

***INVESTIGATING THE AWARENESS OF CORPORATE  
SOCIAL RESPONSIBILITY (CSR) DISCLOSURE AND  
PRACTICE IN SAUDI ARABIA***

HENLEY BUSINESS SCHOOL

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The thesis is submitted in partial fulfillment of the requirements for the award of the  
degree of Doctor of Philosophy of the University of Reading

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## **Declaration**

I confirm that this is my own work and the use of all material from other sources has been properly and fully acknowledged.

## **Dedication**

*I dedicate this thesis to my mother, my father, my wife, her parents, my daughters. My wife has been my strength, inspiration and motivation throughout my life and during this academic journey. Thank you for all your love and support. I could not have achieved this goal without your continuous encouragement. I am so lucky to have such a wonderful, loving, and supportive wife.*

## **ABSTRACT**

This study investigates awareness of corporate social responsibility (CSR) disclosure and practice in Saudi Arabia by investigating how Saudi stakeholders perceive CSR and the extent of CSR reporting practices among Saudi listed companies, particularly investigating how internal and external stakeholders understand CSR and its disclosure. Furthermore, this study explores the integration of CSR within Saudi Listed Companies' corporate policies and strategies and the dimensions that affect it, including the local culture, religion, regulation and governance characteristics.

Semi-structured interviews were used to ascertain the perspectives of CSR among different stakeholders concerning the identified dimensions, and content analysis technique was used to analyse annual reports concerning the extent of CSR disclosure. Listed Companies' corporate policies and strategies were explored by both semi-structured interview and content analysis.

Overall, it was found that the CSR concept become understandable and there is a development of perspective of CSR in Saudi Arabia. This research also show the CSR disclosure by Saudi listed companies is driven by legitimacy theory. The findings also show that the level of CSR disclosure in Saudi Listed Companies has been increasing recently, particularly during the last six years, with increasing integration in companies' policy and strategy. Furthermore, 'culture' was rated as the greatest contributing factor to CSR in Saudi Arabia.

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## **LIST OF ABBREVIATIONS**

AA1000	Accountability, Responsibility and Sustainability Standards by AccountAbility
CEO	Chief Executive Officer
CG	Corporate Governance
CMA	Capital Market Authority
EIA	US Energy Information Administration
G20	Group of Twenty
GCC	Gulf Cooperation Council
GPCA	Gulf Petrochemical and Chemical Association
GRI	Global Reporting Initiative
KAQA	King Abdul Aziz Quality Award
KSA	Kingdom of Saudi Arabia
MCI	Ministry of Commerce and Investment
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SARCI	Saudi Arabian Responsible Competitiveness Index
SECOR	Saudi Economic Report
SOCPA	Saudi Organization for Certified Public Accountants
Tadawul	Saudi Stock Market Exchange
NTP	National Transformation Program

# 1 Chapter One: Background

*Introduction*

*Research background*

*Research Context*

*Rationale*

*Aim and Objectives*

*Research Questions*

*Introduction to Research Philosophy*

*Data Collection Methods*

*Contribution to Knowledge*

*Structure of the Thesis*

*Summary*

# 1 BACKGROUND

## 1.1 Introduction

This chapter introduces the PhD entitled “Investigating the Awareness of Corporate Social Responsibility (CSR) Disclosure and Practice in Saudi Arabia”. The aim of this research is to investigate the extent of awareness and development of CSR disclosure practice and accountability in Saudi Arabia by exploring the CSR perspectives on CSR among Saudi stakeholders and gauging the level of CSR disclosure in Saudi listed companies. This chapter introduces the reader to the research study by discussing some of the research background. Therefore, the chapter has eight aims:

1. To introduce to the research background.
2. To introduce the research context.
3. To provide an overview of the rationale of this study.
4. To set out the aim and objectives of this study.
5. To set out the research questions.
6. To highlight the research philosophy and data collection methods that used in this study.
7. To introduce to contribution to knowledge.
8. To outline the structure of the Thesis.

## 1.2 Research background

The increasing complexity and scale of organizations since the mid-20<sup>th</sup> century has resulted in intensive research to streamline operations and plan strategies for firms’ long-term success, with accountancy seeing particular significant developments with the popularisation of information and communication technology from the 1970s onwards. On a more general level, large firms (particularly multinational corporations



engaged in foreign direct investment) have become increasingly concerned with corporate social responsibility (CSR) as a core component of their operations and long-term strategy since the advent of modern global supply chains following the Second World War (e.g. Simon, 1945; Bowen, 1953; Drucker, 1954; McGuire, 1963; Jones, 1980).

The ever-growing attention to CSR has mainly been driven by accountability pressures exerted on corporations by usually competing but also sometimes conflicting stakeholder interests, which range from the pursuit of narrow individual interests by shareholders and employees, to the perceived moral obligation or political responsibility to provide socioeconomic benefits to the wider community. Modern consumers in the global marketplace can select from a wide range of goods and services, thus a good CSR image can promote sales, while a lack thereof can be grounds for consumers to punish firms seen as not being beneficial to the community; CSR has thus acquired the status of a competitive-advantage imperative. Easy access to information about how the goods and services consumed are produced and provided (and what harm they cause, if any) has placed consumers (i.e. society) in the driving seat, because it gives them the ability to make informed choices when acquiring goods and services. It allows them to demand not only that companies produce affordable high quality goods and services, but also that they do so responsibly. This explains why today companies are putting great effort into disclosing their regular (e.g. annual and quarterly) financial, social, environmental and governance performance reports with greater transparency than they did prior to the popularisation of ethical purchasing and 'fair trade' from the 1990s onwards.

Furthermore, challenges faced by national and local governments in the world today

include the need to provide quality education and healthcare to the public, in addition to meeting many other societal obligations. In developing countries these challenges are so numerous and costly that governments are largely unable to shoulder them on their own without engaging the private sector, hence the need for public-private sector collaboration. In developed countries such as in Europe and North America, the abdication of public services and welfare by the state has made private CSR a fertile area for profitable corporate activity. While ideally firms seek to profit from their CSR activities, whether directly (e.g. state sector subcontracting) or indirectly via improved brand image and increased customer loyalty, but in accounting terms they typically represent a loss. However, any business that ignores the reality of the need to be perceived as caring and community-orientated is taking a great risk in terms of its long-term survival (Solomon and Solomon, 2002).

### **1.3 Research Context**

The context of this research is to explore CSR in the Kingdom of Saudi Arabia (KSA), a member of the Gulf Cooperation Council (GCC), which has many strong industries such as oil and gas refining; petrochemicals; manufacturing and banking. The Saudi economy is one of the largest in the Middle East, and it is a member of the G20. It is an Arab-Islamic Kingdom, with the Holy Qur'an as its Constitution, and the national language is Arabic. Chapter two presents more detail on the context of Saudi Arabia and with focus on the general information and background of the country, at this point it is sufficient to note the unique national and cultural characteristics of the Kingdom as a case study for CSR.

#### **1.4 Rationale**

The importance of CSR emerged and was conceptualized in developed countries, particularly Western Europe and North America, but there is a need to develop the consideration of the exploration of CSR as it is manifest in developing countries as well, including that which emerges indigenously (from the local culture and society) and that which is extrapolated from international firms investing in such places. Albeit there is increasing interest in this subject, there is still a dearth of research concerning the role and importance of CSR among firms in developing countries, particularly Saudi Arabia, which has marked religious, cultural and political particularities. This research aims to address this gap in knowledge by investigating the extent of awareness and developing in of CSR disclosure practice and accountability in Saudi Arabia, exploring the perceptions of Saudi's stakeholder in order to explore the development of understanding of the CSR concept, and to investigate the extent of current CSR information disclosure practice in Saudi companies listed on the Saudi Stock Exchange.

Furthermore, though the Western view of CSR is relatively new to Saudi businesses and civil society, the concept has rapidly grown to prominence during the last several years, largely because it is a natural part of Islamic practice to give back to the community, though this has traditionally been through philanthropy and not as an intrinsic business operation. Increased CSR awareness among key players in the country's economic and social life has prompted private firms to start considering making significant contributions to societal well being as part of doing business. One of the most important aims of this study is to investigate the increasingly important role played by CSR in KSA.

Based on the literature reviewed in this research, existing studies concerning CSR in Saudi Arabia remain limited in their consideration of the country's social, economic and cultural factors, and most of them have been conducted recently due to the novelty of the subject (Ali and Al-Ali, 2012; Khan et al., 2013). This research thus joins those pioneering studies and moves the area further in terms of probing Saudi Listed companies' reports for CSR to get a clear image of the level of disclosure, in addition to considering the broader context within which CSR occurs by conducting semi-structured interviews with Saudi stakeholders, the results of which can support policy makers to develop CSR in the country. Furthermore, the results can develop CSR understanding and be an incentive for Saudi listed companies to disclose more CSR information.

The motivation for this study stems from the need to explore the current status of CSR in one of the G20 countries comprising a major world economy, namely Saudi Arabia. The contribution of this study to literature is to provide a deeper understanding of CSR in a MENA context for a major economy, exploring the concerns of different stakeholders about issues involved in the development of CSR disclosure practices relative to society and the state.

### **1.5 Aim and Objectives**

The aim of this research is to investigate the extent of awareness and development of CSR disclosure practice and accountability in Saudi Arabia by addressing the following six objectives:

- To investigate and gain a clear understanding of how stakeholders in Saudi Arabia perceive CSR, especially in terms of disclosure and accountability.

- To investigate the extent to which CSR disclosure by Saudi listed companies is driven by stakeholders, legitimacy or accountability concerns.
- To investigate the extent of CSR disclosure information in companies listed on the Saudi Stock Exchange.
- To investigate whether CSR awareness has led to its integration in the formulation of corporate policies and strategies.
- To investigate the extent to which culture, religion, regulation and governance characteristics have impacted on Saudi Arabia's CSR disclosure practices.
- To investigate the challenge and obstacles for CSR in Saudi listed companies, and how to motivate CSR in Saudi Arabia.

## **1.6 Research Questions**

This research addresses the following main questions:

1. How do Saudi stakeholders perceive CSR disclosure and accountability?
2. To what extent do existing theoretical frameworks (stakeholder theory, legitimacy theory or accountability theory) assist in interpreting CSR disclosure by Saudi listed companies?
3. What is the extent of awareness and level of disclosure in CSR information in Saudi Arabia?
4. How is CSR disclosed and integrated into corporate policies and strategies in Saudi listed companies?
5. How do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia?

6. What are the challenge and obstacles for CSR in Saudi listed companies, and how could CSR be motivated in Saudi Arabia?

### **1.7 Introduction to Research Philosophy**

The research philosophy is detailed in chapter 5, This chapter explains the methodological approach adopted for this research, explaining the research philosophy, strategy, time and data collection methods used. This chapter also presents literature pertaining to the research philosophy, approach, strategies, time and data collection methods before explaining the research methodology applied in this research study.

The research design used in this study to guide our research to collect and analyse the data to achieve our research objective. Bryman and Bell (2015) defined the research design as a framework that provides guidance for the collection and analysis of data, reflecting the choice of research design based on the priority given to the research process dimensions. The research design could be quantitative, qualitative, or mixed methods (Saunders et al., 2016). The research design for this research is qualitative research design.

There are criteria for any research in choosing the paradigm is based on the research objectives and purpose. The most appropriate paradigm for this research is interpretivism because it seeks a deeper understanding of human perspectives to create new knowledge and more understanding by interpreting the social world and context of CSR in Saudi Arabia (Saunders et al., 2016).

The research approach applied in this study is inductive as it is based on the research aim which is to find an understanding of the differences between different Saudi stakeholders' perceptions on CSR disclosure. Regarding to the definition of the inductive approach by Bryman and Bell (2015), is used to get theoretical

understanding and description using qualitative data techniques, requiring qualitative data based on which the inductive approach is the most suitable for this research. In addition, the research aim is not to test theory but to describe empirical experiences, and to explore the relationship between theory and findings.

The purpose of this research is exploratory, with the main objective of exploring how different Saudi stakeholders perceive CSR and the level of CSR disclosure among different Saudi listed companies (Saunders et al., 2016). The advantage of using exploratory research that could be adopted and flexible for change based on new data results (Saunders et al., 2016).

In addition, the research strategy for this study is grounded theory. According to Goulding (2002), grounded theory strategy is particularly helpful for research to predict and explain behaviour, the emphasis being upon developing and building theory. For unexplored research topics, grounded theory uses an inductive approach to create theory (Locke, 2001; Charmaz, 2006; Hodkinson, 2008)

## **1.8 Data Collection Methods**

The purpose for this research is chiefly exploratory, and its main objective is to explore the extent of awareness and development of CSR disclosure practice and accountability in KSA, focused on how different Saudi stakeholders perceive CSR and the level of CSR disclosure. Two data collection methods are used to achieve this, namely content analysis and semi-structured interview. Table 1.1 shows the research questions and associated data collection methods.

Table 1-1: Research questions and data collection methods

<i>RGN</i>	<i>Research Questions</i>	<i>Methods used to answer question</i>
<b>Q1</b>	How do Saudi stakeholders perceive CSR disclosure and accountability?	Semi-structured interview
<b>Q2</b>	To what extent do existing theoretical frameworks (stakeholder theory, legitimacy theory or accountability theory) assist in interpreting CSR disclosure by Saudi listed companies?	Semi-structured interview
<b>Q3</b>	What is the extent of awareness and level of disclosure in CSR information in Saudi Arabia?	Content analysis and semi-structured interview
<b>Q4</b>	How is CSR disclosed and integrated into corporate policies and strategies in Saudi listed companies?	Semi-structured interview
<b>Q5</b>	How do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia?	Semi-structured interview
<b>Q6</b>	What are the challenge and obstacles for CSR in Saudi listed companies, and how could CSR be motivated in Saudi Arabia?	Semi-structured interview

### 1.9 Contribution to Knowledge

At the empirical level, this study stems from the increased in importance of CSR in developed and developing countries alike, but there remains a gap and lack of CSR research related to the latter. This study is to explore the status of CSR in one of the G20 countries comprising a major world economy, namely Saudi Arabia. The contribution of this study to literature by providing useful information to fill the gaps in understanding of CSR in a MENA context for a major economy, exploring the concerns of different stakeholders about issues involved in the development of CSR disclosure practices relative to society and the state.



This study also has made an important contribution to knowledge by presenting updated and more comprehensive information concerning CSR in Saudi Arabia, for which there is a dearth of information generally, particularly in recent studies. This study is also one of the first to analyse perceptions of CSR and assess how different Saudi stakeholders understand it in depth, using semi-structured interviews. It is also measure the level of CSR disclosure among the Saudi listed companies. The results of this study can motivate CSR adoption and improve understanding of its concepts. It could also provide incentives for Saudi listed companies to disclose more of CSR information and provide different CSR perspectives between the internal and external stakeholders.

At the policy recommendation level, this thesis elicits recommendations on how to develop CSR in a Saudi context and shows factors that could be used to motivate CSR. The results of this study can be used as indicators to evaluate the current CSR practice in Saudi Arabia and for comparison purposes with other studies. Furthermore, based on Saudi Arabia's economic status and its position as a major oil and gas producer, the findings concerning CSR are of interest internationally. This research has contributed to knowledge by studying how do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia, to provide a clear understanding of that has more contribution to CSR in Saudi Arabi. This will support in development in CSR to better fit in Saudi Arabia and worldwide especially Gulf Countries. This research provides information for those have interest to evaluate CSR in Saudi Arabia. It also presents a clear picture of the nature of CSR in Saudi Arabia, which could support the policy makers to develop it further.

At the theoretical level, this research has contributed to knowledge by studying the extent to which CSR disclosure by Saudi listed companies is driven by legitimacy, stakeholder or accountability concerns. This study also suggests the theory that is more fit to explain the CSR in Saudi Listed Companies. This is the one of first study that has a theoretical contribution, which is explore the most theories that has driven the CSR in Saudi Arabia. This study has contributed to knowledge by studying which theory that explain and support CSR based on the perspective among different Saudi Stakeholders. This research found the Saudi listed Companies concerns to CSR disclosure based on legitimacy theory and the legitimacy theory is more fit to explain the CSR in Saudi Listed Companies.

At the methodological level, this study also employed interviews and content analysis as data collection techniques to provide a deep understanding and explanation of current CSR perspectives and practices, representing a foundation for future CSR research in the KSA. This research was one of the first that has studied CSR in Saudi Arabia that applied a combination between interviews and content analysis as data collection techniques in the context. This applying lead to analyze perceptions of CSR and assess how different Saudi stakeholders understand it in depth, and measure the level of CSR disclosure among the Saudi listed companies. It is also one of the first studies to measure the level of CSR disclosure among the Saudi listed companies. Thus, further study will be required to focus in specific stakeholders whether there are differences in perspective among Saudi stakeholders. This data collection technique has made its contribution to knowledge by studying these concepts in Saudi Arabia.

## **1.10 Structure of the Thesis**

This thesis comprises nine chapters including this one and the research structure shown in Figure 1.1. A summary of each chapter follows:

**Chapter 1:** Background, introduces the research and its general context, justifying the rationale for undertaking this study. In addition, it identifies the research aim and objectives, research questions, research philosophy and contribution to knowledge.

**Chapter 2:** The Research Context, presents details on the particular context of Saudi Arabia as in terms of general geographical and socio-cultural characteristics, economy and business culture, Saudi Vision 2030 and National Transformation Program (NTP) 2020, and the role of CSR in the country.

**Chapter 3:** Literature Review, reviews previous studies pertaining to CSR. The first part focuses on the historical background of the concept, while the second part defines the meaning and development of CSR. It then highlights the main factors involved in CSR practices. In addition, the literature review focuses on the importance and motivation of CSR and the challenges and obstacles it faces. It also reviews the definition of CSR disclosure and discusses CSR disclosure practice. The final section reviews literature on CSR in Saudi Arabia in particular.

**Chapter 4:** The CSR theories, discussed the theories that investigated by this study, to explore the extent to which CSR disclosure by Saudi listed companies is driven by stakeholders, legitimacy or accountability concerns. The chapter started with stakeholder theory and provided a number of definitions for it. It then explained the relationship between the theory and CSR. The second section described the second theory used in this study which is legitimacy theory, and a number of definitions and

its relations with CSR were discussed. The third section discussed the third theory, accountability theory, and both definitions and relation with CSR were explained

**Chapter 5:** Research Methodology, discusses the research methodology adopted. It is divided into two parts. The first part focuses on the literature in the research philosophy, research approach, strategies, time and data collection methods. The second part focuses on the research philosophy, strategy, time and data collection methods used applied in this research study.

**Chapter 6:** Results of Content Analysis, presents the results of the content analysis methods used in this study. The empirical results obtained were used to describe CSR disclosure practices and classified into four dimensions: Environment, Social, Employees and Consumers.

**Chapter 7:** Interview Results Analysis, analyses the main findings emergent from the semi-structured interview data. The chapter also shows the results of both the Company Representatives (CR) and the External Stakeholders Representatives (ESR) interviewees. The result shows through main themes and began with understanding general perspectives on CSR and CSR disclosure in Saudi Arabia.

**Chapter 8:** Discussion, integrates the content analysis and semi-structured interviews findings to answer the research questions. Which is to integrate the analysis of the content analysis and semi-structured interviews to explore the status of CSR disclosure in Saudi Arabia.

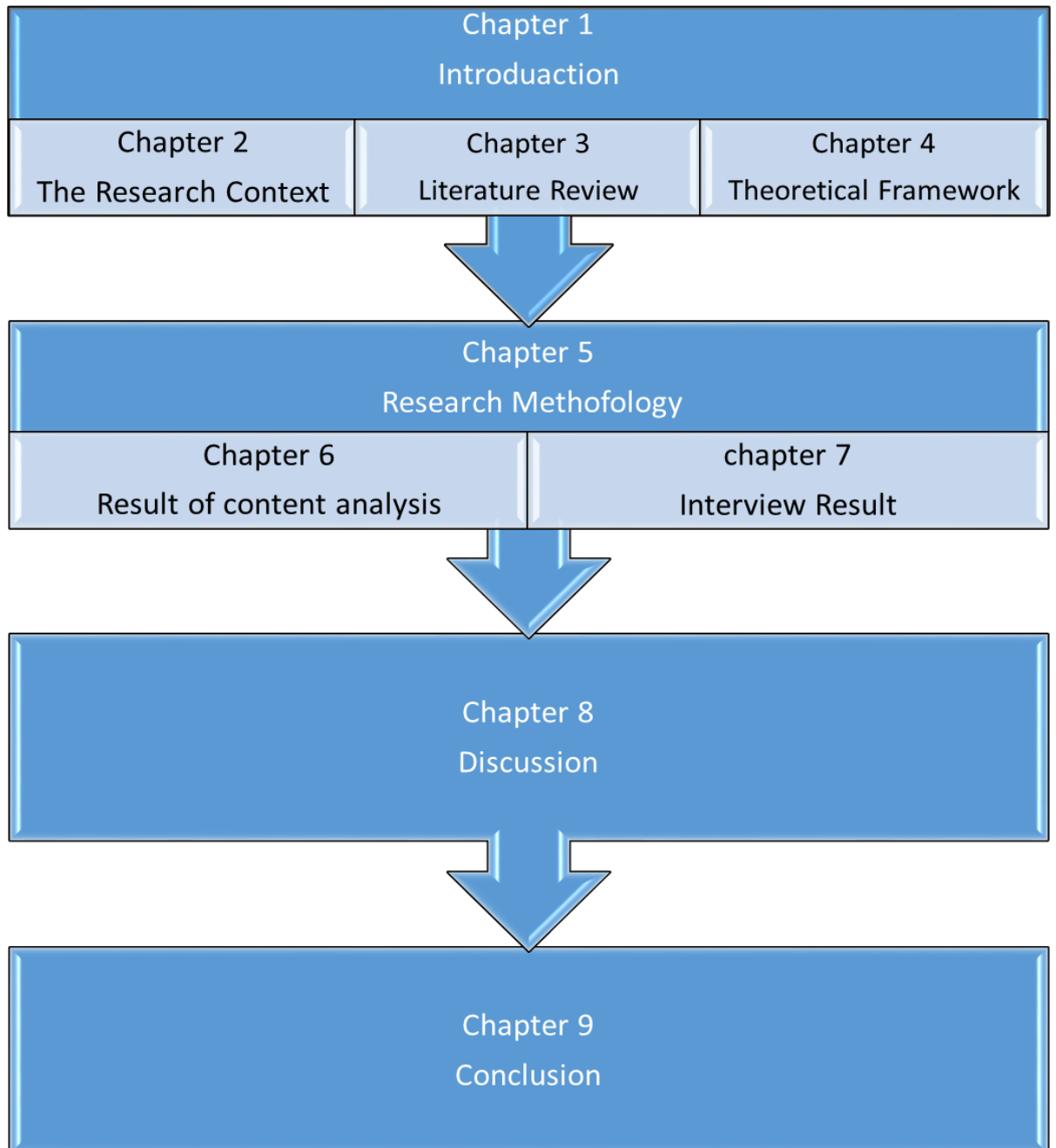
**Chapter 9:** Conclusion, summarises the salient findings of the study and its contribution to knowledge and potentially to policy, provides a brief of the research

methodology and the generalization of this study, and identifies the limitations of this research to identify areas for future study.

### **1.11 Summary**

This chapter maps the study as a whole. It presented brief of introduction of the topic and discussed the context of this research. In addition, the basic rationale was presented along with the research aim, objectives and research questions. Furthermore, the methodology used was outlined, including the data collection techniques and the contribution to knowledge of this study. The structure of the thesis has been explained. The following chapter presents the context of Saudi Arabia to which this study pertains.

Figure 1-1 Thesis Structure



## **2 Chapter Two: The Research Context**

*Introduction*

*General Background*

*Saudi Commercial System*

*Government-Private Sector Collaboration*

*Summary*

## **2 THE RESEARCH CONTEXT**

### **2.1 Introduction**

This chapter presents a general background of the research context include: geographical, Population, political, economic information, Saudi Vision 2030 and National Transformation Program (NTP) 2020 on the study context of Saudi Arabia, including also business organizations and culture. The final section presents information on the role of CSR in the country which include: culture; religion and awards, certificates, standards and government programs.

### **2.2 General Background**

#### **2.2.1 Geography**

Saudi Arabia comprises the majority (80% of the area of the Arabian Peninsula, located in West Asia, and it is one of the largest countries in the Middle East and North Africa (MENA) at around 2,149,690 square kilometres. It has shorelines on the Arabian Gulf and the Red Sea. It has land borders with Iraq and Jordan in the North; Kuwait in the North-East; Bahrain, Qatar and the United Arab Emirates (UAE) in the East, Oman in the South-East; and Yemen in the South (Figure 2.1), with a diverse geography and topography mainly characterised by arid deserts and mountains (Saudi Commission for Tourism and National Heritage, 2013).

#### **2.2.2 Population**

The total estimated population in 2014 was 30.77 million, comprising 20.70 million Saudis and 10.07 million expatriates. Annual population growth from 2013-2014 was 2.6% net. Of Saudi nationals, 7.1 million are under working age and about 700,000 are of pension age, leaving approximately 13.5 million citizens of working age. Furthermore, the total number of people in employment in 2014 was around 11



million, including 6 million expatriates. Around 237,000 people joined the workforce while 100,000 left in 2014; the total number of unemployed Saudis increased to 651,305 in 2014 from 622,533 in 2013 (Saudi General Authority for Statistics, 2016).



Figure 2-1: Saudi Arabia

(Worldatlas, 2016)

### **2.2.3 Political System**

The Kingdom of Saudi Arabia was unified in 1932 by Abdul Aziz Al-Saud, the King of Najd from 1902 and the father of all subsequent monarchs. It was constituted as an Islamic state, with the Holy Qur'an as its constitution and Arabic as the national language. The current King, Salman bin Abdul-Aziz Al-Saud, the seventh king of the modern KSA, ascended in 2015 after the death of his brother King Abdullah. The King is the executive in the government of the country, while his nephew Mohammad bin Naif bin Al Saud is the Crown Prince, while the King's son Mohammad bin Salman Al-Saud is the Deputy Crown Prince. In 2015 two new consultative bodies were established, the Council for Political and Security Affairs and the Council for Economic and Development Affairs. The former focuses on political and security issues, and is chaired by the Crown Prince; the latter focuses on economic and development issues and is led by the Deputy Crown Prince (Royal Embassy of Saudi Arabia in Washington, 2013).

### **2.2.4 Economy**

The GCC states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE) have many vibrant industries, including oil and gas refining, petrochemicals, manufacturing and banking. Saudi Arabia has effective hegemony in the GCC and it a major economic power in its own right, being a member of the Group of Twenty (G20), the second largest oil producer and one of the top natural gas producers in the world (US Energy Information Administration [EIA], 2015). Saudi GDP was SR 2,821,722 (\$753.8 billion) in 2014, while the total revenue of merchandise exports was SR 1,28 trillion (\$ 341 billion) and the total value of imports were at SR 651,8 billion in 2014 (Table 2.1, 2.2). Furthermore, the merchandise trade of the Saudi Arabia was at SR 1.9 trillion in 2014. Most exports comprised oil and gas products (crude oil and refined

products) valued at SR 1,066 billion, contributing 83% of total exports. Non-oil exports were valued at SR 186,6 billion, mainly comprising petrochemical products valued at SR 143,6 billion, 11% of total exports (Saudi Economic Report 2014 (SECOR), 2015).

Table 2-1: Saudi exports

Items	2013 Amount	2014 Amount	% Share	%Annual Change
Oil Exports	1,207,080	1,066,590	83%	-11.6%
Crude oil	1,102,478	938,959	73%	-14.8%
Refined products	104,602	127,631	10%	22.0%
Non-oil Exports	172,115	186,627	15%	8.4%
Petrochemicals	131,509	143,647	11%	9.2%
Construction materials	11,753	13,704	1%	16.6%
Agricultural, animal and food products	12,628	13,405	1%	6.2%
Other goods	16,226	15,871	1%	-2.2%
Re-Exported goods	30,328	30,403	2%	0.2%
Total	1,409,523	1,283,620	100%	-8.9%

(Million Riyals)

Source: Saudi Economic Report 2014 (SECOR, 2015)

Table 2-2: Saudi imports

Items	2013 Amount	2014 Amount	% Share	%Annual Change
Machines, appliances and electrical equipment	165,230	171,011	26%	3.5%
Foodstuffs	90,341	91,626	14%	1.4%
Chemical and metal products	72,244	78,191	12%	8.2%
Textiles and clothing	18,880	20,229	3%	7.1%
Metals and related products	78,102	79,759	12%	2.1%
Wood and jewelry	24,909	25,131	4%	0.9%
Transport equipment	107,552	108,610	17%	1.0%
Other goods	73,324	77,317	12%	5.4%
Total	630,582	651,874	100%	3.4%

(Million Riyals)

Source: Saudi Economic Report 2014 (SECOR, 2015)

### 2.2.5 Saudi Vision 2030

In April 2016, the Saudi government launched a new development plan entitled Saudi Arabia Vision 2030. Although this policy document was published after the empirical work for the thesis was completed it is highly relevant to the topic of the thesis and therefore we provide a summary of the content in the following section. Also, although this cannot be shown from the empirical work, as the interviews were completed some time ago, there is a likelihood that the vision arises from change within Saudi which has been ongoing and probably growing from the time the current research started. Further, given the vision being developed in early 2016, it is useful and worthwhile to reflect on the content of this Vision when discussing and analysing the findings of this research.

The Saudi Arabia Vision 2030 mission has three main components: a vibrant society, a thriving economy and an ambitious nation. The first aspect is based on providing a good social and environmental quality of life, which includes a better health care system. The second aspect is focused on economic growth, including the development of education and an entrepreneurial spirit. The third one is about achieving a high level of efficiency, transparency, accountability and responsibility (Saudi Vision 2030, 2016). Government restructuring is ongoing with this Vision, including streamlining and creating new ministries, committees and authorities.

#### 2.2.5.1 A vibrant society

The first theme is a vibrant society and there are three factors that maintain this theme in Saudi Arabia. These factors are a vibrant society with strong roots; a vibrant society with fulfilling lives and a vibrant society with strong foundations.

##### *A vibrant society with strong roots*

The first factor is a vibrant society with strong roots and comprises three elements. These are living by Islamic values; focusing our efforts to serve Umrah visitors; and taking pride in the Saudi national identity

The commitments of this theme are to provide the best services for the increasing numbers of Umrah visitors and to build the largest Islamic museum in the world. In addition, the aspired-for goals by 2030 in this theme are increasing the capacity for Umrah visitors from eight million to 30 million every year, and registering more than double the current number of Saudi heritage sites with United Nations Educational, Scientific and Cultural Organization (UNESCO).

##### *A vibrant society with fulfilling lives*

The second factor is a vibrant society with fulfilling lives and comprises four elements. These are promoting i) culture and entertainment; ii) living healthy, being healthy; iii) developing our cities; and iv) achieving environmental sustainability. The aim of this factor is to increase the happiness, fulfillment and social well-being of citizens and residents.

The key commitment underlying the fourth element is to provide meaningful entertainment for citizens by increasing the numbers of cultural and sporting activities among Saudi cities. It also plans to launch the Daem programme to increase the quality of culture and sport activities, also to ensure that financial funding for these activities is made available. Daem will also help to increase the awareness of such activities, and plans to register more than 450 professionally organised clubs to provide cultural activities and entertainment events by 2020.

Some of the goals of the Vision 2030 is to have three Saudi cities ranked among the top 100 cities in the world; to increase the financial spending on cultural and entertainment activities from 2.9% to 6%<sup>[1]</sup> inside Saudi Arabia; and to increase the proportion of the population who do sport or exercise at least once a week from 13% to 40%.

#### *A vibrant society with strong foundations*

The third factor is a vibrant society with strong foundations; again comprising four elements. These are i) caring for our families; ii) developing our children's character; iii) empowering our society; and iv) caring for our health.

The commitments to a vibrant society with strong foundations include the engagement of families in the education of their children. The intention is to increase the

engagement rate of parents, with 80% of parents to be engaged in school activities and the learning process of their children by 2020. It will launch the Irtiqaa programme to measure the level of engagement among parents in their children's education. Also, developing and enhancing the efficient and high-quality healthcare services is a key focus. One way to achieve this is to promote competition and transparency among health-care sector providers and increase the options available to citizens.

The Saudi Vision 2030 goals with this factor are to raise the Social Capital Index for Saudi Arabia from 26 to 10 and to increase the average life expectancy from 74 years to 80 years.

#### 2.2.5.2 A Thriving Economy

The second theme of this vision is a thriving economy, which embeds four initiatives; these are a thriving economy rewarding opportunities; a thriving economy investing for the long-term; a thriving economy open for business; and a thriving economy leveraging its unique position.<sup>[1][2][3][4][5][6][7][8][9][10]</sup>

##### *Rewarding opportunities*

The first factor of a thriving economy that is rewarding opportunities has four elements. These four are i) Learning for working; ii) boosting our small businesses and productive families; iii) providing equal opportunities; and iv) attracting the talents we need.

The Saudi Vision 2030 goals beside this factor are to increase the rate of employment and decrease the unemployment rate from 11.6% to 7%; increase the GDP contribution by SMEs from 20% to 35%; and increase the employment of women from 22% to 30%. The commitments for this factor are providing education that

contributes to economic growth and supporting SMEs to make a greater contribution to GDP.

### *Investing for the long-term*

The second factor of a thriving economy is investing for the long-term. This factor has three elements which are i) maximising the investment capabilities; ii) launching the promising sectors; and iii) privatising the government services. This factor is based on diversifying the economy to achieve a more sustainable economy and reduce the reliance on oil and gas as main pillars of the economy.

The Saudi Vision 2030 goals attached to this factor are to enhance the country's current economic position as one of the G20. Currently, it is the nineteenth largest economy, and the aim is achieve the top 15 of the largest world economy; increase the capital of the public investment assets from SAR 600 billion(\$160 billion) to over SAR seven trillion(\$1.89 trillion); and increase the localisation of the oil and gas sectors from 40% to 75%. The other commitments with this factor are to establish own local industries for defense to reduce military spending; it is intended that over 50% of the military equipment will be made locally by 2030. Further, there are plans to develop the mining sector and increase this sector's contribution to the GDP; and build up the renewable energy market and increase renewable energy value in the Saudi economy.

### *Open for business*

The third factor of the thriving economy is open for business; if Saudi Arabia is to become one of the largest economies in the world it needs to be fully open for business. It will also improve the business system and environment. This factor has four



elements and these elements are i) improving the business environment; ii) rehabilitating economic cities; iii) establishing special zones; and iv) increasing the competitiveness of the energy sector.

The Saudi Vision 2030 goals within this factor are to increase the current position on the Global Competitiveness Index from 25 to among the top 10 countries; raise the value of foreign investment from 3.8% to 5.7% of GDP at the international level; and increase the contribution by the private sector from 40% to 65% of GDP. The commitments here involve restructuring the King Abdullah Financial District to reach its full objectives; developing the flourishing retail sector and reducing the traditional retail; supporting a developed digital infrastructure and enhancing the governance of digital transformation.

*A thriving economy leveraging its unique position*

The fourth factor is a thriving economy leveraging its unique position by getting the maximum benefit from Saudi Arabia's strategic geographic location. It is located between three continents - Asia, Europe and Africa - and is a route for international traders. A focus in this area will also help Saudi's companies to increase their exports. This factor has three elements which are i) building a unique regional logistical hub; ii) integrating regionally and internationally; and iii) supporting our national companies.

The goals of Saudi Vision 2030 along this factor are to increase the Logistics Performance Index from 49 to 25 for Saudi Arabia in the global ranking and ensure that the Kingdom is a leader in the region of logistics; and raise the non-oil exports from 16% to 50% in non-oil GDP.

### 2.2.5.3 An Ambitious Nation

This theme is based on two main factors: a country which is effectively governed and responsibly enabled.

#### *Effectively Governed*

The first factor focuses on continued improvement of the government performance to achieve the expectations of the Vision and ensure that it can deal with the challenges. This effort needs to work alongside high levels of transparency and accountability and continuous performance reviews. This factor has five elements which are embracing transparency; protecting the vital resources; engaging everyone; committing to efficient spending and balanced finances; and organising themselves with agility.

The Saudi Arabia Vision 2030 goals underpinning this factor are to increase the government non-oil revenue from SR163 billion to SR one trillion; raise Saudi Arabia's ranking from 80 to 20 in the Government Effectiveness Index; and increase the E-Government Survey Index Ranking from 36 to become one of the top five nations. The commitments with this factor include launching the King Salman Program for Human Capital Development; increasing spending efficiency via Qawam; improving and making e-government more effective; and sharing services among the government agencies.

#### *Responsibly Enabled*

The second factor requires the public, private and non-profit sectors to work with full responsibility to 'their country, their society, their families, and to themselves' in order to achieve the nation everyone aspires to. This factor has three elements which are i)

being responsible for the lives; ii) being responsible in business; and iii) being responsible to society.

The Saudi Arabia Vision 2030 goals along this factor are raising the total household income from 6% to 10%; increase the contribution from the non-profit sector in GDP from less than 1% to 5%; and increase the number of annual volunteers from 11,000 to one million. The commitments with this factor is a more impactful from non-profit sector to GDP of country economy.

Some transformative programmes and executive programmes have been launched to help to achieve the Saudi Vision 2030. The transformative programmes include: The Strategic Directions programme; the Fiscal Balance programme; the Project Management programme; the Regulations Review programme and the Performance Measurement programme. The executive programmes include: The Saudi Aramco Strategic Transformation programme; the Public Investment Fund Restructuring programme; the Human Capital programme; the National Transformation programme; the Strategic Partnerships programme; the Privatisation programme and the programme for Strengthening Public Sector Governance.

To conclude, the three main themes of the Saudi Vision 2030 are related to CSR. In addition, its sub-goals are also related to CSR, including life fulfilment, community development, cultural and entertainment promotion; healthcare; developing children's character, developing education as an aspect of economic growth; achieving environmental sustainability and protecting natural resources; increasing transparency and state sector efficiency; increasing business responsibility in society; a more effective non-profit sector; and creating executive programs, such as the Program for

Strengthening Public Sector Governance and the Human Capital Program (SaudiVision 2030, 2016).

The most interesting aspects of the Saudi Vision 2030 are increased awareness of transparency, accountability and responsibility in both government and business (Figure 2.2). Moreover, it also focuses on protecting the natural resources and environmental sustainability. Working toward achievement of the Saudi Vision 2030 might motivate CSR in both practice and disclosure.

Figure 2-2: Saudi Vision 2030



Sources: Saudi Vision 2030(2016)

## **2.3 Saudi Commercial System**

This section discusses the government organizations entrusted with regulating economic and business activities in Saudi Arabia.

### **2.3.1 Ministry of Commerce and Investment (MCI)**

The Ministry of Commerce and Investment (MCI, renamed in 2016 from Ministry of Commerce and Industry) was established in 1926 by King Abdulaziz Al-Saud and it has remained one of the most important ministries ever since, entrusted with guiding national development through structuring commercial bodies and business activities, including company registration and the commercial legal system. The Ministry has the right to supervise and monitor all different types of commercial activity. It also deals with all different commerce issues, including consumer protection and competition (MCI, 2015).

In addition, it is the premier government organization of commerce in Saudi Arabia and regulates foreign and domestic trade. Furthermore, it oversees a commercial and industry chambers system, first instituted in 1946, to issue certification for business firms. It also focuses on the development of all different commerce and investment systems (MCI, 2015).

### **2.3.2 Saudi Arabian Monetary Agency (SAMA)**

The Saudi central bank is the Saudi Arabian Monetary Agency (SAMA), established in 1952 in Riyadh. It is a conventional central bank which proclaims its own duties as the following (SAMA, 2016):

- To deal with the banking affairs of the Government.
- Minting and printing the national currency (the Saudi Riyal), strengthening the Saudi currency and stabilizing its external and internal value, in addition to strengthening the currency's cover.
- Managing the Kingdom's foreign exchange reserves.
- Managing the monetary policy for maintaining the stability of prices and exchange rate.
- Promoting the growth of the financial system and ensuring its soundness.
- Supervising commercial banks and exchange dealers.
- Supervising cooperative insurance companies and the self-employment professions relating to the insurance activity.
- Supervising finance companies.
- Supervising credit information companies.

### **2.3.3 Saudi Arabian General Investment Authority (SAGIA)**

As part of efforts to attract foreigner investment to achieve the development goals of the Saudi economy, the Saudi Arabian General Investment Authority (SAGIA) was established in 2000. It has created business centres that provide different services such as commercial premises and funding support (SAGIA, 2016). In addition, it also provides representatives of all related government departments, such as the Ministry of Labor and General Directorate of Passports in one location, to facilitate investment by overcoming traditional bureaucratic impediments to business operations and official business generally. SAGIA has a strategic plan based on achieving goals to:

- Achieve a new benchmark in the investment environment.
- Realise Saudi Arabia's economic potential.

- Deliver the economic propositions of Saudi Arabia and enhance relations with target investors.
- Provide excellent and develop of the customer care and the performance (SAGIA, 2016).

#### **2.3.4 Capital Market Authority (CMA)**

The Capital Market Authority (CMA) was officially established as an independent entity in 2003, having previously been a department of SAMA. The authority assumed all duties and functions related to the Saudi Arabian capital market, such as capital market regulation (CMA, 2016). According to the CMA (2016), their duties include:

- Regulating and developing the capital market and promoting appropriate standards and techniques for all sections and entities involved in securities and trade operations.
- Protecting investors and the public from unfair and unsound practices involving fraud, deceit, cheating, manipulation and insider trading.
- Maintaining fairness, efficiency and transparency in securities transactions.
- Developing appropriate measures to reduce risks pertaining to transactions of securities.
- Developing, regulating and monitoring the issuance of securities and under-trading transactions.
- Regulating and monitoring the activities of entities working under CMA.
- Regulating and monitoring full disclosure of information related to securities and issuers.



CMA has discretion to issue regulations and rules, and it has established a number of requirements to enhance and maintain the Saudi capital market, including (CMA, 2016):

- Prudential Rules.
- The Resolution of Securities Disputes Proceedings Regulations.
- Anti-Money Laundering and Counter-Terrorist Financing Rules.
- Merger and Acquisition Regulations.
- Investment Funds Regulations.
- Listing Rules Corporate Governance Regulations.
- Rules for Qualified Foreign Financial Institutions Investment in Listed Shares.
- Securities Business Regulations.

### **2.3.5 The Saudi Stock Market Exchange (Tadawul)**

The Saudi Stock Market Exchange (Tadawul) was established in 2003 as an organization that manages and operates the stock market and the trading of shares and securities for parties authorized to do so and listed by the CMA. In 2007 Tadawul became a joint stock company with capital of SAR 1,200,000,000 (120,000,000 shares). It is also an official source of market information, and all listed companies disclosed their mandatory information and release any significant news through the Tadawul to different stakeholders (Tadawul, 2016).

The total number of listed companies reached 171 at the end of 2015, with total market capitalization reaching SAR 1,579.06 billion (US\$ 421.10 billion) and daily average value of shares reached SAR 6,616.02 million (Tadawul Annual Statistical Report, 2015). Tadawul (2016) lists its duties as being to:

- Continuously develop a full-fledged security market that provides comprehensive and diverse financial services to compete internationally.
- Produce top quality and highly efficient securities exchange market products and services.
- Make the exchange constitute an added advantage for all beneficiaries and participants in the market.

### **2.3.6 The Saudi Organization for Certified Public Accountants (SOCPA)**

The Saudi Organization for Certified Public Accountants (SOCPA) was established in 1992 to focus on and operate the development of Saudi accounting and auditing standards. It also provides local professional accounting certification for those who pass its tests and achieve all requirements. At present it continues in the effort of converting local accounting standards into International Financial Reporting Standards (IFRS) by 2017 (SOCPA, 2016).

It also provides some training courses in accounting standards for professionals and conducts research on accounting standards and auditing. It has around 5,000 members and is located in Riyadh, under the supervision of the Ministry of Commerce and Investment.

### **2.3.7 Department of Zakat and Income Tax (DZIT)**

The Department of Zakat and Income Tax (DZIT) is a government agency launched in 1951 that now has seventeen branches around Saudi Arabia. Its main function is to assess and collect zakat and tax from those subject to taxation. It functions under the Ministry of Finance, and is responsible to (DZIT, 2016):

- Assess and collect zakat from Saudis and GCC citizens resident in KSA in accordance with relevant regulations.
- Assess and collect revenue from those subject to tax, including the field of oil and gas investment, according to relevant laws and regulations.
- Set-up and implement procedures to follow up on delinquent taxpayers and take necessary actions to ensure their compliance.
- Provide fair treatment to taxpayers and improve their voluntary compliance.
- Issue statistical reports on operations. Submit an annual report on revenues and expenditures, actual and projected, to competent authorities.

### **2.3.8 The Saudi Corporate Governance Code (SCGC)**

With the development of the commercial and financial system, particularly the establishment of the Saudi Stock Exchange, corporate governance issues became important, thus the CMA (2006) issued the Saudi Corporate Governance Code (SCGC), compliance with which is mandatory for all firms listed on Tadawul. The main principles of the Code are to maintain the best practice of corporate governance and to explain governance for all Saudi listed companies, such as the rights and responsibilities of all different stakeholders (e.g. shareholders, managers and boards); disclosure requirements; and transparency obligations. In 2010 the Code was amended by the CMA.

## **2.4 Government-Private Sector Collaboration**

Challenges faced by national and local governments in the world today include the need to provide quality education and healthcare to the public, in addition to meeting many other societal obligations. These challenges are so numerous and costly that governments are largely unable to shoulder them on their own without engaging the

private sector, hence the need for public-private sector collaboration. While it is true that the primary concern of a business is to generate profit for its shareholders, today's business reality is that a company must actively find and utilize effective ways of giving back to the community it operates in, to justify the progressively diminished role of the state (and the increasing cost of privatized services in many cases) in formerly public utility areas, in addition to the general global drive toward sustainability. Solomon and Solomon (2002) asserted that while a firm can make short-term profits without CSR, it cannot have sustainable economic growth over the long-term.

#### **2.4.1 CSR in Saudi Arabia**

Though the Western perspective of CSR is relatively new to Saudi businesses and civil society, the concept has rapidly grown to prominence during the last several years, with increased CSR awareness among key players in the country's economic and social life prompting private firms to start considering making significant contributions to societal well-being a core part of their business operations. This draws on latent trends to give back to the community in Islamic ethics, although this has traditionally been expressed as personal philanthropy rather than a systematic part of business strategy. It is important to mention the important role played by the Saudi government in promoting CSR in the Kingdom, and in driving the adoption of international standards and certification.

##### *2.4.1.1 Culture*

Culture is a core factor of CSR, in Saudi Arabia and indeed anywhere. This section explores Saudi culture in two parts. The first part is brief of general overview of Saudi

culture and the second presents the background and practice of CSR in the context of Saudi culture, with some examples of CSR practice.

Hofstede's (1981/2001) model of cultural dimensions provides a useful starting point to comprehend Saudi culture. According to Hofstede (2001), Saudi culture is characterised by high power distance, scored with 80, indicating that people expect and accept inequalities of power and top-down, hierarchical organizations (associated with low accountability of institutions). In addition, a low score of 38 for individualism indicates a strong collectivist impetus in Saudi society, originating in tribal culture and expressed in business and political organizations. Correspondingly, the marginally high masculinity score of 53 indicates relatively low competitiveness and a correspondingly greater concern about social harmony among in-group members compared to Western cultures (Hofstede, 2001). High uncertainty avoidance (68) indicates fear of change and a proclivity for structure and control to avoid uncertainty (Hofstede, 2001).

It should be noted that these characteristics reflect the traditional tribal organization of Saudi society, which was intrinsically imbued with aspects of CSR. People gave affiliation and loyalty to a tribal confederacy in exchange for protection and welfare; all economically productive members of the tribe contributed a monthly stipend that was used for poor relief, health support and marriage (*aneeh*), in exchange for accepting and upholding tribal authority and policies; if one considers the tribe to be a form of 'organisation' in the context of modern CSR, the parallels are obvious.

#### 2.4.1.2 Religion

Saudi Arabia is an Islamic Kingdom with an established religion of the orthodox Hanbalite interpretation of Islam. The Qur'an is proclaimed the ultimate source of the

Constitution and Law, and any official action or decision should be acceptable in Sharia. The two holiest sites in Islam are situated in the Hejaz, Masjid al-Haram in Mecca (which is the direction all Muslims face in prayer), and Masjid an-Nabawi in Medina, which are sites of pilgrimage for all Muslims worldwide.

The relationship between Islam and CSR is explored in this section, but it should be noted that the division of CSR as something separate from Islam is artificial, as religious ethics permeate all areas of life and institutions in Saudi Arabia, guided by the foundational texts of Islam that have regulated life in MENA for over a millennium; the Quran, which is the Divine Revelation from Allah/ God), and the Sunnah, the words and deeds of the Prophet Muhammad (ﷺ).

Zakat, mentioned previously in terms of DZIT, is actually one of the five pillars of Islam – the fundamentals without which a Muslim’s religion is considered incomplete. Zakat al-mal (‘the purification of wealth’) is the compulsory charitable contribution of 2.5% of the value of wealth over a certain threshold (85 grams of gold or 595 grams of silver) held for one lunar year, comprising net profit, cash, gold and silver. The zakat is generally administered by the state and allocated to the poor. The importance of zakat is emphasised in numerous places in the Quran, indicating its importance:

وَأَقِيمُوا الصَّلَاةَ وَآتُوا الزَّكَاةَ وَارْكَعُوا مَعَ الرَّاكِعِينَ ﴿٤٣﴾

“And establish prayer and give zakah and bow with those who bow [in worship and obedience]”. (Quran 2: 43)

خُذْ مِنْ أَمْوَالِهِمْ صَدَقَةً تُطَهِّرُهُمْ وَتُزَكِّيهِمْ بِهَا وَصَلِّ عَلَيْهِمْ إِنَّ صَلَاتَكَ سَكَنٌ لَهُمْ وَاللَّهُ سَمِيعٌ عَلِيمٌ ﴿١٠٣﴾

“Take, [O, Muhammad], from their wealth a charity by which you purify them and cause them increase, and invoke [Allah ‘s blessings] upon them. Indeed, your invocations are reassurance for them. And Allah is Hearing and Knowing”. (Quran 9: 103)

In addition to this compulsory contribution, the Quran and Sunnah continually enjoin voluntary charity for all Muslims:

مَثَلُ الَّذِينَ يُنْفِقُونَ أَمْوَالَهُمْ فِي سَبِيلِ اللَّهِ كَمَثَلِ حَبَّةٍ أَنْبَتَتْ سَبْعَ سَنَابِلٍ فِي كُلِّ سُنْبُلَةٍ مِائَةٌ حَبَّةٌ وَاللَّهُ يُضَعِفُ لِمَنْ يَشَاءُ وَاللَّهُ وَاسِعٌ عَلِيمٌ ﴿٢٦١﴾

الَّذِينَ يُنْفِقُونَ أَمْوَالَهُمْ فِي سَبِيلِ اللَّهِ ثُمَّ لَا يُتَّبِعُونَ مَا أَنْفَقُوا مِنْهَا وَلَا أَدَى لَهُمْ أَجْرُهُمْ عِنْدَ رَبِّهِمْ وَلَا خَوْفٌ عَلَيْهِمْ وَلَا هُمْ يَحْزَنُونَ ﴿٢٦٢﴾

“The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing.

“Those who spend their wealth in the way of Allah and then do not follow up what they have spent with reminders [of it] or [other] injury will have their reward with their Lord, and there will be no fear concerning them, nor will they grieve”. (Quran 2: 261-262)

In addition to these general prescriptions, the Prophet (ﷺ) continually demonstrated and urged caring for others, including coreligionists, one’s family and kin, neighbours,

protected minorities (particularly Jews and Christians), allies, mankind in general, animals and plants and environmental resources:

“Whoever relieves the hardship of a believer in this world, Allah will relieve his hardship on the Day of Resurrection. Whoever helps ease someone in difficulty, Allah will make it easy for him in this world and in the Hereafter”. (Muslim, 2006)

“The believer is not he who eats his fill while his neighbor is hungry”. (Bukhari, 1993)

“If a Muslim plants a tree or sows seeds, and then a bird, or a person or an animal eats from it, it is regarded as a charitable gift (sadaqah) for him“. (Bukhari, 1993)

“Muslims should not consume too much water when doing wudoo [ritual ablution] in preparing for prayer, even be they on the banks of a flowing river”. (Imam Ahmad, 2003)

Moreover, Islam particularly emphasises fair dealing in terms of honesty concerning quality and transparency in transactions, with the absolute prohibition of cheating:

يَتَأْتِيهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا أَمْوَالَكُمْ بَيْنَكُمْ بِالْبَاطِلِ إِلَّا أَنْ تَكُونَ تِجَارَةً  
عَنْ تَرَاضٍ مِّنْكُمْ وَلَا تَقْتُلُوا أَنْفُسَكُمْ إِنَّ اللَّهَ كَانَ بِكُمْ رَحِيمًا ﴿٢٩﴾

“You who have believed, do not consume one another’s wealth unjustly but only [in lawful] business by mutual consent. And do not kill yourselves [or one another]. Indeed, Allah is to you ever Merciful”. (Quran 4: 29)



“The Prophet (ﷺ) passed by a pile of food (in the market), put his hand in it and felt dampness (although the surface of the pile was dry). He said, ‘O owner of the food, what is this?’ The man said, ‘it was damaged by rain, O Messenger of Allah’. He said, ‘And you did not put the rain-damaged food on top so that people could see it! Whoever cheats us is not one of us’“. (Muslim, 2006).

#### *2.4.1.3 Awards, Certificates, Standards and Government Programs*

It is important to acknowledge the important role played by the Saudi government in promoting CSR in the Kingdom, and in driving the adoption of international standards and certification.

##### **I. Saudi Responsible Competitiveness Index**

The Saudi Arabian Responsible Competitiveness Index (SARCI) was established in 2005, placed under the administration of SAGIA. The initial purpose of the SARCI was to enhance company- and country-level competitiveness and place Saudi Arabia among the top ten most competitive nations in the world by 2010. This initiative was dubbed “10 by 10”, implying that the country should be among the first ten nations by the year 2010. Since its inception, the SARCI has assessed companies based on how well they apply the principles of responsible business practices. The number of companies that participated in the SARCI during its first year was 40, rising to 60 by 2010 (SARCI, 2011).

The framework of SARCI was developed in 2011 and focuses on five drivers. These drivers are (SARCI, 2011, p. 3):

- Building a national competitiveness workforce.
- Innovating solutions for social development.
- Empowering local vendors.
- Making a commitment to high quality.
- Responsible environmental management.

## II. King Khalid Responsible Competitiveness Award

The King Khalid Award is one of the tools that encourages, supports and recognises the achievement of and commitment to sustainability and corporate social responsibility in Saudi Arabia. It is a cooperative endeavour between the King Khalid Foundation (KKF) and its project partner Accountability, and SARCI: the aims are to help businesses to improve their competitive performance, and their social and environmental impacts, by improving their capacity and knowledge of responsible competitiveness strategies. It recognises Saudi companies for outstanding CSR performance and the top three businesses participating in the Index received the prestigious King Khalid Award for Responsible Competitiveness which is presented at the KKF Annual Awards Ceremony (KKF, 2016).

## III. King Abdulaziz Quality Award

The King Abdul Aziz Quality Award (KAQA) was launched in 2000, focused on enhancing quality and achieving the maximum quality, productivity and efficiency in different sectors in Saudi Arabia. It is presented to companies that have achieved the highest level of quality. The General Committee of National Experts in quality supervised the KAQA (Saudi Standards, Metrology and Quality Organization (SASO), 2015). The KAQA has objectives including (SASO, 2015):

- Promoting the concept of quality and the importance of its application.

- Motivating and encouraging public and private sectors to adopt and apply the principles of total quality management on the national level.
- Maximizing quality in the production and services sectors to increase their competitiveness in the international markets.
- Upgrading organizational leadership to achieve the total management objectives and fulfill their responsibilities.
- Making continued improvements to the performance of all production and services processes.
- Encouraging organizations to comply with the national and international standards.
- Awarding the best organizations which achieve the highest level of quality.
- Increasing organizations involvement in building and serving the society.
- Building strong relationships with customers, employees, suppliers, investors to satisfy them and gain their loyalty by applying the best methodology that help determine and deliver their needs, requirements and expectations.
- Adopting quality strategic planning in order to set business plans and objectives and methods for implementation.
- Training and developing national employees as well as creating satisfactory work environment and upgrading employees' efficiency and technical skills to maximize quality.
- Utilizing all the available national resources to improve operational and economic performance on the organizational level and consequently on the national level.

- Measuring performance level in different business areas (self assessment), comparing it with the performance level of competitors and regularly measuring results improvement.
- Introducing the leading Saudi experiences in the field of quality and creating the opportunity to make use of them.
- Increasing the number of quality specialists (Auditors, technicians, experts).
- Raise the efficiency and competition for national organizations compared with international best practices.

#### IV. Saudi Standards, Metrology and Quality Organisation (SASO)

SASO is the Saudi standardisation organisation that is authorised by the government to deal with all activities that are related to standards, measurements and quality (SASO, 2015). According to SASO (2015), the main responsibilities of SASO are to

- Publish approved standards in the manner it deems appropriate. Said standards shall be valid upon publication in the Official Gazette.
- Issue regulations for conformity assessment procedures of commodities, products and services pursuant to approved standards.
- Issue and implement regulations of licensing procedures of local and imported products that conform to adopted national standards and grant rights of use thereof.
- Issue and implement regulations for procedures of granting registration certificates to QMSs environment and safety systems and other systems adopted by the Board.

- Grant quality marks for products. However, quality marks for products under the jurisdiction of the Food and Drug General Authority shall be granted upon the Authority's approval.
- Promote awareness with regard to standards, quality, conformity assessment procedures, metrology and calibration.
- Coordinate efforts pertaining to standards, quality, conformity assessment procedures, metrology and calibration in the Kingdom, as well as efforts relating to mutual recognition with counterparts in other countries.
- Implement the National System of Metrology and Calibration in the Kingdom.
- Ensure implementation of adopted Saudi standards and conformity assessment procedures, in coordination with relevant agencies.
- Grant conformity certificates to local and export-oriented products.
- Carry out accreditation works, including accreditation of laboratories and entities granting QMS certificates.
- Establish a database for the Organization and exchange information with local, regional and international agencies.
- Conduct research and studies, provide consulting services, and cooperate with companies, organizations, universities, research centers and other similar entities.
- Review laws and control regulations related to the Organization and propose amendments thereto in line with quality and safety requirements, and refer the same to competent authorities for review and issuance, in accordance with applicable procedures.

- Act as an inquiry point with regard to WTO Agreement on Technical Barriers to Trade.
- Join regional and international organizations concerned with standards, metrology, calibration and .quality, and represent the Kingdom therein.

#### V. Responsible Care by the Gulf Petrochemical and Chemical Association (GPCA)

Some regional non-governmental organizations have also increased awareness of CSR, such as the Gulf Petrochemical and Chemical Association (GPCA), which launched Responsible Care in 2009 as an initiative to “improve health, environmental performance, enhance security and to communicate with stakeholders about products and processes” by introducing the international initiative of Responsible Care to the Petrochemical and Chemical Gulf Companies, full members of the GPCA obtained certification, and most Saudi petrochemical and chemical companies obtained the GPCA Responsible Care and Gulf Sustainability and Quality Assessment System (Gulf SQAS), established in 2013 as a

System to evaluate the environmental, health, safety, security and quality performance of Logistics Service Providers (LSPs) in a uniform manner by single standardized assessments carried out by independent assessors using a standard questionnaire (GPCA, 2016).

#### VI. United Nations Global Compact (UNGC)

The United Nations Global Compact (UNGC) is an initiative for businesses in strategic policy globally and it aligns businesses’ strategies and operations with four main universal principles. The four universal principles are human rights, labour,

environment and anti-corruption and there are ten sub-principles under these main four. The sub-principles are (UNGC, 2016):

“Human rights:

1- Businesses should support and respect the protection of internationally proclaimed human rights.

2- To make sure that they are not complicit in human right abuses.

- Labour:

3- Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.

4- The elimination of all form of forced and compulsory labour.

5- The effective abolition of child labour.

6- The elimination of discrimination in respect of employment and occupation.

- Environment:

7- Business should support a precautionary to environmental challenges.

8- Undertake initiatives to promote greater environmental responsibility.

9- Encourage the development and diffusion of environmentally friendly technologies.

- Anti-corruption:

10- Businesses should work against corruption in all its forms, including extortion and bribery.”

## VII. ISO

The ISO is international organisation for standardisation. = The adherence to International Standards is one of the international factors in the general drive to increase quality by “world-class specifications for products, services and systems, to ensure quality, safety and efficiency” (ISO, 2016). An increasing number of Saudi

companies have sought and obtained ISO certification. This shows that the awareness of product quality, safety and efficiency in Saudi Arabia has increased.

#### VIII. The AccountAbility's AA 1000 series

The AccountAbility's AA1000 series is a global organisation launched in 1995, whose standards and guidance help organisations become more accountable, responsible and sustainable, with sustainability assurance and stakeholder engagement (AccountAbility, 2015). This may contribute to raising the awareness of CSR among the Saudi companies.

The AccountAbility (2015) objectives are to

- Help its clients and members improve business performance and build sustainable competitive advantage.
- Enable open, fair and effective approaches to stakeholder engagement.
- Develop and recognise responsible competitiveness in companies, sectors, countries and regions.
- Create effective collaborative governance strategies for partnerships and multilateral organisations that are delivering innovation and value.
- Set and influence sustainability standards.
- Help corporations, non-profits, and governments embed ethical, environmental, social, and governance accountability into their organisational DNA.

#### IX. Global Reporting Initiative (GRI)

The GRI is an international independent organisation launched in the 1990 to help businesses, governments and other organisations understand and communicate the impact of business on sustainability issues such as corruption, human rights, climate



change and many others (GRI, 2016). The recent growth of the global standards in reporting and accountability also fed CSR in Saudi Arabia, similar to the case in other countries, such as the Global Reporting Initiative (GRI) standards for sustainability reporting and corporate disclosure with the GRI's G4 Sustainability Reporting Guidelines in 2013. The vision of GRI is to

create a future where sustainability is integral to every organization's decision making process. The mission is to empower decision makers everywhere, through our sustainability standards and multi-stakeholder network, to take action towards a more sustainable economy and world (GRI, 2016).

The GRI believes

- In the power of a multi-stakeholder process and inclusive network.
- Transparency is a catalyst for change.
- Our standards empower informed decision making.
- A global perspective is needed to change the world.
- Public interest should drive every decision an organization makes.

## X. Saudization Programme

Saudi Arabia is already taking gigantic strides in the direction of CSR. The country is doing a great deal in terms of developing human capital, and the private sector is increasingly participating in this. For example, most large companies in the KSA offer paid internships to college students as part of their training, and are even sponsoring students for overseas studies in a bid to increase the Saudi-to-foreign-worker proportion in line with the Government's Saudization programme (and affirmative

action strategy of the kind applied throughout the GCC, promoting the employment of nationals by numerous incentives).

#### XI. Saudi Transparency Award

The Saafah Foundation is a national organisation that aims to promote the level of transparency, integrity and accountability in Saudi Arabia. The Foundation is working on providing training and studies in these subjects for individuals and institutions. It also launched the Annual Saudi Transparency Award which enhances transparency, integrity and accountability in Saudi companies (Saafah Foundation, 2016). This initiative will play a role in increasing the awareness of CSR in Saudi Arabia.

Saafah Goals include (Saafah Foundation, 2016):

- Developing and launching awards and certifications for transparency and integrity related topics.
- Celebrating Saudi entities and individuals through publicising their achievements and identifying them as role models.
- Promoting ethical values related to transparency and integrity.
- Conducting and facilitating training and development, events and workshops; Conducting extensive research and studies on transparency-and corruption-related issues, and making these reports public and a comprehensive source of information.

## 2.5 Summary

The above sections present an overview of the natural context for this research, including the location and population size, the economic importance of the country in the global economy; the political system structure and the Saudi 2030 Vision and the

relate goals to motivate CSR. In addition, this chapter has introduced the government organizations related to business operations and CSR, and presented information concerning the prevailing cultural, religious and governmental programs and standards pertinent to the study.

## **3 Chapter Three: Literature Review**

*Introduction*

*Social Accounting*

*Definition of Corporate Social Responsibility (CSR)*

*CSR Factors Contribute*

*Importance and Motivation of CSR*

*CSR Challenges and Obstacles*

*Corporate Social Responsibility Disclosure*

*The Literature of CSR in Saudi Arabia*

*Summary*

## **3 LITERATURE REVIEW**

### **3.1 Introduction**

To embark on a journey, one has to know where one is coming from, where one stands and intends to go. In research, where you are coming from is represented by the earlier developments in the subject area, where you stand is the current state of affairs and the journey ahead is the difference between the current state of affairs and the objectives the researcher hopes to achieve. For this reason, this research journey starts with a literature review of what is known, i.e. how the concept came about, its theorization and how it is being practiced today, both internationally and in Saudi Arabia, in order to obtain the knowledge needed to direct research efforts more effectively; and to facilitate understanding and interpretation of research results.

### **3.2 Social Accounting**

Before explaining CSR, it is necessary to understand the milieu from which it arose, including with reference to conventional accounting and business culture. From the 1960s onwards accounting expanded beyond its traditional economic foundations to encompass many different aspects involved in complex organizations; one aspect of this development was social accounting. Hopwood (2007) asserted that tracing the emergence of social accounting is difficult, as one of the seminal texts by Ball and Brown (1968) as well as his own early work (Hopwood, 1973) was not accounting per se, rather it was social psychology.

Since the 1970s there has been a marked increase in studies identifiably social accounting (e.g. Beams and Fertig, 1971; Churchman, 1971; Linowes, 1972; Mobley,

1970; Harte and Owen, 1991,1992; Gray et al.,2014, 1997,1987, 1995a&b; Parker, 1991; Guthrie and Parker, 1990; Maunders et al., 1991; Owen, 1992; Mathews, 1997; Owen et al., 1997; Hopwood, 1973, 2007). Arrington and Puxty (1991) identified the importance of social accounting in terms of the context of building human interests and needs that represents the actions of others in ways obvious in terms of performance evaluation, responsibility accounting and efficiency etc.

To understand the difference between conventional and social accounting, Burchell et al. (1985) asserted that accounting seems to be social rather than moral, and accounting has come to be more actively and explicitly recognized as an instrument for social management and change. Gray et al. (2014) defined social accounting as accounting that is not only economic and financial data provided to shareholders, rather it includes all dimensions affected by an organization's operations, reported to all concerning stakeholders, including employees and local communities, communicated in different media and for numerous purposes, not merely to display economic performance. For practical purposes, Mathews (1984) classified social accounting into the following specialties:

#### *3.2.1.1 Socio-Economic Accounting (SEA)*

The process of using both financial and non-financial data to measure publicly funded activities evaluated to make decisions about outcomes achieved and the value of expenditure. SEA would be auditing of performance and audit functions.

#### *3.2.1.2 Social Responsibility Accounting (SRA)*

SRA refers to the disclose of financial and non-financial, quantitative and qualitative information about the activities of an enterprise. This may include numerous terms in common use in CSR disclosure, for instance employee reports (ER), human resources

accounting (HRA), and accounting and industrial democracy issues.

#### *3.2.1.3 Total Impact Accounting (TIA)*

TIA refers to the aggregate effect and impact on the environment by the organization . It is necessary to measure both benefit and impact externalities. TIA is often referred to as cost-benefit analysis (CBA) or social accounting, and sometimes as social audit.

#### *3.2.1.4 Social Indicators Accounting (SIA)*

SIA is use to describe the measuring and assessing the extent to which these macro-social events are attained over the longer term. The interest of the outcome of this analysis will be to participants in national political processes and other national policy makers. The relationship between the conventional and social accounting has been explained by Gray et al. (2014) in terms of extending the potential limits within which social accounting might be more useful, because the research, thinking and practice of social accounting derives from conventional accounting itself. Indeed, social accounting might be concerned with:

- The impact and effects of firm activities on society and the environment.
- Conventional accounting practice helps to ameliorate social and environmental impacts, including looking for ways to reduce to reduce the negative impacts and to have positive social and environment effects.
- The implications of more benign social and environment effects driven by developing new methods of accounting accountability reflects a major enhancement of the profession (Gray et al., 2014).

### **3.3 Definition of Corporate Social Responsibility (CSR)**

After the development in general social accounting, specialties like environmental accounting, CSR and sustainability extensions emerged (Bebbington and Larrinaga, 2014, Gray and Laughlin, 2012). At face value, CSR seems to mean different things to different people. There is more than one definition for CSR in the literature (Table 3.1), reflecting the genuine diversity of CSR dimensions, manifest in numerous models and empirical studies of performance.

Bowen (1953) was the first to define CSR, and it was greatly developed as a concept during the 1960s (Davis, 1960, 1967; McGuire, 1963; Walton, 1967; Davis and Blomstrom, 1966). In the 1970s the main debates about how to define and analyse CSR took form (Committee for Economic Development (CED), 1971; Johnson, 1971; Steiner, 1971; Manne and Wallich, 1972; Manne, 1972; Davis, 1973; Eilbert and Parket, 1973; Votaw, 1973; Eells and Walton, 1974; Bowman and Haire, 1975; Preston and Post, 1975; Holmes, 1976; Fitch, 1976; Carroll, 1977, 1979; Abbott and Monsen, 1979). In addition, few studies discussed CSR empirically, with the exception of Abbott and Monsen (1979) and the performance model evaluations by Sethi (1975), Carroll (1977, 1979) and Preston (1978).

In the 1980s CSR was developed in numerous directions (Jones, 1980; Tuzzolino and Armandi, 1981; Dalton and Cosier, 1982; Carroll, 1983; Drucker, 1984; Epstein, 1987; Gray et al., 1987). Carroll (2008) identified this period as one of mainly theoretical development in CSR, including models (Dalton and Cosier, 1982; Wartick and Cochran, 1985). It was starting period in studying the CSR relationship with other factors, for example Cochran and Wood (1984) and Aupperle et al. (1985) studied the relationship between CSR and financial performance.



In the 1990s several new CSR definitions emerged tied more closely to empirical findings (Frederick et al., 1992; Reder, 1994; Hopkins, 1998; Khoury et al., 1999; Kilcullen and Kooistra, 1999; Woodward-Clyde, 1999). CSR was understood during this period as a baseline for ancillary concepts in business ethics, such as stakeholder theory, corporate citizenship, sustainability and corporate social performance (CSP) (Carroll, 2008), in addition to investigations of the relationship between CSR and other factors (Guthrie and Parker, 1990; Maunders et al., 1991; Owen, 1992; Mathews, 1993, 1997; UNEP/SustainAbility, 1994, 1996, 1997; Owen et al., 1997; Bebbington et al., 1999). In addition, CSP models were enhanced (Wood, 1991).

By the 2000s, while some debates continue on the in this definition of CSR (Gray, 2006; Bebbington and Gray, 2001; Owen and Swift, 2001), it was essentially universally understood in terms of its parameters, and significant research attention turned to empirical studies evaluating CSR impacts on particular dimensions in the context of firm performance and sustainability (Piacentini et al., 2000; Commission of the European Communities, 2001, 2002; Jackson and Hawker, 2001; Marsden, 2001; McWilliams and Siegel, 2001; Van Marrewijk, 2003; Lea, 2002; Andersen, 2003; Ethical Performance, 2003; Global Corporate Social Responsibility Policies Project, 2003; Hopkins, 2003;).

In the 2010s, recent the research on CSR has been less prolific than previously due to numerous global factors, including declining corporate interest in CSR in the immediate aftermath of the post-2008 financial crisis, when CSR activities were widely jettisoned due to their perceived unprofitability (Wood, 2010; Moser and Martin, 2012; Garriga and Melé, 2013). Attention turned to CSR in the context of integrated reports (Orlitzky et al., 2011; Jensen and Berg, 2012; Frias-Aceituno,

Rodriguez-Arizand and Garcia-Sanchez, 2013; Cheng and Green, 2014; Rensburg and Botha, 2014; Adams, 2015; Thomson, 2015), with deeper analysis of particular aspects such as greenhouse gas disclosure (Liao, Luo and Tang, 2015; Tauringana and Chithambo, 2015). Also, more research was conducted concerning CSR and related topics in developing countries (Arlı and Lasmono, 2010; Jamali, 2010; Amran and Haniffa, 2011; Belal and Cooper, 2011; Hilson, 2012; Khan, Muttakin and Siddiqui, 2013).

Table 3-1: Some CSR definitions

Author	Definition	Year
BOWEN	<i>It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society (p. 44),</i>	1953
DAVIS AND BLOMSTROM	<i>Social responsibility, therefore, refers to a person's obligation to consider the effects of his decisions and actions on the whole social system. Businessmen apply social responsibility when they consider the needs and interest of others who may be affected by business actions. In so doing, they look beyond their firm's narrow economic and technical interests. (p. 12)</i>	1966
JOHNSON	<i>In this approach, social responsibility in business is the pursuit of socioeconomic goals through the elaboration of social norms in prescribed business roles; or, to put it more simply, business takes place within a socio-cultural system that outlines through norms and business roles particular ways of responding to particular situations and sets out in some detail the prescribed ways of conducting business affairs. (p. 51)</i>	1971
COMMITTEE FOR ECONOMIC DEVELOPMENT (CED)	<i>Business is being asked to assume broader responsibilities to society than ever before and to serve a wider range of human values. Business enterprises, in effect, are being asked to contribute more to the quality of American life than just supplying quantities of goods and services. Inasmuch as business exists to serve society, its future will depend on the quality of management's response to the changing expectations of the public. (p. 16)</i>	1971
FREDERICK	<i>[Social responsibilities] mean that businessmen should oversee the operation of an economic system that fulfills the expectations of the public. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare. Social responsibility in the final analysis implies a public posture toward society's economic and human resources and a willingness to see that those resources are used for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms. (p. 60)</i>	1960
MANNE AND WALLICH	<i>I take responsibility to mean a condition in which the corporation is at least in some measure a free agent. To the extent that any of the foregoing social objectives are imposed on the corporation by law, the corporation exercises no responsibility when it implements them. (p. 40)</i>	1972
DAVIS	<i>[CSR] refers to the firm's consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements of the firm. (p. 312) It is the firm's obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks. (p. 313) It means that social responsibility begins where the law ends. A firm is not being socially responsible if it merely complies with the minimum requirements of the law, because this is what any good citizen would do. (p. 313)</i>	1973

**TABLE 3-1 cont.**

<i>Author</i>	<i>Definition</i>	<i>Year</i>
EELLS AND WALTON	<i>In its broadest sense, corporate social responsibility represents a concern with the needs and goals of society which goes beyond the merely economic. Insofar as the business system as it exists today can only survive in an effectively functioning free society, the corporate social responsibility movement represents a broad concern with business's role in supporting and improving that social order. (p. 247)</i>	1974
BACKMAN	<i>Employment of minority groups, reduction in pollution, greater participation in programs to improve the community, improved medical care, improved industrial health and safety—these and other programs designed to improve the quality of life are covered by the broad umbrella of social responsibility. (pp. 2-3)</i>	1975
PRESTON AND POST	<i>In the face of the large number of different, and not always consistent, usages, we restrict our own use of the term social responsibility to refer only to a vague and highly generalized sense of social concern that appears to underlie a wide variety of ad hoc managerial policies and practices. Most of these attitudes and activities are well-intentioned and even beneficent; few are patently harmful. They lack, however, any coherent relation to the managerial unit's internal activities or to its fundamental linkage with its host environment. (p. 9)</i>	1975
FITCH	<i>Corporate social responsibility is defined as the serious attempt to solve social problems caused wholly or in part by the corporation”(p. 38).</i>	1976
JONES	<i>Corporate social responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contract. Two facets of this definition are critical. First, the obligation must be voluntarily adopted; behavior influenced by the coercive forces of law or union contract is not voluntary. Second, the obligation is a broad one, extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers, and neighboring communities. (pp. 59-60)</i>	1980
EPSTEIN	<i>Corporate social responsibility relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems which (by some normative standard) have beneficial rather than adverse effects on pertinent corporate stakeholders. The normative correctness of the products of corporate action have been the main focus of corporate social responsibility. (p. 104)</i>	1987
LEA	<i>CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment.</i>	2002

**TABLE 3-1 cont.**

<i>Author</i>	<i>Definition</i>	<i>Year</i>
CSR WIRE	<i>CSR is defined as the integration of business operations and values, whereby the interests of all stakeholders including investors, customers, employees and the environment are reflected in the company's policies and actions.</i>	2003
FREDERICK ET AL.	<i>Corporate social responsibility can be defined as a principle stating that corporations should be accountable for the effects of any of their actions on their community and environment.</i>	1992
GRAY ET AL.	<i>The process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such it involves extending the accountability of organizations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders.</i>	1987
GRAY ET AL.	<i>CSR which describes CSR as the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. (p. 3)</i>	1996

It can be appreciated from the table that there is no single definition that takes account of all facets of corporate responsibility to society, but there is an underlying common characteristic: all definitions, in one way or another, are centred on the firm being accountable to different interested parties, commonly dubbed 'stakeholders' in conscious affirmation of a move away from the traditional corporate preoccupation with 'shareholders' to include more diverse people involved in and affected by organizational activities.

The definition of CSR given by Carroll (1979) is considered clear and comprehensive, and it has been widely used in its own right and as a basis for the definitions adopted by later studies. It conceptualizes CSR as a four-part construct that describes a firm's social responsibility by addressing the economic, legal, ethical and discretionary (i.e. philanthropic) aspects of what civil society expects from the organization at a given point in time. Carroll (1979) also developed the CSR model to help understand the facts of CSR performance, including three aspects: the four-part definition mentioned

previously; the range of social issues including consumers, the environment, shareholders, discrimination and product and occupational safety; and reaction, defence, accommodation and proaction in a social responsiveness continuum. Carroll (1983, p. 604) reorganized the CSR definition to reflect economic, legal, ethical and voluntary or philanthropic dimensions. This was adopted and used successfully by Aupperle et al. (1985), although Wartick and Cochran (1985) argued that Carroll's (1979, 1983) definition and four categories outlined the principles of CSR rather than describing it taxonomically. Consequently, they created a CSR performance model based on three stages of CSR performance, namely principles, process and policies, and they incorporated Carroll's four components of reactive, defensive, accommodative and proactive as processes. The issues analysis and response development as policies are shown in Table 3.2.

*Table 3-2: Wartick and Cochran's (1985) model*

<b>Principles</b>	<b>Processes</b>	<b>Policies</b>
<b>Corporate Social Responsibilities</b>	<b>Corporate Social Responsiveness</b>	<b>Social Issues Management</b>
(1) Economic (2) Legal (3) Ethical (4) Discretionary	(1) Reactive (2) Defensive (3) Accommodative (4) Proactive	(1) Issues Identification (2) Issues Analysis (3) Response Development
<b>Directed at:</b>	<b>Directed at:</b>	<b>Directed at:</b>
(1) The Social Contract of Business (2) Business as a Moral Agent	(1) The Capacity to Respond to Changing Societal Conditions (2) Managerial Approaches to Developing Responses	(1) Minimizing "Surprises" (2) Determining Effective Corporate Social Policies
<b>Philosophical Orientation</b>	<b>Institutional Orientation</b>	<b>Organizational Orientation</b>

Wartick and Cochran's (1985) idea was critiqued by Wood (1991), who argued that

principles are what *people* believe, or something basic that motivates them to undertake certain behaviours, thus four category domains were constructed to understand principles in relation to organizational contexts, as shown in Table 3.3.

Table 3-3: Wood's (1991) CSR performance model

**Corporate Social Policy: Sample Outcomes of Acting on CSR Principles Within CSR Domains**

<b>CSR PRINCIPLES</b>			
<b>Domains</b>	Social Legitimacy (Institutional)	Public Responsibility (Organizational)	Managerial Discretion (Individual)
<b>Economic</b>	Produce goods & services, provide jobs, create wealth for shareholders.	Price goods & services to reflect true production costs by incorporating all externalities.	Produce ecologically sound products, use low-polluting technologies, cut costs with recycling.
<b>Legal</b>	Obey laws and regulations. Don't lobby for or expect privileged positions in public policy.	Work for public policies representing enlightened self-interest.	Take advantage of regulatory requirements to innovate in products or technologies.
<b>Ethical</b>	Follow fundamental ethical principles (e.g., honesty in product labeling).	Provide full and accurate product use information, to enhance user safety beyond legal requirements.	Target product use information to specific markets (e.g., children, foreign speakers) and promote as a product advantage.
<b>Discretionary</b>	Act as a good citizen in all matters beyond law and ethical rules. Return a portion of revenues to the community.	Invest the firm's charitable resources in social problems related to the firm's primary and secondary involvements with society.	Choose charitable investments that actually pay off in social problem solving (i.e., apply an effectiveness criterion).

Moreover, Wood (1991, p. 694) developed a comprehensive CSR performance model that identified the link of Carroll's four part with the three stages of CSR performance:

principles, processes of corporate social responsiveness and outcomes and impact of performance. First, she stated the principle of CSR are legitimacy (institutional level), public responsibility (organizational level), and managerial discretion (individual level). Second, she identified the processes of corporate social responsiveness as environmental assessment, stakeholder management and issues management. Third, she stated the outcomes and impact of performance are understood in terms of their effects on people and organizations; nature and the environment; and social systems and institutions. This model is very meaningful to understand CSR and how it can practically function and affect performance (Table 3.4).

*Table 3-4: Wood's (1991) principles, processes and outcomes model*

<b>PRINCIPLES OF SOCIAL RESPONSIBILITY</b>	-->	<b>PROCESSES OF SOCIAL RESPONSIVENESS</b>	-->	<b>OUTCOMES &amp; IMPACTS OF PERFORMANCE</b>
Legitimacy: businesses that abuse the power society grants them will lose that power.		Environmental Scanning: gather the information needed to understand and analyze the firm's social, political, legal, and ethical environments.		Effects on people and organizations.
Public Responsibility: Businesses are responsible for outcomes related to their primary and secondary areas of involvement with society.		Stakeholder Management: active and constructive engagement in relationships with stakeholders.		Effects on the natural and physical environments.
Managerial Discretion: Managers and other employees are moral actors and have a duty to exercise discretion toward socially responsible, ethical outcomes.		Issues/Public Affairs Management: a set of processes that allow a company to identify, analyze, and act on the social or political issues that may affect it significantly.		Effects on social systems and institutions.

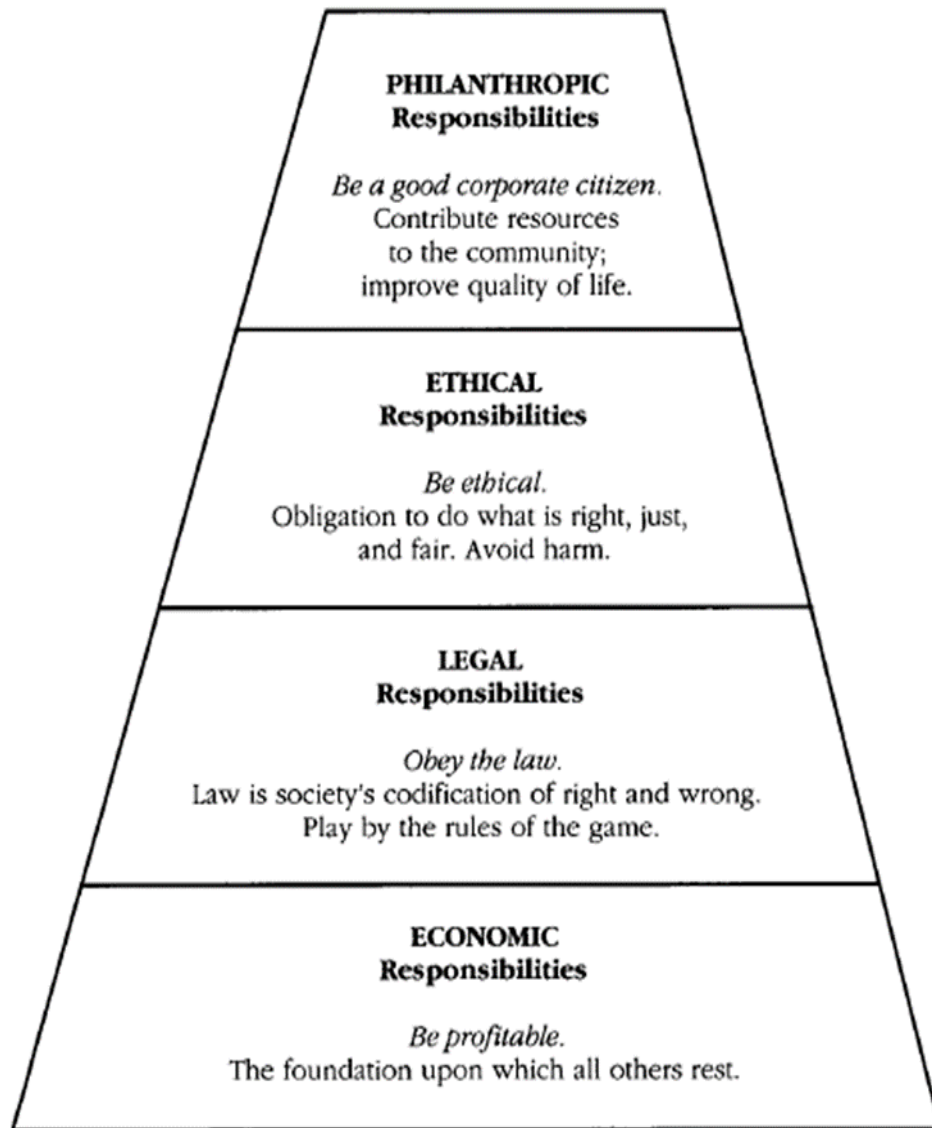
Carroll (1991, p. 40) revisited the four-part CSR definition, stating that:

For CSR to be accepted by the conscientious business person, it should be framed in such away that the entire range of business responsibilities is embraced. It is suggested here that four kinds of social responsibilities



constitute total CSR: economic, legal, ethical and philanthropic. Furthermore, these four categories or components of CSR might be depicted as a pyramid. To be sure, all of these kinds of responsibilities have always existed to some extent, but it has only been in recent years that ethical and philanthropic functions have taken a significant place.

The four categories to which he refers are shown in Figure 3.1. In addition, Carroll and Schwartz (2014) argued that the total of CSR equals the four parts of Carroll's definition. Dahlsrud (2008) also analysed the content of different CSR definitions and found that stakeholders, social, economic, voluntariness and environmental dimensions are the five most commonly applied in CSR analysis.



*Figure 3-1: Carroll's (1991) pyramid of CSR*

### 3.4 CSR Factors Contribute

The understanding of CSR is affected by numerous factors, for example culture, religion, regulation and different understandings of CSR in different context, particularly national interpretations (van der Laan Smith et al., 2005; Xiao et al., 2005), which underpins the rationale of this research to understand the meaning of CSR in Saudi Arabia. Similarly, Carroll and Schwartz (2014) argued the countries try to adopt CSR in a way appropriate to their culture and economics. Matten and Moon (2008) found national differences in CSR according to political, economic,

educational, and cultural systems, as well as the market processes (e.g. coordination and control systems) and the nature of firms themselves. For instance, differences in CSR in the US and Europe have been identified by many studies in terms of proclivities toward explicit and implicit CSR (respectively), conditioned by individualist self interest versus the role of collective institutions such as the family, church and state (Maignan and Ralston, 2002; Doh and Guay, 2006). In this regard, similarities have been discerned between CSR in Western Europe and in Korea, Russia, Eastern Europe and Taiwan.

### **3.4.1 Culture**

A unanimously acknowledged factor in CSR is the prevailing culture in which the organization operates. Wang and Juslin (2009) found that Western and Chinese cultural conceptions of CSR were incompatible, thus Western firms need a new definition for CSR when conducting activities in China. Ringov and Zollo (2007) also investigated the relationship between national cultures and the social and environmental performance of companies around the world and found lower levels of social and environmental performance in those companies based in countries with higher levels of power distance, individualism, masculinity and uncertainty avoidance. CSR is generally considered more important in cultures valuing institutional collectivism in the decision-making process (Williams, 2004; Waldman et al., 2006; Ho et al., 2012).

Furthermore, Haniffa and Cooke (2002, 2005) found a significant relationship between nationality (Malay directors and Malay shareholders) in terms of Corporate Social Disclosure (CSD) practice in annual reports, which was corroborated by the findings of van der Laan Smith et al. (2010), who concluded that investment behaviour

reflects national culture, which in turn affects stakeholder orientation and CSD. The CSR model developed by Maon et al. (2010) also points towards how moral, cultural, strategic and organizational factors interconnect in CSR development, and Qu and Leung (2006) found significant cultural impacts on CSR in China.

The framework found by Gray (1988) has consistently shown the impact of culture on accounting systems development internationally (Li and Harrison, 2010), and the framework of Johns et al. (2007) frameworks also showed how corporate stakeholders' culture impacts decision-making.

### **3.4.2 Regulation and Polices**

Regulation and polices are a major influencing factors in CSR in different countries according to many studies. For example, Williams (1999) argued that in seven Asia-Pacific nations (Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia) organizations' perceptions of the need for CSR disclosure was influenced and shaped by the socio-political and economic system, and their desire to achieve social expectations and avoid government regulation that may affect their own self-interests. Williams (2004) also found the relationship between the amount of corporate disclosure in the year 2000 and the level of political rights and civil liberties to have a strong positive association.

Furthermore, Williamson et al. (2006) showed that SMEs often do not undertake CSR because of market-dominated decision-making frames, which has important implications for CSR policy. The finding is consistent with previous studies such as that of Yu (2008), which found a positive relationship between improving labour standards and labour-related CSR policies in China.

In addition, Runhaar and Lafferty (2008) and Vilanova et al. (2009) showed that the UN Global Compact is one of factors that contributes to shape and implement CSR strategies and reporting. However, Weyzig (2009) saw increased in policies to develop CSR practice in some countries and suggested that the focus of CSR should not be on the contributions of business to broader goals and the behaviour of companies in their normal business operations. Furthermore, Arora and Dharwadkar (2011) also found a negative relationship between CSR and regulation. Furthermore, Christmann and Taylor (2006) showed that international certifiable management standards influence CSR as a governance mechanism for companies seeking certification (Sumiani et al., 2007). In addition, O'Dwyer and Owen (2005) also found the ACCA Environmental (now Sustainability) Awards Scheme shortlists effect better CSR practice.

### **3.4.3 Religion**

A number of studies have found that religion is a factor influencing CSR. Kamla et al. (2006) found that Islam in the Arab world promotes corporate social responsibility, and Lewis (2001) found that business ethics in the Middle East emerged from Islamic injunctions promoting honesty, fairness and equitable treatment. Islamic life in general has been seen as a form of accounting theory, and accountancy is particularly affected by core Islamic principles of transactions – the principal of social beneficence and the concept of full disclosure (Gambling and Karim, 1986, 1993). Maali et al. (2006) found that Muslims' perceived social obligations are heavily imbued with Islamic ethics, and the concept of accountability before a higher power has been identified as a factor causing religious individuals to have a stronger proclivity toward perceived social responsibilities (Brammer et al., 2007; Aribi and Gao, 2010). The greater focus on individual, personal responsibility in Islam as opposed to social/collective responsibilities in the execution of social responsibility activities was noted by

Brammer et al. (2007) and Williams and Zinkin (2010), and they observed that cadre of individual personnel imbued with such ethical standards could drive CSR enforcement at the organizational level.

A strong association between corporate environmental disclosure (CER) and Buddhism was identified by Du et al. (2014) in China, while Fernando and Jackson (2006) also found the religion influences leaders in decision-making and judgment concerning CSR in Sri Lanka. Quazi (2003) also found a significant relationship between religious identification and CSR perspective.

#### **3.4.4 Stakeholders and Governance Influence**

CSR is also influenced by different stakeholders. For example, Waldman et al. (2006) found that CEO leadership drive the decision making of, and van der Laan Smith et al. (2005) also found that companies in countries with stakeholders orientation are more likely to consider social issues and have higher level and quality of CSR reporting than companies in countries with low stakeholders orientation. However, Arora and Dharwadkar (2011) also suggest that relationship management of proactive stakeholders discourages positive CSR. Ownership type, firm size, profitability, employee power, leverage, and growth opportunities affect CSR in China (Prior et al., 2008; Reverie, 2009; Li and Zhang, 2010).

Furthermore, governance characteristics, including institutional ownership, analyst following, and board independence in assessing CSR, and CSR engagement positively influence operating performance and firm value (Neu et al., 1998; Wahyuni et al., 2009; Harjoto and Jo, 2011; Frias-Aceituno et al., 2013). However, Oh et al. (2011) argued that the impacts were different based of ownership factors, corroborating the

conclusion of Ghazali (2007), who found a positive relationship between firm management by owners having higher value and lower CSR information disclose.

Haniffa and Cooke (2002) studied the two corporate governance variables domination of family members on boards and chair being a non-executive director, finding that these variables were significant in assessing the extent of voluntary disclosure. Also Bear et al. (2010) found that gender diversity in boards positively affected CSR. In contrast, Pedersen (2010) argued managers perceived the CSR differently from how they are claimed to in business ethics literature; in addition, Hemingway and Maclagan (2004) found that individual managers effected CSR, and Godfrey et al. (2009) suggest that managers can create and protect their shareholders' value by driving CSR.

According to Alniacik et al. (2011), the impact of positive CSR information in firms help to enhances potential employee performance and product quality, which was also mentioned by other studies (Mohr and Webb, 2005; Lee et al., 2012). Dawkins and Lewis (2003) argued that increasing CSR awareness engages a wide range of stakeholders, including legislators and investors, consumers and employees. In addition, Edgley et al. (2015) found a significant influence of stakeholder characteristics and engagement on Social and Environmental Reporting (SER) and SER Assurance (SERA). Sparkes and Cowton (2004) attributed such relationships to the significant pressure exerted by stakeholders in favour of socially responsible investment (SRI) by adopting CSR practices (Friedman and Miles, 2001; Hockerts and Moir, 2004). In addition, Loannou and Serafeim (2015) argued that companies with diligent CSR practice are viewed more optimistically by investors in the long term (Arya and Zhang, 2009).

Adams (2002) illustrated the factors influencing CSR (Figure 3.2) based on research conducted for UK and German listed firms, which shows the influence of each kind of CSR reporting. The source of influence is categorized as the internal context, alongside general contextual factors and corporate characteristics.

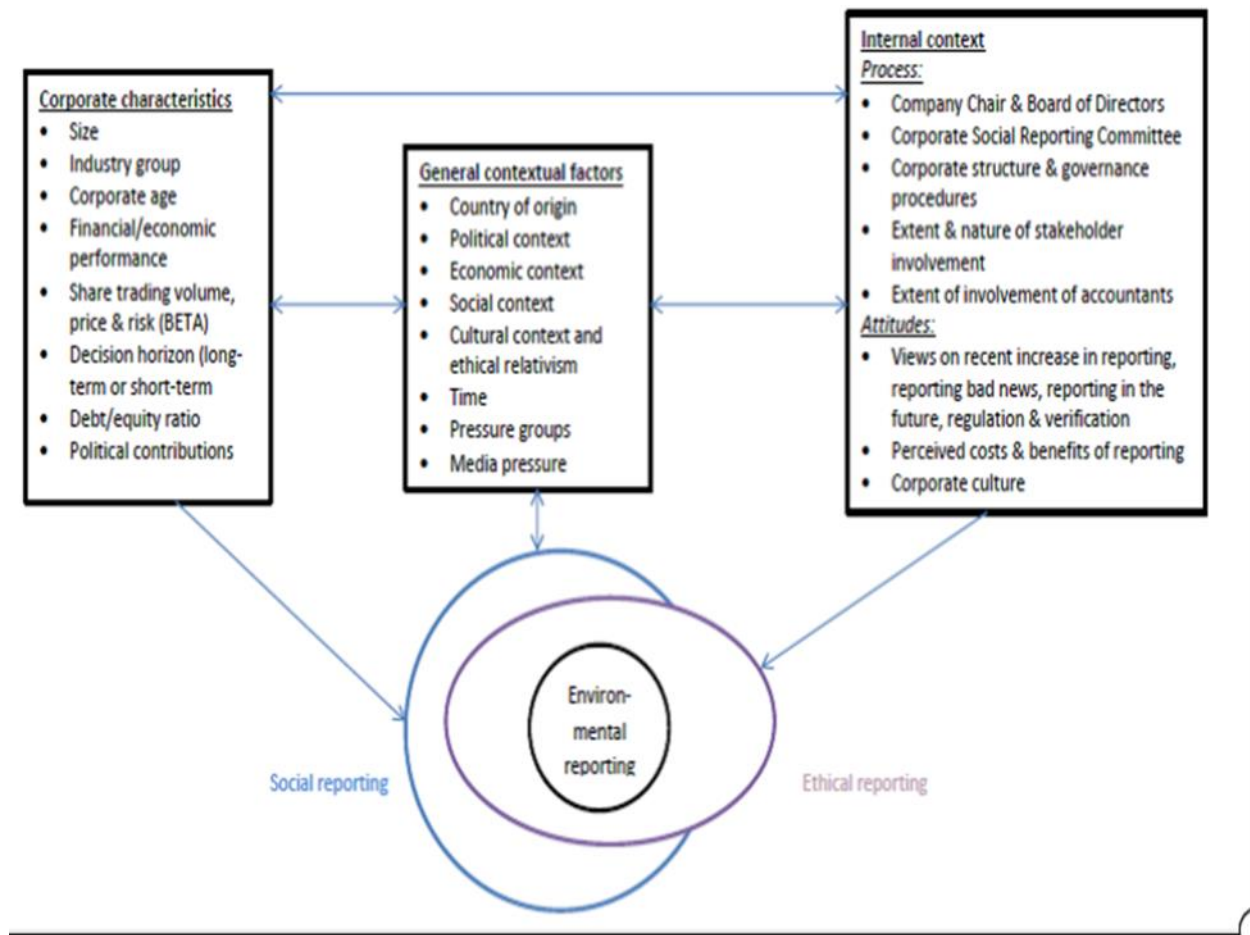


Figure 3-2: Adams's model (2002)

### 3.5 Importance and Motivation of CSR

Having explained the definition and development of the CSR concept mainly in theoretical terms, this section explains its practical importance. Gray et al. (2014) argued that the significance of CSR is derived from the two critical principles of



accountability and sustainability. Accountability was defined as the responsibility of providing information for those with a right to it, due to the power entrusted to individuals or organizations in handling resources, people and communities. Sustainability is related to the long-term survival of the organization and its operations relative to the economic, social and ecological context in which it operates.

Sustainability has become increasingly important due to general political impetus, largely due climate change and general environmental degradation due to unsustainable economic development worldwide. Solomon and Solomon (2002) identified that short-term profits can still be made while ignoring sustainability, but this is no longer a viable *modus operandi* for modern business operations. Conversely, business has come to be a central actor in socio-economic development strategies, due to the inclusion of social justice as a dimension of sustainability, entailing the adoption of social accounting in public service organisations and ultimately across all firms (Ball and Seal, 2005). However, it is not a bureaucratic or legislative impetus driving CSR adoption, rather market forces have induced this change due to changing social attitudes and consumer preferences (in addition to forestalling unwelcome government regulation); for instance, in a survey of 140 US companies, PriceWaterhouseCooper (PWC, 2002) found that the top six reasons that encourage businesses to practice sustainability were enhanced reputation, competitive advantages, cost savings, industry trends, CEO/board commitment and customer demand. The main challenges to practicing sustainability were not having a clear business case for its adoption, a lack of key stakeholder interest, and a lack of senior management commitment.

A critical examination demonstrates that development of accounting for, and reporting on, the social obligations and role of firms in a more socially sustainable future (Ball

and Seal, 2005). Indeed, as Bebbington argued (2001, p. 136), “the moral imperative of sustainable development (SD) is focussed on the achievement of social justice for the very poorest occupants of the planet”. Moreover, increasing societal awareness of environmental issues has made social accounting in this regard a central concern of brand image considerations (Solomon, 2014). However, it is increasing realisation of the economic advantages of CSR for financial performance in and of itself that has really secured its widespread adoption (Cochran and Wood, 1984; Aupperle et al., 1985; McGuire et al., 1988; Waddock and Graves, 1997), therefore CSR “has the potential to play a crucially important part of civilized intercourse on a planetary scale. It is difficult to think of anything much more important than that” (Gray et al., 2014).

Ball and Seal (2005) argued that social accounting invokes notions of community, shared social values, and fairness in the distribution of social resources; the overarching theme of social accounting is the socio-economic context in which firms operate (Gray et al., 2014), and in which they exert tangible impacts quite apart from their internal economic considerations:

The statutory and political roles of many public service organisations, particularly local government authorities, mean that, unlike companies in a traditional *laissez faire* capitalist society, it is impossible for these organisations to avoid engaging with issues of social justice. Although their role has been progressively diminished under neoliberal policies since the 1970s, local authorities in England for example have been central to the delivery of education and social services, and in responding to wider social crises such as race riots (Ball and Seal, 2005).

Today’s organisations are increasingly open to pressures to be more socially and environmentally responsible in terms of how they conduct their business. Accounting

and reporting on social and environmental aspects has become common practice for most leading organisations (KPMG, 2011). 'Being and acting' towards sustainable development, at least as defined by many organisations, has been elevated to a higher tier of managerial concerns, and nowadays sustainability issues appear to be a core part of an organisation's strategic concerns (Contrafatto and Burns,2013), usually embedded in their vision/ mission statement and goals; this reflects the ubiquitous adoption of CSR in developed countries due to the overwhelming business case and the 10 discernible benefits accrued from CSR as identified by Simply CSR (2015):

1. Win new business.
2. Increase customer retention.
3. Develop and enhance relationships with customers, suppliers and networks.
4. Attract, retain and maintain a happy workforce and be an employer of choice.
5. Save money on energy and operating costs and manage risk.
6. Differentiation from competitors.
7. Generate innovation and learning and enhance influence.
8. Improve business reputation and standing.
9. Provide access to investment and funding opportunities.
10. Generate positive publicity and media opportunities due to media interest in ethical business activities.

This essentially brings together the findings of many previous studies. For instance, Kotler and Lee (2005) focused on CSR benefits to firms such as enhanced market share and increased sales; enhance corporate image and brand loyalty; increased motivation and retention of employees; increased the ability of investing in their firms; and reduced operational costs. In addition, Alniacik et al. (2010) also found that CSR

increases consumer intention to buy, employee loyalty and investor interest, corroborating previous studies (Du et al., 2007, 2010; Fombrun et al. 2000; Fombrun, 2005).

### **3.6 CSR Challenges and Obstacles**

Despite these widely acknowledged intrinsic advantages of CSR, including in terms of tradition parameters such as long-term profitability and improved branding, many challenges and obstacles still prevent firms from practicing and implementing CSR in their strategy in both developed and developing countries. For instance, Du et al. (2010) and Perrini (2006) found there is still low awareness among stakeholders of the benefits of CSR for companies, and SMEs in particular need to more information to support CSR adoption (Vives, 2006).

Furthermore, Ciliberti et al. (2008) concluded that the challenges and obstacles faced by companies in developing countries are different due to cultural reasons pertaining to corruption, low customer interest, and company headquarters being remote from the place of operating. Santos (2011) identified more general obstacles to CSR adoption by SMEs as a lack of resources (time and financial), public support, information and relationship with existing company activities; as Welford and Frost (2006) noted, larger firms can better afford CSR adoption and to take perceived risks to that effect. Similarly, Hamn et al. (2005) found that obstacles faced the South African firms were lack of information, communication gaps, and skills transfer. In contrast, Dahlsrud (2008) argued that it is up to organizations themselves to socially construct and implement an appropriate CSR strategy.

In a developing country context, Belal and Cooper (2011) suggested that the main reasons companies in Bangladesh to do not disclose CSR information is a lack of

resources, the profit imperative, lack of legal requirements, lack of knowledge/ awareness, poor performance and the fear of bad publicity.

### **3.7 Corporate Social Responsibility Disclosure**

#### **3.7.1 Definition and Development**

One of the earliest definitions of CSR was given by Elias and Epstein (1975, p. 36) who defined it as “reporting on specific aspects of how a business organization is doing in terms of the social activities it is involved in, its economic performance and the impact thereof”. To Solomon (2005), CSR reporting is the desire to maintain a reputation by showing both shareholders and society at large that an organization is operating in a way that is both environment-friendly and sustainable, proving to all concerned parties that the firm employs systems that ensure compliance with business and societal expectations/ requirements. In addition, Patten (1991) also found a significant relationship between the level of CSR disclosure and the public pressure variables.

Furthermore, Adams and Harte (2000) showed the disclosure of CSR are more as lighting and leader to firms to changes to adopting the CSR in their strategy and be aware of it. Mathews (1993, p. 64) further explained CSR as the “voluntary disclosures of information, both qualitative and quantitative, made by organizations to inform or influence a range of audiences. The quantitative disclosures may be in financial or non-financial terms“. Social accounting concerning aspects such as employees, products, community service and the prevention or reduction of pollution was described by Mathews and Perera (1995, p. 364) as:

“At the very least... an extension of disclosure into non-traditional areas such as providing information about employees, products, community

service and the prevention or reduction of pollution. However, the term ‘social accounting’ is also used to describe a comprehensive form of accounting which takes into account externalities. Public sector organisations may also be evaluated in this way, although most writers on the subject of social accounting appear to be concerned with private sector organisations”.

Gray and Bebbington (2001, p. 6) also supported this view, arguing that “it can be taken as covering all areas of accounting that may be affected by business responses to environmental issues, including new areas of eco-accounting”. McWilliams and Siegel (2001, p. 117) stated that CSR was represented by “actions that appear to further some social good, beyond the interests of the firm and that which is required by law”.

According to Solomon and Lewis (2002), incentives for corporate environmental reporting fall loosely under four categories: incentives are a response to market, social, political and accountability imperatives. As such, pertinent reporting is based on these imperatives, which are derived from the perspectives held by different sectors of society, who require information for decision-making. However, Williamson (1997) argued that “Disclosure of information can only have limited effect... because the likelihood of it leading to action depends on the ability of others to use information in forums in which they have a legitimate voice” (p. 160). Edgley et al. (2015) also found the need to increase disclosure and debate to motivate and improve the quality of SERA.

Notwithstanding the overwhelming support for CSR dissemination to the public (Mohr et al., 2001), Schlegelmilch and Pollach (2005) advise caution, as corporate social reporting can become a reason why some stakeholders may begin to distrust an

organization. However, Cooper and Owen (2007) argued the social and environmental information disclosure would be more effective if it was voluntary, and be more ineffective if mandatory. They also could not see it as an accountability exercise. However, Lehman (1999) argued environment accounting is about narrating how reporting entities affect nature not rather than about putting a number on normative issues. Furthermore, Dhaliwal et al. (2011) found potential benefits such as a reduction in the cost of equity capital due to CSR disclosure. However, Sikka (2013) argued that corporation disclosing CSR reports for remove the public anxieties but that not always line with their tax practices.

Traditionally, firms have used annual reports as their primary communication channel (Gray et al., 1995a). Bowman and Haire (1976) argued that annual reports can be used and to indicate of level of CSR. While this is still an imperative for most companies, evidence shows that more and more firms are using alternative ways to inform stakeholders about their commitment to CSR, including company websites, interim reports, press releases and newspaper advertisements. Nonetheless, Adams et al. (1998) argue that the issuance of annual reports is still the preferred way for companies to inform their shareholders. Most CSR disclosure takes place via annual reports (O'Dwyer, 2003), which can also be put online where all stakeholders can access them (de Bussy et al., 2003).

This explains why organizations still bank on annual reports to portray a positive corporate image in the eyes of consumers and other stakeholders (Sweeney and Coughlan, 2008), and websites provide an important interface in this regard (Maignan and Ralston, 2002; Frost et al., 2005; Wanderley et al., 2008; Rowbottom and Lymer,

2009). However, Williams and Pei (1999) found that companies in Australia and Singapore release CSR information more on their websites than in annual reports.

### **3.7.2 CSR Practice**

#### *3.7.2.1 CSR practices in developed countries*

Several studies in developed countries have examined the content of annual reports for CSR disclosure. Ernst and Ernst (1978) for instance examined social and environmental information disclosed by Fortune 500 companies' annual reports between 1972 and 1978. They observed that 388 companies disclosed environmental-related information, 387 companies disclosed fair business practices information, 361 companies had disclosures of community-related information, 333 companies had disclosures in energy information, 302 companies disclosed human resources information, 184 companies in product information and 120 companies had disclosures about other CSR information issues. Guthrie and Parker (1990) also examined 150 companies' annual reports in the UK, the US and Australia using content analysis method. They found that 98% of UK, 85% of US and 56% of Australian companies made CSR disclosure covering the subjects community, environment, human resources, products and energy issues.

Some studies took samples based on assurance statements to analyse CSR practice (e.g. Ball et al., 2000; O'Dwyer and Owen, 2005). A 2011 survey by KPMG showed that the number of companies accounting and reporting on social issues had risen significantly in comparison to an earlier CSR survey by the same organization (KPMG, 2011). The survey showed that 95% of the 250 largest companies in the world were actively reporting their CSR activities, which represented an increase of 14% compared to results of their 2008 survey. The report also showed that 61% of



companies in the Middle East and Africa currently disclose CSR to the public. A noteworthy observation was that 68% of the Chemicals and Synthetics companies reported an average increase of 6% in their CSR activities (see for example Guthrie and Mathews, 1985; Cowen, Ferrari, and Parker, 1987; Tinker and Neimark, 1987; Harte and Owen, 1991; Roberts, 1991; Adams, Coutts, and Harte, 1995; Gray et al., 1995a; Gray, Kouhy, and Lavers, 1995b; Gamble et al., 1996; Hackston and Milne, 1996; Adams, Hill, and Roberts, 1998; Buhr, 1998; O'Dwyer, 1999; Unerman, 2000; Adams and Laing, 2000; Campbell, 2000; Lodhia, 1999; Wilmshurst and Frost, 2000; Nielsen and Thomsen, 2007; Holder-Webb et al., 2009; Waller and Lanis, 2009).

De Villiers and Alexander (2014) compared CSR reporting structure and practice between Australian and South African firms, identifying similarities in the level and structure of CSRR in the two countries. Perrini (2005) also investigated the major categories of CSR information most disclosed among European firms and found them to concern skills development, environmental protection, quality and innovation, operational efficiency, responsible citizenship, open dialogue and maximum safety. Bouten et al. (2011) also found a low level of comprehensive reporting in CSR by Belgian companies in 2005 based on content analysis with comprehensive reporting frameworks.

### *3.7.2.2 CSR practices in developing countries*

CSR disclosure has been examined in developing countries by several researchers. Rahman Belal (2001) examined the CSR disclosure of annual reports in Bangladesh of 30 listed companies, observing that 97% of companies had some CSR disclosure, albeit of a low volume. Furthermore, Ahmad et al. (2003) showed the extent of CSR disclosures in Malaysia in annual reports of 98 firms listed on the Kuala Lumpur Stock

Exchange (KLSE). They found that 84% of companies disclosed CSR information, but Jamil et al. (2002) considered CSR disclosure by Malaysian firms to be inferior compared to similar economies. Moreover, Andrew et al. (1989) examined the CSR practices in Malaysia and Singapore and found them not to be as extensive as in Western countries. Thompson and Zakaria (2004) suggested that the reasons for the low level of CSR disclosure in Malaysia were the lack of perceived potential benefit, public pressure and government interest.

Kamila (2007) found that companies in the Arab world have higher levels of disclosure related to customer information, which she attributed to the development of the private sector and market liberalization in the Arab world. However, she found the level of environmental information disclosure in Arab companies to be lower than in the UK. In addition, Abu Baker and Naser (2000) also examine 143 annual reports of listed companies in Jordan and found that the extent of disclosure in CSR in Jordan was low, consistent with a study of Bangladeshi firms by Momin and Parker (2013).

Moreover, a comparison study in the level of CSR disclosure between Islamic and conventional financial institutions in developing countries in the GCC by Aribi and Gao (2010) found that Islamic institutions disclosed more than conventional financial institutions. While Imam (2000) found that the level of CSR disclosure in listed companies in Bangladesh, a developing country, was below what would be expected according to international trends, a more recent study by Masud et al., (2012) among commercial banks in Bangladesh found that 100% of banks reported CSR activities, but less than 60% considered this part of their financial accountability.

In both cases market factors are an implicit motivator for CSR disclosure – in the case of Islamic financial institutions in the GCC for instance their perceived lower

profitability relative to conventional (interest-based) firms is buffered by their claims of religious (ethical) responsibility (Aribi and Gao, 2010), while the ethical pretensions of microcredit by the Grameen Bank and others in Bangladesh have made CSR a conventional trapping of the financial industry there (Masud et al., 2012).

### **3.8 The Literature of CSR in Saudi Arabia**

This section presents existing research studies conducted on CSR in Saudi Arabia. Gravem (2010) answered the question “Is the term CSR understood the same way in Saudi Arabia as in international CSR discourse?” and concluded that Saudi Arabian CSR efforts were congruent with international theories and practices, but it was noted that Saudi firms were likely to focus on immediate social problems rather than on developing human and social capital in the long term. Furthermore, international discourse emphasizes steps to improve the enforcement on human rights, labour rights, the environment and anti-corruption, which are not part of mainstream political (and certainly not corporate) discourse in Saudi Arabia.

Mandurah et al. (2012) observed that the concept of CSR is still relatively new in KSA and its practice still going through its early stages of development, in tandem with the growth of private enterprises and the private sector generally in the country. This naturally leads to the conclusion that the strategic role of CSR as a tool for achieving a company’s long-term objectives has yet to be fully appreciated. Limited research and the resultant scarcity of literature on the subject compounds this problem. In conformity with the country’s culture and religion, some people view CSR as an individual’s predisposition to dispense favours to the less privileged. The underlying ethos of CSR in Saudi Arabia is that it has a philanthropic/ altruistic nature (Mandurah et al., 2012). As society’s less privileged tend to hail philanthropic overtures, some

organizations may use philanthropy-based CSR for propagandistic reasons.

Consistent with Mandurah et al. (2012), Khan et al. (2013) also found and that CSR concept in Saudi Arabia is in its infancy, and they identified religion and culture as the predominant features of CSR and its adoption. Tamkeen (2010) identified the government and regulatory framework as challenges for implementing the CSR in KSA, along with a general lack of awareness among the government and media (Tamkeen, 2010). Due to this lack of awareness of the conceptualization of CSR, in earlier work Tamkeen (2007) noted that the level of CSR reporting does not represent the extent of engagement by Saudi firms with social issues that would otherwise be considered CSR, which presents an artificially negative impression of the *de facto* CSR achievements of Saudi companies. This partly relates to the taboo of disclosing altruistic activities; although Islam enjoins both secret and public almsgiving, the latter is culturally stigmatized (contrary to Islamic doctrine) as *parvenu* (Alfakhri, 2014).

On the internal organizational level, Alsaif (2015) examined the relationship between strategic quality management and CSR in Saudi companies and found that they are interrelated and both are important concepts. Khurshid et al. (2013) studied the level of awareness of CSR based on the Carroll's (1979) four CSR dimensions among MBA students in Saudi Arabia and found varying levels of awareness (Khurshid et al., 2013). At the regional level, Khan (2008, cited in Mandurah et al., 2012) considered that firms in GCC countries could more actively be made to implement CSR if the region's governments were to institute policies that coax them into doing so. This would increase their participation in developmental activities of public good, such as funding housing, education and environmental protection projects. He bemoaned the seemingly widespread acceptance by governments in the region that social-

development issues, such as housing and education, are the sole responsibility of government with little need, if any, for private-sector involvement. As a solution, Khan suggested three ways GCC firms can be coaxed into enacting CSR.

The first of these is the approach called public-private-partnership (PPP), which entails the government and the private sector teaming up, as in the case of the Tameer Group, which has initiated a large-scale project of developing an entire city (Al Salam City) in the Emirate of Umm Al Quwain (UAQ). The second way is the provision of incentives to deserving corporations, such as awards for best CSR performance during a particular year, or preferential treatment of some sort as a token of appreciation, such as tax breaks. The third approach is the creation of reasons for corporations to engage in socially desirable activities and projects, such as building or patronizing schools, colleges, and vocational training facilities.

Katsioloudes and Brodtkorb (2007) noted that corporate managers are amply aware of the importance of CSR and firms are more sensitive toward community affairs, consumers, and environment in the UAE, which has always pioneered the adoption of foreign ideas in the GCC. Nevertheless, at the regional level, GCC managers seemed to be scarcely knowledgeable about CSR and thus exercised more passivity towards it than their counterparts in Europe and America. Consequently, countries in the region lacked clear CSR policies and practices, so they simply relied on complying with pertinent laws. The same study also revealed that UAE firms found it difficult to engage in formulating CSR policies and practices because of concerns about meeting international standards. To promote greater dialog regarding CSR, a series of training seminars were conducted by the Dubai Ethics Resource Centre with the aim of training

business professionals in how to manage CSR strategies and related programs, as well as setting up required infrastructure.

As noted by Tamkeen (2010) and highlighted by Ali and Al-Ali (2012), CSR awareness is increasing in Saudi Arabia and the legislative environment fostered by the government in intended to stimulate the private sector is conducive to CSR adoption. Furthermore, Alotaibi and Hussainey (2016) found positive relationship between Saudi listed firms' value and CSR disclosure quantity and quality.

### **3.9 Summary**

This chapter presents the literature review and began with discussed the concept of CSR including a brief of social accounting, development and definition of CSR.

Then, the CSR factors contribute been discussed including: culture; regulation and polices; religion and stakeholders and governance influence. It also covered the importance and motivation of CSR; and the CSR challenges and obstacles. The CSR disclosure discussed definition and development, and present CSR practices in developed and developing countries. The final section was covered the literature of CSR in Saudi Arabia.

*Introduction*

*Stakeholder Theory*

*Legitimacy Theory*

*Accountability Theory*

*Summary*

## 4 THE CSR THEORIES

### 4.1 Introduction

As explored previously, CSR is interpreted in many ways by different authors and theories that attempt to explain what it is are just as diverse. Analysing CSR theories themselves, Garriga and Melé (2004) identified four categories: instrumental, political, integrative and ethical theories.

**Instrumental theory** postulates that corporations are mere instruments for the creation of wealth. Examples of theoretical approaches pertaining to category include Friedman's shareholder theory (Freidman, 1962); the strategic approach advocated by researchers such as Prahalad and Hammond (2002); and the Hart (1995) resource-based approach.

**Political theory** focuses on the influence that corporations have on the political system of the country or region in which they operate. Proponents of this theory include David (1960), who advocated corporate constitutionalism; and Matten and Crane (2005), who advocated Corporate Citizenship, a theory that seeks to explain why corporations need to act as responsible citizens of the community where they reside and conduct their businesses.

As its name suggests, **integrative theory** promotes the integration of societal concerns and demands into a corporation's business strategies and processes. One of the pioneers of this theory was Selznik (1957), who advocated community obligation as a business-success imperative. More recent theorists falling under this category include Jones (1980), with his social obligation approach, and Wood (1991), who argues that corporations must perform well on societal-obligation metrics if they are to succeed.



**Ethics-based theory** advocates ethical responsibilities of corporations towards society. Modern theorists supportive of this school of thought include Hancock (2004) and Pettit (2005), who have made noteworthy contributions to the understanding of CSR in modern times. It is also worth mentioning in this category the normative approach advocated by Epstein (1987) and Smith (2003).

Of the many other theories existing today, three are more widely accepted and are pertinent to this research: stakeholder, legitimacy and accountability theories. This chapter presents the development and definition of these theories.

## **4.2 Stakeholder Theory**

Given the amount of attention and interest it has been receiving in recent years, particularly in the area of business ethics, stakeholder theory is arguably the most important CSR theory of today. The theory is grounded on paying due attention to the needs, rights and interests of multiple stakeholders and seeking effective ways of meeting those needs, rights and interests. Common ways of achieving this include appropriate public and economic policy formulation and the mapping out of supportive corporate strategies (Greenwood, 2001; Dawkins and Lewis, 2003; Maignan and Ferrell, 2004).

As implied above, issues such as economic policies and corporate strategies form the backbone of stakeholder theory. Nevertheless, the analysis of these issues requires the consideration of many pertinent aspects, such that the use of an appropriate framework becomes imperative. To be effective, a framework developed for such purposes must be based on the promotion of a healthy socio-economic relationship between business management and all other stakeholders (Clarkson, 1995). The other stakeholders referred to above are those that Freeman (1984, 2010) defines as groups or individuals

who can either affect or be affected by the actions and activities carried out to achieve an organisation's mission; they are people who have a stake in what the organisation is doing.

A stake is an interest, claim or expectation that a group or individual has from the outcome of an organisation's procedures, policies or actions, based on legal, economic, social, moral, ecological, technological, political or power considerations (Carroll, 1989). Stakeholders can therefore be customers, employees, shareholders, suppliers, creditors, public interest groups and government bodies (Roberts, 1992). The term 'stakeholder' is so broad in meaning that it can even include non-human life (flora and fauna) as well as future (as yet unknown) generations (Gray et al., 1996), and indeed CSR is increasingly seen in this regard, particularly as it pertains to environmental sustainability.

Freeman's (2010) definition of a stakeholder implies that all stakeholders can have a determinant effect on the organisation; therefore, they must be considered on an equal footing. However, most authors on strategic management seem to be of the view that greater attention should be paid to those stakeholders who wield the most power to change the organisation's direction. Naturally, organisations tend to be more sensitive to the interests of such stakeholders, as instrumental personnel are directly accountable to them. However, focusing only on these types of stakeholders (commonly referred to as effective stakeholders) to the exclusion of others may be counterproductive in the long run for all parties; good strategic managers are thus those who are aware of the need to give due regard to all stakeholders. As Solomon (2014, p. 15) puts it, stakeholder theory may be viewed as a "conceptual cocktail, concocted from a variety of disciplines and producing a blend of appealing sociological and organizational

flavours”. In this regard, Solomon (2014) sees CSR as becoming an increasingly major concern for companies in today’s political and social climate, noting that social and environment lobby groups are relentlessly pressuring companies to improve their attitudes towards stakeholders by acting in a socially responsible manner. In addition, Clarkson (1995) argued that when businesses and managers take and accept responsibilities and meet their obligations to their stakeholders, this means that they have moral principles and uphold an ethical performance.

Gray et al. (1995a) considered stakeholder theory to typify the view that organisations are primarily concerned with “developing and evaluating the approval of corporate strategic decisions by groups whose support is required for the corporation to continue to exist” (Roberts, 1992, p. 597). In this regard, therefore, stakeholder theory “is concerned typically with how the organisation manages its stakeholders” (Gray et al., 1997, p. 333) (see also Roberts, 1992; Donaldson and Preston, 1995; Freeman, 2010, 1984).

Using this perspective, CSR encompasses what external stakeholders and the organisation itself expect from each other (Gray et al., 1995a). It is this expectation that prompts business managers to keep engaging with their firm’s stakeholders in a bid to secure the latter’s support and approval (Adler and Milne, 1997). Agreeing with this standpoint, Swift et al. (2001, p. 17) assert that “the issue comes down to how the organisation views and treats its stakeholders. As the need to keep employees, customers and investors on board increases, corporate social reporting is one way of engaging with them”.

Studying elements of CSR disclosure, Roberts (1992) observed that stakeholders were greatly attracted to the idea of being able to peruse and analyse corporate decisions;

he found this to be positive. However, Gray et al. (1992) posited that mandatory disclosure might encourage firms to disseminate information that is tailor-made to give an impression of legitimacy in the eyes of stakeholders, which is a major downside. He further argued that the stakeholder theory pays little attention to how the firm operates, which leads to a focus on conventional company interest (i.e. short-term profitability). In this regard, Gray et al. (1997, p. 333) noted that:

A social account based on the stakeholder perspective has social value if we assume the beneficence of the organization and further assume that the stakeholders' needs can be subsumed morally with those of the organization... if we assume this, then 'market forces' will generally produce the sort of voluntary social and environmental disclosure we currently see.

The stakeholder theory seems to explain the relationship between stakeholders and the organisation better than any other theories (Key, 1999). A major drawback of the stakeholder theory, however, is that it fails to shed enough light on how firms can avoid paying too much attention to the most influential stakeholders while ignoring less powerful stakeholders in the process.

The fact that corporate decision makers are free to choose what kind of information to disseminate and when is a major limitation, but it does not seriously diminish the usefulness of the theory since, in the opinion of Gray et al. (1997, p. 333), "it defines the influencing/influenced groups for us and explicitly defines what accountability the organization itself is willing to recognize and discharge", which in itself is a positive thing.

Regarding the needs of reporting to the stakeholder, AccountAbility (1999, p. 7) concluded the following:

Inclusivity concerns the reflection at all stages of the . . . reporting process over time of the aspirations and needs of all stakeholder groups – those groups who affect and/or are affected by the organisation and its activities. Furthermore, the corporate responsibilities should be accepted by all stakeholders, if businesses are honest and unbiased among all stakeholders (Unerman and Bennett, 2004). Unerman and Bennett (2004) concurred with Clarkson’s (1995) findings, and conclude that stakeholders and their claim let corporate managers think of CSR. These results showed that stakeholders are one of the main players in corporate responsibility. In addition, Lee (2011) later argued that “CSR is not really a product of an individual firm’s strategic decision, but an outcome based on an amalgam of institutional, stakeholder, and firm interactions”.

Moreover, Brown and Forster (2013) argued that businesses should evaluate any claims of stakeholders, and take the right approach in dealing with them, while ensuring that no harm is done to other stakeholders. Similarly, Harrison et al. (2010) concluded that businesses must find a way to solve the conflict of stakeholders’ interests which at the same time addresses the needs of the broader group of stakeholders, and ensures that the correct solutions have been implemented to maintain the value of each stakeholder, or create more for each group.

In addition, the above arguments are in line with Clarkson (1995) who postulated that the purpose business is to create and raise wealth and value (share price, dividends, or profits) and to ensure that any profit is disseminated equally to all its primary stakeholders, not to some at the expense of other stakeholders. Business directors are not responsible to increase the shareholders’ return at the other expense of the primary stakeholder groups; they are accountable to the primary stakeholder groups.

Orts and Strudler (2002), however, argued that stakeholder theory is based on the human interests in businesses and that some of the topics contained within the broader construct of ethical principles are difficult for managers to deal with. This is particularly the case with those principles that do not directly involve human beings such as the natural environment. They suggest that in this context, managers' decision-making must take into consideration the values for these topics that cannot be evaluated by stakeholder theory.

### **4.3 Legitimacy Theory**

For the purpose of this discussion, first, the term legitimacy is defined in the Oxford dictionary as the “ability to be defended with logic or justification; validity”. Legitimacy in the context of the organisation has been defined by Lindblom (1994, p .2) as:

A condition or status which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value system, there is a threat to the entity's legitimacy.

Deegan (2006) classified the legitimacy theory as a positive theory which seeks to describe or explain corporate behaviour (in terms of efforts made to appear legitimate), rather than prescribing how organisation should behave (which is the role of a normative theory of corporate conduct).

The legitimacy theory states that CSR is the result of different environmental pressures including economic, social and political forces. Legitimacy means the extent to which firms conduct their operations within legislative and social expectations and the proportionality of resources consumed relative to social benefits. Advocates of the legitimacy theory posit that if a company wants its business performance to experience sustained improvements, then it must continually be involved in socially responsible activities. Shocker and Sethi (1973, p. 97) contend that:

Any social institution - and business is no exception - operates in a society via a social contract, expressed or implied, whereby its survival and growth are based on: the delivery of some socially desirable ends to society in general, and the distribution of economic, social, or political benefits to groups from which it derives its power.

If an organisation wants “to perpetuate its existence” (i.e. survive over the long term with sustainable economic growth) then it “must operate within societal bounds and norms” (Brown and Deegan, 1998, p. 22). It must be borne in mind, however, that the norms and bounds imposed by society are dynamic and change with time, and it is imperative that the firm keep itself abreast of these changes and respond to them promptly if it is to remain a relevant and socially responsible corporate citizen. It has long been acknowledged that the value that society places on a company’s social activities affects its operational and disclosure processes (Dowling and Pfeffer, 1975; Heard and Bolce, 1981; Guthrie and Parker, 1989; Lehman, 1992; Gray et al., 1995a) yet despite this stakeholders (e.g., principals, agents and governments) continued to prioritise economic performance as the decisive index of business legitimacy until well into the 1990s even in developed countries (Abbott and Monsen, 1979; Patten, 1991, 1992).

Furthermore, Suchman (1995, p. 578) defined legitimacy as

a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions. . . . Thus, constituents are likely to accord legitimacy to those organizations that “have our best interests at heart,” that “share our values,” or that are “honest,” “trustworthy,” “decent,” and “wise” (p. 578).

Today it is accepted that consumers and society in general have higher regard for firms if they do all they can to repair or prevent damage to the physical environment, so that the health and safety of consumers, employees and communities are safeguarded (Tinker and Niemark, 1987). According to legitimacy theory, business organisations no longer have to consider only investor interests, but also the rights of the public at large. If a firm does not operate and run its business within the confines of behavioural norms deemed appropriate by society, its very existence will be in jeopardy. In addition, Woolfson and Beck (2005) stated that the companies’ actions and communications can affect their legitimacy that may lead to gain or loss - it is difficult for a company to employ legitimacy. This shows that companies need to maintain their legitimacy and Friedman (1962) argued that “there is one and only one social responsibility of business –to use its resources . . . to increase its profits” (p. 133).

Gray et al. (2014) argued the organisations could not continue to exist if the relevant public did not perceive that organisation as legitimate. Lindbloms (1994) identified four broad legitimacy strategies for organisations to employ when facing legitimacy threats, and to regain their legitimacy in the eyes of society:



- The first strategy is to educate society to change the organisation's intention among its stakeholders to improve its performance.
- The second strategy is to change the perception of stakeholders towards the organisation action(s).
- The third strategy is to distract society's attention to other alternative issues and away from the issue concerning legitimacy..
- The fourth strategy is to change the expectations of society toward the organisation's performance.

According to Waddock and Boyle (1995, cited in Jenkins, 2004) legitimacy theory is based on considering perceptions that determine the strategies which business organisations use to prove to society that their firms are conducting their operations in a socially responsible manner. Equipped with pertinent information, firms disclose as much CSR information as they deem necessary to legitimise their existence in the public eye (Guthrie and Parker, 1989). Patten (1991) examined the pressure on the companies in social disclosure and found the public-pressure was more effective than firm profitability. The bottom line is that a firm needs to defend its continued survival by legitimising its actions (Guthrie and Parker, 1989).

Based on the above discussion, legitimacy theory explains why organisations must disseminate information to the community (Kokubu et al., 1994) and why they need to legitimise their existence, not only to their shareholders but to the community as well (Solomon, 2014). The logical inference here is that by design or default, legitimacy theory gives a firm's decision makers (i.e. management) too much discretion over the handling of CSR information, and consequently hands them the

power to explicitly or implicitly manipulate and distort the firm's record in a way that is favourable to the firm (Kokubu et al., 1994). The downside of legitimacy theory is that it may encourage business managers to put out positive information (i.e. only information that will guarantee stakeholder approval) (Harte and Owen, 1992; Deegan and Rankin, 1997). Agreeing with this stance, Cho and Patten (2007) found that companies disclose higher levels of environmental information despite poor environmental performance, and use the reports as legitimacy tools. The above result shows the companies use the reporting as a channel for legitimacy. Studies assert the positive relation between legitimacy and level of disclosure; Aerts and Cormier (2009) for instance found that environmental legitimacy is affected positively by environmental press releases and the extent and quality of environmental disclosures in annual reports. In addition, Milne and Patten (2002) also found a similar result—that positive disclosures can maintain the organisation's legitimacy.

#### **4.4 Accountability Theory**

Accountability is the outcome of a relationship between two or more parties, whereby that relationship has a moral or ethical dimension. This dimension incorporates the requirements and expected action between the parties; the moral aspect is when one party is required to offer an account to the other party or parties in the relationship. The accountable party should explain its actions (Gray et al., 2014)). According to Zairi and Peters (2002), this theory subscribes to the principle of demanding that businesses demonstrate their credentials rather than asking for trust. This approach makes the community a very important stakeholder and corporate social accountability and reporting play key roles in firm-community engagement.

Gray et al. (1996) viewed CSR as a means of social accountability – i.e. a means by which an organisation can disseminate information to the wider society to demonstrate that it operates in a socially responsible manner. Most studies prior to the 2000s considered that firms needed to strike a balance between enterprise and social responsibility, arguing that business organisations must operate within a sound framework of accountability (e.g., Charkham, 1998; Clarke, 1998; Spira, 2001), but this implies a dichotomy between “enterprise” (i.e. profitability and business success) and “social responsibility” (an unwelcome and unprofitable drain on company resources) that is eschewed by more modern research (Jenkins, 2002).

In management terms, accountability theory is associated with the stewardship form of leadership, which is defined by the American Institute of Certified Public Accountants (AICPA) as “the efficient administration of resources and the execution of plans for conserving and consuming them” (AICPA, 1973, p. 25). However this definition does not seem to consider the effects of using the resources or maintaining them. Accountability, by contrast, “requires an account of the extent to which the objectives for which the resources were entrusted have been achieved”; thus, accountability is “a broad term that encompasses stewardship” (AICPA, 1973, p. 25). Another definition by Jackson (1982, p. 220) describes accountability as an approach that “involves explaining or justifying, through the giving of information, what has been done, what is currently being done and what is planned”. In this context, companies need to provide information that they are using society’s resources in a socially, environmentally and ethically acceptable way and therefore their existence is justified.

Another noteworthy definition is that presented by Roberts and Scapens (1985, p. 447), who describe accountability as “the giving and demanding of reasons for conduct”. It can be suggested that this definition implies the more powerful party demanding reasons and explanations for conduct from the less powerful party or parties.

According to Gibbins and Newton (1994, p. 166) accountability is “a relationship, driven by social, contractual, hierarchical, or other factors, between the source (i.e. the principal) and the accountable person (i.e. the agent), in which the latter has incentives to behave as the former wishes”. Gray et al. (1987) believe that accountability is the most useful framework for analysing the transmission of accounting information in general and for social disclosure in particular; and Gray et al. (2014, p. 50) defined accountability as “the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible”. This framework of accountability is useful in the development of enhanced social contracts and social responsibilities through the delineation of rights to information. According to this perception, firms discharge their social accountability by using increasingly transparent CSR reporting. Gray et al. (1996) also contended that an increase in the transparency of an organisation resulting from improved CSR accounting and accountability may have the following effects:

- Greater variety and higher volumes of information may cause heightened ‘information inductance’; a situation where the type of information greatly influences not only the receiver of the information (e.g. society) but also the

creator and sender of that information (e. g. company management).

- If the information creation and dissemination process is improved, socialisation within the organization will ensue, leading to overt visibility and greater transparency.
- Increased transparency harmonizes the purely business interests of the organization with its social responsibility, thereby reducing or eliminating conflicts of interest.

Gray et al. (1996) observed a mutuality of influences between accountability and responsibility in that as accountability increases it leads to greater responsibility, and vice versa. Accountability is one of the factors that led to the development of CSR reporting. The authors) described it as a mechanism whose development contributes to the normative position of a more justly organised and better-informed democracy. It therefore constitutes an important asset for the advancement of social change. Gray et al. (1996) and Burchell et al. (1982) actually describe it as a necessary condition for all forms of democracy.

The needs of accountability been discussed by different scholars; for instance Bailey et al. (2000) concluded that the concept of accountability is not only required to provide information, but it is also terms value of facilitating action. Bergsteiner and Avery (2010) also asserted that accountability is useful to understand and explain the CSR and global responsibility at the accounting stage (Bergsteiner and Avery, 2010). In addition, Roberts (1996) concluded that the accountability processes and practices

as balance and instrument to pursuit of interest such as getting profit and power could not achieve with ignore the wider social or environmental consequences. In addition, Gray et al. (1996) also asserted that accountability is not only about providing financial account. It is much more than that - it is providing account of who is held responsible (Gray et al., 1996).

Furthermore, Valor (2005) asserted two conditions for social accountability: the first condition is the companies will not incorporate CSR in their strategy until found the economic agents considering in and look for these values by incorporating them into their economic decisions. The second condition is a system change by accepting that the common good is more important than the right to receive a dividend. A balance must be struck between the economic performance and the social and environmental performance. The principle of accountability, as identified by Gray et al. (2014), is considered to influence the possibility of developing the flow of information between accounts and accounting; such that “it both contributes to and reflects the sort of democratic society in which individuals are better informed and more empowered, in which the inequalities of wealth are potentially exposed and inequalities of power are somewhat reduced”. However, Owen et al. (2001) argued that the expending of accountability of the stakeholder has an impact which can be seen in the stakeholder management process stakeholder management process.

A number of studies have been applied these three theories – stakeholder theory, legitimacy theory and accountability theory –to explain CSR. Stakeholder theory has been addressed by McGuire et al. (1988); Ruf et al. (2001); McWilliams et al. (2006); Jamali (2008) ;Lee (2008) and Chan et al. (2014). Legitimacy theory has been applied in the research of Patten (1991,1992); Deegan and Rankin, (1996, 1997); Brown and

Deegan (1998); O'Donovan (1999); Deegan et al. (2002); Campbell (2003); Deegan (2006); Cho and Patten (2007); Bebbington et al. (2008a); Chiu and Sharfman (2009); Aerts and Cormier (2009); Hamid and Atan (2011); Panwar et al. (2014) and Alakent and Ozer (2014). Accountability theory has been employed by Valor (2005); Genasci and Pray (2008); Vilanova et al. (2009) and Bergsteiner and Avery (2010). Two of these frameworks, namely legitimacy theory and stakeholder theory, can be employed as theoretical foundations for empirical studies relating to the reasons for CSR practices in various contexts (Fernando and Lawrence, 2014).

#### **4.5 Summary**

This chapter discussed the theories that investigated by this study, to explore the extent to which CSR disclosure by Saudi listed companies is driven by stakeholders, legitimacy or accountability concerns. Which will help to clarify the CSR in Saudi Arabia. The chapter started with stakeholder theory and provided a number of definitions for it. It then explained the relationship between the theory and CSR. The second section described the second theory used in this study which is legitimacy theory, and a number of definitions and its relations with CSR were discussed. The third section discussed the third theory, accountability theory, and both definitions and relation with CSR were explained.

## **5 Chapter Five: Research Methodology**

*Introduction*

*Literature of Research Philosophy*

*Research Design*

*Data Collection Methods*

*Content Analysis and Interview Combination*

*Summary*



## **5 RESEARCH METHODOLOGY**

### **5.1 Introduction**

This chapter explains the methodological approach adopted for this research, explaining the research philosophy, strategy, time and data collection methods used. Guba and Lincoln (1994, p. 105) argued that the question of which paradigm is best suited to a study is the most basic factor that ultimately directs the whole research, not only in terms of the choice of methods but also ontologically and epistemologically. Therefore, the questions of the data collection methods are of secondary importance to the philosophical foundation of the research. This chapter explores literature pertaining to the research philosophy, approach, strategies, time and data collection methods before explaining the research methodology applied in this research study.

### **5.2 Literature of Research Philosophy**

Business and management researchers must understand their philosophical assumptions, which determine the research strategy and how the phenomena investigated are understood and investigated (Johnson and Clark, 2006). Numerous research philosophies are commonly used in business research, including positivism, interpretivism; realism and pragmatism. Each of these paradigms has its own associated ontology (understanding of the nature of reality, including the researcher's position) and consequently epistemology (the way in which research phenomena can be apprehended and understood), and finally the axiology of the position of values in the research. These philosophical and methodological considerations were conceptualised as a research "onion" by Saunders et al. (2016), as shown in Figure 5.1.

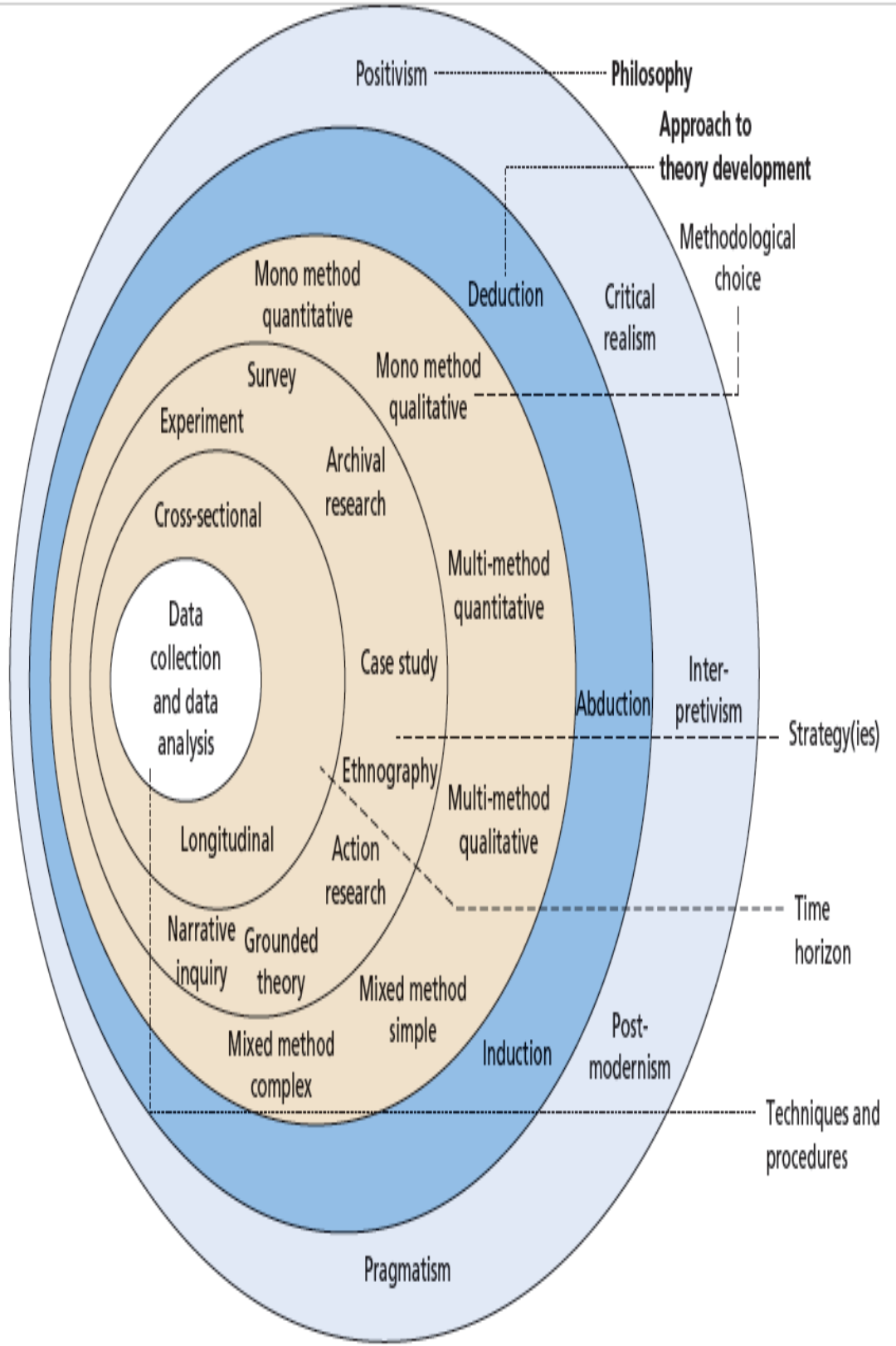


Figure 5-1: The research 'onion'

Source: Saunders, Lewis and Thornhill (2016)

### **5.2.1 Research Paradigms**

Collis and Hussey (2013) defined a research paradigm as a framework that guides how research is conducted, based on individual philosophies, perceptions, attitudes and assumptions about the world and the nature of knowledge

#### *5.2.1.1 Positivism*

Positivism was defined by Remenyi et al. (1998, p. 32) as a paradigm affirming the existence of “an observable social reality”, and that “the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists”. In terms of management, Collis and Hussey (2013, p. 56) explained positivism thus: “Today, researchers conducting business research under a paradigm that stems from positivism still focus on theories to explain and/or predict social phenomena”. Positivists still work with logical reasoning, precision and objectivity based on evidence and observation rather than subjectivity and intuitive interpretations.

Saunders et al. (2016) noted that adoption of a positivist approach enables data to be considered natural as far as possible, with the assumption that the researcher is an independent and objective observer of an existent research subject (Crotty, 1998; Remenyi et al., 1998). Positivist researchers typically use a highly structured quantitative methodology in order to facilitate replication (Gill and Johnson, 2010).

#### *5.2.1.2 Interpretivism*

Interpretivism developed to understand and explain differences in subjective human behaviour (Bryman and Bell, 2015), understood in terms of individual and social constructions of language, history and culture (Crotty, 1998) to qualitatively explore and understand (rather than quantify and measure) social phenomena (Bryman, 2015).

Creswell and Clark (2007) noted that interpretivist research seeks to explore, explain and develop an understanding in order to clarify or illustrate the meaning of terms.

Morgan and Smircich (1980) and Collis and Hussey (2013) argued that the inadequacy of positivism to meet the needs of social science research led to the development of interpretivism, based on the following critiques of the former: (i) it is impossible to separate people from the social contexts in which they exist; (ii) people cannot be understood without examining the perceptions they have of their own activities; (iii) a highly structured research design imposes constraints on the results and may ignore other relevant findings; (iv) research is not an objective activity, but part of what researchers observe; and (v) capturing complex phenomena with a single measure is misleading.

The main challenge of interpretivism is the interpretation of the social world and the perceptions of research subjects by researchers, who themselves have their own perspectives and interpretations. However, an interpretivist perspective is highly appropriate in the case of business and management research pertaining to organizational and social factors (Saunders et al., 2016).

### *5.2.1.3 Realism*

Saunders et al. (2016) identified realism as relating to scientific enquiry based on the assumption that there is an existent reality independent of human perception, as opposed to idealism, which takes the opposite view. Furthermore, Bryman and Bell (2015) argued that philosophical approaches premised on the separation of human perception from the reality being investigated should apply in natural and social sciences. There are two major schools of realism: critical and empirical realism. According to Bhaskar (1989, p. 2), critical realism affirms that:

“We will only be able to understand – and so change – the social world if we identify the structures at work that generate those events and discourses. These structures are not spontaneously apparent in the observable pattern of event; they can only be identified through the practical and theoretical processes of the social sciences”.

Empirical realism asserts that one can understand reality with an appropriate methodology (Bryman and Bell, 2015).

The importance of realism for business and management research was identified by Saunders et al. (2016) in terms of the importance of multi-level study recognized by critical realism, and empirical realism perceiving the world in a business context as one level.

#### *5.2.1.4 Pragmatism*

Pragmatism, as the name implies, is much less nebulous than the foregoing philosophical paradigms. Tashakkori and Teddlie (1998) described pragmatism as a research approach in which the researcher avoids engaging with the subject, externally observing it with less interpretive emphasis on concepts of reality and truth. In their argument researchers should “study what interests them and is of value to them, study in the different ways in which they deem appropriate, and use the results in ways that can bring about positive consequences within their value system” (Tashakkori and Teddlie, 1998, p. 30).

### **5.2.2 Research Approaches**

As explained previously, the three main research approaches used in business and management studies are deductive, inductive and abductive. The main differentiations between these are due to their relationships with theory. Deductive research tests

theory, thus it is associated with positivist, qualitative research aiming to verify *a priori* hypotheses producing generalizable results. Inductive research aims to build theory, thus it is associated with critical analysis of subjective, qualitative data from which emergent themes can be used to scaffold theory development (Saunders et al., 2016). Abductive approaches are applied to enable logical inferences and build theories (Bryman and Bell, 2015).

Deductive is the dominant research approach in the natural sciences, where laws present the basis of explanation, allowing the anticipation of phenomena, predicting their occurrence and enabling practical control (Collis and Hussey, 2013; Mantere and Ketokivi, 2013). Inductive approaches are more commonly used in qualitative data techniques (Easterby-Smith et al. 2008; Bryman and Bell, 2015), generally using analysis of qualitative data for more theoretical understanding and describing different, subjective perspectives (Bryman and Bell, 2015).

### **5.2.3 Methodological Choice**

The most commonly used research methods can be categorized according to the nature of data they primarily collect and analyse as quantitative and qualitative, each of which has strengths and weaknesses (Smith, 1981), thus mixed methods emerged to combine the strengths of each while obviating their drawbacks (Bryman and Bell, 2015). Mixed methods research is a combination of quantitative and qualitative techniques in the collection and analysis of data collection and analysis procedures (Saunders et al., 2016). Quantitative data is numerical (e.g. statistical data or physical properties such as mass and dimensions) while qualitative data is verbal, pertaining to perceptions, thought and feelings; quantitative data can be gathered from statistics or structured

questionnaires, while qualitative data can be gathered from in-depth interviews or observations (Saunders et al., 2016).

However, Bryman and Bell (2015) argued that many writers suggest that differences are deeper than focusing on numeric (numbers) or non-numeric; rather they ascribe the primary differentiation between quantitative and qualitative research methodologically, in terms of the former being deductive (testing theory) and the latter being inductive (building theory); quantitative is practical positivist paradigm and qualitative is an interpretivist paradigm useful to explore new areas of research. Quantitative research has external view of an objective social reality, which is viewed as a social (and individual) construction perceived by research subjects (and researchers themselves) in inductive, qualitative research.

Tashakkori and Teddlie (2003) noted that the choice of research methods may involve collecting data using a single technique or multiple methods within the same paradigm, or a combination of qualitative and quantitative in mixed methods research.

#### **5.2.4 Purpose of Research**

The research question and objective of any research project explain its purpose. Saunders et al. (2016) divided the purpose of research into five aspects based on objectives as exploratory, descriptive, explanatory, evaluation or combined. An exploratory study aims to explore what is happening by asking open questions concerning a topic of interest. Descriptive study extends exploratory study to provide deeper explanation. Explanatory studies study situations or problems in order to explain the relationships between variables. Evaluation study aims to assess a parameter, such as performance. Finally, combined study undertakes to achieve more than one purpose (Saunders et al., 2016).

### **5.2.5 Research Strategies**

A research strategy is defined by Saunders et al. (2016) as guidance for researchers to achieve their research objectives. Furthermore, Denzin and Lincoln (2011) defined it as the link between choices the methods of data collection and the researcher's philosophy. In addition, the research strategy is guided by the study research question(s) and objectives (Saunders et al., 2016).

Saunders et al. (2016) identified eight potential strategies (experiment, survey, archival research, case study, ethnography, action research, grounded theory and narrative inquiry) that can be used for numerous research purposes according to Yin (2003), such as exploratory, descriptive and explanatory research.

Experimental strategy is rooted in laboratory and natural science research. This strategy generally seeks to test particular hypotheses rather than general research questions. Survey strategy is mostly used quantitative data collection techniques and provides more control over the research. Archival and document strategies use secondary data such as that from official or analytical reports (Saunders et al., 2016). Case study delves deeply into the topic in real-life settings (Yin, 2014). Ethnography strategy studies the world life and group culture of communities, using qualitative data. Action research develops and designs solution to expediently solve real organizational problems. Grounded theory provides explanation of social processes and interactions and is usually inductive. Narrative inquiry tells the story of events observed by researchers or narrated by participants (Saunders et al., 2016).

### **5.2.6 Research Time**

Saunders et al. (2016) noted that each research study has one of two kinds of time horizon: cross-sectional or longitudinal. These are based on the research objective and



question covered. Cross-sectional studies take a snapshot of the research subject at a particular point of time, while longitudinal studies investigate the dynamic changes in the subject over time (Saunders et al., 2016).

### **5.3 Research Design**

This section discussed the research design used to guide our research to collect and analyse the data to achieve our research objective. The definition of research design by Bryman and Bell (2015) is a framework that provides guidance for the collection and analysis of data, reflecting the choice of research design based on the priority given to the research process dimensions. The research design could be quantitative, qualitative, or mixed methods (Saunders et al., 2016). The research design for this research is qualitative research design.

#### **5.3.1 Research Paradigm**

The criteria for any research in choosing the paradigm is based of the research objectives and purpose. The best paradigm for this research is interpretivism, because it seeks a deeper understanding of human perspectives to create new knowledge and more understanding by interpreting the social world and context of CSR in Saudi Arabia (Saunders et al., 2016). Furthermore, Creswell (2013) concluded that four criteria must be considered by researchers when selecting a research paradigm: (i) the researcher's worldview; (ii) the researcher's experience; (iii) the researcher's psychological attributes; and (iv) the nature of the problem.

#### **5.3.2 Research Approaches**

As this is an interpretive study, an inductive approach is applied. In addition, the research objective is to find an understanding of the differences between different Saudi stakeholders' perceptions on CSR disclosure. According to Bryman and Bell

(2015), the inductive approach definition is used to get theoretical understanding and description using qualitative data techniques, requiring qualitative data based on which the inductive approach is the most suitable for this research. In addition, this research objective is not to test theory, but to describe empirical experiences, and to explore the relationship between theory and findings.

### **5.3.3 Research Methods**

Semi-structured interviews were used to ascertain the perspectives of CSR among different stakeholders concerning the identified dimensions, and content analysis technique was used to analyse annual reports concerning the extent of CSR disclosure. Firms' corporate policies and strategies were explored by both semi-structured interview and content analysis.

### **5.3.4 Purpose and Research Strategy**

The purpose of this research is exploratory, with the main objective of exploring how different Saudi stakeholders perceive CSR and the level of CSR disclosure among different Saudi listed companies (Saunders et al., 2016). The advantage of using exploratory research that could adopted and flexible for do change based on new data results (Saunders et al., 2016).

In addition, the research strategy for this study is grounded theory. According to Goulding (2002), grounded theory strategy is particularly helpful for research to predict and explain behaviour, the emphasis being upon developing and building theory. For unexplored research topics, grounded theory uses an inductive approach to create theory (Locke, 2001; Charmaz, 2006; Hodkinson, 2008).

## 5.4 Data Collection Methods

Several data collation methods were employed in the study, as mentioned above, based on the nature of data to be collected, the complexity of the topic and the amount of time and resources available. Available data collection methods include surveys, interviews, focus groups and secondary data. The data collection methods used for this study are content analysis and semi-structured interview, as shown in Table 5.1.

*Table 5-1: The research question and methods for this study*

<i>RGN</i>	<i>Research Questions</i>	<i>Methods used to answer question</i>
<b>Q1</b>	How do Saudi stakeholders perceive CSR disclosure and accountability?	Semi-structured interview
<b>Q2</b>	To what extent do existing theoretical frameworks (stakeholder theory, legitimacy theory or accountability theory) assist in interpreting CSR disclosure by Saudi listed companies?	Semi-structured interview
<b>Q3</b>	What is the extent of awareness and level of disclosure in CSR information in Saudi Arabia?	Content analysis and semi-structured interview
<b>Q4</b>	How is CSR disclosed and integrated into corporate policies and strategies in Saudi listed companies?	Semi-structured interview
<b>Q5</b>	How do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia?	Semi-structured interview
<b>Q6</b>	What are the challenge and obstacles for CSR in Saudi listed companies, and how could CSR be motivated in Saudi Arabia?	Semi-structured interview

### 5.4.1 Content Analysis

The research method used in this study is content analysis. This method was chosen for its ease of use to gain a preliminary indication of the quantity and nature of CSR practices in Saudi Arabia. According to Morris (1994), content analysis can be used to extract data from a wide variety of communication tools. Researchers have used it

primarily to draw conclusions from written communications. It is based on the systematic identification of particular characteristics of messages (Holsti, 1969).

Weber (1990) defined content analysis as a method of codifying the text (or content) of a piece of writing into various groups (or categories) depending upon selected criteria (Weber, 1990). Krippendorff (2013, p. 24) defined content analysis as “a research technique for making replicable and valid inferences from data according to their context”. When applying content analysis, one has to codify available data from the qualitative and quantitative standpoints, so as to identify patterns in the way information is presented and reported. For the sake of reliability, the analysis must not only be systematic but also objective (Guthrie and Parker, 1990; Krippendorff, 2013).

Despite the near universality of its use for communicational analyses, content analysis is not free form contention. For example, while Berelson (1952, p. 18) considers it an “objective, systematic, and quantitative” means of achieving a quantitative description of manifest content, Sellitz et al. (1959, p. 336) have reservations about it because, in their view, the method tends to emphasize the analytical procedure more than it does the character of the data available. Silverman (2006, p. 59) excluded content analysis from his discussion of qualitative data analysis, arguing that it is a quantitative method.

Smith (1981) proposed using some blend of both qualitative and quantitative analysis, noting that one can apply qualitative analysis to forms and antecedent-consequent patterns and then use quantitative analysis to deal with the duration and frequency of forms. Taking a middle-ground position similar to that of Smith, Abrahamson (1983, p. 286) found content analysis applicable to the analysis of any kind of communication, as it is able to focus on either qualitative or quantitative aspects of communication messages.

As far as the use of content analysis to deal annual reports is concerned, Gray et al. (1995b) and Guthrie and Parker (1990) affirm that this has been done successfully and the method has been proven to be empirically valid. Since the method has been used to analyse diverse disclosure items with success (Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Zeghal and Ahmed, 1990; Hackston and Milne, 1996), its suitability for this research is beyond question.

Emanating from our conviction about its suitability for the task at hand, content analysis will be used in this research to study the nature of CSR disclosure practices in Saudi Arabia and the context in which CSR disclosure is handled by concerned parties. The study also focuses on the views and perceptions held by pertinent stakeholders, particularly company managers.

#### *5.4.1.1 Different approaches to content analysis*

There are mechanistic and interpretative approaches to content analysis (Beck et al., 2010). Mechanistic studies measure the volumes of disclosure by volumetric units, with information used to examine the relationship with other variables. Typical mechanistic data includes word, sentence or page counts; or rating the disclosure as low or high (e.g. Campbell, 2003; Patten and Crampton, 2004; García-Meca and Martínez, 2005; Perrini, 2005). The disadvantage of this approaches is that it ignores what is really being reported.

In contrast, interpretative analysis is more narrative, describing content by capturing the meaning by “disaggregating narrative into its constituent parts and then describing the contents of each disaggregated component”. Those studies are more understanding and more concerned with the quality by interpretation of text rather than its mechanics

(e.g. Cormier and Gordon, 2001; Livesey and Kearins, 2002; Tregidga and Milne, 2006; Beck et al., 2010).

This study is more mechanistic, because this approach became the norm to measure the CSR level of disclosure. This approach helps this study to capture CSR disclosure volume in Saudi Arabia. Beck et al. (2010) noted that mechanistic content analysis approaches have been predominant in CSR research, with only a minority reporting interpretative approaches.

#### *5.4.1.2 The advantages of using content analysis methods*

Content analysis methods have numerous advantages (Weber, 1990; Unerman, 2000), identified by Krippendorff (2013, pp. 45-48) as:

- Not being obtrusive, and being nonreactive compared to alternatives such as interviews and questionnaires.
- Enlightens and discovers unknown phenomena by using communication channels (Unerman, 2000).
- Data can be handled more freely from structure, which provides an advantage for researchers to adopt the structure that supports the data-making process and preparing it for analysis.
- Enables interpretation of data, allowing elucidation of meaningful and significant findings based on the principles of human and organizational behaviour (Weber, 1990).
- Allows researchers to handle large data volumes.

#### *5.4.1.3 Reliability and validity of content analysis and its measurement*

Reliability in content analysis was defined by Krippendorff (2013, p. 267) as the extent of confidence with the data used, provided they are protected from falsification, and they have the same meaning for who use them. Any research should seek to maximize its reliability to provide useful results. To increase the reliability of content analysis, Guthrie et al. (2004) suggest three techniques: including “disclosure categories from well-grounded relevant literature”, developing “a reliable coding instrument with well-specified decision categories and decision rules”, and “training coders and showing that coding decisions made on a pilot sample have reached an acceptable level”.

Moreover, the reliability of content analysis according to Krippendorff (2013, pp. 270-272) has three measurement types: stability, reproducibility and accuracy. The aim of stability is to render data that can be judged over time in the same way; the stability of content analysis using annual reports pertain to the same results as found in this study being yielded when retesting in the same conditions over time (Krippendorff, 2013). Reproducibility refers to getting the same results when using other coding procedures with the same text (Weber, 1990). In this study reproducibility type is that in which restructured codes and various coding produces are used for analysis in annual reports getting the same results, with no errors between them.

The accuracy measurement type of reliability is code measurement accuracy, which has been assessed by experiments approved in the literature review. The content analysis methods for analysis of annual reports have been widely used to explore CSR (e.g. Ernst and Ernst, 1976; Guthrie and Mathews, 1985; Cowen, Ferrari, and Parker, 1987; Tinker and Neimark, 1987; Harte and Owen, 1991; Guthrie and Parker, 1990;

Roberts, 1991; Adams, Coutts, and Harte, 1995; Gray et al., 1995a; Gray, Kouhy, and Lavers, 1995b; Adams, Hill, and Roberts, 1998; Buhr, 1998; Unerman, 2000; Adams and Laing, 2000; Wilmshurst and Frost, 2000).

On the other hand, validity was defined by Janis (1965, p. 359) in terms of “a measuring instrument... measuring what it purports to measure”. The validity of any data collection method is very important, and Krippendorff (2013, p. 44) notes that “any content analysis should be validatable in principle is to prevent analysts from pursuing research questions that allow no empirical validation or that yield results with no backing except by the authority of the researcher”. For this study, the validity of using content analysis shows the extent of level of CSR disclosure among Saudi listed companies.

#### *5.4.1.4 Sample design and data source*

Annual reports are commonly used to disclose CSR information and as important documents containing both voluntary and mandatory information disclosure (Tilt, 1994; Bebbington et al., 2008). However, Neimark (1992) argued that the limitation of using the annual reports is that companies have some discretion in terms of some kinds of information they publicly disclose, however they do offer illuminating snapshots of management approaches each year. Similarly, Unerman (2000) pointed out that focusing on annual reports might yield an incomplete view of CSR because it may be included in other corporate reports, thus the content analysis should cast a wide net for firms’ reportage. However, the annual reports in the Saudi context comprise the only substantial corporate disclosure and they are the main channel to disclose any information to the public, including CSR information.

The annual reports from 58 companies listed on Saudi Stock Exchange at 31



December 2013 were selected for this study, for the six years 2010 to 2015, comprising a total sample of 348 annual reports. The 58 companies were from various sectors and they selected based on their environmental impact and representativeness of the overall Saudi economy, representing the petrochemical sector; the agriculture and food sector; the energy and utilities sector; the industrial sector; and the cement sector. The market capitalization of those 58 companies comprised SR 857,633,613,466 and the total market capitalization value for Tadawul was around SR 1,752.855,363,980.90 in the end of 2013 (Tadawul Annual Statistical Report, 2013) (see Table 5.2-5.6). The 348 annual reports were analysed using content analysis to measure the extent of CSR disclosure practices in Saudi listed companies. In addition, the analysis also shows which type of CSR information was more prevalent and in what sectors CSR was more manifest.

Table 5-2: Petrochemical sector

	%To Market	%to Sector	Market Capitalization	Lowest price	Highest Price	Close Price	Issued Shares	
CHEMANOL	0.10	0.33	1,839,150,000.00	11.95	15.45	15.25	120,600,000	كيماول
Petrochem	0.70	2.22	12,288,000,000.00	18.75	26.80	25.60	480,000,000	بتروكيم
SABIC	19.08	60.31	334,500,000,000.00	89.50	112.50	111.50	3,000,000,000	سابك
SAFCO	2.98	9.41	52,166,666,614.50	142.75	160.75	156.50	333,333,333	سافكو
Industrialization	1.28	4.04	22,408,624,561.00	24.95	33.80	33.50	668,914,166	التصنيع
Alujain	0.10	0.31	1,743,840,000.00	13.50	26.00	25.20	69,200,000	اللاجين
Nama Chemicals	0.10	0.33	1,805,706,000.00	10.95	14.40	14.05	128,520,000	نماء للكيماويات
SIIG	0.83	2.63	14,580,000,000.00	20.40	32.40	32.40	450,000,000	المجموعة السعودية
Sahara Petrochemical	0.50	1.57	8,688,141,000.00	13.00	19.90	19.80	438,795,000	الصحراء للبتروكيماويات
YANSAB	2.37	7.48	41,484,375,000.00	47.60	75.25	73.75	562,500,000	ينساب
Sipchem	0.67	2.1	11,659,999,978.80	18.40	32.10	31.80	366,666,666	سبيكيم العالمية
Advanced	0.38	1.21	6,690,996,000.00	25.80	42.00	40.80	163,995,000	المتقدمة
Saudi Kayan	1.34	4.25	23,550,000,000.00	10.90	16.00	15.70	1,500,000,000	كيان السعودية
Petro Rabigh	1.21	3.83	21,243,000,000.00	14.50	24.45	24.25	876,000,000	بترو رابغ
<b>Total</b>	<b>31.64</b>	<b>-</b>	<b>554,648,499,154.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,158,524,165</b>	<b>إجمالي القطاع</b>

Source: Tadawul Annual Statistical Report (2013)

Table 5-3: Agriculture and food sector

	%To Market	%to Sector	Market Capitalization	Lowest price	Highest Price	Close Price	Issued Shares	
SAVOLA Group	1.91	35.66	33,507,287,921.00	37.80	64.25	62.75	533,980,684	مجموعة صافولا
Wafrah	0.04	0.68	640,000,000.00	25.00	40.80	32.00	20,000,000	الوفرة
SADAFCO	0.16	2.98	2,803,125,000.00	62.50	102.25	86.25	32,500,000	سدافكو
Almarai	1.80	33.52	31,500,000,000.00	42.00	57.25	52.50	600,000,000	المراعي
Anaam Holding	0.04	0.70	656,600,000.00	29.00	44.30	33.50	19,600,000	أنعام القايضة
H B	0.09	1.76	1,650,000,082.50	41.20	69.25	57.75	28,571,430	حلواني إخوان
Herfy Foods	0.21	3.90	3,663,000,000.00	90.50	129.00	111.00	33,000,000	هرفي للأغذية
Catering	0.66	12.35	11,603,000,000.00	77.00	153.00	141.50	82,000,000	النموين
NADEC	0.10	1.93	1,812,000,000.00	24.55	31.00	30.20	60,000,000	نادك
Qassim Agriculture	0.05	0.96	902,500,000.00	11.80	19.10	18.05	50,000,000	القصيم الزراعيه
Tabuk Agriculture	0.04	0.74	694,000,000.00	31.10	47.80	34.70	20,000,000	تبوك الزراعيه
Saudi Fisheries	0.09	1.76	1,654,308,750.00	26.40	36.60	30.90	53,537,500	الأسماك
Sharqiya Dev Co	0.02	0.44	414,375,000.00	48.10	78.75	55.25	7,500,000	الشرقية للتنمية
Jouff Agriculture	0.07	1.33	1,247,500,000.00	40.30	58.00	49.90	25,000,000	الجوف الزراعيه
Bishah Agriculture *	0.02	0.37	348,750,000.00	0	0	69.75	5,000,000	* بيثنه الزراعيه
Jazan Development	0.05	0.93	872,500,000.00	14.20	18.45	17.45	50,000,000	جازان للتنمية
<b>Total</b>	<b>5.36</b>	<b>-</b>	<b>93,968,946,753.50</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,620,689,614</b>	<b>إجمالي القطاع</b>

Source: Tadawul Annual Statistical Report (2013)

Table 5-4: The energy and utilities sector

	%To Market	%to Sector	Market Capitalization	Lowest price	Highest Price	Close Price	Issued Shares	
Gas & Industrialization	0.11	3.19	1,995,000,000.00	18.20	27.70	26.6	75,000,000	الغاز والتصنيع
Saudi Electricity	3.46	96.81	60,623,940,008.25	12.25	15.30	14.55	4,166,593,815	كهرباء السعودية
<b>Total</b>	<b>3.57</b>	<b>-</b>	<b>62,618,940,008.25</b>			<b>-</b>	<b>4,241,593,815</b>	<b>إجمالي القطاع</b>

Source: Tadawul Annual Statistical Report (2013)

Table 5-5: Industrial sector

	%To Market	%to Sector	Market Capitalization	Lowest price	Highest Price	Close Price	Issued Shares	
Takween	0.08	2.44	1,354,500,000.00	35.00	42.80	38.70	35,000,000	تكوين
BCI	0.05	1.64	910,250,000.00	27.00	38.20	33.10	27,500,000	بمس
MA'ADEN	1.71	54.05	29,970,000,000.00	27.20	35.50	32.40	925,000,000	معادن
Astra Indust	0.22	7.08	3,928,235,291.00	36.40	56.00	53.00	74,117,647	أسترا الصناعية
ALSorayai	0.05	1.45	806,250,000.00	18.05	24.80	21.50	37,500,000	مجموعة السريع
Shaker	0.14	4.40	2,441,250,000.00	63.75	92.75	69.75	35,000,000	شاكرا
Pharmaceutical	0.29	9.19	5,098,437,500.00	40.00	65.00	65.00	78,437,500	الدوائية
Glass	0.05	1.62	900,000,000.00	23.50	32.70	30.00	30,000,000	زجاج
FIPCO	0.03	1.09	603,750,000.00	40.20	67.75	52.50	11,500,000	فيكو
Maadaniyah	0.05	1.57	871,474,759.00	25.50	39.30	31.00	28,112,089	معدنية
Saudi Chemical	0.20	6.27	3,478,200,000.00	41.30	55.50	55.00	63,240,000	الكيميائية السعودية
SPM	0.07	2.28	1,263,750,000.00	27.60	40.70	33.70	37,500,000	صناعة الورق
AlAbdullatif	0.19	6.01	3,331,250,000.00	31.00	47.70	41.00	81,250,000	العبد اللطيف
Saudi Export	0.03	0.89	495,720,000.00	40.30	132.00	45.90	10,800,000	المصدرات
<b>Total</b>	<b>3.16</b>	<b>-</b>	<b>55,453,067,550.00</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,474,957,236</b>	<b>إجمالي القطاع</b>

Source: Tadawul Annual Statistical Report (2013)

Table 5-6: Cement sector

	%To Market	%to Sector	Market Capitalization	Lowest price	Highest Price	Close Price	Issued Shares	
HCC	0.12	2.29	2,085,270,000.00	17.75	23.40	21.30	97,900,000	أسمنت حال
Najran Cement	0.23	4.52	4,114,000,000.00	18.85	29.90	24.20	170,000,000	أسمنت نجران
City Cement	0.25	4.78	4,342,140,000.00	17.15	28.50	22.95	189,200,000	أسمنت المدينة
Northern Cement	0.24	4.58	4,167,000,000.00	17.75	68.00	23.15	180,000,000	أسمنت الشمالية
Arab Cement	0.29	5.65	5,140,000,000.00	46.90	76.25	64.25	80,000,000	الأسمنت العربية
Yamamah Cement	0.66	12.75	11,593,125,000.00	45.00	67.75	57.25	202,500,000	أسمنت اليمامة
Saudi Cement	0.89	17.08	15,529,500,000.00	89.00	115.00	101.50	153,000,000	أسمنت السعودية
Qassim Cement	0.46	8.86	8,055,000,000.00	77.5	96.00	89.50	90,000,000	أسمنت القصيم
Southern Cement	0.88	16.98	15,435,000,000.00	96.25	139.00	110.25	140,000,000	أسمنت الجنوبية
Yanbu Cement	0.60	11.56	10,513,125,000.00	52.5	80.75	66.75	157,500,000	أسمنت ينبع
Eastern Cement	0.29	5.63	5,117,000,000.00	55.25	65.50	59.50	86,000,000	أسمنت الشرقية
Tabuk Cement	0.15	2.80	2,547,000,000.00	24.00	34.30	28.30	90,000,000	أسمنت تبوك
Jouf Cement	0.13	2.52	2,288,000,000.00	16.05	19.50	17.60	130,000,000	أسمنت الجوف
<b>Total</b>	<b>5.19</b>	<b>-</b>	<b>90,926,160,000.00</b>			<b>-</b>	<b>1,766,100,000</b>	<b>إجمالي القطاع</b>

Source: Tadawul Annual Statistical Report (2013)

## 5.4.2 The Content Analysis Procedure

The use of content analysis of annual reports must be guided by a procedure. Milne and Adler (1999) presented activities needed to use the content analysis for social and environmental disclosures, based on a classification scheme and measurement data (Milne and Adler, 1999). The procedure of using content analysis for this study comprised two steps. The first step defined data analysis coding and classification used to analyse CSR data in the annual reports. The second step defined the measurement unit to volume the CSR disclosure level.

### 5.4.2.1 Step 1: Data analysis classification (coding)

Data coding became important in content analysis to measure and clarify CSR disclosure in terms of codes and sub-codes that “bridge the gap between texts and someone’s reading them, between distinct images and what people see in them, or between separate observations and their situational interpretations”, providing clear results and enabling s evaluation by other researchers (Krippendorff, 2013, p. 85).

An early data analysis classification for CSR disclosure was advanced by Ernst and Ernst (1978), with codes including the environment, energy, products/consumers, community, employee/human resources, fair business practices, general/other and further quantitative dimensions of monetary and non-monetary disclosures. This was developed by Guthrie (1982) with “fair business practice” and “human resource” codes, with additional dimensions of where the information was located in the report, such as the chairman’s review, other sections, separate sections, or separate reports (Guthrie, 1982). Gray et al. (1995b) suggested removing the reports location dimensions and adjusting by replacing the employee/human resource code into “health and safety” and “employee other”. In addition, Gray et al. (1995b) included Guthrie

and Parker's (1990) news type dimension (bad news, neutral news, good news) and added the value-added statement as a dimension. Moreover, Gray et al. (1995b) also added some sub-codes under the main codes, following Guthrie and Parker's (1990) inclusion of legislation (mandatory and voluntary).

To demonstrate and analyse the findings of the content analysis in this study, the CSR information disclosed in annual reports was classified into the following four main themes: Environment, Social, Employees and Consumer, based on Gray et al. (1995b). Furthermore, each of these dimensions was classified into one or more sub-themes with some adjustments on Gray et al.'s (1995b) sub-themes, for example the "training" theme was divided into two sub-themes, one under "environment" related to health, safety and environment training, and the other under "employee" themes relating to skills development.

The total volume of environmental information disclosure was analysed in four sub-themes: (training, pollution control, awarded and policy and audit). In addition, the total volume of social information was analysed in two social sub-themes (charity and community activity). The total volume of employee information analysed by four employee sub-themes (pension and employee benefit; training; employment data and other employee information). The total volume of customer information was analysed by two consumer themes (quality and safety; and other consumer disclosure).

#### *5.4.2.2 Step 2: the measuring unit for content analysis*

The second step of the content analysis procedure is to define the volumetric unit used in analysis for measuring the CSR information disclosure. Krippendorff (2013, p. 84) defined the unit of analysis as that which "draws systemic distinctions within a continuum of otherwise undifferentiated text – documents, images, voices, website,

and other observables – that are of interest to an analysis”. Unerman (2000, p. 667) noted that “the volume of disclosure signifies the relative importance of those disclosures [to the discloser]”.

There are different measures that could be used with content analysis methods, as mentioned previously, including number of words, sentences or pages. The use of words is more exclusive, easier to classify and potentially pragmatic, while the use of sentences enables clearer understanding of meaning and increased accuracy of results; the use of pages enables more comprehensive and reliable results in terms of measurement and reduced error (Gray et al., 1995b; Unerman, 2000; Krippendorff, 2013).

However, Hackston and Milne (1996) suggest that the error of different volumetric units in content analysis measurement is likely to be minor, while Guthrie et al. (2004b, p. 289) also suggest “studying the quality of disclosure by examining the relative emphasis on each theme, whether the disclosure is quantified or not, and the location of disclosure... is the approach most likely to yield meaningful results”.

It is precisely this level of disclosure that is the focus of this research, thus it is measured per number of pages, in line with Ernst and Ernst (1978) and Gray et al. (1995b). This method entails counting the number of pages of CSR disclosure under various categories, in order to explore the extent of CSR disclosure among different Saudi listed companies. There are several reasons of choosing the pages as measurement unit; results are more likely to be comprehensive in terms of including related information such as graphics and pictures (Unerman, 2000). Furthermore, it is easier and less risky to use for accuracy (Gray et al., 1995b).

#### *5.4.2.3 Limitations of content analysis methods*

Content analysis methods are insufficient in themselves to give a full account of the communicator's intention (Tilt, 1998). In addition, the original texts may mean different things to different users (Camey, 1972, in Tilt, 1998). To offset these limitations, this study also deployed semi-structured interviews to answer the research question.

#### **5.4.3 Semi-Structured Interview**

Using annual reports as described above falls under the category of using secondary data, but using annual reports alone will not suffice for us to comprehensively carry out the study we have set out to study; we need to combine this with a complementary data collection method. Semi-structured interviews were chosen because they allow in-depth investigation of issues of interest, enabling the interviewer to probe how individuals feel about a given topic and why they hold certain opinions while retaining relevancy by following a general set of questions pertinent to the phenomena of interest, unlike structured interviews that limit the potentiality for interviewees to express their in-depth knowledge and perceptions. This allows the researcher to gain more information about the issue being investigated.

Saunders et al. (2016) stated that semi-structured interviews are helpful for interpretivist, exploratory studies with an inductive approach philosophy. Practical advantages of using semi-structured interviews include that they increase rapport between the interviewer and interviewee, thus enhancing participant communication and disclosure; they enable engagement with complex issues and interpretations, and the interviewer can probe unclear areas; they have high validity; and they inhibit the influence of preconceptions. The main disadvantages of semi-structured interviews

are that they require a lot of research skill on the part of the interviewer, and they are time consuming. The main objective of conducting interviews in this study is to gain insights into how CSR is viewed and applied in Saudi Arabia, with particular regard to disclosure and accountability.

#### *5.4.3.1 The quality of interview data*

In any research, the quality of data is of the utmost importance. The criteria for achieving the high quality of semi-structured interview data were described in terms of seven aspects by Saunders et al. (2016):

1. *Reliability/dependability*: the research design must justify the strategy of data collection and analysis.
2. *Forms of bias*: preparing and conducting the interview must avoid any potential bias.
3. *Preparation*: the researcher should have an in depth and comprehensive knowledge of the research topic, developing the themes for interview before conducting it, and choosing a suitable location wherein the interview can be conducted (Saunders et al., 2016).
4. *Conducting*: researchers should ensure the appropriateness of the interview place, time and ambience, with prerequisite communication skills, questions and recording arrangement, and of course due ethical observance.
5. *Cultural differences*: researchers need to avoid and minimize any form bias, particularly with regard to culture (whether they share the culture of the interviewee or not), by explaining and clarifying the research topic, research motivation and research strategy (Lincoln et al., 2011).



6. *Generalizability/transferability*: this concerns the ability to use resultant data to test existing theory, and transferability pertains to the ability of other researchers to replicate the study.
7. *Validity/credibility*: these can be achieved by selecting carefully the questions that probe meanings and explore multiple perspectives.

The researcher followed these points, explaining and clarifying the process of preparing, conducting and analysing data, in addition to providing a brief of the research motivation to interviewees. Furthermore, the researcher developed and selected appropriate questions for interviewees. Moreover, the researcher developed the themes for interviewees before conducting them, based on previous literature.

#### *5.4.3.2 The design of interview*

The interview questions concerned perspectives of CSR disclosure and accountability in Saudi Arabia; how Saudi listed companies adopt CSR in their strategies; and the influences of religion, local culture and regulation on CSR. A number of interview questions covered the main research question and the research themes.

#### *5.4.3.3 The sample of interview methods*

The interviews were conducted from June to September 2014, in multiple cities, however the majority were conducted in Riyadh, reflecting the concentration of government ministries and publicly listed companies in the capital; the other cities were centres of the petrochemicals companies in eastern KSA.

A total of 26 interviewees took part, comprising Company Representatives (CRs) (Table 5.7) and External Stakeholders Representatives (ESRs) (Table 5.8). The first group shows the view of internal stakeholders, such as public relations and CSR

managers, while the second group represents external stakeholders such as regulators, shareholders and community representatives.

*Table 5-7: Company Representatives (CR) interviewees*

No	Code	Position
1	SC1	Shareholders Coordinator
2	SC2	Shareholders Coordinator
3	CFO1	CFO
4	HCM1	Head of Cash Management
5	SC3	Investor Relations Manager
6	HCG1	Head of Corporate Governance and investor Relations Division
7	PR1	Public Relations Coordinator
8	SS1	Senior Sustainability Specialist
9	SM1	Marketing Research and Development Manager
10	HS1	Health and Safety Manager
11	PR2	Public Relations Manager
12	PR3	Public Relations and Publicity Manager
13	CSRM1	CSR Manager

*Table 5-8: External Stakeholder Representative (ESR) interviewees*

No	Code	Position
1	S1	Shareholder
2	S2	Shareholder
3	CM1	Community Representative
4	CM2	Community Representative
5	S3	Shareholder
6	R1	Regulator
7	S4	Shareholder
8	S5	Shareholder
9	CM3	Community Representative
10	R2	Regulator
11	R3	Regulator
12	R4	Regulator
13	CM4	Community Representative

Both groups were asked the same questions, with some adjustments related to their positions. The interviews were arranged by telephone or visiting their offices to arrange appointments. All interviews were face-to-face and all interviewees gave permission to tape-record the interviews.

#### *5.4.3.4 Transcribing and translating*

Most of interviews were conducted in Arabic, the native language of interviewees and the interviewer, enabling them to express themselves more fluently and coherently. In

this research, the processes of analysis of interview data included firstly transcribing the interviews word-by-word in Arabic, then translating them into English. This was undertaken personally by the researcher, then the transcriptions were checked by another qualified bilingual professional. The translations from Arabic to English was then sent to another Arab-speaking PhD student for further checking of the translation.

#### *5.4.3.5 Interview analysis methods*

Grounded theory approaches were used to analyse interview data in this study, defined by Saunders et al. (2016) as strategies that develop codes from data for subsequent analysis (ideally avoiding the use of codes from previous studies). Grounded theory is widely used to analyse qualitative data (Bryman and Bell, 2015).

Codes in qualitative research are “words or short phrase that symbolically assign a summative, salient, essence-capturing, and/or evocative for a portion of language based or visual data” (Saldana, 2016, p. 4). Coding helps analyse data by representing recurrent meanings. Saunders et al. (2016) argued the benefit of coding the qualitative data is that it identifies themes and categories, developing the research question to be more focused (Saunders et al., 2016).

The procedures of analysing qualitative data using grounded theory were developed by Glaser (1978, 1998), Strauss and Corbin (1998, 2008) and Charmaz (2006). Strauss and Corbin (1998) used three phases: open coding, disaggregating the data into units; axial coding, defining the relationship between categories; and selective coding, selecting the core categories. Strauss and Corbin (2008) then revisited and developed their procedures by combining the first two phases of open and axial coding in one phase. The most recent format is that of Charmaz (2006), which developed the procedures of Strauss and Corbin (1998, 2008) and Glaser (1978, 1998) to include a

two-step process of initial and focused coding. These grounded theory variants are illustrated in Figure 5.2.

The researcher employed the Grounded Theory Method to analyse the interview data of this research. Additionally, this research applied Charmaz’s (2006) procedure to analyse the data. Charmaz’s (2006) procedure includes two phases: initial and focused coding. The initial coding is the first stage and first draft of the codes; the focused coding is the second and last stage of the Charmaz’s (2006) procedure, concerning recoding the first draft. The next section discusses how those two phases are used in data analysis.

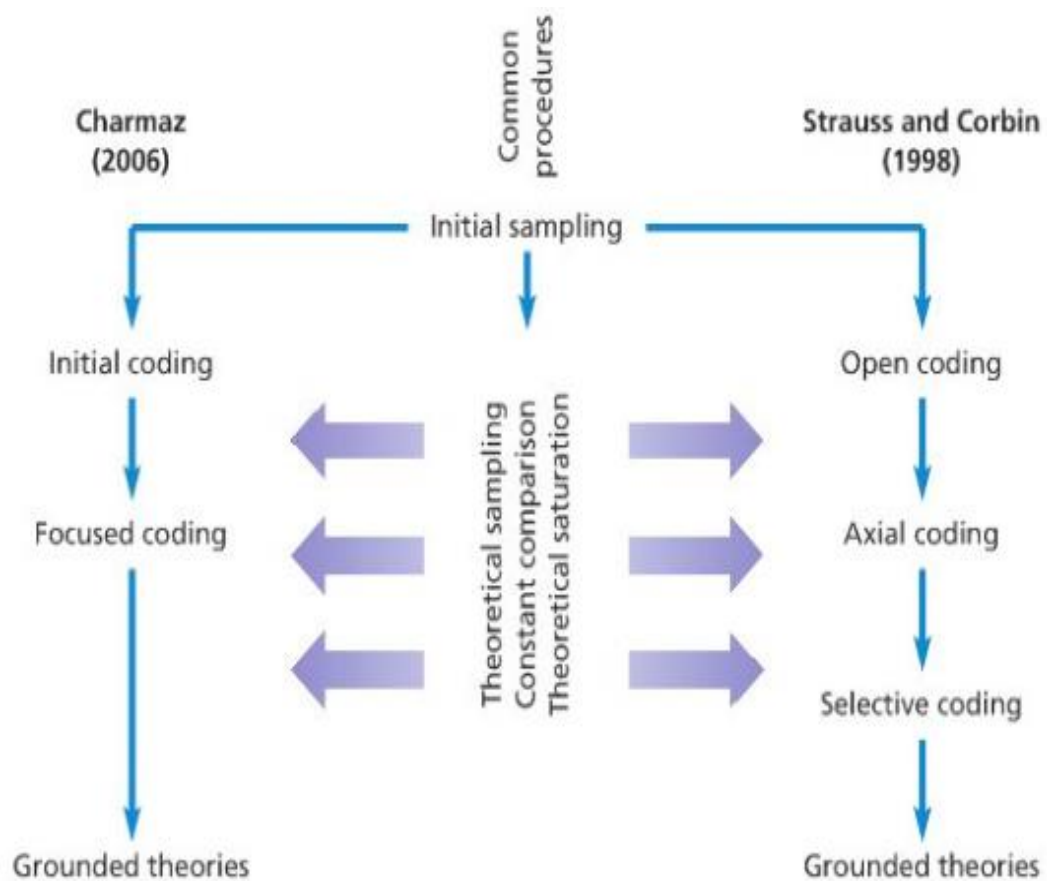


Figure 5-2: Comparing the procedures of Charmaz (2006) and Strauss and Corbin (1998)

Source: Saunders et al. (2016, p. 596)

#### 5.4.3.6 *Initial coding*

The initial coding is the first stage of the Charmaz's (2006) analysis procedure. Initial coding was defined by Saunders et al. (2016) as the data disaggregate into conceptual units provided with a label. The advantage of starting with initial coding is that data can be reviewed for "fit and relevance when start analysis it carefully word by word; line by line", protecting the data from bias arising from the researcher's preconceptions, enabling a "fundamental process" to "explore the hidden vision and contribute with new insight" (Charmaz, 2014, p. 133).

Initial coding also enables micro analysis of emergent data, and helps focus and develop the research question and research objective to be more focused (Saunders et al., 2016). Therefore, the initial coding might show the contribution of data resulting from the research "to see the direction in which to take the study" (Glaser, 1978, p. 56). The initial coding in this study was applied as the first stage in the process to analyse the procedure of interview data. In this stage the data is dealt with word-by-word, which enables the emergence of the main codes of the study due to the researcher's immersion in the data (facilitated in this case by the process of interviewing, transcribing and translating and reviewing transcripts in addition to coding itself). After this stage, the researchers need to go to the next stage of focused coding (Charmaz, 2006).

#### 5.4.3.7 *Focused coding*

The preliminary results of the first stage are "compared and placed into broader, related groupings or categories" (Saunders et al., 2016) in the second stage of Charmaz's (2006) analysis procedure. This stage is characterised by focusing on the data and the initial codes to identify relationships between the codes, defining the

extent of combination possible between them. The focused coding defined by Saldana (2016) is searching for the most significant of the initial codes to develop the most perfect categories for the research (Saldana, 2016). Furthermore, Charmaz (2014) concluded that focused coding “requires decisions about which initial codes make the most analytic sense” (Charmaz, 2014, p. 138).

Focused coding is about re-coding the data from initial codes to more refined and focused secondary codes (Saunders et al., 2016). The use only one stage of coding produces broad and unfocused codes with limited scoop (Saunders et al., 2016). In this stage the researcher dealt with the first draft of the code from the initial coding stage and focused the data and codes, selecting those deemed significant for this study.

### **Example of coding:**

#### **Initial Coding**

What is the location that you agree to disclose CSR in it?

The <sup>15</sup>annual board report is the best place to disclose the CSR information because it easy to access to all and will fix the company’s language. (SS1)

Where do your company disclose their CSR information?

We disclosed in<sup>16</sup>annual board report, and we recently disclose <sup>17</sup>sustainability report. (SS1)

What is your suggestion that motivates the CSR in Saudi Arabia?

I am <sup>18</sup>not with encouraging business, for example tax free to do CSR because it should worry of business to continue and it is market-based. (SS1)

<sup>15</sup> Current CSR disclosure location: “Annual board reports”.

<sup>16</sup> Preferred CSR disclosure location: “Annual board reports.

<sup>17</sup> Preferred CSR disclosure location: “Sustainability reports”.

<sup>18</sup> Recommendation: not with encouraging business.

## Focused Coding

Category: The CSR Disclosure Format

<sup>15</sup>annual board report is the best place to disclose the CSR information.  
disclosed in<sup>16</sup>annual board report.  
<sup>17</sup>sustainability report.

<sup>15</sup> Current CSR disclosure location: “Annual board reports”.  
<sup>16</sup> Preferred CSR disclosure location: “Annual board reports”.  
<sup>17</sup> Preferred CSR disclosure location: “Sustainability reports”.

Category: Recommendation to promote CSR in Saudi Arabia

<sup>18</sup> Recommendation: not with encouraging business.

<sup>18</sup>  
Recommendation: not with encouraging business.

### 5.5 Content Analysis and Interview Combination

There are two qualitative methods used in this study, content analysis and semi-structured interviews, both of which are important to answer the research questions. Content analysis methods could not explore how different Saudi stakeholders perceive CSR in this study, thus semi-structured interviews were used for that; conversely, content analysis methods could measure the level of CSR disclosure among different Saudi listed companies, while this could not be accurately surmised from interviews.

Thus, each research question in this study was answered by using these two methods, either individually or in combination.

## **5.6 Summary**

This chapter started by explaining the research philosophy based on previous literature. It explored different types of research paradigms, methodological choices and research approaches in relation to the purpose of research, research strategy and time horizon. It then focused on the research methodology and the research design used, which included the type of paradigms and methods as well as specific approaches relating to the purpose of research, strategies and time horizon applied in this research. Moreover, it identified the data collection methods used, content analysis and semi-structured interviews, and explained the associated techniques applied to analyse the resultant data from both methods.



## **6 Chapter Six: Results of Content Analysis**

*Introduction*

*Trends in CSR Disclosure*

*Trends in Environmental Disclosure*

*Trends in Social Disclosure*

*Trends in Employee Disclosure*

*Trends in Consumer Disclosure*

*Discussion and Conclusion*

*Summary*

## **6 RESULTS OF CONTENT ANALYSIS**

### **6.1 Introduction**

This chapter presents the results of the content analysis applied in this study. This method was chosen for its ease of use to gain a preliminary indication of the quantity and nature of CSR practices in Saudi Arabia. According to Morris (1994), content analysis can be used to extract data from a wide variety of communication tools. Researchers have used it primarily to draw conclusions from written communications.

A total of 348 annual reports over the six years, representing 58 Saudi listed companies from different sectors, were selected and analysed using content analysis. The empirical results obtained were used to describe CSR disclosure practices. Results are measured by volume (i.e. amount) of CSR disclosure. It is precisely this level of disclosure that is the focus of this research, and it is measured per number of pages, in line with Ernst and Ernst (1978) and Gray et al. (1995b).

### **6.2 Trends in CSR Disclosure**

#### **6.2.1 General Trends**

This section aims to demonstrate and analyse the findings of the content analysis study. The CSR information disclosed in the annual report was classified into the following four dimensions: Environment, Social, Employees and Consumer, in line with Gray et al. (1995b). Furthermore, each of these dimensions was classified into one or more categories. The findings of the analysis demonstrated the trends in environmental information disclosure, social benefit information disclosure, employee benefit disclosure and consumer satisfaction disclosure in Saudi listed companies.

Table 6-1: Total volume of CSR from 2010 to 2015

CSR	2010	2011	2012	2013	2014	2015
Total no. of companies	58	58	58	58	58	58
No. of companies disclosing	36	37	47	54	55	56
Total no. of pages disclosed	54	71	70	106	123	167
Average volume of CSR (mean pages)	0.94	1.22	1.20	1.8	2.12	2.88
Maximum pages disclosed	4.35	4	3	5.65	15.85	17.75
Minimum pages disclosed	0	0	0	0	0	0

Table 6.1 shows that over the six-year period, all of the reports of sample contained CSR disclosure. In addition, it includes the number of companies that disclosed CSR information over the six years, indicating a significant increase from 2013 to 2015, with most companies disclosing CSR by the end of the period. The table also clearly demonstrates that the total number of pages devoted to CSR information increased from 54 in 2010 to around 70 in 2011 and 2012, and there was a significant increase between 2012 to 2013 by approximately 50% to 106 pages. Moreover, the CSR disclosure continued increasing in the last two years by 16% in 2014 to 123 pages and 36% in 2015 to 167 pages. The average disclosure over the six years indicates a significant increase, with the maximum pages disclosed by a single company increasing from 2013 to 2015, with the highest volume in 2015 (17.75 pages).

Table 6-2: Number of companies per sector

Sector	Number of companies
Petrochemical	14
Cement	13
Agriculture and Food	15
Industrial Investment	14
Energy and Utilities	2
Total	58

Table 6-3: Volume of CSR per sector from 2010 to 2015

Sector	2010	2011	2012	2013	2014	2015
Petrochemical	21	26	27	31	37	40
Cement	11	18	18	28	27	32
Agriculture and Food	7	9	11	24	36	53
Industrial	12	12	9	15	16	20
Energy and Utilities	3	6	5	8	7	22
Total per pages	54	71	70	106	123	167

Table 6.3 shows the largest disclosure was from the petrochemical sector between 2010 to 2014, but it was overtaken by the Agriculture and Food sector in 2015. The second-largest was from the Industrial sector in 2010, and the Cement sector was the second largest between 2011 to 2013. In 2014, the second-highest disclosure was the Agriculture and Food sectors, while the second-largest was the petrochemical sector in 2015.

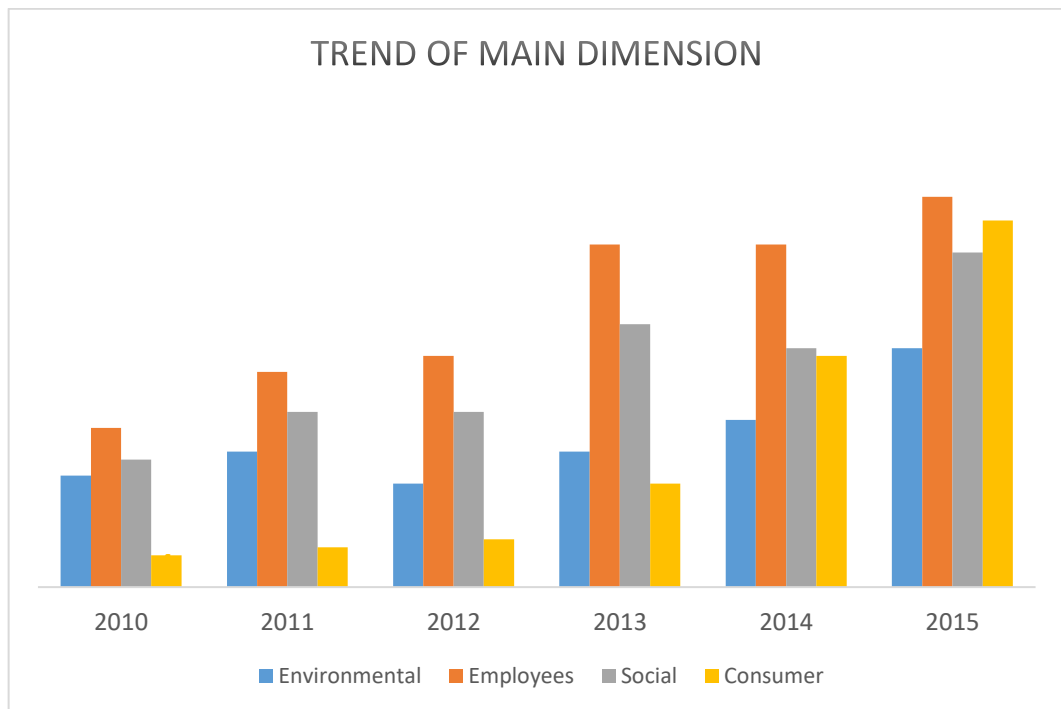


Figure 6-1: Trend of main dimension

*Table 6-4: Percentage of CSR disclosure per dimension, 2010-2012*

	2010		2011		2012	
Environmental	14	26%	17	23.5%	13	18%
Employee	20	38%	27	38%	29	42%
Social	16	29%	22	31.5%	22	31%
Consumer	4	7%	5	7%	6	9%
Total	54	100%	71	100%	70	100%

*Table 6-5: Percentage of CSR disclosure per dimension, 2013-2015*

	2013		2014		2015	
Environmental	17	16%	21	17%	30	18%
Employee	43	41%	43	35%	49	29%
Social	33	31%	30	24%	42	25%
Consumer	13	12%	29	24%	46	28%
Total	106	100%	123	100%	167	100%

Figure 6.1 shows the trend of the total pages by volume of environmental disclosure; employee disclosure; social disclosure and consumer disclosure over the six years. However, most of this total is related to employee disclosure. As shown in Tables 6.4-6.6, the total disclosures over the six years and indicate a high priority to employee, social and environmental information and a low priority given to consumer disclosures between 2010 to 2013, however there were increases in consumer disclosure in 2014 and 2015 within the sample.

Table 6-6: Volume of disclosure per dimension

<i>Environmental disclosure</i>	2010	2011	2012	2013	2014	2015
No. of companies disclosing	18	18	22	34	34	39
% of companies disclosing of total sample	31%	29%	36%	59%	59%	67%
No. of pages disclosing	14	17	13	17	21	30
Average volume of disclosure (mean pages)	0.24	0.29	0.22	0.29	0.37	0.52
<b>Social disclosure</b>						
No. of companies disclosing	27	29	36	40	41	45
% of companies disclosing of total sample	46%	50%	62%	69%	71%	77%
No. of pages disclosing	16	22	22	33	30	42
Average volume of CSR (mean pages)	0.27	0.38	0.37	0.57	0.52	0.72
<b>Employees disclosure</b>						
No. of companies disclosing	31	34	39	47	48	50
% of companies disclosing of total sample	52%	55%	67%	81%	83%	86%
No. of pages disclosing	20	27	29	43	43	49
Average volume of CSR (mean pages)	0.35	0.46	0.50	0.74	0.74	0.84
<b>Consumer disclosure</b>						
No. of companies disclosing	14	15	18	38	44	43
% of companies disclosing of total sample	24%	24%	26%	65%	76%	74%
No. of pages disclosing	4	5	6	13	29	46
Average volume of CSR (mean pages)	0.07	0.09	0.11	0.21	0.50	0.79

## 6.2.2 Trends in Environmental Disclosure

Table 6.6 shows that the total volume of environmental information disclosure rose from 14 pages in 2010 to 30 in 2015, an increase of approximately 100%. Moreover, the total number of companies disclosing environmental information of the sample also increased over the six years, from 31% of the sample in 2010 across 18 companies to 67% in 2015 across 39 companies. Furthermore, Tables 6.7-6.8 show that the environmental information disclosed in 2010 of 26% decreased to 18% in 2015.

Table 6-7: Environmental disclosure, 2010-2012

Category	2010			2011			2012		
	N*	P**	%	N*	P**	%	N*	P**	%
Training	8	2.15	44	6	1.9	33	9	2.55	41
Pollution control	3	2	16	2	2.75	11	4	1.6	18
Awards	1	0.25	5	4	0.7	22	7	2.25	32
Policy and audit	18	9.75	100	17	11.3	94	21	6.55	95

Table 6-8: Environmental disclosure, 2013-2015

Category	2013			2014			2015		
	N*	P**	%	N*	P**	%	N*	P**	%
Training	10	2.35	29	12	3.49	35	14	4.45	36
Pollution control	9	2.38	26	9	2.33	26	11	4.58	28
Awards	9	1.60	26	8	1.8	24	12	2.35	31
Policy and audit	33	10.50	97	34	13.85	100	37	19.10	95

N\* Number of companies disclosing

P\*\* Total no. of pages disclosed

%\*\*\* Percentage of companies disclosing

Tables 6.7-6.8 show the total volume of environmental disclosure in the four categories training, pollution control, awarded, and policy and audit over the six years. It was found that the total volume of pages of environmental training increased slightly between 2010 and 2015, as did the number of companies that disclosed environmental training information, from 8 to 14.

In addition, it was found the total volume of pages and number of companies that disclosed pollution control increased slightly between 2010 and 2015, and the number of companies that disclosed environmental pollution information increased from three in 2010 to 11 in 2015. Moreover, in environmental awards, there was a significant increase from 2010 to 2015 in the number of companies disclosing the awards information and the volume of disclosure. It was also found that companies disclosed more in environmental policy and audit during the period, with the number of companies increasing from 18 (2010) to 37 (2015). Moreover, it can be seen that environmental policy and audit was given higher priority than other environmental information.

However, results concerning this type of disclosure, as shown in Table 6.6 indicate that less than 50% of companies in the sample disclosed environmental information in the first three years between 2010 to 2012, but there was a significant increase in each of the following three years, from 2013 to 2015.

*6.2.2.1 Training information disclosure examples:*

- **SABIC** gives over 134,446 hours of training to employees on safety, health and the environmental in 2012.
- **YANSAB** gives 16,000 hours of training on safety, health and environmental in 2010.

*6.2.2.2 Pollution control information disclosure examples:*

- **SABIC** applies Life Cycle Analysis (LCA). Measures adopted as a result of LCA application have acknowledged the company as helping the steel industry save \$17 million worth of natural gas, which was available for alternative needs within the regional market.
- **Saudi Fisheries** applies a filter technique to clean water before it is returned to the sea after use in a shrimp farm.
- **Eastern Cement** has installed a dust control system in production line 1 and 2 to reduce environmental impacts.
- **Saudi Cement** has replaced the filter with a new bag house filter as a dust control system to reduce environmental impacts.

*6.2.2.3 Awards information disclosure examples:*

- **Chemanol** achieved membership in Responsible Care after achieving the requirements for social and environmental responsibility.



- **Alujain** was a commended winner of the Silver Award from the Royal Society for the Prevention of Accidents (RoSPA, UK). Alujain is a member of the British Safety Council and the Perfect Record Award from the National Safety Council, USA.
- **Petro Rabigh** received the Gold Award Certificate from the Royal Society for the Prevention of Accidents (RoSPA).

#### 6.2.2.4 *Policy and audit information disclosure examples:*

- **SABIC** also reported on the SAFER program which it started in 2010 to provide an effective system for identifying, assessing, recording, mitigating, and stewarding Environment, Health, Safety and Security (EHSS) risks, with a view to their elimination or reduction to acceptable levels.
- **SAFCO** achieved a rate of 0.08 of working in a safe and healthy environment; the plan was 0.65 in 2012, representing an excellent rate of environmental protection.
- **Saudi Kayan** completed 8 million working hours without any disabling injuries to company employees, and 485,000 working hours without any disabling injuries to employees in 2012, as per an environment audit.

### **6.2.3 Trends in Social Disclosure**

Table 6.5 shows that the total volume of social information disclosure increased significantly over the period 2010-2015, from 16 to 42 pages. Additionally, the highest increase was between 2013 to 2015. Moreover, the total number of companies disclosing social information was 46% of the sample from 27 companies in 2010, increasing to 77% from 45 companies in 2015. Further insights can be obtained from Tables 6.9-6.10, which show an increase in social disclosure a slight decrease from

29% in 2010 to 25% in 2015.

Table 6-9: Social disclosure, 2010-2012

Category	2010			2011			2012		
	N*	P**	%	N*	P**	%	N*	P**	%
Charity	13	5.82	48	17	7.75	59	21	7.3	58
Community activity	25	10.07	92	26	14.6	90	32	14.4	89

Table 6-10: Social disclosure, 2013-2015

Category	2013			2014			2015		
	N*	P**	%	N*	P**	%	N*	P**	%
Charity	12	4	30	11	4	27	9	3	20
Community activity	38	29	95	39	26	95	43	39	95

N\* Number of companies disclosing

P\*\* Total no. of pages disclosed

%\*\*\* Percentage of companies disclosing

Tables 6.9-6.10 illustrate the frequencies, percentages and total volumes of two social categories, charity and community activity. Charity disclosure decreased between 2010 and 2015 from 6 to 3 pages, and the number of companies disclosing decreased from 13 (2010) to 9 (2015). However, the number of companies disclosing community activity information significant increased from 25 (2010) to 43 (2015), and the total volume of pages increased from 10 pages (2010) 39 pages (2015). During the same period companies gave more priority to disclose community activity information than charity disclosure.

#### 6.2.3.1 Charity activities examples:

- **SAFCO** donated to a Medical Research Centre in Riyadh and was involved in other charity activities.
- **SIPCHEM** has allocated 1% of its total annual net profit to social responsibility programs and charities.
- **SABIC** spent SR 563 million on the Research Center at King Abdullah University of Science and Technology; and SR 375 million on the

establishment of SABIC Plastics Applications Development Center at Riyadh Technology Valley, in conjunction with the King Saud University.

- **SADAFCO** donated to a charity for the deaf and mute and other charities.
- **SAVOLA** created a program called ‘Keep change for charity’ to encourage donations from customers.
- **Aljouf Cement** donated 200 tonnes of cement to a charity project.
- **City Cement** donated to the Syrian Crisis and towards other charities.
- **Saudi Cement** spend SR50 million to build a clinic for accident and emergencies at the Al-Hasa City Hospital.
- **SIPCHEM** spent SR 7 million on charitable activities during 2012, an increase of 100% on 2011.

#### 6.2.3.2 *Community activities examples:*

- **SAFCO** provided opportunities for 34 students to learn from its professional staff through an internship program.
- **Alujain** won second place at the 2012 King Khaled Awards for Responsible Competitiveness, as well as the Marafiq Sustainability Award for 2012.
- **SABIC** organized three Children Challenging Industry events for around 70 young students at SABIC’s Wilton site in the UK. Children were given a half-day visit to the site and 30 SABIC staff coached 15 teams from local high schools. The Company established a Student Scholarship Program for young Saudis studying various engineering and business degree courses in the UK; it also initiated a grants project worth SR 7 million (\$1.9 million) for the Disabled Children’s Association that covers treatment and education costs for 20 children for five years. SABIC provided SR 4 million (\$1 million) to support a mobile clinic.

- **PETRO RABIGH** completed a contract to expand 6 km of local roads that connect to the Jeddah–Yanbu highway, for the benefit of more than 1,000 employees, 1,000 trucks and 2,000 city visitors. Furthermore, the company supported displaced people in Somalia and Japan after the 2011 earthquakes; it also provides a summer training program for 24 high school students and an annual bachelor’s scholarship program for four students who are not employees of the company.
- **NADEC** has sponsored a number of social activities (National Day, Disabled International Day and Sugar International Day).
- **SADAFCO** sponsored World School Milk Day and opened a career day for students at the King Abdullaziz University.
- **SAVOLA** employed 306 people with disabilities during the period and created the Sovala Total Accessibility project in three company locations, gaining a certificate from Global Alliance on Accessible Technologies and Environments (GAATES).
- **Tabuk Agriculture** contributed to society by giving free advice and consultations to local farmers and invited students and others to visit their site.
- **Arabic Cement** built a 60,000 m social center for social and sporting activities in Rabigh.
- **Hail Cement** paid SR 200,000 for the Hail Rally as sponsor and supported city activities.
- **Qassim Cement** donated SR 3 million to build a laboratory for food testing in Qassim city that to monitoring the food as health and safety.
- **Maadan** spent SR 84 million to build two training centres.

- **TASNEE** donated blankets during winter to poor people in the north of Saudi Arabia.

#### 6.2.4 Trends in Employee Disclosure

Table 6.11-6.12 shows that the total volume of employee information disclosure increased slightly each year from 20 pages (2010) to 49 pages (2015), an increase of approximately 150% over the period. Moreover, the total number of companies disclosing employee information was 52% of the whole sample (2010) from 31 companies and 86% (2015) from 50 companies. Employee information disclosed decreased from 38% (2010) to 29% (2015).

Table 6-11: Employee disclosure, 2010-2012

Category	2010			2011			2012		
	N*	P**	%	N*	P**	%	N*	P**	%
Pension and employee benefit	12	5	39	16	8	47	17	8	44
Training	20	6	64	25	9	73	27	11	69
Employment	26	8	84	29	8	85	33	10	85
Other employee information	4	1	13	4	2	12	2	0.35	5

Table 6-12: Employee disclosure, 2013-2015

Category	2013			2014			2015		
	N*	P**	%	N*	P**	%	N*	P**	%
Pension and employee benefit	28	16	60	26	15	54	27	14	54
Training	23	10	49	25	10	52	29	12	58
Employment	43	17	91	43	18	89	46	23	92
Other employee information	1	0.20	0.02	1	0.10	.02	0	0	0

N\* Number of companies disclosing

P\*\* Total no. of pages disclosed

%\*\*\* Percentage of companies disclosing

Tables 6.11-6.12 demonstrate the frequencies, percentages and total volumes of employee disclosure for four categories: pension and employee benefit, training, employment and other employee information. Pension and employee benefit disclosure increased from 5 pages (2010) to 14 pages (2015) and the number of

companies disclosing increased from 12 (2010) to 27 (2015). Also, training disclosures increased from 6 pages (2010) to 12 pages (2015) and the number of companies disclosing increased from 20 (2010) to 29 (2015). The number of companies disclosing employment information rose from 26 (2010) to 46 (2015). Volume also increased from 8 pages (2010) to 23 pages (2015). For other employee information, there was a slight decrease in the number of disclosing companies and the volume of disclosure between 2010 and 2015. Furthermore, the employment information was given more priority than other employee categories.

#### *6.2.4.1 Pension and employee benefit disclosure examples:*

- **TASNEE** spent SR 8.4 million on an interest-free home loan program for its employees.
- **SIPCHEM** signed a contract with Saudi STX Construction Co. Ltd. to build 354 housing units for its employees in the district of Jalmoudah in Jubail Industrial City. The Company has also initiated an Islamic Sharia-compliant savings plan to motivate its employees and enhance their loyalty to the company, which it hopes will improve work performance.
- **SADAFCO** is giving 20 years' services award to those who complete 20 years working service and free gym membership to 300 employees.
- **SAVOLA** established an interest-free 10-year home loan program.
- **Maaden** spent SR 96 million on a home loan program in 2011 and 2012.
- **Saudi Electric** paid and covers 70% of the mortgage interest for employees with private mortgages from local banks.
- **Sipchem** is implementing an employee incentive program that aims to encourage the company and affiliated employees to maintain and improve their

work performance. The total number of the program shares reached 1,826,354 as of 31<sup>st</sup> December 2011.

#### 6.2.4.2 *Training information disclosure examples:*

- **SAFCO** trained over 2,600 of its employees between 2010 and 2012.
- **SAUDI KAYAN** had over 166,907 hours of training for employees in various administrative and technical areas in 2011 and 2012.
- **PETRO RABIGH** enrolled over 981 employees in 47 in-house training programs, while 307 employees attended out-of-company (OOC) training programs.
- **Qassim Cement** had over 70,000 hours of training during the three years.
- **Maadan** spent SR 28 million on employee training in 2011.
- **GASCO** trained 350 employees every year during the three years.
- **Saudi Electric** trained over 35,455 employees in 2012.

#### 6.2.4.3 *Employment information disclosure examples:*

- **SAFCO** provided an employment training program for 947 students.
- **SABIC** increased the proportion of Saudi employees from 83% to 84% in 2012, representing a total of 21,400.
- **PETRO RABIGH** has 2,769 employees, of whom 85% are Saudi citizens.
- **SAVOLA** has 18,500 global employees, including 13,500 inside Saudi Arabia, of whom 40% are Saudi nationals.
- **Aljouf Cement** increased their employees from 275 in 2011 to 519 in 2012.
- **Saudi Electric** had between 86-87% national employees, surpassing the mandatory quota requirement.

#### 6.2.4.4 Other employee information disclosure examples:

- **Sipchem** won the first place as the Best Saudi Work Environment Company and is ambitious to continue achieving the best work environment not only in the Gulf region but in the Middle East.
- **Chemanol** surveyed employees to get their feedback and to review and change working procedures and to give equal opportunities to all employees.

### 6.2.5 Trends in Consumer Disclosure

Tables 6.13-6.14 show that low priority was given to consumer disclosures by companies between 2010 to 2013, but it was increasingly prioritized between 2014 and 2015. The total volume of consumer information disclosure increased over the six years, with disclosures rising from four pages in 2010 to 46 by 2015. Additionally, the largest increase was between 2014 and 2015. Moreover, the total number of companies disclosing consumer information was a significant increase from 14 companies (2010) representing 24% of the sample to 43 companies by (2015), representing 74% of the sample. Consumer information disclosure increased significantly from 7% in 2010 to 28% in 2015.

Table 6-13: Consumer disclosure, 2010-2012

Category	2010			2011			2012		
	N*	P**	%	N*	P**	%	N*	P**	%
Quality and safety	14	4	100	15	5	100	17	6	94
Other consumer disclosure	0	0	0	0	0	0	1	0.15	5

Table 6-14: Consumer disclosure, 2013-2015

Category	2013			2014			2015		
	N*	P**	%	n*	P**	%	n*	P**	%
Quality and safety	38	13	100	44	29	100	43	46	100
Other consumer disclosure	0	0	0	0	0	0	0	0	0

N\* Number of companies disclosing

P\*\* Total no. of pages disclosed

%\*\*\* Percentage of companies disclosing



Tables 6.13-6.14 show the frequencies, percentages and total volume of the two consumer categories quality and safety, and other consumer disclosure. The number of companies disclosing quality and safety information increased from 14 (2010) to 43 (2015), and the volume increased from 4 pages (2010) to 46 pages (2015). Other consumer information was only 0.15 pages in 2012. In addition, most consumer disclosure concerned quality and safety information.

#### *6.2.5.1 Quality and safety information disclosure examples:*

- **CHEMANOL** follows international product policies and meets its customers regularly to get their feedback and assessments on their products. The company also consistently maintains its ISO9001, 2000 QMS certification.
- **YANSAB** products are certified for use in medical and food products because of their high quality, as evidenced by the GMP certificate the company was awarded.
- **KAYAN** was ISO 9001 (QMS) certified in 2011 for quality system.
- **SAFCO** was ISO 17025 certified, given the high quality of its products.
- **Saudi Fisheries** was certified ISO 9001-2000, HACCP and SQF (safe and healthy food).
- **Tabuk Agriculture** achieved a quality certificate for their honey and olive oil products.
- **Halwani Bros** was ISO 200:9001 compliant and their products were approved by Codex Alimentations international food standards.

#### *6.2.5.2 Other consumer disclosure examples*

- **Petrochem** performs inspections on factory machines to ensure the production of high quality products.

### 6.3 Discussion and Conclusion

This study examines the extent to which 58 companies listed on the Saudi Stock Exchange complied with CSR during the 2010 to 2015 period. Overall, a significant increase in CSR reporting was observed over the period, despite the fact that private-sector companies are still in the early stages of awareness as far as integrating CSR activities into their corporate policies and strategies. This is consistent with previous research in Saudi Arabia by Mandurah et al. (2012), which reported that Saudi Arabia is still in the early stages of CSR awareness. Furthermore, the results indicate that over the six years low priority was given to consumer disclosures in the first four years (2010- 2013), while relatively high priority was given to employee, social and environmental information. However, there was a marked increase in consumer disclosure during the period 2014 to 2015.

Moreover, environmental policy and audit were given higher priority than other environmental information. In addition, during the same periods companies gave more priority to disclosing community activity information than charity disclosure. Furthermore, employment information was given more priority than other employee categories, and most consumer disclosure concerned quality and safety information.

Relatively speaking, there is increasingly significant interest in CSR in Saudi Arabia, with companies increasingly joining efforts with the government to attend to matters of social responsiveness, with an apparent bias towards focusing on employee reporting. It was noted that some companies repeated the same CSR information over three years, for example [Petro Rabigh](#), [Eastern Cement](#), [Tabuk Cement](#), [BCI](#) and [Saudi Chemical](#). Moreover, some companies do not give clear details of CSR, for example [Yansab](#), [Kayan](#), [Sharqiya Dev](#) and [Hallwany Bros](#) state they organise some social

activities without giving more detail on what these might be. Furthermore, some companies did not change their CSR information during the first three years and disclosed replicated CSR information without changing any part of it, for example [Aljouf Agriculture](#), [Tabuk Agriculture](#), [Alabdullatif](#), [Shaker](#) and [SPM](#). Also, we noted [City Cement](#) disclosed CSR information in 2012 about a golden award that was achieved in 2009.

#### **6.4 Summary**

This chapter presents the result obtained from content analysis. It started by demonstrating the trends in CSR disclosure as general in Saudi Arabia over six years. Then, it shows the trend in each categorize and started with trends in environmental disclosure which include the four categories: training, pollution control, awarded, and policy and audit. It also presents the trend in social disclosure and include two social categories, charity and community activity. After that, the trend in employee disclosure been showed and include four categories: pension and employee benefit, training, employment and other employee information. It also presents the trends in consumer disclosure and include two consumer categories quality and safety, and other consumer disclosure. The final section present discussion and conclusion of the finding of the content analysis.

## **7 Chapter Seven: Interview Results Analysis**

### **Introduction**

**Understanding General Perspectives on CSR in Saudi Arabia**

**Understanding CSR Disclosure**

**CSR Awareness in Saudi Arabia**

**CSR Integrating into Corporate Policies and Strategies in Saudi Listed Companies**

**CSR Disclosure Format Currently Used in Saudi Arabia**

**Accountability**

**Stakeholders**

**Religion, Local Culture and Regulation**

**Challenges and Promotion of CSR in Saudi Arabia**

**Summary**

## 7 INTERVIEW RESULTS ANALYSIS

### 7.1 Introduction

This chapter explores the results of interviews carried out with two interviewee categories, namely Company Representatives (CR) and External Stakeholders Representatives (ESR). Since all the interviewees were Saudis and some of them could not speak English or spoke very little of it, the interviews were conducted in Arabic, using the semi-structured interview format, and the results translated to English. Each group comprised 13 respondents and the same guiding questions were posed to each, with wording modifications and additional questions used, wherever necessary, for clarification purposes. Each interview lasted approximately forty minutes on average.

For reasons of privacy, no interviewee names are used in this report; codes are used instead, as indicated in Tables 7.1-7.2.

All interviewees had tertiary education qualifications, with the following distribution. Three of those in the CR category were diploma holders, while six had bachelor's degrees and five possessed master's degrees. In the ESR category, only one held a diploma, six had bachelor's degrees, five had master's degrees and one had a PhD. The average age of the respondents was 41, with only one aged below 30 and two above 50.

Table 7-1: Company Representative (CR) interviewees

No	Code	Position	Sector	Qualification	Age
1	SC1	Shareholders Coordinator	Food and Agriculture	Diploma	42
2	SC2	Shareholders Coordinator	Multi-Investment	Diploma	45
3	CFO1	CFO	Cement	BSc	45
4	HCM1	Head of Cash Management	Petrochemicals	MSc	33
5	SC3	Investor Relations Manager	Food and Agriculture	BSc	40
6	HCG1	Head of Corporate Governance and investor Relations Division	Industrial Investment	MSc	40
7	PR1	Public Relations Coordinator	Petrochemicals	Diploma	42
8	SS1	Senior Sustainability Specialist	Industrial Investment	BSc	45
9	SM1	Marketing Research and Development Manager	Energy and Utilities	MSc	38
10	HS1	Health and Safety Manager	Petrochemicals	BSc	37
11	PR2	Public Relations Manager	Cement	BSc	31
12	PR3	Public Relations and Publicity Manager	Energy and Utilities	BSc	48
13	CSRM1	CSR Manager	Petrochemicals	MBA	50

Table 7-2: External Stakeholder Representative (ESR) interviewees

No	Code	Position	Sector	Qualification	Age
1	S1	Shareholder	Multi-Investment	Diploma	48
2	S2	Shareholder	Multi-Investment	BSc	39
3	CM1	Community Representative	Community	Master	44
4	CM2	Community Representative	Community	BSc	28
5	S3	Shareholder	Multi-Investment	BSc	58
6	R1	Regulator	Saudi Organization for Certified Public Accountants	PhD	50
7	S4	Shareholder	Multi-Investment	BSc	33
8	S5	Shareholder	Multi-Investment	BSc	62
9	CM3	Community Representative	Community	BSc	31
10	R2	Regulator	Ministry of Trade and Industry	Master	42
11	R3	Regulator	Certified Auditor	Master	31
12	R4	Regulator	Royal Commission for Jubail and Yanbu	Master	41
13	CM4	Community Representative	Community	MBA	33

## 7.2 Understanding General Perspectives on CSR in Saudi Arabia

The interviewees were asked how they defined CSR and its relationship with CG.

- *CRs*

Eight of the CR interviewees defined it in terms of a company's legitimate and obligation to contribute to societal wellbeing:

“CSR is a companies legitimate and obligation e.g. making donations to society, both financial and in kind, as well as by organizing or funding social activities”. (PR3)

According to another respondent, CSR is a tool that ensures the human rights of people who, in one way or another, are served or affected by businesses. The respondent gave as an example of a socially responsible company as one that decided to spend more on a project so that its employees could be provided with air-conditioned transport. In the opinion of this respondent, CSR involves:

“...guaranteeing the rights of employees, their families and society at large”. (CSR1)

From his standpoint, CSR must address four pillars of human development demanded by citizens: knowledge (education), economic wellbeing, social harmony and sustainable usage of natural resources (i.e. proper management of the natural environment). Each of these can be broken down into measurable facets that CSR planners and implementers must consider. In the opinion of another interviewee, CSR

is the encapsulation of all of business stakeholders into one entity, whereby companies and society cannot be viewed as existing independently of each other:

“Companies utilize resources that belong to society so it’s only natural that they should pay back”. (HCM1)

A fourth interviewee saw CSR as an instrument through which a company’s legitimacy can be measured. In his words:

“Companies must legitimize their existence by repaying society for the use of its resources”. (SC2)

An interesting view of CSR was given by a respondent who defined it as a tripartite creature bearing social, economic and environmental characteristics:

“One cannot talk about economic development in the absence of social improvements, nor can we talk about social development without considering the natural environment in which people live; the three things go hand-in-hand”. (SS1)

Another noteworthy concept was that of the *willing giver* advanced by one of the respondents, who said CSR is and must always be:

“The making of voluntary contributions to society without strings attached; no conditions must be imposed on society in return for the contributions”. (SM1)



Regarding the existence of a relationship between CG and CSR, five CR interviewees found CSR to be a subset of CG; as one of them expressed:

“CSR is part of CG because both make reference not only to the rights of a company’s employees, but also to those of the community as a whole; CG takes care of the interests of both the company and the community”. (CSR1)

While agreeing that CSR should be part of CG, one respondent lamented that:

“In the case of Saudi Arabia, CSR is still NOT part of CG, as some of the basic requirements for the integration of the two, such as transparency, are still not part of business culture in the country”. (CFO1)

Voicing a different opinion, four CR interviewees saw no relationship between CSR and CG, as one of them said:

“The two of CR cannot be part of each other as GC is mandatory and CSR is voluntary”. (SC2)

In the opinion of one CR interviewee, CG is part of CSR and not the other way round:

“CG is part of the requirements for the implementation of CSR; therefore CSR covers CG, and not vice-versa”. (SS1)

Three of the interviewees could not tell whether or not there was a relationship between CSR and CG.

- *ESRs*

Ten of the ESR interviewees defined it in terms of a companies legitimate and obligation to contribute to societal wellbeing and they have to pay back to community for the natural resources they used:

“A firm is a person, that person has rights and responsibilities. In addition, companies take a chance to use the natural resource and get personal interest, therefore they need to pay back to the community and legitimise their existence. It might be do not pay anything, but do not affect the environment for example”. R1

According to another two respondents, CSR is about a feeling of responsibility as the company is part of society, thus it should undertake CSR as part of its social obligations:

“It is the feeling of responsibility and recently the Royal Commission for Jubail and Yanbu (RCJY) started to encourage the companies to do CSR by add it as requirement to renew contract with petrochemicals companies”. R4

One respondent appeared to have given some thought to the theoretical conceptualization of CSR:

“Unfortunately, Saudi society thinks CSR is only community, but CSR is economic, environment and ethical”. R2

Regarding the existence of a relationship between CG and CSR, four ESR interviewees found CSR to be a subset of CG; in the words of one of them:

“GC is part of CSR because the company needs governance CSR”. R2

While agreeing that CSR should be part of CG, one respondent lamented that:

“CSR is part of CG but they keep the CSR not part of CG in Saudi Arabia. In addition, the company is doing CSR voluntarily”. (CM1)

Voicing a different opinion, four interviewees saw no relationship between CSR and CG. Explaining his disagreement, one of them said:

“There no relationship between CSR and CG and the CSR is voluntary”. S3

Two of the interviewees could not tell whether there was a relationship between CSR and CG.

### **7.3 Understanding CSR Disclosure**

The interviewees were asked to give their views on the importance of CSR disclosure.

- *CRs*

Three CR interviewees cited transparency as the most important aspect of CSR disclosure:

“Any activity or change that has financial implications must be disclosed with full transparency”. (CFO1)

Two of CR interviewees were of the view that an impressive CSR disclosure by one company has the potential to encourage other companies to do the same, something that would ultimately increase benefits to the community:

“An impressive CSR disclosure by one company could set the standard for others to emulate and this can lead to greater CSR contributions to society”. (CSR1)

An interviewee who held negative views about CSR disclosure said he was opposed to the concept because some companies may use disclosure to show off, which is not what CSR is all about. He went on to argue that:

“Our religion says when you donate, do not advertise it but keep it between God and yourself”. (PR3)

To some of the interviewees, CSR disclosure constituted a means by which businesses could be held accountable in terms of the good they do to society. One of them said:

“Even though CSR is voluntary, companies have the moral obligation to inform society of their social responsibility contributions so that society can judge the validity of their existence. The extent to which each company contributes is only measurable if pertinent information is released (disclosed) in full. Disclosing CSR information is also beneficial to researchers whose research findings ultimately benefit businesses and national economies”. (SS1)

- *ESRs*

Regarding the view of ESR, ten of them cited transparency as the most important aspect of CSR disclosure. One of them said:

“The company should disclose their CSR information as transparency because the money spent on CSR is shareholders’ money; there should be accountability in that, and they should have a strategic plan and goals for the CSR practice, not looking to it as marketing”. S3

Two interviewees were of the view that an impressive CSR disclosure by one company has the potential to encourage other companies to do the same, something that would ultimately increase benefits to the community:

“The company should disclose their CSR information, and that will encourage other companies to do CSR”. S1

An interviewee who thought CSR disclosure and accountability should be part of regulations said:

“It should CSR disclosure and accountability includes in the disclosure part in regulation”. CM4

#### **7.4 CSR Awareness in Saudi Arabia**

The interviewees were asked about the CSR awareness in Saudi Arabia.

- *CRs*

The CR interviewees were asked for their opinion on the level of CSR awareness in Saudi Arabia during the past three years. Eleven said there had been an increase, although it remained below their expectations.

“Philanthropy has always been present in Saudi society; people have always given to their less privileged fellow citizens. In recent years, though, companies have slowly been taking the lead, not only in giving but also in raising awareness. For the last three to four years awareness has been rising, although rather too slowly”. (CSR1)

One interviewee lamented this slow progress, saying awareness had only been evident at a community level:

“CSR awareness has only been evident at community level, with individuals making the most donations, but this is not sustainable in the long run. Companies should come on board!” (SS1)

The interviewees were asked to comment on support of CSR activity in the country. Six of them said that the government was working at it but more needed to be done. Comments by some of them were:

“I don’t think enough is being done to promote CSR in the country”. (HCG1)

“I have not seen any effort on the part of government to spur CSR activity in this country; if at all they are doing something, then it’s certainly too little to be noticed”. (PR2)

“There seems to be very little support on the part of government, but then why would companies or individuals need to be drilled into giving? The act of giving should be out of the donor’s free will; it should depend on what the giver feels towards the less privileged in society”. (SC3)

Furthermore, the CR groups were also asked of the benefits derived from disclosing CSR information. In the view of two of the respondents of CR group, CSR disclosure positively impacts financial performance assessment, as no expenditure is left unaccounted for:

“Integrating CSR in a firm’s business strategy is of vital importance because fragmented handling of CSR functions that leads to unnecessary duplications can be avoided. Strategizing CSR brings order and allows the company’s growth to be measured more realistically by comparing past

to present performance with CSR expenditure included”.

(SS1)

Five CR interviewees were of the opinion that CSR disclosure would raise awareness among listed companies and thus encourage them to join hands in the concerted provision of CSR to the community. Of the five, one said:

“There is no doubt that when some companies publish their CSR contributions, others are encouraged and thus tend to emulate them. This is particularly true for important corporations such as SABIC”. (PR1)

For some interviewees CSR disclosure can serve as an important marketing tool:

“Public awareness of a company’s CSR contributions raises the company’s reputation, which in turn increases the public’s good will to purchase its goods and/or services; it’s as simple as that. If you want to raise your company’s value, then raise its reputation; if you want its value to decrease, then be mean ignore CSR contributions and face the consequences; your sales will plummet and your company’s value will go down”. (SC1)

Additionally, the CR interviewees were asked to state the extent to which they were satisfied with private sector CSR participation and disclosure in Saudi Arabia at the moment. Seven said they were



somewhat unhappy; two that they were not happy at all; three that they were neither particularly happy nor particularly unhappy, and one that he was somewhat happy. Not a single one of them said he was very happy with current CSR implementation and disclosure practice in the country.

Moreover, when asked to comment on CSR practice in their own companies, eleven of the CR interviewees said their companies were implementing CSR. Of the eleven, one bemoaned how grudgingly this was being done:

“There is some activity but it is rather too slow. What happens is that when we receive invitations to participate in CSR activities, we need to seek the approval of the board, and such approval is not always forthcoming. It is also sad that approval comes fast only when we know we’ll get something in return, such as favors from environmental organizations”. (CFO1)

Another respondent said:

“We have strategic plans; we look not only at what is happening today, but also what the future holds. At the moment, we are engaged in capacity building in charitable and similar activities so that our society acquires the ability to serve itself better”. (CSR1)

Two respondents said their companies were not practicing CSR because their businesses were not in a position to spend, as they were not making profit. In this regard one said:

“We do not have CSR in our company because we have not been making a profit”. (SC2)

In addition, when CR interviewees were asked to state the reasons why their companies were actively taking part in CSR activities, ten cited what they called the feeling of culture-based moral obligation experienced by top management and board members. One of the ten, who worked for a large corporation said:

“As a national company, we feel that it is our obligation to give back to the community, although this is not mandated by law. Besides, how could we just sit back and not help the people to whom we owe our existence; that’s not natural!”  
(CSR1)

Echoing this same sentiment, one other respondent said:

“We engage in CSR activities because it is our company’s culture; we feel a moral obligation to pay back to the community”. (HCM1)

Two interviewees attributed their firm’s CSR participation to the need to obtain certifications from certain organizations, such as the Responsible Care or Gulf Petrochemical and Chemical Association,

which make CSR participation a requirement for the award of their certificates. In his own words, one of the two interviewees said:

“The reason why we are involved in CSR activities is to get certificates such as those awarded by Responsible Care or Gulf Petrochemical and Chemical Association where to be a member, the firm needs to prove that it is involved in CSR actions”. (HS1)

Similarly, another interviewee said his company only engages in CSR because doing so is good for business (i.e. company value):

“It’s all about business. If you don’t participate, the public will complain about your company and this will lead to loss of market share”. (SS1)

- *ESRs*

The ESR interviewees were asked their opinion on the level of CSR awareness in Saudi Arabia during the past three years. Eight said there had been an increase, although it was below their expectations. An explanation given by one of the four was:

“It is better than before but still below our expectations, especially CSR in banks”. S1

Three interviewees saw no change in CSR disclosure and accountability awareness in Saudi Arabia. According to one of them:

“I do not believe there have been any changes in CSR in last three years; maybe from personal or individual effort”.

CM4

Disagreeing with everyone else, one interviewee was opposed and saw the CSR in 2003 and 2004 as having been greater than in the last three years:

“We heard about CSR more in 2003 and 2004 more than today”. S4

One of the interviewees could not tell which kind of CSR information had been more considered.

With regard to the benefits derived from disclosing CSR information, the view of eleven of the ESR respondents was that CSR disclosure can serve as an important marketing tool:

“There are two kind of benefits. Firstly, people will respect the company. Secondly, company will build relationship with community for long time”. S4

Two interviewees were of the opinion that CSR disclosure would raise awareness among listed companies and thus encourage them to join hands in the concerted provision of CSR to the community:

“Disclosing CSR information that will increased the awareness of CSR culture” R3

Furthermore, the ESR interviewees were asked to comment on support to motivate CSR activity in the country. Eleven of them said the government was working at it but more needed to be done:

“Not enough and need to increase the awareness of CSR”.

S5

“It is not enough compare it with the community expectation”. (CM1)

Two interviewees perceived a lack of any support to motivate CSR in Saudi Arabia:

“I do not see any support to motivate CSR and increase the awareness of CSR”. S4

Regarding to the extent of satisfaction with current CSR practice and disclosure, the ESR interviewees were asked to state the extent to which they were satisfied with private sector CSR participation and disclosure in Saudi Arabia at the moment. Four said they were somewhat unhappy; three that they not happy at all; three that they were neither particularly happy nor particularly unhappy and one that he was somewhat happy. Not a single one of them said he was very happy with current CSR implementation and disclosure practice in the country. Two of the interviewees could not tell and assessing the CSR disclosure practice in Saudi companies.

In addition, the shareholders and community members (ESR) of interviewees were asked about the relationship between shareholders

and companies in influencing to do CSR. Four interviewees saw a negative influence of shareholders in CSR, as one said:

“There is a negative influence between shareholders and companies, because shareholders have no CSR culture and they think that makes them lose their profit”. (CM1)

Four different interviewees saw the company not involving their shareholders or getting feedback on what they did for CSR. One of them said:

“In Saudi Arabia, shareholders are still not involved in CSR and they could not get their rights rather than talking about CSR. They do not feel freedom to ask about their rights”.

S3

Only one of the interviewee cited a positive (albeit ineffectual) influence of shareholders in CSR:

“In Saudi Arabia, shareholders have a positive influence but they could not achieve much, the board members have the most power to influence CSR”. S5

Shareholder interviewees were asked if they discuss CSR practice and disclosure in company annual shareholders’ meetings. All five shareholder interviewees said they did not discuss it with the company. One of them said:

“I did not discuss with them, I discuss only the profit”. S3

Moreover, the regulators interviewees were asked about the future of CSR and plans to motivate it and about the recent decisions that motivate the CSR. Three out of four responding to those questions said there was no plan or recent decision to motivate CSR. Another two said there are plans or recently decisions to motivate CSR, which are to provide CSR workshops and conferences for free, and adding CSR as a requirement for some programs:

“We do CSR workshops free and conferences for listed companies to increase their awareness of CSR and we show them successful CSR practice from Saudi companies. In addition, we are ranking companies for CSR and we created CSR awards to encourage them to do CSR”. R2

Another one of the two said:

“We did change the requirements recently and added CSR as requirement to renew the company’s certificate and provide some CSR program ready for companies who want to contribute”. R4

### **7.5 CSR Integrating into Corporate Policies and Strategies in Saudi Listed Companies**

The CR interviewees were asked about the integration of CSR into Saudi companies’ policies and strategies. When asked to comment on CSR practice in their own companies, eleven of the CR interviewees said their companies were implementing CSR. Of the eleven, one bemoaned how grudgingly this was being done saying:

“There is some activity but it is rather too slow. What happens is that when we receive invitations to participate in CSR activities, we need to seek the approval of the board, and such approval is not always forthcoming. It is also sad that approval comes fast only when we know we’ll get something in return, such as favours from environmental organizations”. (CFO1)

Another respondent said:

“We have strategic plans; we look not only at what is happening today, but also what the future holds. At the moment, we are engaged in capacity building in charitable and similar activities so that our society acquires the ability to serve itself better”. (CSR1)

Two respondents said their companies were not practicing CSR because their businesses were not in a position to spend as they were not making profit. In this regard one said:

“We do not have CSR in our company because we have not been making profit”. (SC2)

Furthermore, the CR interviewees were asked to comment on plans their companies had, in terms of CSR expansion or otherwise, and to explain what those plans entailed. Eleven of them said their companies had both short-term and long-term plans that would be developed as



circumstances dictate. Stating exactly what his company was doing, one of the eleven said:

“We recently got approval for the creation of a community management system and a health, safety and environmental management system, both of which are being implemented. Another thing worth mentioning is that we have made it a contractual requisite for contractors working with us that they should comply with three additional clauses that compel them to ensure at least 12% of their workforce is recruited from the local community; a minimum of 10% of their inputs are produced locally; and that 1% of the contract value is spent on CSR. We also have a three-year community-housing plan. Last but not least, we make sure that our CSR activities are of the highest standards”. (SS1)

Two of interviewees confessed that their companies had no plans for CSR, with one (SC2) attributing this situation to lack of profit in his firm (SC2).

In addition, the CR interviewees were asked if their companies had units, sections or departments that were dedicated exclusively to the fulfilment of CSR. Four said their companies had dedicated departments, including one (SM1) who said management in his firm had just approved the creation of a CSR department. He said at the moment CSR functions were being carried out by the Public Relations Department

Another respondent said in his firm, CSR functions were the responsibility of Sustainability Department whose members included a VP, a senior director, a director and himself (SS1). Seven said there were no CSR departments in their companies and that their Public Relations Department was handling CSR issues; while one said two units in his company were shouldering joint-responsibility for the implementation of CSR activities and that these were:

“The Environment, Safety and Health Unit and the Community Program; which is an organ of the Public Relations Department”. (HS1).

Two of interviewees they said they had no CSR department nor were they committed to embarking on CSR activities.

Regarding budget allocation for CSR, nine CR interviewees said their companies had annual budgets for CSR, while four did not, as the practice in their companies was to apply for funding on a need-to basis. A remark by one of those whose companies had annual budgets was:

“Yes, we have a budget that covers health and safety; the environment; and the community”. (SS1)

Of those whose companies had no such budget, one said:

“No, we don’t have a budget; we apply for CSR funding when the need arises”. (PR2)

Moreover, the CR interviewees were asked if they had in-house CSR training programs in their companies that could be used to increase awareness both among their own employees and the public at large. Seven interviewees said they provided in-house training to sustainability employees but had yet to extend this to top management. In this regard, one of the seven said:

“Yes, we do organize in-house seminars and workshops for sustainability employees but not so much for top management and other employees”. (SS1)

One interviewee (CSR1) said his company provided training both in-house and externally by sending its staff to national CSR conferences. Six interviewees said their companies provided no such training. One of them bemoaned this unwelcome situation, saying:

“It is unfortunate, but we do not provide any such training”.  
(SC2)

Besides of the development of CSR, the CR interviewees were asked to say how they received feedback on their CSR practice and how they used such feedback to improve. The answer given by five of them was that they got feedback in a number of ways:

“We get some of our CSR beneficiaries to answer a questionnaire; we also measure our performance by the extent to which we meet our own set objectives”. (CSR1)

“We hold regular meetings where our shareholders and employees discuss how we are doing. Sometimes we host community representatives and get feedback from them, including complaints, which are very useful for our planning purposes. This year, we had a third party conduct a stakeholder-sentiment survey for us”. (SS1)

Seven respondents said no formal mechanisms were in place in their companies for receiving feedback from any stakeholder. Expressing disappointment, two of them said the following:

“We do not get official feedback but we certainly perceive a sense appreciation from the community”. (HS1)

“Unfortunately, we only get feedback from state CSR organizers by way of recognition awards; we do not actively seek feedback by ourselves”. (PR1)

In addition, ten of the CR interviewees said stakeholder feedback had been instrumental in facilitating CSR improvements in their companies, while three said feedback had played no role in any measures they had taken to improve their CSR performance.

## **7.6 CSR Disclosure Format Currently Used in Saudi Arabia**

The interviewees were asked about the current format used in disclosing CSR by Saudi listed companies.

- *CRs*

Regarding the preferred location for CSR disclosure based on the view of interviewees, eight interviewees considered mass media (the press and electronic media i.e. TV, the internet/social media etc.) to be the best way for companies to divulge their CSR information:

“Newspapers and not annual board reports are the most appropriate platform for companies to disclose their CSR activities, because newspapers are accessible to everyone, while annual board reports are only read by a few”. (PR2)

Four interviewees thought the exact opposite, stating that annual board reports are the best way to get CSR information out to both internal and external audiences:

“Annual board reports are the best means of communicating CSR information to the public because, apart from being equally accessible, they also utilize the same language that is in the company’s own routine reports – the language of business”. (SS1)

For two of the interviewees sustainability reports were the answer, while for another two special CSR reports and conferences were the best option. Without elaborating, one of those in favour of sustainability reports said:

“I strongly recommend sustainability reports, but unfortunately companies in Saudi Arabia have no clue what that is”. (HS1)

One of those supporting special CSR reports and conferences asserted:

“Having to disclose one’s CSR activities at an international forum puts transparency pressure on companies and encourages them to make substantial CSR contributions so that what they disclose at such a forum is worthwhile. International disclosure means your information will reach the widest audience possible”. (CSR1)

Regarding the current location used for CSR disclosure, the CR interviewees were asked how their companies disclosed their CSR information. Two of them said they did so through mass media and the firm’s website. Explaining how disclosure in his firm is done, one of them said:

“We gather all CSR-related information from all departments; we include it in our annual board report and publish it. We also publish some of the information as news on our website and in the press”. (HS1)

One other interviewee said they disclosed their CSR information in sustainability reports. The comments of one of the two were:

“We disclose our CSR information in the annual board report but lately we have also started doing it through our sustainability report”. (SS1)

Ten of interviewees said they disclosed their CSR information through multiple channels. One of the ten said:

“We publish our CSR information not only through our annual board report, but also through other channels such as the internet (e.g. YouTube). We sometimes also produce special CSR activity reports and publish them”. (SC3)

Furthermore, the CR interviewees were asked to comment on sustainability reports as generated and divulged by their companies, eight of interviewees had no clue what that was; four understood the concept and defined it as a report that explains what measures a firm takes to ensure that its business practices are in conformity with sustainable usage of natural resources. In the words of one of them:

“A sustainability report is not as straightforward as financial report; it covers a lot of issues such as clean energy, carbon emissions, etc. so it must be handled with care”. (HCM1)

One interviewee described a sustainability report as being “economic, social and environmental in nature” (SS1). Only two respondents said their companies generated and published sustainability reports.

Regarding responsibility for preparing annual reports in their companies, ten respondents said the reports were generated internally,

although the formats were provided by external designers. One was quoted as saying:

“We generate the information ourselves, but we get the report format designed and printed externally”. (PR3)

Three of the interviewees said their annual reports were produced by third parties. One of the three (SS1) said that prior to 2012 the firm produced its own annual and sustainability reports, but since then they have been getting specialized companies to do it for them.

In addition, the CR interviewees were asked if their companies had specific strategies, programs and/or reporting procedures for CSR. Six of them said they had strategies and programs, with one of them stating:

“We have just integrated our sustainability report to contain information on health and safety; the environments and the community. In the past, these were all handled separately”.

(SS1)

Another proudly proclaimed:

“We generate and publish a report for each CSR program”.

(HS1)

Six of the interviewees confessed having neither a strategy nor a program for CSR in their companies. One of them explained that:



“Not having a strategy or program does not mean lack of involvement in CSR; we look at what worked for others and adopt those practices”. (PR1)

The CR interviewees also were asked to comment on the extent to which their companies disclosed CSR-related information and, in cases where disclosure was only partial, to give reasons why. Seven of them said their companies divulged CSR information in full; four said their companies’ disclosure was only partial. Noteworthy comments by two of the respondents were:

“Yeah, before 2012, we used to publish all CSR information but lately we have only been publishing information on issues of greater social relevance. What’s the point in putting out a burdensome amount of information that will put readers off? Our aim is to optimize our practices and encourage others in the mining industry to do the same”. (SS1)

“We do not release every bit of information; we look at the value of the activity and depending on its significance, we decide whether to release pertinent information or not. An activity worth a mere 2000 riyals or less, for example, is not worth the effort”. (CFO1)

- *ESRs*

Four ESR interviewees considered mass media and company reports in the press and electronic media to be the best way for companies to divulge their CSR information:

“In the media will be good place to disclose information to the public, but for those involved in the company the company’s report is best place to disclose”. (CM1)

Four interviewees thought the media was the best option to disclose CSR information in all cases:

“Prefer the media because not all read the annual reports”.

S2

Four supported special CSR reports as the best option:

“The company’s website, because it is the first place when looking for company’s information. I do not prefer to include CSR in annual broad reports, I prefer to see CSR in a special report”. (R3)

Only one preferred only company reports, without preferring another option.

Moreover, the shareholders and community members (ESR) were asked whether and how they have access to a company report; nine of interviewees has access to the company’s reports but in different ways.

Six of them used the websites to access the reports and three interviewees used the media to access to it.

In addition, the shareholders and community members (ESR) were asked whether the reports carried all information required. Six of them said some reports did not carry all information, and some information was missing:

“Mostly it is good, but in some reports some information needs more explaining and clarification”. S3

“The Company’s short- and long-term plans are not included in their report”. S4

Two interviewees felt the report carried all required information, while another interviewee could not assess this (i.e. did not know). The shareholders and community member interviewees were then asked whether they consider non-financial information, such as example CSR. Seven interviewees consider only financial information, and two said that was the reason for not finding CSR information in their reports. Another two interviewees considered that all information should be disclosed in the company reports:

“I focus on board information and financial. In addition, I will be happy to see the CSR information; unfortunately, I did not see it except for one company”. S5

## 7.7 Accountability

The interviewees were asked on how they viewed accountability in CSR in Saudi Arabia.

- *CRs*

When CR interviewees were asked to comment on how they viewed accountability in their companies, twelve said there was none. One of them (SC3) cited the fact that Saudi boards of directors usually include people with such vested interests in the business that there is no need to hold them accountable due to the absence of agency problems in general (e.g. even in publicly listed firms, founding families typically procure managerial and director positions for their personal family members and associates). In his view, the companies are theirs, the money is theirs, so if they give it away no one can question them. Echoing the same sentiment, another respondent said:

“There is absolutely no accountability as far as CSR is concerned; besides giving is voluntary, why would one have to give account of what they are giving out of their own free will?” (CFO1)

One interviewee who works for a firm that is partly owned by the government said his firm had accountability mechanisms in place, and that the firm was answerable to both internal and external stakeholders:

“We are internally accountable to our board of directors because CSR is part of our company’s strategy. We are also accountable to external stakeholders, particularly the

General Auditing Bureau (GAB), because the government owns 50% of our shares”. (SS1)

- *ESRs*

For twelve ESR interviewees said there was no accountability, as one noted:

“I do not see any accountability because it is voluntary and the companies are owned by shareholders. We read some news that said the government tried to encourage the companies to do CSR, but they are not accountable”. S3

Only one of the interviewees, a regulator, said there was accountability in CSR when companies applied for authorization certification:

“There is accountability in CSR when companies apply to renew their certificate, and we have CSR requirements in Saudi companies recently, and they have to achieve it to apply or renew the authorization certificate”. R4

Furthermore, the regulators interviewees were asked about the evaluation CSR practice in Saudi listed companies . Two out of three interviewees said they did not measure it. Another one said they did evaluation for CSR practice in Saudi listed companies by ranking those companies, and said:

“We do CSR measuring and rank those companies in what they are done of CSR”. R2

## 7.8 Stakeholders

The interviewees were asked which one of four stakeholders (environmental organizations, company employees, members of the community and customers) was the most important, and which type of CSR information (i.e. information on the environment, on employees, on the community and on customers) was the most important.

- *CRs*

Interviewees were asked which of the following four stakeholders they considered most important: environmental organizations, company employees, members of the community and customers. In response, four of them placed the community at the top. One of them (PR3) rated the four as:

“The community ranks first, then the customer, then employee and lastly the environment”. (PR3)

In his view the community plays a minor or no role in polluting the environment, so it should be ranked first. Of the remaining interviewees, three considered the employee to be the most important stakeholder; four found it to be environmental organizations, and three found all four to be equally important. Of these last three interviewees, one said:

“The fact that each is handled by a different department means that they are all important and the degree of such importance will depend on which department you ask”.

(SM1)

Given four types of CSR information (i.e. information on the environment, on employees, on the community and on customers), interviewees were asked to state which ones they viewed as most critical and thus meritorious of first consideration. In response, three of them singled out environment information as being most important and thus worthy of first consideration. One of them said:

“I would disregard customer information because it cannot be separated from the company’s pursuit of profit. In addition, I think the environment needs greater consideration because it is largely ignored in Saudi Arabia, yet it is extremely important”. (HS1)

Without elaborating, four of interviewees considered all four types of information to be equally important and worthy of equal treatment. Two of them thought information related to the community and the environment was more important, while two others considered employee-related information to be of paramount importance. Of these last two, one said:

“I think more attention must be paid to the employee, because after all it is the employee who will be tasked with taking care of environmental, community and customer issues. This clearly means that employee information is most critical”. (CSR1)

- *ESRs*

The ESR interviewees were asked about whom more consider as stakeholders by Saudi listed companies. Six said board members, six said employees, four said shareholders and one said customers and the community. Noteworthy comments by two of the respondents were:

“Some of them are good examples, considering shareholders and employees, but some of them do not consider shareholders and employees, they just consider the board members and their bonus, even if the company loses”.

S1

“They do not consider CSR, they just consider employee training and development and shareholders’ profit”. S2

Given four types of CSR information (i.e. information on the environment, on employees, on the community and on customers), interviewees were asked to state which ones they viewed as most critical and thus meritorious of first consideration. In response, five singled out employee information as being most important and thus worthy of first consideration. One of them said:

“I think the employee information be considering more because now it is required by the Ministry of Labour in Saudi Arabia”. S1

An interviewee saw Saudi companies consider more community information:



“Companies consider community information in their disclosure”. (CM1)

Without elaborating, two interviewees considered all four types of information to be equally important and worthy of equal treatment. One of them thought information related to the employees and the environment was more important, while others considered employee-related and customer information to be of paramount importance:

“I think the contribution to customer it is marketing and not CSR, I think considering depend of the sector for example: petrochemicals and cements sectors should consider in environment that consider in both side inside and outside companies; also, banks should consider in community”. R3

Disagreeing with everyone else, one interviewee considered that companies only consider financial information saying:

“They are focusing in financial information rather than CSR information”. S5

One of the interviewees could not tell which kind of CSR information was most considered.

## **7.9 Religion, Local Culture, Regulation and Governance Characteristics**

Interviewees were asked to rate the influence that religion, culture, regulation and governance characteristics have on CSR practice in Saudi Arabia.

- *CRs*

Four CR interviewees viewed culture as the most influential factor; they saw it as an instrument that could be used to introduce and consolidate CSR practice in the country. In the opinion of one of them:

“Culture holds the key to the introduction and spread of CSR activity in the country. Giving is already part of the country’s Islamic culture, and that is something that can be exploited”. (HCM1)

Three of the interviewees saw religion as the dominant factor. Their explanation, as expressed by one of them, was:

“The best way to look at CSR in Saudi Arabia is to do so from a religious standpoint, because Saudi culture is Islamic, which means it is based on religion; and the country’s law, the Islamic Law, is also based on religion, so clearly religion combines culture and the law, that is why the act of giving in the Saudi context must be looked at from a religious standpoint. (SC1)

For two of the interviewees, CSR was equally influenced by culture and religion; a supporting statement given by one of them was:

“Regulation has no effect. Since CSR is voluntary in nature, it cannot be legislated. That leaves us with religion and culture as the sole factors that influence CSR in our country”. (SC2)

Two other interviewees considered the three factors include: religion, culture, and regulation to be equally influential. From their perspective:

“All of these factors are important because at the end the day, decision makers (particularly in the Saudi context) make their decisions based on the extent to which they are influenced by the combination of these factors. People often brand businessmen as selfish individuals whose only concern is profit, but the truth is that businessmen are also affected by compassion and it makes them want to give. Compassion is a fundamental religious and cultural value in Saudi society. Of course some people may not be compassionate enough to give so in such cases legislation should come in”. (CSR1)

Dismissing all factors, one interviewee said CSR must be seen as a marketing tool. In his view, companies will not value CSR if they think it will not benefit them from a marketing standpoint. Completing his argument, the interviewee said:

“If regulation is used to make CSR obligatory, then businesses will resist it and will surely devise formulas to cheat their way out of compliance”. (SS1)

Odd as it may sound, one respondent thought CSR was largely influenced by a combination of culture and regulation. Without giving reasons for his view, he said:

“I think culture and regulation are key factors influencing CSR in Saudi Arabia”. (PR2)

- *ESRs*

For four of the ESR interviewees, regulation was the most influential factor; they saw it as an instrument that could be used to introduce and consolidate CSR practice in the country. Three of the interviewees saw culture as the dominant factor. In the opinion of one of them:

“The religion could not apply because we have bad example when we see some companies try to avoid paying the zakt that part of religion. I think increase CSR awareness as part of culture will be best approach”. R3

For three of the interviewees, CSR was equally influenced by culture and religion; a supporting statement given by one them was:

“Our religion supports CSR, and from this side we can introduce it and increase their culture of CSR and awareness them of benefit of it”. R2

another two respondents thought CSR was influenced by a combination of culture and regulation, without giving reasons for this view:

“I think start with culture, by improving awareness of CSR, then regulation”. R4

One other interviewees considered three factors include: religion, culture, and regulation to be equally influential. From their perspective:

“I think the three religion, culture, and regulation influence and have the same level of important and play all together for CSR in Saudi Arabia”. S4

### **7.10 Challenges and Promotion of CSR in Saudi Arabia**

Interviewees were asked to mention challenges if any, that Saudi listed companies faced in terms of implementing their CSR plans, and how to promote CSR in Saudi Arabia.

- *CRs*

Three CR interviewees mentioned funding as the main problem:

“The only challenge we face is money, because some CSR programs are quite expensive to implement. We have no problem with either transparency or reporting in general; the problem is finance”. (PR1)

Four of the CR interviewees said the main challenge they faced was the cumbersomeness of bureaucratic approval processes, especially when external parties were involved. One of them said:

“I think the main problem is the approval processes for some projects, such as those handled by municipalities,

because they tend to be lengthy and laborious. At times the procedures are so complicated and unclear that one gets discouraged. Another major challenge is lack of communication channels for awareness campaigns that are necessary to encourage more companies to start participating in CSR activities”. (CSR1)

Two interviewees dismissed all claims of challenges, saying the door is open to anyone willing to engage in CSR activities. Regarding how they thought CSR could be boosted in Saudi Arabia, six interviewees cited increased awareness as the starting point. One of them said:

“The government should take the lead; it must be relentless in its effort to make sure companies understand the importance of CSR; it must be made abundantly clear that companies that shy away from their CSR will fall out of government as well as public favor”. (CSR1)

For two of the interviewees, CSR in Saudi Arabia can be increased if companies implementing it are rewarded for doing so. One of the two said:

“Saudi companies will be encouraged to implement CSR if they are promised incentives of some sort, such as such as tax exemptions and the waiving of duty on some of their imports”. (CFO1)

For another pair of participants, CSR in the Kingdom can be enhanced by the creation of CSR cooperative programs in which companies can take part. Elaborating on this concept, one of them said:

“I think it would be good for the government to initiate CSR cooperative programs in which firms can participate according to their fields of expertise and financial capabilities, etc. For example, companies involved in the provision of healthcare services can take part in a healthcare awareness campaign or in the building of a hospital on government-donated land, in an area where there is pressing need for a hospital; similarly, companies operating in the petrochemical industry can take part in or fund environmental management activities”. (SM1).

Two other interviewees were of the opinion that CSR should be mandated by law. According to one of them:

“Making CSR contributions should be made mandatory, although contributions must be dependent on the field or type of activity the company is engaged in”. (SC1)

Disagreeing with everyone else, one interviewee was opposed to any moves to get companies to make CSR contributions saying:

“Companies must not be induced into making CSR contributions by such incentives as tax breaks; what they do or not do must be determined by market conditions and how

well or badly they will have featured in those conditions”.

(SS1)

- *ESRs*

Five ESR interviewees dismissed any notion of challenges, noting no one was prevented from engaging in CSR activities. However, three said the main challenge they faced was the perspective and understanding of CSR:

“The challenge is the understanding of CSR; most companies think of CSR as charity. I think we need to increase their awareness of CSR to solve this problem”. R2

Three of them cited financial issues as the main problem and the negative impact from shareholders due to this dimension. Expounding on this, one of the three said:

“I think the challenge is the shareholders’ negative impact to the company. For example, some of shareholders discuss CSR costs with the board”. (CM1)

One of the interviewees said the main challenge faced was the unclear of procedure and process to undertake CSR:

“The challenge is unclear procedure or process for companies who would like to do CSR”. CM4

To motivate CSR adoption in Saudi Arabia, six interviewees were of the opinion that it should be mandated by law. According to one of them:



“It should be mandatory, because now it is voluntary and we see that some companies do not do CSR, for example banks got high profits without contributing in CSR”. S1

For four interviewees, CSR in Saudi Arabia could be increased if companies implementing it were rewarded for doing so:

“I think by giving incentives for those who do CSR, and as the Royal Commission for Jubail and Yanbu (RCJY) does, ranking companies by CSR to give them incentives”. R4

Three other interviewees cited increased awareness as the starting point.

One of them said:

“Companies’ awareness should be increased by the government to develop the company’s culture of CSR”. S3

### **7.11 Summary**

This chapter present the result obtain from the second data collection methods, the interview with two interviewee group, namely Company Representatives (CR) and External Stakeholders Representatives (ESR). The interview used semi-structured interview format. The results show main themes and began with understanding general perspectives on CSR and CSR disclosure in Saudi Arabia. Then, the result of interview to explore the awareness of CSR. After that, the interview results show how Saudi listed companies integrate CSR into their corporate polices and strategies, and CSR disclosure format

currently used in Saudi Arabia. The interview also investigates the accountability of CSR and the considering of stakeholders in Saudi Arabia. In addition, it shows how does religion, local culture, regulation and governance characteristics play in CSR. Final theme was to find the challenges and promotion of CSR in Saudi Arabia.

Table 7-3 General Questions

<p><b>WHAT DO YOU PERCEIVE AS CORPORATE SOCIAL RESPONSIBILITY (CSR)?</b></p> <p><b>DO YOU THINK CSR IS PART OF CORPORATE GOVERNANCE?</b></p> <p><b>WHAT IS YOUR VIEW AND UNDERSTANDING OF CSR DISCLOSURE AND ACCOUNTABILITY?</b></p> <p><b>WHAT IS THE BENEFIT THAT CAN BE OBTAINED FROM DISCLOSING CSR INFORMATION?</b></p> <p><b>WHAT IS THE LOCATION THAT YOU AGREE TO DISCLOSING CSR IN IT?</b></p> <p><b>WHAT IS YOUR SUGGESTION THAT MOTIVATES THE CSR IN SAUDI ARABIA?</b></p>	<p>ما هو مفهوم المسؤولية الاجتماعية للشركات؟</p> <p>هل المسؤولية الاجتماعية جزء من حوكمة الشركات؟</p> <p>ما هو مفهوم الإفصاح عن المسؤولية الاجتماعية؟</p> <p>ماهي الفائدة التي يتحصل عليها من الإفصاح عن المسؤولية الاجتماعية للشركات؟</p> <p>ماهو الموقع المناسب لنشر معلومات المسؤولية الاجتماعية للشركات؟</p> <p>ماهي اقتراحاتكم لتطوير المسؤولية الاجتماعية لدى الشركات؟</p>
<p><b>WHAT IS THE POSSIBLE APPROACH (RELIGION, CULTURE REGULATION OR GOVERNANCE CHARACTERISTICS) THAT CAN BE USED TO INTRODUCE CSR DISCLOSURE IN THE SAUDI ENVIRONMENT?</b></p> <p><b>WHAT CSR INFORMATION NEEDS TO BE CONSIDERED MOST IMPORTANT (E.G. ENVIRONMENT, EMPLOYEES, COMMUNITY AND CUSTOMERS)?</b></p>	<p>ما هو افضل منطلق يستخدم لتقديم المسؤولية الاجتماعية للشركات؟ هل عن طريق الدين او الثقافة او الأنظمة؟</p> <p>ماذا ينبغي للمعلومات السوولية الاجتماعية ان تركز وتهتم اكثر عليه؟</p>
<p><b>WHAT IS YOUR VIEW IN CONSIDERING OF CSR DISCLOSURE AND ACCOUNTABILITY IN SAUDI ARABIA AND HOW IS THE AWARENESS? HAS THERE BEEN ANY CHANGE OF AWARENESS DURING THE LAST THREE YEARS?</b></p> <p><b>WHAT DO YOU THINK OF CURRENT SUPPORT TO MOTIVATE CSR AND DO YOU THINK IT IS ENOUGH?</b></p> <p><b>ARE YOU HAPPY WITH THE PRIVATE SECTOR'S CSR PRACTICE AND DISCLOSURE? COULD YOU RANK IT FROM 1 TO 5, WHERE 1 IS THE BEST?</b></p> <p><b>DOES RELIGION, CULTURE AND REGULATION HAVE A GREATER IMPACT IN YOUR MOTIVATION FOR CSR? HOW WOULD YOU RANK THEM?</b></p>	<p>ماهي نظرتكم في مستوى الاهتمام في المسألة و الإفصاح عن معلومات المسؤولية الاجتماعية للشركات؟ وهل هناك تغير في الاهتمام عليها خلال الثلاث سنوات الأخيرة؟</p> <p>ماهي وجهة نظركم عن الدعم المقدم لتطوير المسؤولية الاجتماعية؟ هل هو كافي؟</p> <p>ما هو تقييمكم للمسؤولية الاجتماعية للشركات وعن الإفصاح عنها؟</p> <p>ماهو اكثر تأثير على المسؤولية الاجتماعية للشركات من بين الدين و الثقافة والأنظمة؟</p>

Table 7-4 Mangers & Other inside firms Question

<b>HOW IS CSR PRACTICED WITHIN YOUR FIRM?</b>	كيف مستوى المسؤولية الاجتماعية التي تقوم به شركتكم؟
<b>WHAT DO YOU UNDERSTAND BY INTEGRATED REPORT?</b>	ما هو فهمك الى مسمى تقرير انتقريبتد للشركات؟
<b>DO YOU PRACTICE INTEGRATED REPORT?</b>	هل شركتكم تقوم بعمل تقرير الانقريبتد؟
<b>WHAT DO YOU UNDERSTAND BY SUSTAINABILITY REPORT?</b>	ما هو فهمك الى مسمى تقرير الاستدامه؟
<b>DO YOU PRACTICE SUSTAINABILITY REPORTING?</b>	هل شركتكم تقوم بعمل تقرير الاسدامه؟
<b>WHERE DO YOU DISCLOSE CSR INFORMATION (E.G. ANNUAL REPORTS)?</b>	في أي مكان تقوم شركتكم بالافصاح عن معلومات المسؤولية الاجتماعية الخاصة بها؟
<b>WHY YOUR FIRM DO CSR?</b>	ماهي الأسباب التي تجعل شركتكم تقوم بالمساهمة في المسؤولية الاجتماعية؟
<b>DO YOU HAVE ANY PLANS TO IMPROVE CSR IN YOUR FIRM? IF YES, WHAT IS IT?</b>	هل يوجد لديكم خطط لتطوير المسؤولية الاجتماعية لشركتكم؟ اذا نعم ماهي؟
<b>DO YOU HAVE CSR UNIT OR COMMITMENT IN YOUR FIRM?</b>	هل يوجد قسم خاص او لجنة متخصصة في المسؤولية الاجتماعية في شركتكم؟
<b>DO YOU HAVE ANNUAL BUDGET FOR CSR PROGRAM?</b>	هل لديكم ميزانية خاصة لاعمال المسؤولية الاجتماعية في الشركة؟
<b>WHO IS PREPARED YOUR ANNUAL REPORT?</b>	من هو المسؤول عن اعداد التقرير السنوية في الشركة؟
<b>WHAT ARE THE MAIN CSR ACTIVITIES IN WHICH YOUR FIRM INVOLVED (E.G. ENVIRONMENT, COMMUNITY)?</b>	في أي نوع من أنواع أنشطة المسؤولية الاجتماعية يتم التركيز عليها اكثر في شركتكم؟
<b>DO YOU HAVE SPECIFIC STRATEGIES, PROGRAM AND REPORTING PROCEDURES FOR CSR IN YOUR FIRM?</b>	هل لديكم استراتيجية محددة, برامج ونظام للتقرير خاصة للمسؤولية الاجتماعية؟
<b>DO YOU HAVE ANY TRAINING IN PLACE RELATING TO CSR?</b>	هل لديكم برامج تدريب للموظفين عن المسؤولية الاجتماعية لزيادة الوعي بينهم؟
<b>WHICH OF THESE STAKEHOLDERS (ENVIRONMENT, EMPLOYEES, COMMUNITY AND CUSTOMERS) ARE MOST IMPORTANT TO YOUR FIRM? PLEASE RANK THEM BY IMPORTANCE.</b>	أي بين ذوي العلاقة للشركة (البيئة, الموظفين, المجتمع, العملاء) اكثر اهمية لدى الشركة؟ هل ترتيب اهميتهم؟
<b>DO YOU OBTAIN FEEDBACK REGARDING YOUR CSR PRACTICE? IF YES, HOW?</b>	هل تحصلون على تقييم لاعمال المسؤولية الاجتماعية لشركتكم؟ وكيف؟
<b>DO YOU ADJUST AND IMPROVE YOUR CSR PROGRAM BY THE FEEDBACK? IF NOT HOW YOU IMPROVE YOUR CSR PROGRAM?</b>	هل يتم عمل تعديل وتطوير لاعمال المسؤولية الاجتماعية بواسطة التقييم؟ اذا كان لا كيف يتم تطوير مساهمتكم الاجتماعية؟

<b>WHAT DO YOU CONSIDER TO BE THE MAIN MOTIVATION (RELIGION, CULTURE OR RUGLATION) FOR CSR IN YOUR FIRM?</b>	ماهو اكثر حافز للشركات لاسهام في المسؤولية الاجتماعية؟ هل هو من منطلق ديني او ثقافة او أنظمة؟
<b>DO YOU DISCLOSE ALL INFORMATION OF CSR PROGRAM? IF NOT, WHAT INFORMATION IS NOT DISCLOSED AND WHY?</b>	هل شركتكم تفصح عن جميع المعلومات الخاصة بالمسؤولية الاجتماعية؟ إذا لا، ماهي المعلومات التي لاتفصح عنها ولماذا؟
<b>HOW IS ACCOUNTABILITY IN CSR TO YOUR FIRM?</b>	كيف هو مستوى المسألة عن المسؤولية الاجتماعية لدى شركتكم؟

Table 7-5 Community member & Shareholders Questions

<b>HOW DO YOU RECOGNIZE YOU ARE A COMMUNITY MEMBER/ SHAREHOLDER IN THE LISTED COMPANIES?</b>	كيف ترى نفسك؟ هل انت مساهم في الشركات المدرجة في سوق الأسهم اما فرد من المجتمع؟
<b>DO YOU KNOW WHAT IS THE CSR REPORTING?</b>	هل لديك فكرة عن تقرير الشركات المسؤولية الاجتماعية
<b>DO YOU THINK THE LISTED FIRMS SHOULD BE PRACTICING CSR; AND REPORTING?</b>	هل تعتقد انه ينبغي للشركات ان تساهم في المسؤولية الاجتماعية وان تفصح عنها؟
<b>DO YOU AGREE IF YOU AS SHAREHOLDER AND YOUR FIRMS PRACTICING CSR?</b>	هل توافق ان تقوم الشركة وانت احد مساهمينا ان تقوم بالاسهام في المسؤولية الاجتماعية؟
<b>WHO DO YOU CONSIDER AS STAKEHOLDERS? WHICH ONES ARE THE MOST IMPORTANT TO THE FIRM?</b>	ماهو في نظرك معتبرين انهم ذو علاقة للشركة؟ أي منهم مهم الى الشركة؟
<b>DO YOU THINK THE SHAREHOLDER HAVE POSITIVE OR NEGATIVE INFLUENCE IN THE CSR PRACTICE AND REPORTING? AND HOW?</b>	هل تعتقد انه المساهمين تأثيرهم ايجابي او سلبي على الاسهام في المسؤولية الاجتماعية والافصاح عنها لدى شركتكم؟ وكيف؟
<b>DO YOU THINK THERE IS ACCOUNTABILITY IN CSR PRACTICE AND REPORTING? FROM WHO?</b>	هل هناك مسألة على الاسهام في المسؤولية الاجتماعية لدى الشركات؟ من من؟
<b>HOW DO YOU THINK STAKEHOLDER ACCOUNTABILITY AND TRANSPARENCY CARRIED OUT BY THE SAUDI LISTED COMPANIES?</b>	كيف تصورك عن مستوى المسألة والشفافية حاليا لدى الشركات المدرجة في سوق الأسهم؟
<b>HOW DO YOU RECEIVE THE ANNUAL REPORT OR SUSTAINABILITY REPORT?</b>	كيف تحصل على التقرير السنوية والاستدامة و التقرير الخاصة للشركات؟

<b>DO YOU HAVE ACCESS TO ANNUAL REPORTS AND SUSTAINABILITY REPORTS?</b>	هل لديكم وصول وتناول الى التقرير الخاصة بالشركات؟
<b>DO YOU CONSIDER IN OTHER FINANCIAL INFORMATION FOR EXAMPLE: CSR AND GC?</b>	هل لدي اهتمام في غير المعلومات المالية في التقرير مثلا معلومات المساهمة الاجتماعية وبرامجها؟
<b>DO THESE REPORTS CARRY ALL THE INFORMATION WHICH DO YOU NEED?</b>	هل التقرير الحالية للشركات تشمل جميع المعلومات المحتاجه؟
<b>DO YOU THINK THE GC CODE HAVE PART OF CSR?</b>	هل أنظمة الحوكمة تشمل المسؤولية الاجتماعية للشركات؟
<b>WHAT IS THE CHALLENGE FOR FIRMS TO DO CSR AND REPORTING?</b>	ماهي التحديات التي تواجه الشركات عند الاسهام في المسؤولية الاجتماعية والافصاح عنها؟
<b>DO YOU DISCUSS WITH THE FIRM THE CSR PRACTICE AND BUDGET?</b>	هل يتم مناقشة الشركات في الاجتماعات الدورية عن الاسهام المسؤولية الاجتماعية وميزانيتها ؟

Table 7-6 Regulator Question

<b>DO YOU HAVE PLAN TO MOTIVATE CSR?</b>	هل لديكم أي خطط لتحفيز المسؤولية الاجتماعية لدى الشركات؟
<b>WHAT IS THE PLAN TO IMPROVE THE CSR?</b>	ماهي خططكم لتطوير المسؤولية الاجتماعية لدى الشركات؟
<b>ARE THERE ANY DECISIONS THAT CAN MOTIVATE THE CSR IN LAST THREE YEARS OR IN FUTURE?</b>	هل كان هناك أي قرار خلال الثلاث سنوات السابقة لتحفيز المسؤولية الاجتماعية لدى الشركات؟
<b>DO YOU HAVE ACCOUNTABILITY IN CSR? WHY?</b>	هل لديكم مسألة عن الاسهام في المسؤولية الاجتماعية؟ولماذا؟
<b>DO YOU MEASURE THE CSR PRACTICE THAT DONE BY LISTED COMPANIES?</b>	هل تقوموا بتقييم المساهمة الاجتماعية للشركات؟
<b>DO YOU HAVE THE SAUDI CG CODE?</b>	هل لديكم نظام حوكمة في السعودية؟
<b>IS THE SAUDI GC PART OF CSR</b>	هل نظام الحوكمة للشركات يشمل المسؤولية الاجتماعية؟
<b>DO THESE CODES HAVE POSITIVE OR NEGATIVE TERM THAT CAN MOTIVATE OR NOT CSR?</b>	هل نظام الحوكمة له تأثير سلبي او ايجابي لتحفيز المسؤولية الاجتماعية او لا يوجد تأثير؟
<b>DO YOU REQUIRE FROM FIRMS TO DISCLOSED CSR INFORMATION? HOW?</b>	هل تقومون بطلب الشركات لافصاح عن معلومات المسؤولية الاجتماعية؟وكيف؟
<b>WHICH INFORMATION OF CSR DO YOU CONSIDER TO DISCLOSED BY FIRMS?</b>	أي نوع من معلومات المسؤولية الاجتماعية يتم التركيز عليها اكثر؟

<b>DO THESE CODES REQUIRE REVISION?</b>	هل أنظمة الحوكمة في السعودية تحتاج الى مراجعة وتطوير؟
<b>DO YOU PREFER NEW GC AND CSR CODE? WHY?</b>	هل تفضل انه نظام حوكمة جديد و نظام للمسؤولية الاجتماعية؟
<b>WHAT DO YOU UNDERSTAND BY INTEGRATED REPORT?</b>	ماهو مفهومك للتقارير الانتقريد؟
<b>WHAT DO YOU UNDERSTAND BY SUSTAINABILITY REPORT?</b>	ماهو مفهومك للتقارير الاستدامة؟
<b>DO YOU ENCOURAGE THE LISTED COMPANIES TO DO INTEGRATED REPORT OR SUSTAINABILITY REPORT?</b>	هل تقومون بدعم الشركات لممارسة تقرير الاستدامة والانتقريد؟
<b>WHY SHOULD FIRMS REPORT CSR?</b>	لماذا ينبغي للشركات الإفصاح عن مساهمتها في المسؤولية الاجتماعية
<b>WHAT ARE THE CHALLENGES TO MOTIVATE CSR IN SAUDI ARABIA? HOW YOU THINK CAN SOLVE IT?</b>	ماهي التحديات التي توجه تطور المسؤولية الاجتماعية في الشركات السعودية؟ وكيف تجاوزه؟
<b>WHAT DO YOU CONSIDER TO BE THE MAIN MOTIVATION (RELIGION, CULTURE OR REGULATION) FOR CSR IN YOUR FIRM?</b>	ماهو المنطلق او لاعب الرئيسي لتحفيز المسؤولية الاجتماعية لدى الشركات ؟ هل هو ديني، ثقافي، أنظمة؟
<b>DO YOU PROVIDE ANY ACTIVITIES (E.G. TRAINING OR AWARDS) TO MOTIVATE THE LISTED COMPANIES TO PRACTICE CSR AND DISCLOSED? IF YES, WHAT ARE THE ACTIVITIES?</b>	هل تقدمون برامج مثلا تدريب او جوائز لشركات لتحفيزها للقيام بالاسهام في المسؤولية الاجتماعية؟ اذا نعم ماهي؟

## 8 Chapter Eight: Discussion

*Introduction*

*Understanding CSR in Saudi Arabia*

*CSR Awareness in Saudi Arabia*

*Saudi Firms' CSR Strategies and Disclosure*

*Religion, Culture and Regulation Impacts on CSR in Saudi Arabia*

*Challenges and Promotion of CSR in Saudi Arabia*

*Comparison between content analysis and interview*

*Summary*



## 8 DISCUSSION

### 8.1 Introduction

The analysis of content analysis methods was discussed in chapter six and the views expressed by the CRs and ESRs in semi-structured interviews were explained in chapter seven. The next stage is to integrate the analysis of the content analysis and semi-structured interviews to explore the status of CSR disclosure in Saudi Arabia. This chapter compares and contrasts the findings of both data collection methods.

*Table 8-1 Research questions and data collection methods*

<i>RGN</i>	<i>Research Questions</i>	<i>Methods used to answer question</i>
<b>Q1</b>	How do Saudi stakeholders perceive CSR disclosure and accountability?	Semi-structured interview
<b>Q2</b>	To what extent do existing theoretical frameworks (stakeholder theory, legitimacy theory or accountability theory) assist in interpreting CSR disclosure by Saudi listed companies?	Semi-structured interview
<b>Q3</b>	What is the extent of awareness and level of disclosure in CSR information in Saudi Arabia?	Content analysis and semi-structured interview
<b>Q4</b>	How is CSR disclosed and integrated into corporate policies and strategies in Saudi listed companies?	Semi-structured interview
<b>Q5</b>	How do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia?	Semi-structured interview
<b>Q6</b>	What are the challenge and obstacles for CSR in Saudi listed companies, and how could CSR be motivated in Saudi Arabia?	Semi-structured interview

## **8.2 Understanding CSR in Saudi Arabia**

This section answers the first research question, which is concerned to explore the perception of different types of Saudi stakeholders of CSR.

### **8.2.1 General Perspectives on Corporate Social Responsibility**

In this section, the perspective of CR and ESR interviewees regarding CSR in Saudi Arabia is discussed. The CR and ESR interviewees were asked to define CSR. Both CR and ESR groups gave similar responses. Twelve ESRs described CSR as a company's legitimacy and obligation to contribute to societal wellbeing; as a payback mechanism by means of which companies give back to the community whose natural resources they exploit as they conduct their business. Eight CRs also described CSR as a company's legitimacy and obligation to make contributions to the wellbeing of the society whose resources (material and human) they utilize. The above finding from both groups showed most of interviewees believed the CSR for Saudi company to legitimise their existence and obligation, in-line with previous studies (Bowen, 1953; Davis and Blomstrom, 1966; Jones, 1980; Lea, 2002), indicating the universal acceptance of CSR by stakeholders.

Three respondents (two CRs and one ESR) saw CSR as a platform by which companies can promote the four pillars of human development, namely knowledge (education), economic wellbeing, social harmony and sustainable usage of natural resources (i.e. proper management of the natural environment). Each of these can be broken down into measurable facets that CSR planners and implementers must consider. These four are similar to Carroll's (1979) CSR aspects (economic, legal,

ethical, and discretionary/ philanthropic). Furthermore, these include aspects of Saudi Arabia's Vision 2030: a vibrant society, a thriving economy and an ambitious nation (Saudi Vision 2030, 2016).

Two CR interviewees gave opinions that were particularly interesting. One viewed CSR as being about companies making voluntary contributions to society with no influence by regulation. In his opinion, it would be wrong for governments to make contributions a regulatory requirement to practice CSR. The second one felt that CSR provides a platform for companies to legitimize their existence. In his opinion, companies must show gratitude for using society's resources, and CSR gives them a platform for doing that.

Overall, the Saudi stakeholder participants understand the concept of CSR, and perspectives concerning it have developed in KSA, corroborating the observation of Ali and Al-Ali (2012), however more work is still needed to disseminate general comprehension of and awareness.

Regarding perceptions of the existence of a relationship between CG and CSR, both groups' opinions were split. Among the CR interviewees, five of the thirteen considered CSR to be a subset of CG. From their perspective, CG should refer not only to the rights of a company's shareholders, but also to those of all other stakeholders. For the other four CRs the relationship was non-existent. Four ESRs saw a close relationship between CSR and CG, while four saw no relationship at all. Five interviewees (three CRs and two ESRs) expressed ignorance

regarding any relationship between CG and CSR; they were simply unable to tell whether a relationship of any sort existed between the two. A response from one CR respondent warrants special mention; in his opinion, it is CG that is part of CSR, not the other way round. This respondent argued that proper CG is a requirement if CSR is to be properly implemented and administered, which means CG falls under the umbrella of CSR. The above result showed there were differences between Saudi stakeholders in terms of the perceived relationship between CG and CSR.

### **8.2.2 The driver theories of CSR disclosure by Saudi listed companies**

The above finding in the interviews in how the Saudi stakeholders perceive the CSR disclosure and practice shows that the legitimacy theory is the strong driven for CSR in Saudi Arabia. This finding shows that the perspective of CSR in Saudi Arabia can be explained by and is consistent with the legitimacy theory. Furthermore, participants also believe that Saudi companies have legitimacy their existence towards their society, which includes CSR practice. This finding consistent with Gray et al. (2014) that's argued the organisations could not continue to exist if the relevant public did not perceive that organisation as legitimate.

Based on the above finding of CSR perspective among stakeholders in Saudi Arabia that's play and make pressure in Saudis companies to practice CSR and legitimacy their extent. In addition, the CSR in Saudi

Listed Companies to maintain their legitimacy, the best way to legitimate their existence and maintain their legitimacy is CSR (Deegan, 2006; Guthrie and Parker, 1989; Friedman ,1962).

This perspective among the Saudi stakeholders towards the CSR as legitimacy theory create pressure on Saudi listed companies in social disclosure that in line with Patten (1991) examined the pressure on the companies in social disclosure and found the public-pressure was more effective than firm profitability.

This study also shows the different Saudi stakeholders perceive CSR as legitimacy and companies need to legitimate their existence by CSR, and become such external pressures on Saudi Listed Companies to consider in the CSR. The legitimacy theory also is a driver to response Saudi Listed Companied in CSR.

They also consider that CSR is a way to legitimate the firm that's in line with Solomon (2014) who argued the companies why need to legitimise their existence, not only to their shareholders but to the community as well. It also consistent Guthrie and Parker (1989) that's firm needs to defend its continued survival by legitimising its actions.

This shows that companies need to maintain their legitimacy as pay back to society as cost for use of the natural resources of the society by CSR and this consistent with Friedman (1962) who argued that “there is one and only one social responsibility of business –to use its resources . . . to increase its profits”.

In addition, the finding assert the Saudi Listed Companies should legitimate their activities based on the Saudi stakeholders, if it is not that give the Saudi stakeholders to decide to invalidate the company's contract. If companies failed in validate their contract with the society that may lead to loss. This finding consistent with Woolfson and Beck (2005) stated that the companies' actions and communications can affect their legitimacy that may lead to gain or loss.

To summaries the Saudi listed Companies concerns to CSR disclosure based on legitimacy theory. The CSR disclosure by Saudi listed companies is driven by legitimacy rather than stakeholders and accountability. The legitimacy theory is more fit to explain the CSR in Saudi Listed Companies.

### **8.2.3 CSR Disclosure**

This section identifies participants' perceptions of the importance of CSR disclose in Saudi Arabia. In general, the results of the interviews with both groups were similar.

To explain why they thought CSR disclosure was important, participants gave a plurality of reasons. Most participants from the ESR group (ten out of thirteen) viewed transparency as the most important aspect of CSR disclosure. To them, the importance of giving full transparency to any activity or business-related change that has financial implications cannot be overstated. This view agreed with Gray et al. (1996), who found that improved of CSR accounting resulted in increased transparency. For two respondents, a very positive aspect of

disclosure that is can cause a contribution ripple effect and motivate factors, since an impressive CSR disclosure by one company may encourage other companies to also contribute, which ultimately increase benefits the community at large. In the opinion of one ESR interviewee, disclosure, which he thinks should be mandatory, is important in that it allows society to distinguish between firms that are socially responsible, and which should thus be supported, and those that are mean (*bakheel*, literally “miserly”, a despicable vice in Arab-Islamic ethics), and which should thus be punished by the community.

Among the CR respondents, most (seven out thirteen) regarded disclosure as a positive thing since, in their opinion, companies have a moral obligation to inform society of their social responsibility contributions so that society can judge the validity of their existence, even though they generally consider that CSR should be voluntary. This view is consistent with Solomon (2014), who said the companies need to legitimize their existence to the community and not only to their shareholders. Three interviewees from this group expressed opinions similar to those expressed by their ESR counterparts who emphasized transparency. According to them, disclosure promotes accountability and so forces companies to act responsibly in their use of resources. This view is consistent with Gray et al. (1996) in that CSR is a means of social accountability, i.e. a means by which an organization can disseminate information to society to demonstrate that it operates in a socially responsible manner. Two interviewees highlighted the ripple

effect aspect whereby companies would try to emulate those that have given a very impressive disclosure report.

With only one person expressing a negative opinion, there was near unanimity among interviewees from both groups that CSR disclosure was important. The naysayer was concerned that some companies could use disclosure for propaganda purposes to gain in government and public opinion and enhance their business standing. Making reference to religion, he claimed that sincere donations for the public good should be done in secret, between God and oneself, and (contrary to Sharia) he considered it sinful to disclose such activities. While secret charity is considered praiseworthy, as in the hadith wherein the Prophet Muhammed (ﷺ) commended “A man who gives in charity and hides it, such that his left hand does not know what his right hand gives in charity”, this has been adopted as a popular, moralistic interpretation of charitable giving in general, when in fact both public and private charity are enjoined in Islam (see Quran 2: 274). Nevertheless, for practical purposes vulgar morality trumps scripture, and Alfakhri (2014) identified secrecy as a barrier to conventional CSR in Islamic cultures.

The current study finds from interviews that both groups had different views of the benefits and advantages that listed companies can obtain from disclosing CSR information. The result showed most of the ESR saw the disclosing CSR information as a marketing tools and used it to get respect from the community and help them to build a long-term relationship. Two interviewees were of the opinion that CSR disclosure would raise awareness among listed companies and thus encourage



them to join hands in the concerted provision of CSR to the community. With regards to CR interviewees, six believed and agreed with most ESR views that CSR disclosure is about marketing and raises the company's reputation. In addition, it can help to raise the company's value. Five interviewees pointed out that CSR disclosure would encourage other companies to practice such activities, which would snowball awareness and practical advantages of CSR in the community. In the view of two respondents, CSR disclosure positively affects financial performance assessment, as no expenditure is left unaccounted for. Clearly the above show the marketing as one of the most important aspects motivating Saudi listed companies in CSR disclosure, consistent with the findings of PWC (2002), which identified marketing as one of the main reasons businesses engage in CSR.

To summarise, most participants from both groups CR and ESR in the interviews agreed with the importance of disclosing CSR information and related that importance to transparency, legitimacy and accountability. This indicates the importance of CSR disclosure as perceived by participants and their understanding of the need for it in Saudi Arabia.

#### **8.2.4 Accountability**

This research also investigated the accountability dimension of CSR in Saudi Arabia. Most CRs and ESRs cited an absence of CSR accountability in the country, which is understandable given the voluntary nature of CSR disclosure in KSA. However, one CR and one ESR believed there is CSR accountability internally from the board and

externally from the government. For example, there are new regulations recently issued by the Royal Commission for Jubail and Yanbu (RCJU) whereby companies working under its jurisdiction are required to display evidence of CSR in order to renew their licensure and authorization certification.

The investigation indicated a lack of accountability in CSR. Although there are some efforts to motivate CSR, these are incentives and encouragement, not serious accountability in the traditional sense. This lack of accountability may affect CSR, as asserted by Gray et al. (2014), who argued that is one of two critical principles that motivate CSR. This study shows absent of accountability for CSR in KSA, corroborating the finding of Alshehri (2012) regarding an absence or weakness of accountability practices in the country.

#### **8.2.5 Stakeholders**

Regarding the stakeholders considered to be prioritized by Saudi listed companies, CR and ESR respondents differed. Among CR interviewees, the community was considered the main priority according to four interviewees, in-line with the findings of content analysis, where social information was one of the greatest CSR disclosures. Another four placed the environment at the top. Three cited employees, and three thought all stakeholders were equally important. However, ESR interviewees considered that Saudi listed firms give most consideration to internal stakeholders, particularly board members and employees, in-line with the finding of content analysis which showed that employee information disclosure was the greatest

dimension of CSR disclosure in Saudi listed firms. Four cited shareholders and only one stated customers and the community. Disagreeing with everyone else, one interviewee felt that companies only consider financial outcomes, regardless of stakeholders.

The results from interviews show that the internal stakeholders considered listed firms give more consideration to external stakeholders, while external stakeholders held the opposite view (which can be considered to indicate parity of consideration, as each group feels it is not prioritized). Freeman (2010) argued that all stakeholders can have a determinant effect on the organization and must therefore need to be considered on an equal footing.

Furthermore, the content analysis results indicated over the six years that low consideration given to consumer disclosures in the first four years (2010-2013), with high priority given to employees, social and environmental information, although there was marked increase in consumer disclosure in 2014 and 2015 within the sample. This finding is not consistent with Kamila (2007) who found that companies in the Arab world have higher levels of disclosure related to customer information, which she attributed to the development of the private sector and market liberalization in the Arab world.

Further investigation was undertaken to identify which type of CSR information needs more consideration in Saudi Arabia, in response to which three CRs singled out environment information as being the most important and thus worthy of first consideration. Without elaborating,

four interviewees considered all four types of information to be equally important and worthy of equal treatment. Two of them thought information related to the community and the environment was more important, while two others considered employee-related information to be of paramount importance.

However, most ESRs considered that employees need to be considered more in terms of government requirements, and one interviewee said Saudi companies need to consider more community information, while another felt appropriate consideration depended on the sector in which the company operated. Without elaborating, two interviewees saw the need to consider all four types of information to be equally important and worthy of equal treatment. One of them thought information related to employees and the environment was more important, while another viewed customer information as being of paramount importance.

To summarize, the results of the interviews did not show a clear view of which stakeholders are considered more and the respondents had different perspectives on the existent and ideal realities in this regard. However, the content analysis result showed that employee disclosure was the greatest CSR component in Saudi listed companies. Furthermore, this content analysis result was also consistent with the findings of interviews concerning which stakeholders need to be considered more by Saudi listed companies (most stated employees).

### **8.3 CSR Awareness in Saudi Arabia**

This section deals with the third research question, exploring awareness and level of disclosure in CSR.

Regarding the awareness and level of CSR in Saudi Arabia during the past three years, the results indicate that most ESRs felt CSR disclosure had increased, although it was still below their expectations. Three interviewees felt there was no change in CSR disclosure and accountability awareness in Saudi Arabia during the last three years. One interviewee disagreed with everyone else and thought that CSR in 2003 and 2004 had been greater than in the last three years. One of the interviewees could not tell which kind of CSR information had been more considered.

The views of CRs were similar; most of them felt that the level of CSR awareness in Saudi Arabia during the past three years had been increasing, although it was also below their expectations. They felt companies had stepped up their efforts during the preceding three years, but these were still insufficient. One interviewee felt that CSR had only increased at the community level, with individuals making the most donations, with no difference at all in CSR per se.

The results obtained from content analysis, consistent with the findings of interviews, show that the level of CSR disclosure increased during last six years between 2010 to 2015, with noteworthy increased awareness and level of CSR disclosures coinciding with the creation of the Saudi Arabian Responsible Competitiveness Index (SARCI) and the

King Khalid Award for Responsible Competitiveness, indicating that CSR is likely motivated by such official recognition. Additionally, the development of regulation may have also influenced the increase in employee disclosure, as there is a new policy of employment in Saudi Arabia to increase the percentage of national employees relative to non-nationals through increasing job opportunities. Furthermore, the Consumer Protection Association (CPA) has become more active through setting-up an information centre to provide information to consumers and handle product complaints, which may also contribute to increase CSR disclosure. Moreover, they established a Consumer Happiness Index and Transparency to the Consumer Index, in addition to a campaign to boycott products from socially irresponsible companies, which has become widely used through social networks such as Facebook and Twitter.

However, this study found that interviewees in both groups were not completely satisfied with current CSR practice and disclosure in Saudi Arabia, although it was perceived to be developing. Not one participant in either both group was satisfied with the current CSR level.

The results obtained from the interviews also show that there is support to increase and motivate CSR in Saudi Arabia and to raise responsibility among different Saudi stakeholders, but they saw it as inadequate and more needs to be done to achieve CSR expectations. Although, the support was inadequate, it shows the importance of CSR and increased awareness in Saudi Arabia, indicating a marked change from Tamkeen

(2010), who found a lack of support by government and media for CSR awareness.

In addition, this study found from ESR interviews concerning identifying the relationship between shareholders and their company CSR that there is a negative impact or absence of influence in their company for doing CSR. They also mentioned that the company's board have more power than shareholders. This negative impact may be caused by shareholder's awareness in CSR and more orientation toward profit. Besides, the absence of shareholder effect shows the weak protection of shareholders' rights in Saudi Arabia (Alshehri, 2012). Moreover, the shareholder interviewees agreed that there is a lack of CSR practice and disclosure within companies' annual shareholders meetings, in which CSR is not included on the agenda. This response indicates that shareholders may have low of awareness of CSR and shareholders' rights.

According to the factors and the reasons why the Saudi listed companies were actively taking part in CSR activities and the motivation for them, participants from the CR group were asked why their companies do CSR. Most respondents indicated the culture of the company's top management and board members, who they feel have responsibility. This is consistent with Waldman et al. (2006), who found that CEO leadership drive the decision making concerning CSR, and in-line with the model of Adams (2002), which considers the company chair and board of directors to be the internal source of influence for CSR. Two interviewees attributed their firm's CSR participation to the need to

obtain certifications from certain organizations, such as the Responsible Care or Gulf Petrochemical and Chemical Association, which makes CSR participation a requirement for the award of certification.

With regards to the regulation in Saudi Arabia concerning for CSR and if there are any changes and plans to motivate its progress, most ESR interviewees agreed there are plans or recent decisions to motivate CSR, including providing CSR workshops and conferences for free, and adding CSR as a requirement. One interviewee considered that there are no plans or recent decisions to motivate CSR.

In summary, this study found that awareness and level of CSR disclosure in Saudi Arabia has been increased recently, corroborating the earlier findings of Tamkeen (2010). Furthermore, the state of the culture of the company's top management and board members was a major factor in motivating CSR in Saudi listed companies, which reflects the general high power distance culture of the country discussed previously, whereby change must be driven from above to be successful. Therefore, increasing CSR awareness among top management will radiate into increasing level of CSR disclosure in Saudi listed companies generally. Also, the finding of developing cooperation between regulators and governmental restructuring in line with the national vision suggests increasing CSR awareness.

In addition, the above finding in the awareness of CSR disclosure in Saudi Arabia in line with Ali and Al-Ali (2012) that's CSR awareness is increasing in Saudi Arabia and the legislative environment fostered



by the government in intended to stimulate the private sector is conducive to CSR adoption. Moreover, the finding of this study regarding the level of awareness is consistent with Khurshid et al. (2013) that's found the level of awareness of CSR based on the Carroll's (1979) four CSR dimensions among MBA students in Saudi Arabia were varying levels of awareness. Gravem (2010) also consistent with the above finding of the level of CSR awareness and he answered the question "Is the term CSR understood the same way in Saudi Arabia as in international CSR discourse?" and concluded that Saudi Arabian CSR efforts were congruent with international theories and practices.

#### **8.4 Saudi listed companies' CSR Strategies and Disclosure**

This section deals with the forth research question, to discover how Saudi listed companies disclose the CSR and integrate it into their corporate polices and strategies.

##### **8.4.1 Integrating CSR in Saudi Corporate Polices and Strategies**

The results of interviews with CR group about their CSR practice and disclosure in their own companies show that eleven out of thirteen participants stated that their companies were implementing CSR, while some CSR activities trended to arise outside the direct contribution of companies themselves due to philanthropic influences rather than a feeling of responsibility. However, some companies had strategic plans for the implementation of CSR. Two CR interviewees stated that their companies were not practicing CSR or supporting its importance due to

financial considerations, as CSR activities were viewed as an unprofitable distraction not in the interests of shareholders.

Eleven out of thirteen of CR interviewees confirmed that their companies had both short-term and long-term plans, to would be developed as circumstances dictated, stating exactly what their companies were doing. For instance, some companies appointed a percentage of annual profit for the CSR budget as a long-term plan for community housing. Two interviewees confessed that their companies had no plans for CSR in the near future, and any potential future plans would be contingent on large profits.

In addition, four interviewees of CR said their companies dedicated CSR units or departments. Seven said there were no CSR departments in their companies and their public relations department handled CSR issues, while in some companies CSR responsibilities were assumed by multiple departments. Some companies had recently approved the creation of CSR departments or appointed CSR responsibilities to specific departments, indicating growing readiness for professional CSR activities. Two interviewees stated that they had no CSR department, nor were they committed to embarking on CSR activities.

Moreover, nine interviewees in the CR group had annual budgets for CSR in their companies. Two interviewees said that the practice in their companies was to apply for funding on a need-to basis, and not to allocate specific annual budgets for CSR. Two of the interviewees they

had no CSR budget and did not practice CSR. The results indicate that most listed companies had annual budgets for CSR.

For CSR training programs inside companies to increase awareness among employees, seven CR interviewees stated that their companies provided in-house seminars and workshops on CSR training, and externally by sending staff to national CSR conferences. Six CR interviewees said their companies provided no such training. In this regard, it should be noted that some companies take very dedicated efforts to promote CSR activities and raise awareness nationally.

In addition to getting feedback and improving from current CSR activities, it was found that some companies would consider maximizing the beneficiaries of their CSR. Five CRs got feedback in number ways, including surveys, host community representatives, and recognition awards about their CSR programs. Expressing disappointment, seven interviewees declared that they had no formal mechanisms in place in their companies to receive feedback from any stakeholder, and they did not actively seek feedback. In this regard, ten CR interviewees believed that stakeholder feedback was instrumental in facilitating CSR improvements in their companies, while three said feedback had played no role in any measure they had taken to improve their CSR performance.

In short, this study shows that Saudi listed companies integrated CSR into their corporate policies and strategies, as confirmed by interview results and content analysis. Also, the Saudi listed companies are

considering short- and long-term planning and budget allocation for CSR. In addition, CSR duties have been assigned to specific departments in most Saudi listed companies. However, less attention has been paid to the development of awareness of CSR among employees, by providing training and developing CSR activity by getting feedback.

#### **8.4.2 The CSR Disclosure Format**

This section deals with the CSR disclosure format used by Saudi listed companies to answer the second part of the research question. In relation to the best location where Saudi stakeholders preferred to see the CSR information, the interview results found that there is a different location, but most interviewees from both CR and ESR groups preferred the mass media (i.e. the press, TV and social media). Annual board reports, sustainability reports and special CSR reports were mentioned as preferred locations for CSR information by some CR and ESR interviewees. The preference of most interviewees for mass media communication of CSR information may impact the level of CSR disclosure in company corporate reports. Tamkeen (2007) indicated that the level of CSR reporting does not represent the true engagement in socio-economic activities by Saudi companies. The interviews with the CR group show that most Saudi listed companies disclose their CSR information through multiple channels, including mass media and annual board reports.

Remarkably, all CR interviewees confessed ignorance of the concept of integrated reports and were thus unable to respond concerning how they

look. For their comment on sustainability reports as generated and divulged by their companies, most CR interviewees (eight) had no idea what these were; four understood the concept and defined it as a report that explains what measures a firm takes to ensure that its business practices are in conformity with sustainable usage of natural resources. One interviewee commented that a sustainability report is economic, social and environmental in nature. Only two respondents said their companies had generated and published sustainability reports, one beginning in 2011 and the other in 2013. The above results show that most of the CR group were not familiar with the concept of integrated and sustainability reports.

According to how the Saudi listed companies prepare their annual reports, the CR interviews revealed that most reports were generated internally, although the formats were provided by external designers. However, three CR interviewees said their annual reports were produced by third parties in specialized firms. This shows that Saudi listed companies generally prefer to prepare their reports in-house.

Furthermore, the respondents from the CR interviews indicated that some Saudi listed companies have a reporting strategy for CSR, such as planning to start to have sustainability reports and integrating all different CSR information therein. Also, some of them confessed having neither a strategy nor a program for CSR in their companies.

With regard to the extent of disclosed information related to CSR in Saudi listed companies, the CR participants showed that most Saudi

listed companies disclosed CSR information in full; four said their companies' disclosure was only partial, stating that they disclosed information with value, significance and greater social relevance.

Moreover, the interviews with shareholders and community member of interviewees showed the extent to which company's reports are accessible in Saudi Arabia. Both groups of shareholders and community member interviewees have access to the company's reports, but in different ways. Six of them used the websites to access to the reports and three used the media to access to it. However, six shareholders and community members said some reports did not carry all information, and some key information was missing. Two shareholders and community member interviewees saw it as carrying all needed information. Another interviewee could not assess if it carried all needed information or not. This study shows that reports are increasingly accessible online, but they are generally inadequate for informational purposes.

Although most shareholders and community members considered only financial information, two of them said they did not find CSR information in their reports, while another two considered that all information was disclosed in company reports. This shows a low awareness of CSR information among shareholders and community members.

## **8.5 Religion, Culture, Regulation, and governance characteristics Impacts on CSR in Saudi Arabia**

In this section, the fifth research question is answered by interview findings exploring the influences of local culture, religion, regulation and governance characteristics on CSR in Saudi Arabia. The findings of how do local culture, religion, regulation and governance characteristics influence the CSR in Saudi Arabia. The answer to this question contributes by providing a clear understanding of that has more influence to CSR in Saudi Arabia. This elicits recommendations on how to develop CSR in a Saudi context and shows factors that could be used to motivate CSR. This also supports in development in CSR to better fit in Saudi Arabia and worldwide especially Gulf Countries.

The interviews revealed that most interviewees from CR saw culture as the most influential factor on CSR in Saudi Arabia, followed by religion. Regulation was not seriously considered to affect CSR. One interviewee dismissed all three factors and viewed CSR as a marketing-based strategy. However, the ESR interviewees saw religion as an ancillary and indirect factor, while they considered regulation to be the most instrumental, followed by culture.

Both CR and ESR interviewees agreed that culture plays a major role in influence the CSR in Saudi Arabia. This finding in line with number of studies such as the findings of Van der Laan Smith et al. (2010), who concluded that investment behaviour reflects national culture, which in turn affects stakeholder orientation and CSD (e.g, Gray, 1988; Qu and Leung, 2006; Maon et al., 2010).

However, they held opposite views on the importance of regulation and governance characteristics in influencing CSR in Saudi Arabia. The Religion (Islam) had a pervasive influence as a secondary factor on CSR. This finding shows religion (Islam) is a supporting factor but not in its own right. This finding consistent with Kamla et al. (2006) found that Islam in the Arab world promotes corporate social responsibility, and Lewis (2001) found that business ethics in the Middle East emerged from Islamic injunctions promoting honesty, fairness and equitable treatment. There are number of studies in developed and developing world which found that religion is a influence factors on CSR (e.g., Quazi, 2003; Fernando and Jackson, 2006; Brammer et al., 2007; Aribi and Gao, 2010; Du et al.,2014).

## **8.6 Challenges and Promotion of CSR in Saudi Arabia**

The sixth research question aimed to investigate challenges to CSR adoption in Saudi Arabia and ways to promote it. The answer of this question provides recommendations on how to develop CSR in a Saudi context and shows factors that could be used to motivate CSR.

The interviews with CR group found that four interviewees said the main challenge they faced was the cumbersomeness of approval processes, while three cited financing as the main problem. Two CR interviewees dismissed all challenges, saying there was nothing to prevent anyone from engaging in CSR activities, and the ESR interviewees also commonly agreed with this sentiment. Three interviewees mentioned the perspective of CSR was the main challenge,



while another three viewed the source of finance as the main problem and the negative impact from shareholders' financial self-interest on CSR. One of the interviewees said the main challenge faced was the lack of clarify in procedures and processes.

Responding on how to promote the implementation of CSR in Saudi Arabia from both groups, most CR interviewees were of the opinion that CSR should be mandated by regulations. Four interviewees felt it could be promoted by incentives and rewards, and three CRs saw increasing CSR awareness as the starting point. However, the ESR interviewees felt awareness was increasing at a satisfactory rate, and they were against mandatory CSR and incentives. One interviewee said suggested providing and establishing CSR programs to which firms could subscribe. Disagreeing with everyone else, one interviewee was opposed to any moves to get companies to make CSR, feeling that their activities must be determined by their own situation relative to market conditions and their capacity to engage in CSR.

Overall, the answer to the sixth question shows that lack of funding and bureaucratic hurdles comprise the main obstacles to CSR in Saudi Arabia, although most participants felt there was nothing to prevent engagement in CSR activities for firms who wished to do so. Increasing awareness of CSR and providing incentives were mentioned as tactics to promote adoption.

### **8.7 Comparison between content analysis and interview**

The motivation to use content analysis in this study regardless use only interview is to explore the extent of the level of CSR disclosure. Before proceeding further with the investigation, it is important to understand how stakeholders in Saudi Arabia perceive CSR particularly in terms of disclosure and accountability. In addition, the level of CSR disclosure could show the changing awareness towards CSR disclosure. The findings show how Saudi companies consider and pay attention to the disclosure of CSR information.

Furthermore, the lack of research into the level of CSR disclosure in Saudi Arabia also motivated this study to include the content analysis as a research method. The combined findings of both these methods can better show the awareness of CSR disclosure. The interview method can show the awareness of CSR between the Saudi stakeholders, and the content analysis can show the awareness of CSR disclosure among the Saudi companies during the last six years –2010 to 2015. Moreover, the content analysis can show the quality of CSR information that is disclosed by Saudi companies and which kind of information is disclosed.

There are similarities and differences in the findings from both methods in the investigation of the level of awareness of CSR in Saudi Arabia. The similarities are that both methods show that the awareness of CSR has been increased. In addition, the results of both also show that the number of companies that integrate the CSR disclosure and practice has increased.

Regarding the differences in the findings from both methods, the interviews did not show a clear view of which stakeholders are considered more by firms and the respondents had different perspectives on the existing and ideal realities in this regard. However, the content analysis results showed that employee disclosure was the greatest CSR component in Saudi listed companies. Furthermore, this content analysis result was also consistent with the findings of interviews concerning which stakeholders need to be considered more by Saudi listed companies (most stated employees).

Although the results of the interviews show that most participants preferred that Saudi companies disclose their CSR information by the mass media (i.e. the press, TV and social media), the results of the content analysis show that the volume of CSR information disclosed by Saudi companies during the last six years has increased. Furthermore, the interviews found that the participants were not completely satisfied with current CSR practice and disclosure in Saudi Arabia, although the current level of CSR disclosure has been developed and increased.

Each data collection method was used in this study to answer one or more of the research questions. The content analysis method was used to investigate the extent of awareness and level of disclosure in CSR information in Saudi Arabia, but not to answer all research questions together. Conversely, the interview method was used to answer all research questions for this study. The author argues that it is more important to use content analysis with interviews in Saudi Arabia and other countries that have a lack of level of CSR disclosure. It is also a

good approach to first employ content analysis to understand the extent of the practice of CSR disclosure before going in deeper with interviews to explore the CSR perspectives among different stakeholders. Furthermore, combined, these data collection tools work well to works to unveil how Saudi stakeholders perceive CSR and the level of CSR disclosure in Saudi listed companies.

To conclude, the Content analysis provides a full and detailed picture of the state of CSR disclosure whereas the interview method provides the opportunity to understand the perceptions of stakeholders regarding these disclosures. Combining the two methods provides a rich source of data which leads to a full appreciation of CSR disclosure as it is now and ways in which it could develop.

## **8.8 Summary**

This chapter compared and contrasted the findings of content analysis and semi-structured interviews and also with the existing literature. Firstly, it discussed the understanding of CSR in Saudi Arabia, then it explored the awareness and level of disclosure in CSR. Thirdly, it discovered Saudi listed companies' CSR strategies and disclosure. Fourthly, it investigated the factors that influencing CSR in Saudi Arabia, and finally it identified the challenges and obstacles facing the implementation of CSR, and how to promote it. The next chapter presents the conclusion, the contribution to knowledge, limitations and areas for further research.

## **9 Chapter Nine: Conclusion**

*Introduction*

*Summary of Findings*

*The Research Methodology*

*The Generalizations of Study*

*Contribution to Knowledge*

*Limitations*

*Suggestion for Further Research*

*Summary*

## 9 CONCLUSION

### 9.1 Introduction

This research investigates the extent of awareness and developing in of CSR disclosure practice and accountability in Saudi Arabia. To achieve the research objectives as discussed in Chapters One and Five, the study employed content analysis and semi-structured interview.

More precisely, the study used the content analysis to investigate the extent of CSR disclosure information in companies listed on the Saudi Stock Exchange. In addition, the study used the semi-structured interview : (i) to investigate and gain a clear understanding of how stakeholders in Saudi Arabia perceive CSR, especially in terms of disclosure and accountability; (ii) to investigate the extent to which CSR disclosure by Saudi listed companies was driven by stakeholders, legitimacy or accountability concerns; (iii) to examine the extent of CSR disclosure information in companies listed on the Saudi Stock Exchange; (iv) to investigate whether CSR awareness has led to its integration in the formulation of corporate policies and strategies; (v) to investigate the extent to which culture, religion, regulation and governance characteristics have impacted on Saudi Arabia's CSR disclosure practices; (vi) to investigate the challenge and obstacles for CSR in Saudi listed companies, and how to motivate CSR in Saudi Arabia.

**An overview of the thesis:** Chapter 1: Background, introduces the research and its general context, justifying the rationale for undertaking this study. In addition, it identifies the research aim and objectives, research questions, research philosophy and contribution to knowledge.

Chapter 2: The Research Context, presents details on the particular context of Saudi Arabia as in terms of general geographical and socio-cultural characteristics, economy and business culture, Saudi Vision 2030 and National Transformation Program (NTP) 2020, and the role of CSR in the country.

Chapter 3: Literature Review, reviews previous studies about CSR. The first part focuses on the historical background of the concept, while the second part defines the meaning and development of CSR. It then highlights the main factors involved in CSR practices. In addition, the literature review focuses on the importance and motivation of CSR and the challenges and obstacles it faces. It also reviews the definition of CSR disclosure and discusses CSR disclosure practice. The final section reviews the literature on CSR in Saudi Arabia in particular.

Chapter 4: The CSR theories, discussed the theories that investigated by this study, to explore the extent to which CSR disclosure by Saudi listed companies is driven by stakeholders, legitimacy or accountability concerns. The chapter started with stakeholder theory and provided a number of definitions for it. It then explained the relationship between the theory and CSR. The second section

described the second theory used in this study which is legitimacy theory, and a number of definitions and its relations with CSR were discussed. The third section discussed the third theory, accountability theory, and both definitions and relation with CSR were explained.

Chapter 5: Research Methodology, discusses the research methodology adopted. It is divided into two parts. The first part focuses on the literature in the research philosophy, research approach, strategies, time and data collection methods. The second part focuses on the research philosophy, strategy, time and data collection methods used applied in this research study.

Chapter 6: Results of Content Analysis, presents the results of the content analysis methods used in this study. The empirical results obtained were used to describe CSR disclosure practices and classified into four dimensions: Environment, Social, Employees, and Consumers.

Chapter 7: Interview Results Analysis, analyses the main findings emergent from the semi-structured interview data. The chapter also shows the results of both the Company Representatives (CR) and the External Stakeholders Representatives (ESR) interviewees. The result shows through main themes and began with understanding general perspectives on CSR and CSR disclosure in Saudi Arabia.

Chapter 8: Discussion, integrates the content analysis and semi-structured interviews findings to answer the research questions. Which



is to integrate the analysis of the content analysis and semi-structured interviews to explore the status of CSR disclosure in Saudi Arabia.

Chapter 9: Conclusion, summarises the salient findings of the study and its contribution to knowledge and potentially to policy, provides a brief of the research methodology and the generalization of this study, and identifies the limitations of this research to identify areas for future study.

This chapter seeks to achieve four primary objectives. First, it presents a summary of the findings and provides answers to the initial research questions. Second, this chapter provides a brief of the research methodology and the generalization of this study. Third, this chapter highlighting the contribution to knowledge at the empirical level; at the policy recommendation level; at the theoretical level and the methodological level. Fourth, this chapter addresses the limitation of the study. Finally, this chapter offers suggestions for future research.

## **9.2 Summary of Findings**

The research questions for this study established at the beginning of the these were:

- How do Saudi stakeholders perceive CSR disclosure and accountability?

- To what extent do existing theoretical frameworks (stakeholder theory, legitimacy theory or accountability theory) assist in interpreting CSR disclosure by Saudi listed companies?
- What is the extent of awareness and level of disclosure in CSR information in Saudi Arabia?
- How is CSR disclosed and integrated into corporate policies and strategies in Saudi listed companies?
- How do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia?
- What are the challenge and obstacles for CSR in Saudi listed companies, and how could CSR be motivated in Saudi Arabia?

This research has investigated the extent of awareness and developing in of CSR disclosure practice and accountability in Saudi Arabia, covering six objectives, investigating: how stakeholders in Saudi Arabia perceive CSR, especially in terms of disclosure and accountability; to investigate the extent to which CSR disclosure by Saudi listed companies is driven by stakeholders, legitimacy or accountability concerns; the extent of CSR disclosure information in companies listed on the Saudi Stock Exchange; whether CSR awareness has led to its integration in the formulation of corporate policies and strategies; the extent to which culture, religion, regulation and governance characteristics have affected Saudi CSR disclosure practices and identifying features that can be incorporated into CSR practices

elsewhere; and the challenges and obstacles for CSR in Saudi listed companies, and how its adoption can be promoted in Saudi Arabia. The discussion chapter covered the six research questions and objectives. We now go on to consider how the research findings have provided answers to the initial research questions, as follows.

### **How do Saudi stakeholders perceive CSR disclosure and accountability?**

The first research question and the findings from this study that's answer how the Saudi stakeholders perceive CSR. This study showed the different Saudi stakeholders perceive CSR as legitimacy and companies need to legitimate their existence by CSR. In addition, they considered that it is necessary for companies to practice CSR in order to be socially acceptable. This finding shows that the perspective of CSR in Saudi Arabia can be explained by and is consistent with the legitimacy theory. Furthermore, participants also believe that Saudi companies have obligations and responsibility towards their society, which includes CSR practice. They also consider that CSR is a way to legitimate the firm, and pay back to society as cost for use of the natural resources of the society.

These perspective among Saudi stakeholders motivate the Saudi listed companies to practice CSR disclosure and pay attention to responsibility towards their community that to get benefits and support from Saudi stakeholders that's line with Tinker and Niemark (1987) which is conclude that consumers and society in general have higher regard for firms if they do all they can to repair or prevent damage to

the physical environment, so that the health and safety of consumers, employees and communities are safeguarded.

Regarding perceptions of the existence of a relationship between CG and CSR, the above result showed there were differences between Saudi stakeholders in terms of the perceived relationship between CG and CSR.

Concerning the importance of disclosing CSR information, the Saudi stakeholders agreed with this and reported they understand the need for companies to disclose CSR information in Saudi Arabia.

Moreover, they asserted that the underlying aims for the disclosure of CSR information by Saudi companies is for purposes of transparency and legitimacy, this line with Kokubu et al., (1994); and Solomon (2014). This finding suggests that CSR disclosure is perceived as legitimacy channel and tool among Saudi stakeholders, this finding agreed with Patten (1991) who found that CSR disclosure is result of the public-pressure was more effective than firm profitability.

Despite the positive perceptions of CSR, however, this study also found a lack of accountability in CSR. Although there are some incentives and encouragement to motivate CSR, there is not serious accountability in the traditional sense. In addition, the results of the interviews did not confirm which stakeholders are more considered by Saudi companies. However, the content analysis result showed that the employee was the greatest CSR component in Saudi listed companies. Furthermore, this

content analysis result was also consistent with the findings of interviews concerning which stakeholders need to be considered more by Saudi listed companies (most stated employees).

Furthermore, this study found that the CSR concept is understandable and there is a development of perspectives on CSR in Saudi Arabia. The need for CSR and its importance are realised. To some extent the CSR reporting in KSA may be seen to be empowering, as it makes transparent issues which may not have been disclosed before. For example, issues relating to environmental policy and audit are now disclosed and there is a significant increase in disclosing that information in practice, as we could see from the content analysis, which empowers those interested in environmental affairs by providing them information about companies' activities in this area.

These findings illuminate stakeholders' views of issues of concern them and offer critical perspectives, in line with the conclusions on shadow social accounts and according by Dey (2003) concerning shadow social accounts including other stakeholders' voices and wider information sources from the public domain. Furthermore, Adams (2002) concluded that shadow reports may discover gaps between what companies suppress and what they reveal, identifying 'gaps' and discrepancies between what companies choose to report about themselves and what they attempt to conceal.

Furthermore, a number of studies found that stakeholders assess and build benchmarks of CSR disclosure and stakeholders expect to have a

presence in the disclosure dimensions. Gamerschlag et al. (2011) found that differences in disclosure dimensions were driven by stakeholders' expectations. In addition, Roberts (1992) also found that the level of CSR disclosure was significantly related to stakeholders' power (e.g., Brammer and Pavelin, 2004; Sweeney and Coughlan, 2008; Khan et al., 2013). More specifically, regarding stakeholder influence by stakeholders on firms to disclose one of CSR dimensions information, several studies found that firms who focus on the environmental disclosure dimension do so based on stakeholders' pressure (e.g. Brammer and Millington, 2005; Babiak and Trendafilova, 2011).

Consequently, this study found that there is increasing CSR awareness among Saudi stakeholders, which has increased companies' CSR practices and disclosure, exerting significant pressure to increase CSR engagement among Saudi companies.

**To what extent do existing theoretical frameworks (stakeholder theory, legitimacy theory or accountability theory) assist in interpreting CSR disclosure by Saudi listed companies?**

The answer of the second research question that find CSR disclosure by Saudi Listed Companies is strong driven by legitimacy theory. This finding shows that the perspective of CSR in Saudi Arabia can be explained by and is consistent with the legitimacy theory. In addition, this study also shows the different Saudi stakeholders perceive CSR as legitimacy and companies need to legitimate their existence by CSR,

and become such external pressures on Saudi Listed Companies to consider in the CSR.

Based on the above finding of CSR perspective among stakeholders in Saudi Arabia that's play and make pressure in Saudis companies to practice CSR and legitimacy their extent. In addition, the finding assert the Saudi Listed Companies should legitimate their activities based on the Saudi stakeholders, if it is not that give the Saudi stakeholders to decide to invalidate the company's contract. If companies failed in validate their contract with the society that may lead to loss

To summaries the Saudi listed Companies concerns to CSR disclosure based on legitimacy theory. The CSR disclosure by Saudi listed companies is driven by legitimacy rather than stakeholders and accountability. The legitimacy theory is more fit to explain the CSR in Saudi Listed Companies.

### **What is the extent of awareness and level of disclosure in CSR information in Saudi Arabia?**

The third research question that's "what is the extent of awareness and level of disclosure in CSR information in Saudi Arabia". The content analysis in this study found clearly demonstrates that the total number of pages devoted to CSR information increased from 54 in 2010 to around 70 in 2011 and 2012, and there was a significant increase between 2012 to 2013 by approximately 50% to 106 pages. Moreover, the CSR disclosure continued increasing in the last two years by 16% in 2014 to 123 pages and 36% in 2015 to 167 pages. The average

disclosure over the six years indicates a significant increase, with the maximum pages disclosed by a single company increasing from 2013 to 2015, with the highest volume in 2015 (17.75 pages).

Furthermore, the result also shows the largest disclosure was from the petrochemical sector between 2010 to 2014, but it was overtaken by the Agriculture and Food sector in 2015. The second-largest was from the Industrial sector in 2010, and the Cement sector was the second largest between 2011 to 2013. In 2014, the second-highest disclosure was the Agriculture and Food sectors, while the second-largest was the petrochemical sector in 2015.

Moreover, the result shows the trend of the total pages by volume in each category of environmental disclosure; employee disclosure; social disclosure and consumer disclosure over the six years. The results indicate that over the six-year low priority was given to consumer disclosures in the first four years (2010- 2013), while relatively high priority was given to employee, social and environmental information. However, there was a marked increase in consumer disclosure during the period 2014 to 2015. However, Saudi stakeholders are still not satisfied with the current CSR level, reporting that it falls below their expectations. Also, this study found support for the development of regulations to motivate CSR, which in itself shows the increasing awareness of CSR among the stakeholders.

The finding also shows that there is supporting to increase and motivate CSR in Saudi Arabia and to raise responsibility among different Saudi



stakeholders, but they saw it as inadequate and more needs to be done to achieve CSR expectations. Although, the support was inadequate, it shows the importance of CSR and increased awareness in Saudi Arabia,

This study identify the relationship between shareholders and their company CSR that there is a negative impact or absence of influence in their company for doing CSR. They also mentioned that the company's board have more power than shareholders. With regards to the regulation in Saudi Arabia concerning for CSR and if there are any changes and plans to motivate its progress, this study found that there are plans or recent decisions to motivate CSR.

The findings show that the awareness of CSR has increased, overall, a significant increase in CSR reporting was observed over the period, despite the fact that private-sector companies are still in the early stages of awareness as far as integrating CSR activities into their corporate policies and strategies.

### **How is CSR disclosed and integrated into corporate polices and strategies in Saudi listed companies?**

The forth research question which is shows how Saudi listed companies disclose and integrate the CSR into their corporate policies and strategies. The findings of this study show how the integration of CSR in Saudi listed companies' policy and strategy has been increased with the implementation of CSR, while some CSR activities trended to arise outside the direct contribution of companies themselves due to philanthropic influences rather than a feeling of responsibility. In

addition, the Saudi companies were not practicing CSR or supporting its importance due to financial considerations.

The study also confirmed that Saudi companies had both short-term and long-term plans, to would be developed as circumstances dictated, stating exactly what their companies were doing. Furthermore, most of Saudi companies appointed CSR responsibilities to specific departments, or include other department responsibility such as public relations department which handled the CSR issues, while in some companies CSR responsibilities were assumed by multiple departments.

The results of this study indicate that most companies had annual budgets for CSR. For instance, some companies appointed a percentage of annual profit for the CSR budget as a long-term plan. However, only low consideration has been given to developing CSR awareness among employees. Offering training to and developing CSR activities with employees could generate valuable feedback.

In addition, the finding shows that companies had no formal mechanisms in place in their companies to receive feedback from any stakeholder, and they did not actively seek feedback. This study also found that most Saudi listed companies disclose their CSR information through multiple channels, and the mass media is preferred over annual board reports, sustainability reports and special CSR reports.

This study shows that Saudi listed companies generally prefer to prepare their reports in-house; reports are increasingly accessible online. Findings also revealed a lack of understanding of the concept

of sustainability reports, and integrated reports with very low concern about such practice. Moreover, the result shows some of Saudi companies have a reporting strategy for CSR, such as planning to start to have sustainability reports and integrating all different CSR information therein. With regard to the extent of disclosed information related to CSR in Saudi listed companies, the CR participants showed that most Saudi listed companies disclosed CSR information in full. However, Saudis' shareholders and community members found that's are generally inadequate for informational purposes. Although, this study found the Saudis' shareholders and community members paid less attention to CSR disclosure in the reports.

#### **How do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia?**

The findings revealed that CSR in KSA is imbued with cultural and regulatory assumptions imbued with religious ideation, basically premised on the view of CSR activities as being socially desirable and commendable acts of beneficence rather than part of a cohesive socio-economic regulatory framework or intrinsic corporate objectives. This elicits recommendations on how to develop CSR in a Saudi context and shows factors that could be used to motivate CSR in a way amenable to KSA and GCC countries in general.

Saudi culture affected stakeholder's perceptions towards CSR significantly, generally corroborating studies emphasizing cultural impacts on internal corporate activities (and organizational culture) such as disclosure practices (e.g., Haniffa and Cooke, 2002, 2005;

Williams, 2004; Waldman et al., 2006; Maon et al., 2010; Van der Laan Smith et al., 2010; Ho et al., 2012) However, the findings of this study reveal a more direct connection between stakeholders' cultural (i.e. Saudi) interest in CSR and the form it takes, which is particularly affected by religion due to the overwhelming ethical ideation of Saudis being grounded in religious obligations and priorities (as in all Arab-Islamic societies). This is related to the burgeoning literature on the relationship between religion and business ethics. There are studies that argued that religion has a significant influence on the development of personal perspectives towards CSR and other business ethics issues (e.g., Lewis, 2001; Quazi, 2003; Fernando and Jackson, 2006; Brammer et al., 2007; Aribi and Gao, 2010; Du et al., 2014). This study found that religion (i.e. Islam) has a profound impact on the way in which CSR is understood, implemented and developed in KSA.

Culture also affects the regulatory environment between the government and organizations (e.g., Williams, 1999; Williamson et al., 2006; Yu, 2008; Runhaar and Lafferty, 2008; Vilanova et al., 2009). The regulatory environment includes internal organizational characteristics that are affected by cultural norms and assumptions (e.g., board size, audit committee; general rights of shareholders; accumulative voting; voting rights; dividends rights etc.), all of which are significant in CSR (Adams, 2002; Haniffa and Cooke, 2002; Prior et al., 2008; Reverie, 2009; Bear et al., 2010; Li and Zhang, 2010).

This study considered the interrelated characteristics of governance, culture, religion and regulation in the context of their impacts on CSR

in KSA. It was found that national culture is the most important factor that influences CSR in the Saudi environment, while religion (Islam) is a supporting factor. Regulation and governance characteristics were perceived to have a generally weak influence compared to culture and religion. Saudi Arabia was constituted as an Islamic state, with the Holy Qur'an as its constitution, and religion is involved in all practices in the country, including corporate processes and decisions as well as state governance and regulation, but it was found to have a less profound impact than culture (as defined in this study).

**What are the challenge and obstacles for CSR in Saudi listed companies, and how could CSR be motivated in Saudi Arabia?**

The six questions investigated the challenges and obstacles faced in Saudi Arabia to implementing CSR, and how to promote CSR countrywide. The answer of this question provides recommendations on how to develop CSR in a Saudi context and shows factors that could be used to motivate CSR. Funding and bureaucratic procedures were identified as the major obstacles to CSR development, and a need for increased awareness and incentives to motivate CSR adoption in Saudi Arabia was identified.

The answer of this question provides a clear picture to support the policy makers to develop CSR in a Saudi context. The information of challenges, obstacles and motivation factors help in development in

CSR to better fit in Saudi Arabia and worldwide especially Gulf Countries.

### **9.3 The Research Methodology**

The research methodology is based on the research objectives and purpose. The best paradigm for this research is interpretivism, because it seeks a deeper understanding of human perspectives to create new knowledge and more understanding by interpreting the social world and context of CSR in KSA. It understands and explains differences in subjective human behaviour and social phenomena. Other paradigms such as positivism were rejected, because this research is not investigating a single reality, and it ontologically assumes the existence of multiple socially constructed realities, assailable by subjective qualitative research. The positivist approach is undertaken by an objective observer independent of the existent research subject, while the interpretivist researcher is an interpreter of the social realities experienced by human subjects, understanding and explaining meanings.

This study applied stakeholder theory; legitimacy theory and accountability theory. These three are more widely accepted and are pertinent to this research, because each one of these theories has different needs to achieve the research objectives. Stakeholder and legitimacy theory were used to investigate awareness of CSR in KSA, while accountability theory was used to analyse CSR disclosure in Saudi listed companies. The stakeholder theory facilitates the analysis and identification of responsible parties and how far that responsibility

extends. In addition, the legitimacy theory identifies how business integrates with social demand. Accountability theory is used to analyse CSR disclosure in Saudi listed companies.

Other theories were rejected because of the conceptual basis of this research, such as agency theory, which focuses on “conflicts of interest between the owners (principals) and their managers (agents)” (Jensen and Meckling, 1976); this theory does not help because CSR is voluntary and involves different stakeholders. Furthermore, the replication of Western theories is of interest in this research because the business model in developing countries is heavily influenced by Western views. In addition, the application of Western theories yields more evidence because of the lack of social accounting research in developing countries.

Moreover, the data collection method used in this study is content analysis and semi-structured interviews. The content analysis method was chosen for its ease of use to study the nature of CSR disclosure practices in KSA and the context in which CSR disclosure is handled by concerned parties. It was chosen because it allows handling large data volumes. Semi-structured interviews were chosen because they allow in-depth investigation of issues of interest, enabling interviewers to probe how individuals feel about a given topic and why they hold certain opinions while retaining relevancy by following a general set of questions pertinent to the phenomena of interest, unlike structured interviews that limit the potentiality for interviewees to express their in-depth knowledge and perceptions. This allows the researcher to gain

more information about the issue being investigated. Using annual reports alone does not suffice to comprehensively analyse phenomena pertinent to CSR, and complementary data collection methods are clearly necessary.

#### **9.4 The Generalizations of Study**

The generalizability of any research study is an important concern for researchers. In this study, there may be some possibility of generalizing the findings. Firstly, the study gained insights into how CSR is viewed and applied in KSA with interview data from different stakeholder representative of companies and external parties. Therefore, to some extent we may consider the findings apply to others within those stakeholder groups. However, we cannot be certain that the views of those interviewed represent all others in their stakeholder groups. This study does not adopt a positivist approach (i.e., it does not seek to take a representative statistical sample, test hypotheses and draw conclusions for the whole population); rather the research aimed to draw conclusions from the group interviewed in the study in an interpretive manner, and epistemologically, generalizability was not a primary aim: the main aim was to consider the views and perceptions of the people involved in the research.

Therefore, the data of interviews offered insights into how CSR were from different positions. Secondly, the sample used for content analysis included 58 companies listed on the Saudi Stock Exchange for a six-year period, with around fifty percent of the total market capitalization



value and diverse sectors represented, including petrochemicals, agriculture and food, energy and utilities, manufacturing and construction. Given the size of the sample it is possible to draw conclusions across the whole population, but again this is not a major aim as we are interested primarily in the particular experiences of research participants.

Thirdly, the findings represent a combination of two data collection methods, interviews and content analysis. Comparing the findings with existing literature (e.g., Tamkeen, 2010; Alshehri, 2012; Ali and Al-Ali, 2012), there are many similarities indicative of potential generalizability. This is an internal validation of the findings as it provides robustness. However again in an interpretive approach these findings may be representative of the Saudi context but not necessarily generalizable across other countries.

The main problem faced by the methodology of this study was the lack of gender diversity among participants when conducting the interviews; cultural barriers to seclusion and non-essential interaction between members of the opposite sex precluded the inclusion of women, and there was no available data on the status of transgender people. However, this limitation not impact on the generalization of the study findings except with specific regard to gender, because of the negligible number of women engaged in the private sector; for instance, the numbers of women and men employed in the private sector were 324,534 and 8,162,999 (respectively) in 2012 (SAMA, 2013), thus women represent around 3% of workers in the sector. Thus, overall

generalizability for the whole Saudi population is potentially possible (with due interpretation), but the findings do not lend themselves to extrapolation to other countries in the Middle East due to their very different social, political, cultural and economic contexts. The contribution of this study is that it provides strong and rich evidence which may be used as a comparator and basis against which to gauge findings for other countries, in order to identify differences and similarities.

### **9.5 Contribution to Knowledge**

At the empirical level, this study stems from the increased in importance of CSR in developed and developing countries alike, but there remains a gap and lack of CSR research related to the latter. This study is to explore the status of CSR in one of the G20 countries comprising a major world economy, namely Saudi Arabia. The contribution of this study to literature by providing useful information to fill the gaps in understanding of CSR in a MENA context for a major economy, exploring the concerns of different stakeholders about issues involved in the development of CSR disclosure practices relative to society and the state.

This study also has made an important contribution to knowledge by presenting updated and more comprehensive information concerning CSR in Saudi Arabia, for which there is a dearth of information generally, particularly in recent studies. This study is also one of the first to analyse perceptions of CSR and assess how different Saudi

stakeholders understand it in depth, using semi-structured interviews. It is also measure the level of CSR disclosure among the Saudi listed companies. The results of this study can motivate CSR adoption and improve understanding of its concepts. It could also provide incentives for Saudi listed companies to disclose more of CSR information and provide different CSR perspectives between the internal and external stakeholders.

At the policy recommendation level, this thesis elicits recommendations on how to develop CSR in a Saudi context and shows factors that could be used to motivate CSR. The results of this study can be used as indicators to evaluate the current CSR practice in Saudi Arabia and for comparison purposes with other studies. Furthermore, based on Saudi Arabia's economic status and its position as a major oil and gas producer, the findings concerning CSR are of interest internationally. This research has contributed to knowledge by studying how do local culture, religion, regulation and governance characteristics contribute to CSR in Saudi Arabia, to provide a clear understanding of that has more contribution to CSR in Saudi Arabi. This will support in development in CSR to better fit in Saudi Arabia and worldwide especially Gulf Countries. This research provides information for those have interest to evaluate CSR in Saudi Arabia. It also presents a clear picture of the nature of CSR in Saudi Arabia, which could support the policy makers to develop it further.

At the theoretical level, this research has contributed to knowledge by studying the extent to which CSR disclosure by Saudi listed companies

is driven by legitimacy, stakeholder or accountability concerns. This study also suggests the theory that is more fit to explain the CSR in Saudi Listed Companies. This is the one of first study that has a theoretical contribution, which is explore the most theories that has driven the CSR in Saudi Arabia. This study has contributed to knowledge by studying which theory that explain and support CSR based on the perspective among different Saudi Stakeholders. This research found the Saudi listed Companies concerns to CSR disclosure based on legitimacy theory and the legitimacy theory is more fit to explain the CSR in Saudi Listed Companies.

At the methodological level, this study also employed interviews and content analysis as data collection techniques to provide a deep understanding and explanation of current CSR perspectives and practices, representing a foundation for future CSR research in the KSA. This research was one of the first that has studied CSR in Saudi Arabia that applied a combination between interviews and content analysis as data collection techniques in the context. This applying lead to analyse perceptions of CSR and assess how different Saudi stakeholders understand it in depth, and measure the level of CSR disclosure among the Saudi listed companies. It is also one of the first studies to measure the level of CSR disclosure among the Saudi listed companies. Thus, further study will be required to focus in specific stakeholders whether there are differences in perspective among Saudi stakeholders. This data collection technique has made its contribution to knowledge by studying these concepts in Saudi Arabia.

## **9.6 Limitations**

This study has several limitations that affect the findings, as discussed below.

The first limitation is one facing any research study in Saudi Arabia, namely the reluctance of many people to be interviewed, which is rebuffed as a perceived slight or interrogation by many people, particularly if they do not understand the importance and benefits of the research.

Secondly, the aim of the research was to explore different Saudi stakeholders' perceptions of CSR, but the relatively limited sample size for interviews may undermine the representativeness of stakeholder groups.

The third limitation is that this study included some interview participants to represent the view of internal stakeholders, but their role working inside different listed companies could restrict them from talking freely or in complete honesty; I noticed that they avoided answering some questions directly.

The fourth limitation is that this research targeted listed companies, and the sample size of content analysis was limited. Clearly not all listed companies were analysed, and some sectors were not represented.

The fifth limitation was logistical, as some participants were unpunctual or cancelled interviews at the last minute, which wasted a lot of time; furthermore, the vast geographical size of Saudi Arabia and made it

generally difficult to access the participants, entailing arduous drives for over four hours in some cases to interview participants.

The sixth limitation was the conservative environment in Saudi Arabia, which caused most interviewees to refuse phone interviews as they prefer face-to-face interactions.

The eighth limitation is the limitation of this study to Saudi Arabia, which cannot be generalized for other countries despite commonalities of culture, religion and regulation throughout the GCC and MENA generally.

The ninth limitation that would have been a perfect opportunity for CSR research to ask questions in the interviews about the Vision 2030 but this was not possible because it had not been published when the interviews were done - this can be the focus of future research following the PhD. The researcher attempted to minimize the impact of these limitations.

## **9.7 Suggestion for Further Research**

The limitations discussed above provide suggestions for further research, as presented in this section. Future research can be conducted using company reports from different periods and analysing these via content analysis to find the extent of the level of disclosure for those periods. It also can use different measurement units for the content analysis; for example, number of sentences or words for the same period, or select another period. It also can consider other reports such

as companies' news and press releases and use the data collected from these for content analysis.

In addition, further research may consider exploring the level of CSR disclosure of unlisted companies and family businesses in Saudi Arabia. It can focus deeply to investigate how specific Saudi stakeholders perceive CSR, such as: Saudis' shareholders; regulators; or board members. It also can undertake a comparative study of CSR perspectives or levels of disclosure in Saudi Arabia and other countries.

Furthermore, future research can focus on one sector rather than different ones, to achieve a deeper understanding of CSR on a sector-by-sector basis. It also can use other data collection techniques, such as questionnaires with a larger sample size to explore the CSR perspective among Saudi stakeholders. Mixed methods is another approach that can be employed for CSR study to integrate qualitative and quantitative data findings; or a study can compare and explore the level of CSR disclosure in a group of countries or regions such as the Gulf Countries Council. Researchers in the future could also investigate the different perspectives of CSR and find out which factors have a greater impact on CSR in these countries. The same research could draw comparisons with another country that has major differences such as culture and regulation.

## **9.8 Summary**

This chapter has summarised the results of this research, highlighted the contribution to knowledge made by this study, discussed the research

limitations, and suggested areas for further research. In conclusion, this study found that the CSR concept is understandable and there is a development of perspectives on CSR in Saudi Arabia. Furthermore, the need for CSR and its importance had been realised, but awareness still needs to be increased. Moreover, this study indicated that there are lack of accountability in CSR. This research found the Saudi listed Companies concerns to CSR disclosure based on legitimacy theory. The CSR disclosure by Saudi listed companies is driven by legitimacy rather than stakeholders and accountability. The legitimacy theory is more fit to explain the CSR in Saudi Listed Companies.

In addition, this study dealt with awareness and current levels of CSR disclosure in Saudi Arabia and shows that the awareness of CSR has increased, particularly over the last six years. However, Saudi stakeholders are still not satisfied with the current CSR level and it is below their expectations. Also, this study inducted and found support for the development of regulations to motivate CSR, which shows the increasing awareness of CSR.

Moreover, the findings of this study show how the integration of CSR in Saudi listed companies' policy and strategy has been increased with the implementation of CSR. Furthermore, this study found that most Saudi listed companies disclose their CSR information through multiple channels, and the mass media is preferred over annual board reports. It also found a lack of understanding of the concept of sustainability reports, with very low concern about such practice. This research also found culture was rated as the most important factor that could affect



CSR in the Saudi environment. Furthermore, religion (Islam) is a supporting factor, but culture is much more important. Regulation was perceived to have a generally weak influence. In addition, this study shows the funding and bureaucratic procedures were identified as the major obstacles to CSR development, and a need for increased awareness and incentives to motivate CSR adoption in Saudi Arabia was identified.

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## WORKING PAPER

- Aldosari, A., Hennell, A., Khalid, S., and Solomon, J. (2013), Geographic Segmental Social, Ethical and Environmental Reporting by Saudi Listed Companies, GARI Conference, Henley, United Kingdom.
- Aldosari, A. and Atkins, J. (2014), Corporate Social Responsibility Reporting in Saudi Petrochemical Listed Companies, International CSR, Sustainability, Ethics & Governance Conference, Surrey, United Kingdom.
- Aldosari, A. and Atkins, J. (2014), Corporate Social Responsibility Disclosure in Saudi Arabia , GARI Conference, Henley, United Kingdom.
- Aldosari, A. and Atkins, J. (2015), A study of Corporate Social Responsibility Disclosure Practices in Saudi Arabia, BAFA Conference, Manchester, United Kingdom.
- Aldosari, A. and Atkins, J. (2016), The Awareness of Corporate Social Responsibility (CSR) Disclosure in Saudi Arabia, GARI Conference, Henley, United Kingdom.



## APPENDIX 1: ETHICS APPLICATION FORM

### 1. Project details

Date of submission **20/05/2014**

Student No (if applicable): **21804576**

Title of Proposed Project:-

**Corporate Social Responsibility Reporting in Saudi Arabia**

### Responsible Persons

Name & email address of principal researcher/student/programme member (*delete as appropriate*)

**Abdullah Aldosari**  
**a.m.a.aldosari@pgr.reading.ac.uk**

Date:-**20/05/2014**

Name and email address of supervisor (*if applicable*)

**Professor Jill Atkins**

**j.f.atkins@henley.ac.uk**

**Nature of Project** (mark with a 'x' as appropriate)

Staff research	<input type="checkbox"/>	Masters	<input type="checkbox"/>
Undergraduate	<input type="checkbox"/>	Doctoral	<input checked="" type="checkbox"/>
MBA	<input type="checkbox"/>	Other	<input type="checkbox"/>

(Student research projects should be signed off in **section 2.3** below by the supervisor)

(Staff research projects should be signed off in **section 2.4** below by the Research Ethics Committee)

### Brief Summary of Proposed Project and Research Methods

This research to investigate the extent of corporate social responsibility (CSR) disclosure in the annual report of companies listed on the Saudi Stock Exchange (Tadawul); and explores the extent to which Saudi stakeholder perceptions impact CSR disclosure and accountability.

Emanating from our conviction about its suitability for the task at hand, content analysis will be used in this research to study the nature of CSR practices in Saudi Arabia and the context in which CSR disclosure is handled by concerned parties. Also, we will focus on views and perceptions held by pertinent stakeholders, particularly company managers by semi structured interviews.

- I confirm that where appropriate an information sheet and consent form has been prepared and will be made available to all participants. This contains details of the project, contact details for the principal researcher and advises subjects that their privacy will be protected and that their participation is voluntary and that they may withdraw at any time without reason.
- I confirm that research instruments (questionnaires, interview guides, etc) have been reviewed against the policies and criteria noted in The University Research Ethics Committee Notes for Guidance. Information obtained will be safeguarded and personal privacy and commercial confidentiality will be strictly observed.
- I confirm that **any** related documents which would include any questionnaires, interview schedules etc, and, where appropriate, a copy of the **Information Sheet, Consent Form** are attached and submitted with this application.

**2. School Research Ethics Committee Decision** (delete as appropriate)

2.1 I have reviewed this application as **APPROVED** and confirm that it is consistent with the requirements of the University Research Ethics Committee procedures

2.2 This proposal is **NOT APPROVED** and is returned to the applicant for further consideration and/or submission to the University Research Ethics Committee

**2.3. For student and programme member projects**

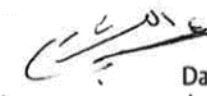
**SUPERVISOR – AT START OF PROJECT**

**STUDENT – ON COMPLETION OF PROJECT**

  
 Signed (Supervisor)  
 & Print Name  
 (before start of project)

Date:- 20/05/2014

Abdullah Aldosari

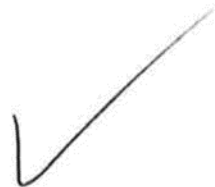
  
 Signed (programme member or student)  
 & Print Name  
 (on completion of project)

Date:- 20/05/2014

**2.4. For staff research projects**

Signed:  20/5/2014  
 (School Research Ethics Committee Chair or member)

**COMMENTS** (where application has been refused)



3. Please reply to **all** of the following questions concerning your proposed research:-

		Yes	No
1.	Are the participants and subjects of the study patients and clients of the NHS or social services to the best of your knowledge?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
2.	Are the participants and subjects of the study subject to the Mental Capacity Act 2005 to the best of your knowledge (and therefore unable to give free and informed consent)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
3.	Are you asking questions that are likely to be considered impertinent or to cause distress to any of the participants?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
4.	Are any of the subjects in a special relationship with the researcher?	<input type="checkbox"/>	<input checked="" type="checkbox"/>
5.	Is your project funded by a Research Council or other external source (excluding research conducted by postgraduate students)?	<input type="checkbox"/>	<input checked="" type="checkbox"/>

If you have answered **YES** to **any** of these questions, refer to the University's Research Ethics Committee. If you are unsure about whether any of these conditions apply, please contact the secretary of the University Research Ethics Committee, Nathan Helsby ([n.e.helsby@reading.ac.uk](mailto:n.e.helsby@reading.ac.uk)), for further advice.

4. Please respond to **all** the following questions concerning your proposed research project

		Yes	No
1.	The research only involves archival research, access of company documents/records, access of publicly available data, questionnaires, surveys, focus groups and/or other interview techniques.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2.	Arrangements for expenses and other payments to participants, if any, have been considered.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3.	Participants will be/have been advised that they may withdraw at any stage if they so wish.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4.	Issues of confidentiality and arrangements for the storage and security of material during and after the project and for the disposal of material have been considered.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
5.	Arrangements for providing subjects with research results if they wish to have them have been considered.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
6.	The arrangements for publishing the research results and, if confidentiality might be affected, for obtaining written consent of this have been considered.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
7.	Information Sheets and Consent Forms had been prepared in line with University guidelines for distribution to participants.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
8.	Arrangements for the completed consent forms to be retained upon completion of the project have been made.	<input checked="" type="checkbox"/>	<input type="checkbox"/>

If you have answered **NO** to **any** of these questions, contact your supervisor if applicable, staff members should refer to the SoM Research Ethics Committee.

If the research is to be conducted outside of an office environment or normal place of work and/or outside normal working hours please note the details below and comment on how the personal safety and security of the researcher(s) has been safeguarded.

If these questions cannot be confirmed please contact your supervisor.

Please confirm that at the conclusion of the project primary data will be:-

Destroyed  Submitted to the Research Ethics Committee

**FOR SoM Research Ethics Committee use**

Comments

APPROVED

A handwritten signature in cursive script, appearing to read 'Fouu', is written in the comments section.

## **APPENDIX 2: EXAMPLE OF INTERVIEW TRANSCRIPTION**

### **General Questions:**

Interviewer: **Your name please?**

Interviewee: SS1

Interviewer: **Your age please ?**

Interviewee: Forty – five years old

Interviewer: **your status?**

Interviewee: Married

Interviewer: **what are your qualifications ?**

Interviewee: BSc

What is your position?

Sustainability Senior Specialist.

### **What do you perceive as Corporate Social Responsibility(CSR)?**

CSR has three aspect economic, social and environment. It was start with economic then they did not find social is developed therefore they combined economic and social. In addition, when they did not find the environment is developed then they combined all three aspect.

### **Do you think CSR part of Corporate Governance?**

I will said the CG is part of CSR or what I prefer to call it as sustainability.

### **What is your view and understanding of CSR disclosure and accountability ?**

CSR is voluntary to the business that global compact and to develop it, we need to measure it, then we need to gather information to measure it that we need to disclose it. In addition,



the disclosure will not only help the researchers but will help business and countries.

**What is the benefit that can obtain from disclosing CSR information?**

It is very important to have the business strategy because we may overlapped in one of stakeholders; also, it is important to grow the business and help to measure the past and compare it with the current.

**What is the location that you agree to disclose CSR in it?**

The annual board report is the best place to disclose the CSR information because it easy to access to all and will fix the company's language.

**What is your suggestion that motivate the CSR in Saudi Arabia?**

I am not with encourage business for example: tax free to do CSR because it should worry of business to continue and it is market based.

**What is the possible approach (religion; culture or regulation) that can used to introduce CSR disclosure in the Saudi Environment?**

It is market based, if they are not seen the interest and value from CSR, they will not do it. They should understand it as market based in long term. If it is regulation, business will play around it.

**Which of CSR information need to consider and most important ( e.g. environment ,employee, community and customers)?**

All these information are important and need more consider.

**What is your view in considering of CSR disclosure and accountability in Saudi and how is the awareness? Is there any change of awareness last three years?**

Recently, CSR awareness are increased but increased only in

community as donation but not in all sustainability.

**What do you think of currently support to motivate CSR and do you think that enough?**

As I said before I am not with any support to CSR.

**Are you happy with what the private sector's CSR practice and disclosure? Could you rank it from 1 to 5; 1 is the happiest and less to 5?**

4.

**Which of the following religion; culture or regulation have high motivation in CSR, could you rank them?**

- 1- Market.
- 2- Regulation.
- 3- Culture.
- 4- Religion.

**For Managers and others inside firms:**

**How do Corporate Governance practice within your firm?**

We have boards and the accountability to one employee but responsibility could be between two or more.

**How do CSR practice within your firm?**

We do CSR for example: we build schools and we have high rate of employee from local area to our mining.

**What do you understand by integrated report?**

I do not know but we have combined report as annual board report.

**Do you practice integrated report?**

No.

**What do you understand by sustainability report?**

Sustainability report include information of economic, social and environment.

**Do you practice sustainability report?**

Recently, we disclosed it for 2013.

**Where do you disclosed the CSR information (e.g annual report)?**

We disclosed in annual board report and we recently disclose sustainability report.

**Why your firm do CSR?**

It is market based and the complaints of environments issues.

**Do you have any plans to improve CSR in your firm? If yes what is it?**

Recently, we got approval to create community management system and health, safety and environment management system. In addition, we added three terms to our contract that the contractor should have 12% of employee are from the local area for the project, 10% of their purchase should be national product and from local area, 1% of the contract value should spend in CSR. Moreover, we have plan for three years to each mining to engage with house's community. Furthermore, we have standards for community activities that to be sure to have best CSR practices.

**Do you have CSR unit or commitment in your firm?**

Yes, we have senior VIP; senior director; director and myself.

**Do you have annual budget for CSR program?**

Yes, we have budget for health and safety; environment; and community.

**Who do prepare your annual report?**

In 2012 was 100% internal but 2013 annual report and sustainability report was with third party

**Do you have a specific strategies, program and reporting procedures for CSR in your firm?**

Recently, we have integrated sustainability report before each of health and safety; environments and community was separately.

**Do you have any training in place relating to CSR?**

Yes, we have training and workshops for sustainability's employee but there are less or shortage of that for top management and other employee.

- 1- Which of these stakeholders ( environment ,employees, community and customers) most important to your firm? Please rank them by important.

**Do you obtain feedback regarding your CSR practice? If yes How?**

For our employee and shareholders have regular annual meeting. For hosting community, getting feedback that include complaint and in this year, we have perception measuring survey with all different stakeholders by third party.

**Do you adjust and improve your CSR program by the feedback? If not how you improve your CSR program?**

Yes sure.

**What do you consider the main motivation (religion; culture or regulations) for CSR in your firm?**

It is market based that risk and opportunity, for environment issues was regulation.

**Do you disclose all information of CSR program? If not ,which information not disclosed and why?**

No, we disclosed all CSR information before 2012 and recently we disclose the high social impact activities of community information because we are looking the best practice that lead to encourage our mining to do the best practice of CSR.

**How is accountability in CSR to your firm?**

We have internal accountability from our board because it is include our company strategy. From outside, we have external accountability from General Auditing Bureau (GAB) because the government owned 50% of shares.

### **APPENDIX 3: INVITATION LETTER FOR INTERVIEW RESEARCH**

**Subject: Request for Participation in Research on Corporate Social Responsibility Disclosure and Practice in the Saudi listed companies.**

**Dear Sir**

I am a doctoral research student in the Henley Business School at University of Reading in the United Kingdom sponsored by Shaqra University.

This study investigates awareness of corporate social responsibility (CSR) disclosure and practice in Saudi Arabia by investigating how Saudi stakeholders perceive CSR and the extent of CSR reporting practices among Saudi listed companies. We are conducting interviews as part of this research and wondering if you could be willing to participate in this research.

I would be glad to arrange a meeting with you, could you please indicate a suitable time and place to meet.

Any data you provide will be handled in confidence and will be used for research purposes only. I would be happy to provide you with the findings of this research if you wish so.

Your cooperation is highly appreciated.

Yours Sincerely,

Abdullah Aldosari

## **APPENDIX 4: CAPITAL MARKET AUTHORITY**

### **CORPORATE GOVERNANCE REGULATIONS IN THE KINGDOM OF SAUDI ARABIA**

Issued by the Board of Capital Market Authority  
Pursuant to Resolution No. 1/212/2006  
dated 21/10/1427AH (corresponding to 12/11/2006)  
based on the Capital Market Law  
issued by Royal Decree No. M/30  
dated 2/6/1424AH

**Amended by Resolution of the Board  
of the Capital Market Authority Number 1-10-2010  
Dated 30/3/1431H corresponding to 16/3/2010G**

**English Translation of the Official Arabic Text  
Arabic is the official language of the Capital Market Authority**

**The current version of these Rules, as may be amended, can be found at on  
the CMA website: [www.cma.org.sa](http://www.cma.org.sa)**

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- Article 4. Facilitation of Shareholders' Exercise of Rights and Access to Information
- Article 5. Shareholders Rights related to the General Assembly
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## **PART 1 PRELIMINARY PROVISIONS**

### **Article 1: Preamble**

- a) These Regulations include the rules and standards that regulate the management of joint stock companies listed in the Exchange to ensure their compliance with the best governance practices that would ensure the protection of shareholders' rights as well as the rights of stakeholders.
- b) These Regulations constitute the guiding principles for all companies listed in the Exchange unless any other regulations, rules or resolutions of the Board of the Authority provide for the binding effect of some of the provisions herein contained.
- c) As an exception of paragraph (b) of this article, a company must disclose in the Board of Directors' report, the provisions that have been implemented and the provisions that have not been implemented as well as the reasons for not implementing them.

### **Article 2: Definitions**

- a) Expression and terms in these regulations have the meanings they bear in the Capital Market Law and in the glossary of defined terms used in the regulations and the rules of the Capital Market Authority unless otherwise stated in these regulations.
- b) For the purpose of implementing these regulations, the following expressions and terms shall have the meaning they bear as follows unless the contrary intention appears:

**Independent Member:** A member of the Board of Directors who enjoys complete independence. By way of example, the following shall constitute an infringement of such independence:

1. he/she holds a five per cent or more of the issued shares of the company or any of its group.
2. Being a representative of a legal person that holds a five per cent or more of the issued shares of the company or any of its group.



3. he/she, during the preceding two years, has been a senior executive of the company or of any other company within that company's group.
4. he/she is a first-degree relative of any board member of the company or of any other company within that company's group.
5. he/she is first-degree relative of any of senior executives of the company or of any other company within that company's group.
6. he/she is a board member of any company within the group of the company which he is nominated to be a member of its board.
7. If he/she, during the preceding two years, has been an employee with an affiliate of the company or an affiliate of any company of its group, such as external auditors or main suppliers; or if he/she, during the preceding two years, had a controlling interest in any such party.

**Non-executive director:** A member of the Board of Directors who does not have a full-time management position at the company, or who does not receive monthly or yearly salary.

**First-degree relatives:** father, mother, spouse and children.

**Stakeholders:** Any person who has an interest in the company, such as shareholders, employees, creditors, customers, suppliers, community.

**Accumulative Voting:** a method of voting for electing directors, which gives each shareholder a voting rights equivalent to the number of shares he/she holds. He/she has the right to use them all for one nominee or to divide them between his/her selected nominees without any duplication of these votes. This method increases the chances of the minority shareholders to appoint their representatives in the board through the right to accumulate votes for one nominee.

**Minority Shareholders:** Those shareholders who represent a class of shareholders that does not control the company and hence they are unable to influence the company.

## **PART 2**

### **RIGHTS OF SHAREHOLDERS AND THE GENERAL ASSEMBLY**

#### **Article 3: General Rights of Shareholders**

A Shareholder shall be entitled to all rights attached to the share, in particular, the right to a share of the distributable profits, the right to a share of the company's assets upon liquidation; the right to attend the General Assembly and participate in deliberations and vote on relevant decisions; the right of disposition with respect to shares; the right to supervise the Board of Directors activities, and file responsibility claims against board members; the right to inquire and have access to information without prejudice to the company's interests and in a manner that does not contradict the Capital Market Law and the Implementing Rules.

#### **Article 4: Facilitation of Shareholders Exercise of Rights and Access to Information**

- a) The company in its Articles of Association and by-laws shall specify the procedures and precautions that are necessary for the shareholders' exercise of all their lawful rights.
- b) All information which enable shareholders to properly exercise their rights shall be made available and such information shall be comprehensive and accurate; it must be provided and updated regularly and within the prescribed times; the company shall use the most effective means in communicating with shareholders. No discrepancy shall be exercised with respect to shareholders in relation to providing information.

#### **Article 5: Shareholders Rights related to the General Assembly**

- a) A General Assembly shall convene once a year at least within the six months following the end of the company's financial year.
- b) The General Assembly shall convene upon a request of the Board of Directors. The Board of Directors shall invite a General Assembly to convene pursuant to a request of the auditor or a number of shareholders whose shareholdings represent at least 5% of the equity share capital.
- c) Date, place, and agenda of the General Assembly shall be specified and announced by a notice, at least 20 days prior to the date the meeting;

invitation for the meeting shall be published in the Exchange' website, the company's website and in two newspapers of voluminous distribution in the Kingdom. Modern high tech means shall be used in communicating with shareholders.

- d) Shareholders shall be allowed the opportunity to effectively participate and vote in the General Assembly; they shall be informed about the rules governing the meetings and the voting procedure.
- e) Arrangements shall be made for facilitating the participation of the greatest number of shareholders in the General Assembly, including *inter alia* determination of the appropriate place and time.
- f) In preparing the General Assembly's agenda, the Board of Directors shall take into consideration matters shareholders require to be listed in that agenda; shareholders holding not less than 5% of the company's shares are entitled to add one or more items to the agenda. upon its preparation.
- g) Shareholders shall be entitled to discuss matters listed in the agenda of the General Assembly and raise relevant questions to the board members and to the external auditor. The Board of Directors or the external auditor shall answer the questions raised by shareholders in a manner that does not prejudice the company's interest.
- h) Matters presented to the General Assembly shall be accompanied by sufficient information to enable shareholders to make decisions.
- i) Shareholders shall be enabled to peruse the minutes of the General Assembly; the company shall provide the Authority with a copy of those minutes within 10 days of the convening date of any such meeting.
- j) The Exchange shall be immediately informed of the results of the General Assembly.

#### **Article 6: Voting Rights**

- a) Voting is deemed to be a fundamental right of a shareholder, which shall not, in any way, be denied. The company must avoid taking any action which might hamper the use of the voting right; a shareholder

must be afforded all possible assistance as may facilitate the exercise of such right.

- b) In voting in the General Assembly for the nomination to the board members, the accumulative voting method shall be applied.
- c) A shareholder may, in writing, appoint any other shareholder who is not a board member and who is not an employee of the company to attend the General Assembly on his behalf.
- d) Investors who are judicial persons and who act on behalf of others - e.g. investment funds- shall disclose in their annual reports their voting policies, actual voting, and ways of dealing with any material conflict of interests that may affect the practice of the fundamental rights in relation to their investments.

#### **Article 7: Dividends Rights of Shareholders**

- a) The Board of Directors shall lay down a clear policy regarding dividends, in a manner that may realize the interests of shareholders and those of the company; shareholders shall be informed of that policy during the General Assembly and reference thereto shall be made in the report of the Board of Directors.
- b) The General Assembly shall approve the dividends and the date of distribution. These dividends, whether they be in cash or bonus shares shall be given, as of right, to the shareholders who are listed in the records kept at the Securities Depository Center as they appear at the end of trading session on the day on which the General Assembly is convened.

## PART 3

### DISCLOSURE AND TRANSPARENCY

#### Article 8: Policies and Procedure related to Disclosure

The company shall lay down in writing the policies, procedures and supervisory rules related to disclosure, pursuant to law.

#### Article 9 <sup>1</sup>: Disclosure in the Board of Directors' Report

In addition to what is required in the Listing Rules in connection with the content of the report of the Board of Directors, which is appended to the annual financial statements of the company, such report shall include the following:

- a) The implemented provisions of these Regulations as well as the provisions which have not been implemented, and the justifications for not implementing them.
- b) Names of any joint stock company or companies in which the company Board of Directors member acts as a member of its Board of directors.
- c) Formation of the Board of Directors and classification of its members as follows: executive board member, non-executive board member, or independent board member.
- d) A brief description of the jurisdictions and duties of the Board's main committees such as the Audit Committee, the Nomination and Remuneration Committee; indicating their names, names of their chairmen, names of their members, and the aggregate of their respective meetings.
- e) Details of compensation and remuneration paid to each of the following:

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<sup>1</sup> The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 9 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from the first board report issued by the company following the date of the Board of the Capital Market Authority resolution mentioned above.

1. The Chairman and members of the Board of Directors.
2. The Top Five executives who have received the highest compensation and remuneration from the company. The CEO and the chief finance officer shall be included if they are not within the top five.

For the purpose of this paragraph, “compensation and remuneration” means salaries, allowances, profits and any of the same; annual and periodic bonuses related to performance; long or short- term incentive schemes; and any other rights *in rem*.

- f) Any punishment or penalty or preventive restriction imposed on the company by the Authority or any other supervisory or regulatory or judiciary body.
- g) Results of the annual audit of the effectiveness of the internal control procedures of the company.

## **PART 4**

### **BOARD OF DIRECTORS**

#### **Article 10: Main Functions of the Board of Directors**

Among the main functions of the Board is the following:

- a) Approving the strategic plans and main objectives of the company and supervising their implementation; this includes:
  1. Laying down a comprehensive strategy for the company, the main work plans and the policy related to risk management, reviewing and updating of such policy.
  2. Determining the most appropriate capital structure of the company, its strategies and financial objectives and approving its annual budgets.
  3. Supervising the main capital expenses of the company and acquisition/disposal of assets.
  4. Deciding the performance objectives to be achieved and supervising the implementation thereof and the overall performance of the company.
  5. Reviewing and approving the organizational and functional structures of the company on a periodical basis.
- b) Lay down rules for internal control systems and supervising them; this includes:
  1. Developing a written policy that would regulates conflict of interest and remedy any possible cases of conflict by members of the Board of Directors, executive management and shareholders. This includes misuse of the company's assets and facilities and the arbitrary disposition resulting from dealings with the related parties.
  2. Ensuring the integrity of the financial and accounting procedures including procedures related to the preparation of the financial reports.

3. Ensuring the implementation of control procedures appropriate for risk management by forecasting the risks that the company could encounter and disclosing them with transparency.
  4. Reviewing annually the effectiveness of the internal control systems.
- c) Drafting a Corporate Governance Code for the company that does not contradict the provisions of this regulation, supervising and monitoring in general the effectiveness of the code and amending it whenever necessary.
  - d) Laying down specific and explicit policies, standards and procedures, for the membership of the Board of Directors and implementing them after they have been approved by the General Assembly.
  - e) Outlining a written policy that regulate the relationship with stakeholders with a view to protecting their respective rights; in particular, such policy must cover the following:
    1. Mechanisms for indemnifying the stakeholders in case of contravening their rights under the law and their respective contracts.
    2. Mechanisms for settlement of complaints or disputes that might arise between the company and the stakeholders.
    3. Suitable mechanisms for maintaining good relationships with customers and suppliers and protecting the confidentiality of information related to them.
    4. A code of conduct for the company's executives and employees compatible with the proper professional and ethical standards, and regulate their relationship with the stakeholders. The Board of Directors lays down procedures for supervising this code and ensuring compliance there with.
    5. The Company's social contributions.
  - f) Deciding policies and procedures to ensure the company's compliance with the laws and regulations and the company's obligation to disclose material information to shareholders, creditors and other stakeholders.



## **Article 11 : Responsibilities of the Board**

- a) Without prejudice to the competences of the General Assembly, the company's Board of Directors shall assume all the necessary powers for the company's management. The ultimate responsibility for the company rests with the Board even if it sets up committees or delegates some of its powers to a third party. The Board of Directors shall avoid issuing general or indefinite power of attorney.
- b) The responsibilities of the Board of Directors must be clearly stated in the company's Articles of Association.
- c) The Board of Directors must carry out its duties in a responsible manner, in good faith and with due diligence. Its decisions should be based on sufficient information from the executive management, or from any other reliable source.
- d) A member of the Board of Directors represents all shareholders; he undertakes to carry out whatever may be in the general interest of the company, but not the interests of the group he represents or that which voted in favor of his appointment to the Board of Directors.
- e) The Board of Directors shall determine the powers to be delegated to the executive management and the procedures for taking any action and the validity of such delegation. It shall also determine matters reserved for decision by the Board of Directors. The executive management shall submit to the Board of Directors periodic reports on the exercise of the delegated powers.
- f) The Board of Directors shall ensure that a procedure is laid down for orienting the new board members of the company's business and, in particular, the financial and legal aspects, in addition to their training, where necessary.
- g) The Board of Directors shall ensure that sufficient information about the company is made available to all members of the Board of Directors, generally, and, in particular, to the non-executive members, to enable them to discharge their duties and responsibilities in an effective manner.

- h) The Board of Directors shall not be entitled to enter into loans which spans more than three years, and shall not sell or mortgage real estate of the company, or drop the company's debts, unless it is authorized to do so by the company's Articles of Association. In the case where the company's Articles of Association includes no provisions to this respect, the Board should not act without the approval of the General Assembly, unless such acts fall within the normal scope of the company's business.

## **Article 12 <sup>2</sup>: Formation of the Board**

Formation of the Board of Directors shall be subject to the following:

- a) The Articles of Association of the company shall specify the number of the Board of Directors members, provided that such number shall not be less than three and not more than eleven.
- b) The General Assembly shall appoint the members of the Board of Directors for the duration provided for in the Articles of Association of the company, provided that such duration shall not exceed three years. Unless otherwise provided for in the Articles of Association of the company, members of the Board may be reappointed.
- c) The majority of the members of the Board of Directors shall be non-executive members.
- d) It is prohibited to conjoin the position of the Chairman of the Board of Directors with any other executive position in the company, such as the Chief Executive Officer (CEO) or the managing director or the general manager.
- e) The independent members of the Board of Directors shall not be less than two members, or one-third of the members, whichever is greater.
- f) The Articles of Association of the company shall specify the manner in which membership of the Board of Directors terminates. At all times, the General Assembly may dismiss all or any of the members

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<sup>2</sup> The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making paragraphs (c) and (e) of Article 12 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

of the Board of Directors even though the Articles of Association provide otherwise.

- g) On termination of membership of a board member in any of the ways of termination, the company shall promptly notify the Authority and the Exchange and shall specify the reasons for such termination.
- h) A member of the Board of Directors shall not act as a member of the Board of Directors of more than five joint stock companies at the same time.
- i) Judicial person who is entitled under the company's Articles of Association to appoint representatives in the Board of Directors, is not entitled to nomination vote of other members of the Board of Directors.

### **Article 13: Committees of the Board**

- a) A suitable number of committees shall be set up in accordance with the company's requirements and circumstances, in order to enable the Board of Directors to perform its duties in an effective manner.
- b) The formation of committees subordinate to the Board of Directors shall be according to general procedures laid down by the Board, indicating the duties, the duration and the powers of each committee, and the manner in which the Board monitors its activities. The committee shall notify the Board of its activities, findings or decisions with complete transparency. The Board shall periodically pursue the activities of such committees so as to ensure that the activities entrusted to those committees are duly performed. The Board shall approve the by-laws of all committees of the Board, including, *inter alia*, the Audit Committee, Nomination and Remuneration Committee.
- c) A sufficient number of the non-executive members of the Board of Directors shall be appointed in committees that are concerned with activities that might involve a conflict of interest, such as ensuring the integrity of the financial and non-financial reports, reviewing the deals concluded by related parties, nomination to membership of the Board, appointment of executive directors, and determination of remuneration.

### **Article 14<sup>3</sup>: Audit Committee**

- a) The Board of Directors shall set up a committee to be named the “Audit Committee”. Its members shall not be less than three, including a specialist in financial and accounting matters. Executive board members are not eligible for Audit Committee membership.
  
- b) The General Assembly of shareholders shall, upon a recommendation of the Board of Directors, issue rules for appointing the members of the Audit Committee and define the term of their office and the procedure to be followed by the Committee.
  
- c) The duties and responsibilities of the Audit Committee include the following:
  - 1. To supervise the company’s internal audit department to ensure its effectiveness in executing the activities and duties specified by the Board of Directors.
  - 2. To review the internal audit procedure and prepare a written report on such audit and its recommendations with respect to it.
  - 3. To review the internal audit reports and pursue the implementation of the corrective measures in respect of the comments included in them.
  - 4. To recommend to the Board of Directors the appointment, dismissal and the Remuneration of external auditors; upon any such recommendation, regard must be made to their independence.
  - 5. To supervise the activities of the external auditors and approve any activity beyond the scope of the audit work assigned to them during the performance of their duties.
  - 6. To review together with the external auditor the audit plan and make any comments thereon.

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<sup>3</sup>The Board of the Capital Market Authority issued resolution Number (1-36-2008) Dated 12/11/1429H corresponding to 10/11/2008G making Article 14 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from year 2009.

7. To review the external auditor's comments on the financial statements and follow up the actions taken about them.
8. To review the interim and annual financial statements prior to presentation to the Board of Directors; and to give opinion and recommendations with respect thereto.
9. To review the accounting policies in force and advise the Board of Directors of any recommendation regarding them.

**Article 15<sup>4</sup>: Nomination and Remuneration Committee**

- a) The Board of Directors shall set up a committee to be named "Nomination and Remuneration Committee".
- b) The General Assembly shall, upon a recommendation of the Board of Directors, issue rules for the appointment of the members of the Nomination and Remuneration Committee, their remunerations, and terms of office and the procedure to be followed by such committee.
- c) The duties and responsibilities of the Nomination and Remuneration Committee include the following:
  1. Recommend to the Board of Directors appointments to membership of the Board in accordance with the approved policies and standards; the Committee shall ensure that no person who has been previously convicted of any offense affecting honor or honesty is nominated for such membership.
  2. Annual review of the requirement of suitable skills for membership of the Board of Directors and the preparation of a description of the required capabilities and qualifications for such membership, including, *inter alia*, the time that a Board member should reserve for the activities of the Board.
  3. Review the structure of the Board of Directors and recommend changes.

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<sup>4</sup>The Board of the Capital Market Authority issued resolution Number (1-10-2010) Dated 30/3/1431H corresponding to 16/3/2010G making Article 15 of the Corporate Governance Regulations mandatory on all companies listed on the Exchange effective from 1/1/2011

4. Determine the points of strength and weakness in the Board of Directors and recommend remedies that are compatible with the company's interest.
5. Ensure on an annual basis the independence of the independent members and the absence of any conflict of interest in case a Board member also acts as a member of the Board of Directors of another company.
6. Draw clear policies regarding the indemnities and remunerations of the Board members and top executives; in laying down such policies, the standards related to performance shall be followed.

#### **Article 16: Meetings of the Board**

1. The Board members shall allot ample time for performing their responsibilities, including the preparation for the meetings of the Board and the permanent and ad hoc committees, and shall endeavor to attend such meetings.
2. The Board shall convene its ordinary meetings regularly upon a request by the Chairman. The Chairman shall call the Board for an unforeseen meeting upon a written request by two of its members.
3. When preparing a specified agenda to be presented to the Board, the Chairman should consult the other members of the Board and the CEO. The agenda and other documentation should be sent to the members in a sufficient time prior to the meeting so that they may be able to consider such matters and prepare themselves for the meeting. Once convened, the Board shall approve the agenda; should any member of the Board raise any objection to this agenda, the details of such objection shall be entered in the minutes of the meeting.
4. The Board shall document its meetings and prepare records of the deliberations and the voting, and arrange for these records to be kept in chapters for ease of reference.

#### **Article 17: Remuneration and Indemnification of Board Members**

The Articles of Association of the company shall set forth the manner of remunerating the Board members; such remuneration may take the form of a

lump sum amount, attendance allowance, rights *in rem* or a certain percentage of the profits. Any two or more of these privileges may be conjoined.

#### **Article 18. Conflict of Interest within the Board**

- a) A Board member shall not, without a prior authorization from the General Assembly, to be renewed each year, have any interest (whether directly or indirectly) in the company's business and contracts. The activities to be performed through general bidding shall constitute an exception where a Board member is the best bidder. A Board member shall notify the Board of Directors of any personal interest he/she may have in the business and contracts that are completed for the company's account. Such notification shall be entered in the minutes of the meeting. A Board member who is an interested party shall not be entitled to vote on the resolution to be adopted in this regard neither in the General Assembly nor in the Board of Directors. The Chairman of the Board of Directors shall notify the General Assembly, when convened, of the activities and contracts in respect of which a Board member may have a personal interest and shall attach to such notification a special report prepared by the company's auditor.
- b) A Board member shall not, without a prior authorization of the General Assembly, to be renewed annually, participate in any activity which may likely compete with the activities of the company, or trade in any branch of the activities carried out by the company.
- c) The company shall not grant cash loan whatsoever to any of its Board members or render guarantee in respect of any loan entered into by a Board member with third parties, excluding banks and other fiduciary companies.

**PART 5**  
**CLOSING PROVISIONS**

**Article 19: Publication and Entry into Force**

These regulations shall be effective upon the date of their publication.