

# Factors that Affect the Commitment of Charities to the Charity Governance System: An Applied Study in Saudi Arabia

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## Abstract

This study aims to examine the factors that affect charities' commitment to the charity's governance system. The study assumes that the size of the board of directors, the independence of the board, and CEO Duality affect the charities' commitment to the governance system. In building the methodology, the study relied on the system of charity governance and the agency's theories and stakeholders. The study population consists of charities in the Kingdom of Saudi Arabia. The study sample consisted of 145 questionnaires distributed to officials and workers in charities. The study used multiple linear regression to study the relationship between the variables. The study found that the large board of directors positively affects the commitment of charities to the standard of transparency and disclosure and indicators of financial regulation. Also, the independence of the Board positively affects the charities' commitment to the compliance and commitment standard, the transparency and disclosure standard, and the financial regulation indicators. While the presidency of the Executive Director of the Board of Directors reduces the charities' commitment to the charity's governance system.

**Keywords:** governance system, charities, standards, compliance and commitment, transparency and disclosure, financial safety, board of directors, independence, management.

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## 1. Introduction

The Ministry of Human Resources and Social Development established the "Makeen" Charity Governance Project. Makeen is a set of systems, tools, procedures, and models that have been developed to ensure that charities comply with regulatory requirements and governance standards. Three standards were adopted to achieve the objectives of the "Makeen" project. In addition to ensuring that charities comply with the requirements of the governance system, and adopting a transparency approach towards stakeholders and beneficiaries. Through the standards, the extent to which the charities comply with the requirements of the system is evaluated. Standards are compliance and commitment standard, transparency and disclosure standard, and financial soundness standard. Compliance and commitment standard measures the extent to which charities comply with the applicable laws, regulations, and controls that regulate their work. The transparency and disclosure standard measures the willingness of charities to publish information about their reasons for existence, their activities executed, their financial data, and their willingness to explain their operations to stakeholders and the public. Financial soundness standard is a set of indicators that enable evaluation of the charity's effectiveness in using money, and the viability of growth and sustainability (Makeen, n.d.).

The general principle of the charities governance system is the supervision of a group of founders and joint members who form the general charity on the charities. It is the responsibility of the general assembly to supervise the board of directors, follow up on its performance, review and approve the decisions of the major board of directors, and the periodic reports issued by the charity to ensure the effectiveness, credibility, and sustainability of the charity's performance. (Makeen, n.d.).

The motive behind conducting this study is the importance of the non-profit organizations' sector in Saudi society. Charities in Saudi Arabia serve all parties of society, including supporters and beneficiaries. There is a weakness in research in the non-profit sector in Saudi Arabia in general. Also, the scarcity of research in the field of charities governance is due to the modernity of the system of charities governance in Saudi Arabia. The researcher believes that conducting studies in the non-profit sector improves its performance to better serve the community.

This study explores the impact of governance mechanisms on charities' commitment to the governance system. The governance mechanisms in this study are the size of the board of directors, the independence of the board, and the duplication of the CEO.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESIS

The study hypotheses are based on two aspects which are the charities' governance system in the Kingdom of Saudi Arabia, and the agency's theories and stakeholders. A charity must commitment to the application of three standards to be considered as a charity that applies the charities' governance system. The three standards are the compliance and commitment standard, the transparency and disclosure standard, and the financial soundness

standard.

### *2.1 Board size*

The board of directors is the link between those who provide financial resources and executive management, who are employed to create value for stakeholders. One of the most important tasks of the board of directors is to oversee the executive management and hold them accountable, and to ensure that they are chosen based on their experience, knowledge, and ability to ask the necessary questions (Kelly, 2016).

One of the factors that highlights the effectiveness of board oversight is the size of the board of directors. Researchers believe that coordination among board members is difficult when the number is large, but on the other hand, a large board of directors creates more ideas during the decision-making process. Several studies found that the size of the board of directors and the performance of the company are positively related, and suggested a certain number for the size of the board of directors. If the number is exceeded, it is difficult to coordinate among members, and the minimum suggested number by studies was 8 members (Malik et al., 2014). Based on that, the following hypothesis was built:

**H<sub>1</sub>**: There is a positive relationship between board size and the commitment of charities to the charities' governance system.

### *2.2 Board Independence*

Boards of directors consist of executive directors and non-executive directors who pursue the interests of stakeholders. For non-executive directors to perform their work effectively, they must be independent, so that they can make unbiased decisions. Having independent directors contributes to minimizing agency problems, in addition to the governance system recommending a balance between independent directors and executives. However, consideration must be given to the extent to which non-executive managers can perform their work effectively, with the availability of independence through which they can improve the organization's performance and control the executive management (Pan et al, 2018; Fuzi, 2016). Based on that, the following hypothesis was built:

**H<sub>2</sub>**: There is a positive relationship between board independence and the commitment of charities to the charities' governance system.

### *2.3 CEO Duality*

The Chairman and CEO are the two most important positions in the charity. These two roles have a powerful influence on the management of the charity. So, when the CEO of the charity holds both positions, it will lead to failure of the charity's management. Holding both positions by one person it gives the executive director of the charity excessive authority and responsibility, which enables him to use positions in the service of his personal interests. It also reduces the effectiveness of the decisions of the board of directors and prevents the board from practicing its work independently. Therefore, it is necessary to separate the two positions for the board of directors to perform its work effectively. (Benhalima & Merhoun, 2019; Jain & Jamali, 2016) Based on that, the following hypothesis was built:

**H<sub>3</sub>**: There is a negative relationship between CEO duality and the commitment of charities to the charities' governance system.

## **3. Methodology**

### *3.1 Data and Sample*

The study population consists of charities in the Kingdom of Saudi Arabia. The study tool is questionnaire. The questionnaire included 145 randomly collected questionnaires, which were distributed to those responsible for charities in all sectors and those who are related to the charities and are familiar with the system. The questionnaire also consists of 21 paragraphs distributed in 3 sections, the first section includes 10 paragraphs related to the compliance and commitment standard, the second section includes 6 paragraphs related to the transparency and disclosure standard, while the third section includes 5 paragraphs related to indicators of financial regulation, which is part of Financial Soundness Standard, and use the Likert quinquennial scale to judge the level of commitment.

### *3.2 Research Model*

The study model examines the factors affecting charities 'commitment to charities' governance system. These models are testing the last three hypotheses. To test the last three hypotheses, The researcher used the regression equation to describe the strength and direction of the linear relationship between variables in models. These models are developed mainly from theoretical considerations and previous studies regarding the factors that affect the governance system.

$$CCS = \beta_0 + \beta_1 \text{ Size} + \beta_2 \text{ Independence} + \beta_3 \text{ CEO} + \beta_4 \text{ Supervisory} + \beta_5 \text{ Income} + \beta_6 \text{ Age} + \epsilon \quad (1)$$

$$TDS = \beta_0 + \beta_1 \text{ Size} + \beta_2 \text{ Independence} + \beta_3 \text{ CEO} + \beta_4 \text{ Supervisory} + \beta_5 \text{ Income} + \beta_6 \text{ Age} + \epsilon \quad (2)$$

$$IFR = \beta_0 + \beta_1 \text{ Size} + \beta_2 \text{ Independence} + \beta_3 \text{ CEO} + \beta_4 \text{ Supervisory} + \beta_5 \text{ Income} + \beta_6 \text{ Age} + \epsilon \quad (3)$$

**Where** CCS = Compliance and Commitment Standard, TDS= Transparency and Disclosure Standard, IFR= Indicators of financial regulation, Size = Board Size, Independence = Board Independence, CEO= CEO Duality, Supervisory = Supervisory body, Income = Annual Charity Income, Age = Charity's Age

### 3.2.1 Dependent variable

The dependent variables for this study are Compliance and Commitment Standard, Transparency and Disclosure Standard, and Indicators of financial regulation<sup>1</sup>.

### 3.2.2 Independent Variables

The independent variables of this study comprised Board Size, Board Independence, and CEO Duality. Independent variables are shown in Table 1.

Table 1: Independent Variables and its Scales

No	Variable	Scale
1	Board Size	The number of board members. (Buallay et al, 2017)
2	Board Independence	The ratio of the number of independent members to the number of board members. (Yang et al., 2019)
3	CEO Duality	this is a dummy variable which takes the value of 1, if the CEO combines as the board chairman and 0 if there are different people occupying the two positions of CEO and board chairman (Benhalima & Merhoun, 2019; Jain & Jamali, 2016).

### 3.2.3 Control Variables

Other variables that may influence the results will be designated as control variables. These variables are among the most popular control variables in previous studies in the field of governance. Control variables are shown in Table 2.

Table 2: Control Variables and its Scales

No	Variable	Scale	Relationship type
1	Supervisory body	Administrative regions in Saudi Arabia	Regulatory authorities legislate and develop regulations, supervise their implementation, and assess compliance and compliance, to protect the public interest. The more effective and efficient the monitoring, the greater the commitment of the institutions to the regulations and laws regulating their work. The distribution of charities in different regions led to the multiplicity of supervisory bodies for charities. The more efficient and effective the supervisory body is in verifying the application of the governance system in charities and providing the required assistance, the more the charities affiliated with it are committed to the system of charities governance (Rashid et al. 2014; Wang, 2020).
2	Charity size	Total number of employees (Bellante et al., 2018)	The size of the charity is one of the indicators used to evaluate the performance of the charity and determine the extent of disclosure. The size of a charity is measured either by total assets, total donations, or total employees. The larger the charity, the more trustworthy the donors are, as it indicates their ability to manage their money (Wahyuni, 2019; Kamalluarifin, 2015). Therefore, the size of the charity is expected to positively correlate with a commitment to the charity's governance system, that is, the larger the charity, the greater its commitment to the charity's governance system (Ettredge et al., 2011; Wahyuni, 2019).
3	Charity age	The number of years since the establishment of the charities. (Buallay et al., 2017)	The age of the charity is considered one of the factors affecting its commitment to the governance system, as it represents the charity's experience in managing its resources, and its ability to continue working. (Bianchini et al. 2015) found that the greater the age of the organization, the higher the degree of commitment to the governance system, and this was based on the existence of the necessary competencies to apply the best governance practices and that the costs of commitment are lower for old organizations.

<sup>1</sup> Articles of governance of charities in the system and executive regulations, rules and regulations, Makeen platform, Ministry of Labor and Development, website: <https://makeen.mlsd.gov.sa/>

#### 4. Results

Table 3 shows the Pearson correlation coefficients between the dependent variables and the independent variables and control variables of the multiple regression model.

**Model 1 (Compliance and Commitment Standard):** The correlation coefficient shows that there is an inverse medium relationship between the Compliance and Commitment Standard and CEO Duality with a value of (0.366) is significant (sig < 0.05), and a weak direct relationship between the standard and the percentage of independent board members, where the correlation coefficient reached a value of (0.293) is significant (sig < 0.05). The value of the correlation coefficient between the standard and the number of board members (0.099) is not statistically significant (sig > 0.05), and we also find that there is a direct relationship of the correlation coefficient between compliance and commitment standard and the administrative region of the charity is not significant (sig < 0.05) (SAGE Publications, 2015).

**Model 2 (Transparency and Disclosure Standard):** The correlation coefficient shows that there is a medium inverse relationship between the disclosure and transparency standard and CEO Duality, as the value of the correlation coefficient (-0.371) is significant (sig < 0.05). There is also a weak relationship between the disclosure and transparency standard and the percentage of independent members of the board of directors with a value of (0.259) is significant (sig < 0.05). The lowest correlation coefficient was between the standard and the number of board members with a value of (0.154) is significant (sig < 0.05). Also, there is a direct relationship to the correlation coefficient between the disclosure and transparency standard and the administrative region of the charity is not significant (sig < 0.05) (SAGE Publications, 2015).

**Model 3 (Indicators of Financial Regulation):** The correlation coefficient shows that there is a medium inverse relationship between the financial regulation indicator and the CEO Duality, as the value of the correlation coefficient (-0.376) is significant (sig < 0.05). There is also a weak relationship between the financial regulation indicator and the percentage of independent members of the board of directors with a value of (0.291) is significance (sig < 0.05). The lowest correlation coefficient was between the indicator and the number of board members with a value of (0.189) is significant (sig < 0.05), meaning that there is a weak positive correlation. Also, note that there is a direct relationship to the correlation coefficient between the indicator of financial regulation and the administrative region of the charity is not significant (sig < 0.05) (SAGE Publications, 2015).

Table 3: Pearson Correlation

<i>Pearson Correlation</i>	<i>Compliance and Commitment Standard</i>	<i>Transparency and Disclosure Standard</i>	<i>Indicators of Financial Regulation</i>
<b>Independent Variables:</b>			
<i>The number of board members</i>	0.099	.154*	.189
<i>Percentage of independent members of the board of directors</i>	0.293*	.259*	.291*
<i>CEO Duality</i>	-0.366*	-.371*	-.376*
<b>Control variables:</b>			
<i>Administrative region</i>	0.21*	.194*	.255*
<i>Annual Charity Income</i>	-0.078	-.071	-.050
<i>Charity's age</i>	0.053	.066	.119

\*. Correlation is significant at the 0.05 level

The results of the multiple regression for the compliance and commitment standard (Model 1) in Table 4 showed that the regression model is significant, where F-value (5.314) is significance (sig < 0.05). The model explains 23.8% of the variance in the compliance and commitment standard, given the R square coefficient of determination. The beta value, which shows that the relationship between the compliance and commitment standard and the percentage of independent board members with a value of (0.137) is significant (sig < 0.05). Also, the beta value of the CEO Duality variable with a value of (-0.430) is significant (sig < 0.05). The beta value of the annual income variable with a value of (-0.159) is significant (sig < 0.05), this may indicate an inability of the CEO to exercise control or a lack of technical expertise to manage large organizations (Leng, 2004). While the beta was not statistically significant for the number of board members, and the control variables (Administrative region, and age of the charity) are (sig > 0.05)

Table 4 also shows the results of the multiple regression model for the disclosure and transparency standard, and we note that the regression model is significant where F-value is (5.710) at the level of significance (sig < 0.05). The model explains 25.1% of the variance in the disclosure and transparency standard, given the R Square coefficient of determination. The beta value, which shows that the relationship between the disclosure and transparency standard and the number of board members (0.187) is significant (sig < 0.05). The beta value between disclosure and transparency standard and the percentage of independent members of the board of directors with a value of (0.125) is significant (sig < 0.05). Also, the beta value of the executive director's duplication variable came in with a value of (-0.446) and is significant (sig < 0.05). The beta value of the annual

income variable with a value of (-0.177) is significant (sig < 0.05). While the beta is not significant between the standard and (administrative region, and age of the charity) where it is (sig > 0.05).

The results of the multiple regression for Indicators of Financial Regulation are shown in Table 4. that the regression model is significant, where F is (6.324) is significant (sig<0.05). The model explains 27.1% of the variance in the financial regulation indicator, given the R Square coefficient of determination. The beta value between the financial regulation indicator and the number of board members (0.206) is significant (sig<0.05). The beta value between the financial regulation indicator and the percentage of independent board members with a value of (0.136) is significant (sig<0.05). Also, the beta value of the CEO Duality variable came in with a value of (-0.417) is significant (sig < 0.05). The beta value of the annual income variable with a value of (-0.157) is significant (sig < 0.05). While beta is not significant between the indicator and the control variables (administrative region and age of the charity) where it is (sig > 0.05).

Table 4: Multiple regression results

Models Variables	Model 1			Model 2			Model 3		
	Coefficients	t	Sig.	Coefficients	t	Sig.	Coefficients	t	Sig.
(Constant)	4.155	7.874	0.000	3.752	6.484	.000	3.684	6.807	.000
<b>Independent Variables:</b>									
The number of board members	0.104	1.237	0.218	.187	2.022	.045	.206	2.376	.019
Percentage of independent members of the board of directors	0.137	2.985	0.003	.125	2.478	.014	.136	2.892	.004
CEO Duality	-0.430	-2.628	0.010	-.446	-2.487	.014	-.417	-2.485	.014
<b>Control variables:</b>									
Administrative Region	0.021	1.154	0.251	.017	.844	.400	.030	1.655	.100
Annual Charity Income	-0.159	-2.713	0.008	-.177	-2.751	.007	-.157	-2.603	.010
Charity's age	-0.005	-0.101	0.920	-.003	-.052	.959	.031	.571	.569
R <sup>2</sup>	.238			.251			.271		
F-Statistic	5.314			5.710			6.324		
Sig. (F)	.000 <sup>a</sup>			.000 <sup>a</sup>			.000 <sup>a</sup>		

## 5. Discussion

The results indicate that the size of the board of directors positively affects the charities' commitment to the transparency and disclosure standard and financial regulation indicators. This can be explained by the theory of resource dependence. The theory explains that the larger board of directors has greater ties to the external environment, which improves the charity's access to various resources and leads to better performance (Sheikh et al., 2013). This finding is consistent with Bellante et al' study, which concluded that the size of the board positively affects the performance of the charity (Bellante et al, 2018). It also agrees with Buallay et al' study that found the size of a major board of directors between 7-13 members has a positive relationship with company performance (Buallay et al, 2017)

Also, the independence of the board of directors positively affects the commitment of charities to the governance system of charitable charities. This may be because the independent board can perform a role in monitoring management objectively. After all, they want to protect their reputation as effective and independent decision-makers (Alves, 2014). This finding is consistent with Ahmed and Hamdan's study that found that board independence has a significant positive impact on ROE and ROA (Ahmed & Hamdan, 2015). Also, it agrees with Qi et al.'s study that found that independent directors on the board of directors have a positive impact on both bank performance and asset quality (Qi et al, 2013).

Additionally, the CEO duality negatively affects the commitment of charities to the governance system of charities. This may be due to giving the CEO absolute control over the Board of Directors, which affects the objective independence of the Board significantly. It also makes it difficult for the members of the board to express their opinions on the board of directors, and to perform their role in monitoring the administration (Yang et al., 2019). This result agrees with Hsu et al' study, which found that the CEO duality has negative effects on company performance (Hsu et al, 2021). Also, it is consistent with Duru et al' study, which found that CEO duality has negative and significant impacts on operational performance (Duru et al, 2016).

## 6. Conclusions

The current study explores the factors that influence the commitment of charities to the governance system. The



study assumes that the size of the board of directors, the independence of the board, and CEO Duality affect the charities' commitment to the governance system. The study found that the hypotheses of the study related to the factors affecting the commitment of charities in the governance system, which are the size of the board of directors, the independence of the board, and CEO duality. The study found that the size of the board of directors increases the charities' commitment to the disclosure and transparency standard, and indicators of financial regulation, while there is no impact on the compliance and commitment standard. Regarding the hypothesis of the independence of the Board of Directors, the results showed that independence increases the charities' commitment to the compliance and commitment standard, disclosure and transparency standard, and financial regulation indicators. Finally, the results showed that the presidency of the Executive Director of the Board of Directors reduces the commitment of charities to the standard of compliance and commitment, the standard of disclosure and transparency, and indicators of financial regulation.

The results of the study contribute to raising awareness of the importance of charity governance, as it enables charities to work efficiently and effectively, and reduces financial corruption. It also contributes to increasing the knowledge of stakeholders about the effectiveness of charities in achieving their goals. Regulatory and supervisory bodies also help in developing the system of charity governance and increase the effectiveness of monitoring charities. This study also contributes to enriching the scientific community, due to the weakness of studies in this field.

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