR and its three components were significant, with all of them much lower than the significance of 0.05. This result leads to believe that the PCSR differs from the RCSR mentioned above in Table 10. The *t*-test, on the other hand, has shown that PCSR and its three dimensions are significant.

Table 11. Independent *t*test for PCSR (PED, PSE, and PEF)

Particular	Leven e's Test for Equal ity of Varia nces	<i>t</i>-test for Equality of Means
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		F	S i g .	t	d f	M e a n D i f f e r e n c e
	Equal variances assumed	3 . 5 6 4	0 . 0 6 0		3 2 0	- 0 . 4 1 9 6 7
	Equal variances not assumed				2 9 1 . 6 7 0	- 0 . 4 1 9 6 7

	Equal variances assumed	0 . 9 7 0	0 . 0 3 2				- 0 . 4 6 2 7 6
	Equal variances not assumed					2 8 7 . 5 1 3	- 0 . 4 6 2 7 6
	Equal variances assumed	0 . 1 9 9	0 . 0 1 6				- 0 . 3 6 5 0 2
	Equal variances not assumed					2 7 0 . 5 1 7	- 0 . 3 6 5 0 2

Equal variances assumed	1	0				-
	.	.			3	0
	8	0			2	.
	3	1			0	3
	1	7				5
Equal variances not assumed						2
						8
						5
						.
						9
						4
					6	
						5
						2
						5
						0

6. Multiple Regression and Prediction of SMEs Performance

Multiple regression is a statistical technique that permits researchers to examine the relationship between a single dependent variable (DV) and several independent variables (IVs) (Keith, 2019). This study has two independent variables RCSR and PCSR) and one dependent variable (EPF). The regression test is carried out using a well-structured questionnaire of 322 respondents. The analysis depends on the coefficient of determination (R^2), which measures the goodness of fit of the estimated sample regression in terms of the proportion of the variation in the dependent variables explained by the fitted sample regression equation. The existing two IVs could lead to testing three models supported by ANOVA analysis. The first model includes a combined RCSR and PCSR with EPF. The second model represents the relationship between EPF and the three input variables of RCSR (RCE, RCL, and REF). The third model is to test the relationship between EPF and the three input variables (PED, PSE, and PEF) of PCSR. According to Luke (2019), the prediction of the model was incorporated with the multiple regression and SPSS using the prediction of a particular variable (X) by employing multi-variables, as explained in Equation (1):

$Prediction\ of\ X = b + \beta_1X_1 + \beta_2X_2 + \dots + \beta_iX_i$	(1)
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Where, b is a constant; β_i refers to the value of the standardized coefficient β , and X_i represents the actual value of the variable which is measured or estimated by direct approach or through a questionnaire.

6.1 Model 1: (RCSR andPCSR)andEPF

The first possible model is about the relationship between reactive CSR and proactive CSR and the output financial performance (EPF). The influence of predictor variables in the regression model is presented in regression coefficient tables. Further the standardised coefficient referred to as beta value (β) that explain the proportion of variance contributed directly by each of the predictor variables of RCSR and PCSR, supported by three approaches: ANOVA, coefficient for predictor, and the summary of the model, where the emphasis is determining adjusting R^2 and the Durbin-Watson factor. The F-test, which appears in the ANOVA test, determines the linear regression model's ability to fit the data more accurately than a model lacking independent variables. The F value is a critical output of ANOVA and is employed to conclude the differentials between the means of the groups. Model 1 is expressed in Table 12 which contains ANOVA regression results supported by F test at $F_{2,319} = 234.621$ which was determined at statistically significant of $p < 0.00$ level.

Table 12. ANOVA for predictors of financial performance(Model 1)

ANOVA^a					
M o d e l	Sum of Squares	d f	Me an Sq uar e	F	S i g n i f i c a n c e
R e g r e s s i o n	308.899	2	154 .44 9	2 3 4 . 6 2 1	0 . 0 0 0 b

R e s i d u a l	226.453	3 1 9	0.6 58	
T o t a l	535.351	3 2 1		
^a Dependent Variable: EPF_dv				
^b Predictors: (Constant): RCSR_iv, PCSR_iv				

Table 13 explains the proportion of variance contributed directly by each of the predictor variables. Proportion of variance explained can be seen in RCSR ($\beta = 0.259, t = 3.883, p < 0.000$) and PCSR ($\beta = 0.527, t = 7.896, p < 0.000$). The results suggest that the contribution of PCSR (0.527) is much higher the contribution of RCSR (0.259) in improving the financial performance (EPF).

Table 13. Regression results for predictors of financial performance (Model 1)

Coefficients ^a					
M o d e l 1	Unstandardiz ed Coefficients		Sta nda rdi zed Co effi cie nts	t	S i g .
	B	Std. Err or	β		

(C on sta nt)	1 . 0 2 6	0.2 18		4 . 7 0 8	0 . 0 0 0
R CS R_ iv	0 . 2 9 0	0.0 75	0.2 59	3 . 8 8 3	0 . 0 0 0
P CS R_ iv	0 . 5 1 6	0.0 65	0.5 27	7 . 8 9 6	0 . 0 0 0
aDependent Variable: EPF_dv					

In addition, Table 14 shows positive autocorrelation with the value of 1.868, which falls within the acceptable range of 1.5 to 2.5, as Norusis (1995) recommended. Further, it was indicated that that 57.5% of variance in respondent’s EPF is explained by this model as predicted by the adjusted R^2 where the difference between the two values (0.577 and 0.575) is very small.

Table 14. Summary of financial performance (Model 1)

Model 1 Summary^b				
<i>R</i>	R^2	Ad ju st ed R^2	Std. Error of the Estimate	Durbi n- Watso n

0 . 7 6 0 a		0. 57 5	0.81135	1.868
^a Predictors: (Constant), PCSR_iv, RCSR_iv				
^b Dependent Variable: EPF				

6.2 Model 2: RCSR and EPF

The second possible model includes the relationship between the three variables of RCSR (RCE, RCL, and REF) with the financial performance (EPF). The model examines the effect of each predictor of RCE, RCL, and REF on the criterion of EPF. The results of ANOVA shown in Table 15 suggest that overall regression model 2 is statistically significant at $p < 0.00$ level and $F_{3, 318} = 90.524$.

Table 15. ANOVA for predictors of reactive CSR (Model 2)

ANOVA^a					
M o d e l 2	Sum of Squa res		Me an Squ are	F	S i g .
R e g r e s s i o n	275.3 16		68.8 29	9 0 . 5 2 4	0 . 0 0 0 b

R e s i d u a l	260.0 36		0.76 0	
T o t a l	535.3 51			
^a Dependent Variable: EPF_dv				
^b Predictors: (Constant, RCE, RCL, and REF)				

Table 16 shows the results of regression based on standard coefficient. The proportion of variance explained in environment (REF) was moderated ($\beta = 0.163, t = 2.747, p < 0.006$), legal (RCL) ($\beta = 0.205, t = 3.272, p < 0.071$), and economy (RCE) ($\beta = 0.365, t = 6.282, p < 0.00$). As recorded, the environment (RCE) scores (0.365), which is the most contributing variable to improve EPF, followed by RCL (0.205) and REF (0.163). The estimated values of the standardised regression coefficient as beta (β) values that explain the proportion of variance contributed directly by each of the predictor variables.

Table 16. Regression results for predictors of reactive CSR (Model 2)

Coefficients

M o d e l 2	Unstandar dized Coefficients		Stand ardiz ed Coeff icient s	t	S i g .
	B	St d. Er ro r	β		
(C o n s t a n t)	0 . 9 1 9	0.2 54		3 . 6 2 6	0 . 0 0 0
R C E	0 . 3 6 6	0.0 58	0.365	6 . 2 8 2	0 . 0 0 0
R C L	0 . 1 9 4	0.0 59	0.205	3 . 2 7 2	0 . 0 7 1
R E F	0 . 1 7 9	0.0 65	0.163	2 . 7 4 7	0 . 0 0 6
aDependent Variable: EPF_dv					

The proposed Model 2 is tested and found accepted for significant contribution of predictor variables of financial performance economy (RCE), legal (RCL), and environment (REF) as major predictors. Thus, multiple regression analysis was conducted to assess the ability of three variables (RCE, RCL, and REF) to predict the dependent variable EPF. Table 17 shows that regression 2 of the Durbin-Watson statistic also lies within the statistical expectations as there was positive autocorrelation with the value of 1.901, which falls within the acceptable range of 1.5 to 2.5 as recommended by Norusis (1995). As a result, the total contribution of the variance in respondent’s financial performance (EPF) is explained by the three variables is 51.4% which refers to the value of R^2 or to 50.9% of adjusted R^2 .

Table 17. Summary of reactive CSR (Model 2)

Model 2 Summary^b				
<i>R</i>	R^2	Ad ju st ed R^2	Std. Error of the Estimate	Durb in- Wats on
0 . 7 1 7 a		0. 50 9	0.87197	1.901
^a Predictors: (Constant), RCE, RCL, and REF				
^b Dependent Variable: EPF_dv				

6.3 Model 3: PCSR and EPF

The third possible model shows the relationship between the three variables of PCSR (PED, PSE, and PEF) and the financial performance (EPF), using ANOVA as shown in Table 18. The results of ANOVA shown that overall regression model 3 is statistically significant at $p < 0.00$ level and $F_{3,318} = 115.443$.

Table 18. ANOVA for predictors of proactive CSR (Model 3)

ANOVA^a					
M o d e l 3	Sum of Squar es		Me an Squ are	F	
R e g r e s s i o n	307.56 3		76.8 91	1 1 5 · 4 4 3	
R e s i d u a l	227.78 9		0.66 6		
T o t a l	535.35 1				
^a Dependent Variable: PCSR_dv					
^b Predictors: (Constant), PED, PSE, and PEF					

Table 19 indicated that the estimated values of the standardised regression coefficient as Beta (β) values that explain the proportion of variance contributed directly by each of the predictor variables. Proportion of variance explained in economy of PCSR (PED) ($\beta = 0.243, t = 6.542, p < 0.000$), social of PCSR (PSE) ($\beta = 0.166, t = 2.830, p < 0.005$), and environment of PCSR (PEF) ($\beta = 0.151, t = 2.393, p < 0.017$). The results of regression show, based on standard coefficient, that PED (0.382) is the most contributing variable to improve EPF followed by PSE (0.149) and PEF (1.34).

Table 19. Standardised regression coefficient proactive CSR (Model 3)

Coefficients ^a					
M o d e l 3	Unstand ardized Coeffici ents		Stand ardiz ed Coeff icient s	t	S i g .
	B	S t d . E r r o r	β		
(C o n s t a n t)	1	0		8	0
	.5	1		2	0
	2	8		0	0
	4	6		5	0

P E D	0	0	0.243	6	0

	3	0		5	0
	8	5		4	0
	2	8		2	0
P S E	0	0	0.166	2	0

	1	0		8	0
	4	5		3	0
	9	3		0	5
P E F	0	0	0.151	2	0

	1	0		3	0
	3	5		9	1
	4	6		3	7
aDependent Variable: EPF_dv					

Table 20 shows the regression model 3. The model of the Durbin-Watson statistic shows positive autocorrelation with a value of 1.739, which falls within the acceptable range of 1.5 to 2.5, as Norusis (1999) recommended. As a result, the total contribution of the variance (R^2) in respondent's financial performance (EPF) is explained by the three variables of PCSR (PED, PSE, and PEF) is 57.5% or 57.0% which refers to the value of adjusted R^2 .

Table 20. Summary of proactive CSR (Model 3)

Model (3) Summary^b				
<i>R</i>	R^2	Ad ju st ed R^2	Std. Error of the Estimate	Durb in- Wats on
0				
.		0.		
7		57	0.81612	1.739
5		0		
8				
a				

^a Predictors: (Constant), PED, PSF, and PEF
^b Dependent Variable: EPF_dv

Thus, the proposed model 3, the three variables in PCSR: economy (PED), social (PSE), and environment (PEF) were tested towards EPF. Multiple regression analysis was conducted to assess the ability of the three variables of PCSR to predict the dependent variable of the financial performance of Saudi's SMEs.

6.4 Summary of the Three Models

There are three models (Model 1, 2, and 3) that show the correlation between the two major constructs (RCSR and PCSR), components of RCSR (RCE, RCL, and REF), and the components of PCSR (PED, PSE, and PEF) with the financial performance (EPF), respectively. The three models were characterised by R², which estimates the variance that interprets the respondents. The three models are characterised by R² of 57.5%, 50.9%, and 57.0%, respectively. Model 3 (PCSR vs EPF) is better than Model 2 (RCSR vs EPF) in interpreting the variance. This result is expected since the two components of the PCSR (economy and social) were highly accepted by respondents, as shown in Table 4.

7. Significance of the Study

The study's importance can be ascribed to the indicators that CSR initiatives positively impact financial performance, with SMEs using these practices as strategic instruments to improve operations and competitiveness (Thanh et al., 2021). Incorporating economic, environmental, social, and legal factors into corporate strategies has enhanced financial outcomes, implying that companies actively participating in CSR are more likely to achieve favorable financial outcomes (Uyar et al., 2020). In particular, focusing on the significance of the social factor reinforces financial performance (Alotaibi, 2020). Nevertheless, the studies imply that the financial benefits of CSR may not be immediate, indicating a need for a long-term commitment to these practices even though they emphasize the benefits (Thanh et al., 2021). The evidence suggests that Saudi SMEs can significantly improve their financial performance by implementing reactive and proactive corporate social responsibility (CSR) strategies.

8. Conclusion

There is a positive correlation between the financial performance of SMEs in Saudi Arabia and proactive CSR, indicating that SMEs can improve their financial performance by being more proactive in their CSR activities. Conversely, the research revealed a less substantial correlation between financial performance and reactive CSR. This approach suggests that the financial performance of SMEs may be relatively unaffected by merely responding to societal pressures. The results underscore the significance of a proactive approach to corporate social responsibility (CSR) for small and medium-sized enterprises in Saudi Arabia.

To conclude, the primary goal of the study is to answer the following three questions:

Q1. How do reactive and proactive CSR impact Saudi SMEs differently financially?

CSR influences Saudi SMEs' financial performance on various reactive and proactive levels. Ammer et al. (2020) have found that the financial outcomes of firms that engage in proactive CSR practices are generally improved due to increased stakeholder engagement, which is essential for a competitive advantage. The Financial benefit of reactive CSR is predominantly achieved through improved economic factors and reputation. In particular, research has demonstrated that CSR environmental initiatives positively correlate with financial performance, indicating that socially responsible practices may increase profitability and firm value (Syed et al., 2021). The same researchers discovered that proactive CSR initiatives, such as societal donation, correlate positively with corporate financial performance. This outcome suggests that socially responsible actions can increase firm value and profitability. Nevertheless, certain studies concur that prospective drawbacks could harm financial performance, potentially obscuring the organization's financial health (Habbash& Haddad, 2020). The overall evidence supports the notion that proactive CSR fosters a favourable financial environment for SMEs in Saudi Arabia, augmenting their reputation and operational effectiveness while contributing to broader societal objectives despite these concerns (Allui & Pinto, 2022). Consequently, the financial advantages of proactive corporate social responsibility (CSR) are substantial and warrant further investigation despite obstacles.

Q2. What potential financial risks are associated with not adopting reactive CSR for Saudi SMEs?

The potential financial hazards to Saudi SMEs are substantial if they fail to implement proactive and reactive corporate social responsibility (CSR) practices. Research suggests that organizations implementing either type of corporate social responsibility (CSR) are more likely to achieve improved financial performance due to improved

stakeholder engagement, risk management strategies, and corporate image (Pinto & Allui, 2020). In contrast, small and medium-sized enterprises (SMEs) that disregard these practices may experience adverse repercussions, such as diminished investor interest and diminished competitiveness in a market that is becoming increasingly influenced by ESG (environmental, social, and economic) criteria (Saleh, 2020). Additionally, the absence of societal awareness and commitment to corporate social responsibility (CSR) among small and medium-sized enterprises (SMEs) can result in the loss of opportunities for strategic alignment and innovation, which are essential for long-term financial resilience (Alfalih, 2022). These risks are further exacerbated by the obstacles to CSR adoption, including insufficient management commitment and limited economic resources, which may lead to financial instability and a weakened market position (Alharbi, 2021). Consequently, Saudi SMEs' financial health and sustainability can be significantly compromised by the failure to implement proactive or reactive CSR.

Q3. What are the implications of creating models for reactive and proactive CSR initiatives and the financial performance of Saudi SMEs?

Creating models for reactive and proactive CSR initiatives has significant implications for the financial performance of Saudi SMEs. Modelling could provide a better understanding of the financial outcomes, encouraging firms to adopt initiatives that tend to experience improved performance due to enhanced stakeholder engagement and strategic alignment (Hessa & Hanan, 2024). Furthermore, integrating ethical practices within SMEs has yielded substantial benefits, with ethical commitment from management leading to better financial and non-financial performance (ShjaanAbalala et al., 2021). Additionally, the role of society, influenced by CSR initiatives, can be better understood at the various societal levels, which, in turn, enhances corporates' performance and reduces turnover (Alnehabi & Al-Mekhlafi, 2023). However, challenges such as the impact of external shocks, like COVID-19, highlight the need for resilient strategies presented by models that can adapt to changing circumstances (Oladapo et al., 2023). These findings underscore the importance of proactive and reactive CSR models in fostering financial performance among Saudi SMEs, aligning with broader economic goals outlined in Saudi Vision 2030 (Seraj et al., 2022).

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