



# An investigation of Corporate Social Responsibility Reporting Practices in Saudi Arabian Firms

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## Dedication

This thesis is dedicated to

My mother, Souad Nashar for her endless love, encouragement, sacrifice, and prayers.

The soul of my dad, Faisal Alsayegh. Daddy, I wish you were here to share this moment with me.

My sister Hanan and my brothers Hussain, Hassan, and Mohammed for all your positivity, encouragement, love and strength you have given me.

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## Abstract

This study explores the plausible explanations for corporate social responsibility reporting (hereafter CSRR) practices in Saudi Arabian firms. It investigates the different factors that motivate companies to report their corporate social responsibility (hereafter CSR) activities from managerial perspectives, as well as the challenges that companies face when reporting their CSR activities. The study also investigates and tries to understand the role of non-corporate actors from the media, academia, NGOs, CSR consultants, and regulators in influencing companies to report their CSR activities and their perceptions of current CSRR practices in Saudi companies.

An interpretive approach has been utilised in this research study, with neo-institutional theory, as proposed by DiMaggio and Powell (1983) and Scott (2008), employed as the main theoretical framework to interpret the findings. The major limitation of the neo-institutional theory in recognising active role of agents has been addressed through the work of Batillana (2006) and Battilana et al. (2009). Qualitative data collection methods were used to obtain data. A total of 34 semi-structured interviews were conducted and represented the main data collection method. In addition, documentary analysis was used as a secondary source. The findings reveal that institutional motivational factors exemplified in normative and mimetic pressures are the main drivers for CSRR. There is no evidence of coercive pressures. In addition, it is confirmed that in some cases, organizations are not merely “black boxes” in which managers have no role other than complying with the external pressures exerted on organizations, but managers and CEOs can also be drivers for CSRR.

The findings also shed light on the different internal and external challenges that companies experience in reporting their CSR activities. Managerial perceptions indicate that these challenges have affected the companies’ CSRR, and sometimes led to the absence of reporting on some CSR issues. Meanwhile, the interviews allowed for identification of the different roles and perceptions of non-corporate actors in CSRR.

This study concludes by providing some implications and suggestions for improvements to CSRR practices, and by proposing a number of potential avenues for future research.

## List of Abbreviations

CMA	The Capital Market Authority
CSR	Corporate social responsibility
CSRR	Corporate social responsibility reporting
GPPN	Global public-policy network
GRI	Global Reporting Initiative
ICNL	International Centre for Not-for-Profit Law
IMF	International Monetary Fund
ISO	International Organization for Standardization
KKF	King Khalid Foundation
KSA	Kingdom of Saudi Arabia
MCI	The Ministry of Commerce and Industry
PME	The Presidency of Meteorology and Environmental Protection
RCJY	The Royal Commission for Jubail and Yanbu
SAA	The Saudi Accounting Association
SAGIA	The Saudi Arabian General Investment Authority
SAMA	Saudi Arabian Monetary Agency
SARCI	The Saudi Arabian Competitiveness Index
SOCPA	The Saudi Organization for Certified Public Accountants
TADAWUL	The Saudi Stock Exchange Market

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# Chapter 1: Introduction to the Thesis

## 1.1 Preamble

Over the last three decades, in the context of the growing number of corporate activities that have affected society and the environment directly or indirectly, the issue of corporate social responsibility has gained increased attention among scholars and in the business world (Bayoud and Kavanagh, 2012; Dashwood, 2012; Nalband and Al-Amri, 2013; Gray et al., 2014). Today's corporate activities are no longer solely concerned with wealth and profit (Godfrey and Hatch, 2007); rather, achieving sustainable growth and preserving the environment has become a major priority (Ali et al., 2010).

Scholars have confirmed this, stating that the traditional triangular relationship amongst firms, state and society has noticeably changed worldwide and that companies have realised that their future is no longer possible without taking due care of society (Krishnan et al., 2004; Moon and Vogel, 2009; Khan et al., 2013). Demands for corporations to act responsibly and ethically have increased (Amran and Siti-Nabiha, 2009; Milne et al., 2009). Moreover, scholars have noticed that stakeholder investment interests have increasingly shifted towards companies that engage in CSR<sup>1</sup> activities and pursue economic goals in line with social and environmental objectives (Capriotti and Moreno, 2007; Hassan and Harahap, 2010).

An important channel used by organizations to meet the demands of different stakeholders has been Corporate Social Responsibility Reporting (hereafter CSRR) (Hassan and Harahap, 2010). CSRR is vital in reflecting a company's impact and commitment towards society and the

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<sup>1</sup> CSR is a broad and debatable term, understood and practiced differently across countries and entities worldwide. Defining it is not easy (Matten and Moon, 2008; Campbell, 2006). However, literature suggests some CSR themes evolving around corporate commitment to the natural environment, community, employees and customers as important issues. See Gray et al. (1996) and Amran and Siti-Nabiha (2009). More discussion of this issue will be covered in chapter 2.

environment and keeping enterprises accountable to their various stakeholders (Hassan and Harahap, 2010; Khemir and Baccouche, 2010). Gray (1996, p. 3) defined CSRR 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. 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

According to Gray et al. (2014), though CSRR is largely voluntary, the last three decades have witnessed an increasing volume of reports from companies engaging in social activity at a global level, see also (Waller and Lanis, 2009; Unerman et al., 2010; Gray et al., 2014; Stubbs et al., 2014). A recent survey by the KPMG (2013) indicated that CSRR has become a mainstream business practice for businesses worldwide; 71% of the 4,100 largest companies in the world produced these reports in 2013, compared to 64% in 2011. Different channels have been used by companies to report their CSR activities, including annual reports, websites, and other communications media (Amran and Haniffa, 2011).

The growing volume of reports has attracted a growing number of studies related to CSR and CSRR. However, most of these studies have focused on Western, developed countries (see e.g. Gray et al., 1995; Buhr and Freedman, 2001; Kolk, 2003; O'Dwyer, 2003; Bansal, 2005; Bebbington et al., 2008; Adams and Whelan, 2009; Reverte, 2009; Hussainey and Salama, 2010; Reining and Tilt, 2012; De Villiers and Alexander, 2014). However, little attention has been

given to studying CSRR practices by organizations in the context of developing countries,<sup>2</sup> including Saudi Arabia<sup>3</sup> (Belal and Momin, 2009; Amran and Haniffa, 2011; Belal et al., 2013; Momin and Parker, 2013; Islam and Deegan, 2014; Abdelbagi Abdalla and Siti-Nabiha, 2015).

According to the IMF (2012) business in emerging and less developed countries is experiencing a period of rapid growth and accounts for 49% of the world's GDP. However this rapid growth in business is associated with weak and less strictly regulated regimes regarding companies' social and environmental impacts, compared to developed countries, resulting in negative consequences (Visser, 2008; Hilson, 2012). Considering business organizations as powerful engines of economic growth, transparent social and environmental disclosures can increase the potentiality of holding organizations within developing countries accountable and ensuring transparency regarding their impacts (Belal et al., 2013; Momin, 2013). Accordingly it is important to increase our understanding of why and how social and environmental accounting in developing countries is, or is not, evolving (Belal et al., 2013,p.2; Fifka, 2013). This indicates the importance of research within the context of developing countries.

Studies of developing countries, according to Belal and Momin (2009), mainly focus on the extent and level of CSRR and its determinants (Kuasirikun and Sherer, 2004; Haniffa and Cooke, 2005), managerial perceptions studies (Belal and Owen, 2007; Islam and Deegan, 2008) or stakeholder perception studies (Al-Khater and Nasser, 2003). However, few seem to have focused on providing an explanation as to why companies voluntarily report their social and environmental performance, the challenges they face in reporting their CSR activities, and shed

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<sup>2</sup> The World Bank classifies countries as 'developing' and 'developed' based on geographic region, income group and operational lending categories. However, the list of these nations changes based on the criteria for evaluation. <http://worldbank.org>.

<sup>3</sup> The classification of Saudi Arabia as a developing country in this study is based on the country institutional development (e.g. corporate sector regulations) and not on the country economical aspect. Saudi Arabia considered a developing country but with High-Income per capita GNI based on the United Nations classifications for developing countries. <http://www.un.org>.

light on both internal (role of agents) and external factors that enable and constrain their reporting. Therefore, this study aims to respond and contribute to filling this literature gap, (see e.g. Adams, 2002; Spence and Gray, 2007; Adams and Whelan, 2009; Belal and Momin, 2009).

In addition, although the perceptions of different stakeholders towards reporting CSR have been investigated in previous studies, little attention has been paid to the role of the media, regulators, CSR consultants, and academics in influencing companies to report their CSR activities. In addition, little attention has been given to investigate their perception of current CSRR practices in developing countries, including Saudi Arabia. Thus, this PhD thesis responds to a call (O'Dwyer et al., 2005; Adams and Whelan, 2009; Islam and Deegan, 2010) to fill this research gap.

Earlier studies in developing countries were mainly descriptive and based on quantitative methods. Though the research scope was broad, qualitative studies are still limited in developing countries (Belal and Momin, 2009). This study employs a qualitative approach using interviews as the main data collection method and documentary analysis as a secondary data collection method to answer the research questions.

A number of different theories have been utilised in the literature to investigate CSR and CSRR issues. These include legitimacy theory, stakeholder theory and (more recently) neo-institutional theory. According to Gray et al. (2014), theorisation of social accounting within an organization is needed to study voluntary disclosure and uncover why it happens or does not. Therefore, this study will mainly employ the neo-institutional theory proposed by DiMaggio and Powell (1983) and Scott (2008) and use the complementary model suggested by Battilana (2006) and Battilana et al. (2009) to overcome the limitations of neo-institutional theory and highlight agents' roles in driving change in CSRR.

In addition, existing literature on CSRR in developing countries focuses mainly on the same national contexts, such as Malaysia, Bangladesh, India, and African countries (Belal and Momin, 2009). Little attention, if any, regarding CSRR has been paid to studying the Saudi Arabian context. Therefore and because of the aforementioned addressed gaps (empirical, methodological, theoretical, and country) it can be noted that there is an opportunity for bridging these identified literature gaps and to contribute to the body of knowledge and understanding of CSRR studies in developing countries by studying Saudi Arabia.

## **1.2 CSRR in Saudi Arabia**

In addition to the identified literature gaps, there are a number of reasons for conducting this PhD study on Saudi Arabia. Though oil-rich, Saudi Arabia has social and economic problems similar to other developing countries. The latest (9<sup>th</sup>) economic development plan for the period (2010–2014), which covers various strategies related to the country's economy and society, focuses on a number of pressing social issues (Ministry of Economy and Planning, 2015). These mainly concentrate on improving the standard of living, increasing global competitiveness, boosting employment, and protecting the environment.

In fact, Saudi Arabia is economy-focused and relies heavily on oil for its income. GDP growth remains subject to oil prices (PESTLE Country Analysis Report Saudi Arabia, 2015). From 1980 to 2009, the country witnessed oil price volatility associated with enormous population<sup>4</sup> growth and a decline in per capita income, which affected social welfare. The nation has also experienced increased unemployment rate and environmental degradation (Al-Yahya, 2012; Taher and Al-Hajjar, 2014; PESTLE Country Analysis Report Saudi Arabia, 2015).

With declining oil prices and the resulting revenue instability, the government's ability to provide public services and welfare assistance to citizens has been affected and seemed to be

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<sup>4</sup> The country's population growth reached 3.8% annually, greater than the average rate of population in the Middle East (2.5%) and the world average (1.5%), (Central Department of Statistics and Information, 2014).



breaking down (Al-Yahya, 2012). In addition, although oil is a useful source for economic growth, oil, like any natural resource, will not last forever. Accordingly, it may not be relied on for the country's long-term sustainable development (Alodadi and Benhin, 2015). The government has realised that if this issue is not resolved, the unemployment rate will increase, and the standard of living for Saudi society will decline with consequent problems for societal stability and the government itself (Al-Yahya, 2012). The government is increasingly convinced of the importance of diversifying the economy, the need to reduce dependence on oil income and the vital role the private sector can play in promoting sufficient economic growth (ibid).

The government has always emphasised the private sector's influence through different channels, including national development plans. The latest development plan (9<sup>th</sup>) for the 2010-2014 period reemphasised the role the private sector can play in enhancing the country's socioeconomic and environmental development and its potential to resolve critical issues, such as reducing unemployment, protecting the environment and providing social services that contribute to Saudi Arabia's economic and social development needs (Ministry of Economy and Planning, 2015).

Ever since the topic of CSR has become a subject of attention for government and various initiatives were launched to promote CSR amongst companies. For instance, in 2008, the Saudi Arabian General Investment Authority (SAGIA) which was established in 2000 to make Saudi Arabia one of the world's 10 most competitive economies, in cooperation with: the King Khalid Foundation (KKF)<sup>5</sup>; global non-profit international network AccountAbility<sup>6</sup>; and Tamkeen<sup>7</sup>, a

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<sup>5</sup> The King Khalid Foundation (KKF) is a non-profit organization (NGO) established in 2001 by the family of King Khalid bin Abd Al-Aziz—the 4<sup>th</sup> king of the Kingdom of Saudi Arabia. The foundation's mission is to contribute to the welfare of Saudi society by providing innovative solutions to critical social and economic challenges and leading and encouraging philanthropic and development work. The foundation does this by strengthening the country's non-profit sector (NGOs). This includes but is not limited to community development project funding and ongoing support and sponsorship for poor and disadvantaged communities (KKF, 2015).

<sup>6</sup> AccountAbility is an international organization that specialises in setting standards for corporate responsibility and sustainable development. It provides consultations and conducts CSR research (AccountAbility, 2015).

local CSR consultancy firm, have jointly established the Saudi Arabian Competitiveness Index (SARCI) for ranking and evaluating companies' CSR contribution (Saudi Responsible Competitiveness Index, 2008). In addition, the King Khalid Responsible Competitiveness Award is granted to the top three companies with the strongest SARCI results for exceptional achievement in the field of CSR (KKF, 2015). This is meant to encourage private sector institutions to fulfil their social responsibilities. Although this index is considered a soft guideline to inform enterprises of the country's urgent CSR issues, SAGIA is itself not a CSR regulator. It does, however, pursue initiatives that promote CSR among corporations in the country.

Increasing numbers of companies have started to participate in CSR and report their activities. However, CSR in Saudi Arabia (as in other developing countries) is considered to be in its early stages. Few businesses really understand its meaning and related issues (Mandurah et al., 2012; Khan et al., 2013; Khurshide et al., 2013; Nalband and Al-Amri, 2013).

Regulations related to CSR are still developing in the country, and the process and procedures of implementing them are not yet mature (Khurshide et al., 2013; Nalband and Al-Amri, 2013). The World Bank has ranked Saudi Arabian companies' transparency at 4.5 out of 9, which is a low level. The nation also received 4.8 out of 10 for the extent of shareholder governance, also a low level (World Bank, 2015). In light of such low levels of transparency and the extent of shareholder governance, what motivates companies to report CSR activities is still not clear and therefore gives importance to investigating CSRR practices in Saudi Arabia. Enterprises report CSR activities on a voluntary basis, and this disclosure is not part of any mandatory disclosure

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<sup>7</sup> Tamkeen (CSR) was established in 2006 and is considered the first company to specialise in CSR consultancy services for the country's private and public sectors. The enterprise enables corporations to use their resources to participate in the national development agenda and achieve sustainable growth (Tamkeen, 2015).

requirements from regulatory bodies, such as the Capital Market Authority<sup>8</sup> and The Saudi Organization for Certified Public Accountants<sup>9</sup> (SOCPA). Considering the innovative nature of CSRR in Saudi Arabia and that the practice of CSRR is still in its early stages and largely unregulated compared to other developing countries such as China and Malaysia, it is of importance to understand the plausible explanations for CSRR practices amongst Saudi Arabian organizations.

Furthermore, previous studies on CSR in Saudi Arabia are limited because they rely mainly on surveys and quantitative methods without providing theoretical explanations for their findings (see e.g. Ali and Al-Ali, 2012; Mandurah et al., 2012; Khan et al., 2013; Khurshide et al, 2013; Nalband and Al-Amri, 2013). Thus, with a limited number of existing studies on CSRR in Saudi Arabia, this thesis aims to fill this gap and contribute also to the body of CSR literature concerning developing countries.

Saudi Arabian companies are using and preparing annual reports and following disclosure standards provided by the domestic accounting and auditing standard-setting body, the Saudi Organization for Certified Public Accountants (SOCPA), and in line with the requirements of corporate governance code rules and regulations issued by the Capital Market Authority (CMA). Accordingly, this study's findings may interest policymakers as a tool for further developing disclosure rules and regulations to generate corporate interest in CSRR. Furthermore, knowing the motivations and challenges of CSR reporting and the role that non corporate actors play in CSRR and their perceptions about CSRR practices will help the government to identify the issues that need to be addressed to ensure effective CSR practices. In addition, knowing that the Saudi capital market is one of the most active markets in developing countries (Piesse et al.,

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<sup>8</sup> The CMA issues a corporate governance code of conduct to protect investors' rights and ensure transparency in all listed companies. It has, however, not made CSRR mandatory for companies.

<sup>9</sup> SOCPA issues and develops accounting and auditing standards, which Saudi companies follow to prepare their annual reports. It has not issued any standards related to CSR and CSRR.

2012) and that the country seeks to diversify its economy through different strategies (such as opening its market to foreign investors), this study's findings can help policymakers develop disclosure regulations that will increase companies' transparency levels in relation to CSR and make the Saudi investment climate more appealing to foreign and domestic stakeholders.

### **1.3 Research Objectives and Questions**

To understand CSRR practises in Saudi Arabia, this study aims to achieve the following objectives:

1. Explore and identify the different motivational factors that lead Saudi Arabian organizations to report their CSR activities.
2. Explore and identify the challenges that face Saudi Arabian organizations in reporting on their CSR activities.
3. Explore and provide insight on the role of non-corporate actors (media, academics, NGOs, CSR consultants and regulators) in influencing companies to report their CSR activities and their perceptions about the current practice of CSRR in the country.

To achieve the above objectives, the following questions will be addressed:

RQ1: What are the managerial perceptions of the motivations for Saudi companies to report their CSR activities?

RQ2: What challenges do Saudi Arabian companies face in reporting their CSR activities?

RQ3: What is the current role of non-corporate actors (the media, academics, NGOs, CSR consultants and regulators) in influencing companies to report their CSR and their perceptions of current CSRR practices?

#### **1.4 Methodology and Method of data collection**

This PhD study aligns itself with the approaches that emphasise the subjective nature of the social world and adopts an interpretive approach to achieve the aims and objectives of the study. The interpretive approach is concerned with understanding the social world with the aim of making sense of the shared beliefs that actors have and the motivations for their actions (Hopper and Powell, 1985). This approach assumes that reality is multiple and socially constructed. Thus, the researcher in this study explores reality, as constructed by companies' managers and non-corporate actors, by accessing the meanings participants assign to CSRR in Saudi Arabia to identify plausible explanations for their views. More specifically the researcher is mainly interested in understanding motives and challenges for CSRR obtained from managerial perceptions and grasping non-corporate actors' perceptions of CSRR practices and their influence in order to be able to understand their subjective experiences, which are time and context bound (Sedmak and Longhurst, 2010). Therefore, this study does not aim to provide generalizations or provide single explanatory account of CSRR in Saudi Arabia.

In pursuing this aim, the main method of data collection chosen was semi-structured interviews. Documentary analysis obtained from governmental and relevant official documents was used as a secondary source. A total of 34 semi-structured interviews were conducted to achieve the aims of this study with two different groups of interviewees, totalling 22 interviews with corporate officials and 12 interviews with non-corporate actors.

The data was collected from 16 different organizations from different industrial sectors to identify the different motivational factors that lead these different organizations to report on their CSR activities as well as the challenges. Additionally, the sample companies come from 16 out of the top 100 Saudi companies listed in the Saudi exchange market, size was not the only

criteria for the selection of these companies. The selection of the sample was dependent on the willingness of corporate officials to be interviewed.

The interviewed non-corporate actors included participants from media, academics, NGOs, CSR consultants, and regulators who are expected to play a role in shaping CSR in Saudi Arabia. They too were selected based on their willingness to be interviewed.<sup>10</sup>

Obtaining the access for the interviews was not an easy task for the researcher as some companies and non-corporate actors cancelled their interview appointments and others did not show any inclination to be interviewed. Facing such difficulties in securing the access to collect the data was expected, as some previous studies on CSR in developing countries have also reported such difficulties (see e.g. Belal, 2001; Hanafi and Gray, 2005; Kamla, 2007).

## **1.5 Structure of the Thesis**

This PhD thesis will be organised into nine interrelated chapters as shown in figure 1.

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<sup>10</sup> Further discussion about the access for the interviews and the selections of the sample is going to be provided in chapter 5, which is related to the research methodology and methods chapter.

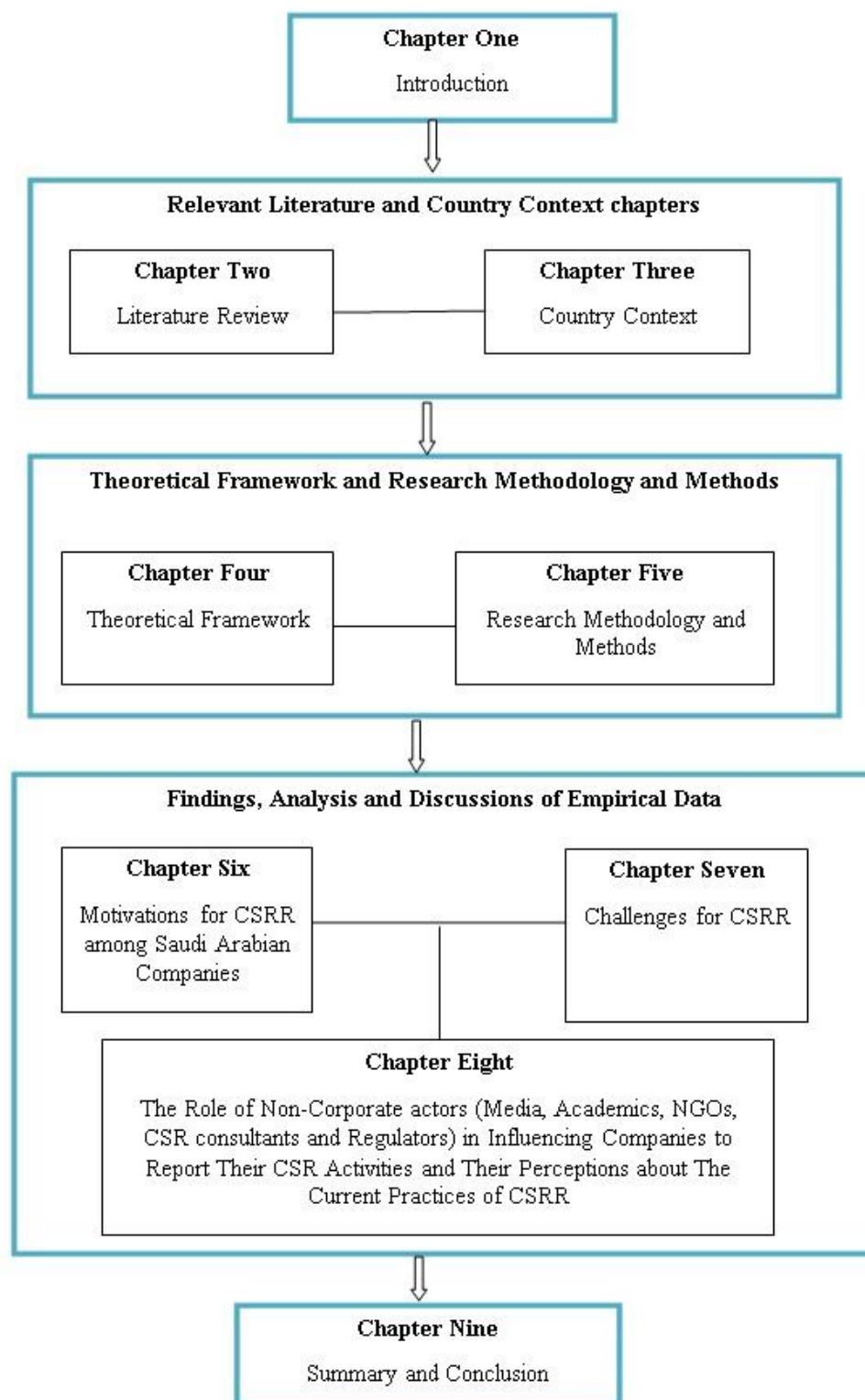


Figure 1: Structure of the Thesis

Chapter one presents an introduction to the thesis. It provides a preamble for the research study and highlights the research background. Motivations for this study in Saudi Arabia are included, as are the research objectives and questions.

Chapter 2 reviews the existing literature on CSRR. It starts with a discussion of the definitions of CSR and will then address studies that have focused on CSRR with a special focus on studies conducted in the context of developing countries. The studies on developing countries are discussed and presented using three classifications: studies related to the extent and level of CSRR and their determinant; studies related to managerial perceptions toward CSRR; and studies related to stakeholder perceptions toward CSRR. After this, studies about CSR in the Saudi Arabian context are presented and discussed. Finally, the chapter will close by discussing the gaps within the existing literature and addressing the research objectives and questions.

Chapter three will provide the background for the study setting (Saudi Arabia) and lists general information about the country, including political, legal, economic, social, and environmental profiles. This will precede a discussion about corporate social responsibility within the country and a cultural profile. This chapter will also shed light on corporate regulatory, monitoring and supervisory bodies in Saudi Arabia with a focus on their role in ensuring disclosure and transparency within companies' annual reports. The chapter ends with a description of the Saudi Stock Exchange Market (Tadawul).

Chapter four discusses the theoretical framework used to interpret the study's findings. The chapter will start by discussing the neo-institutional theory and provide a justification for choosing this theory over other CSRR theories namely, legitimacy theory, and stakeholder theory. The discussion proceeds by discussing the limitations of neo-institutional theory and how this is overcome by inclusion of the complementary model suggested by Battilana (2006) and Battilana et al. (2009).



Chapter five is devoted to explaining the research methodology and methods used in this study. It will start with an explanation of the underlying philosophical assumptions of the research and justifies the selection of an interpretive paradigm for the study. This is followed by an explanation and justification for employing qualitative data collection using semi-structured interviews as the main data collection method and documentary analysis as a secondary data collection method. The sample selection procedure, techniques for data analysis and data validity and reliability issues are then discussed. Chapters four and five provide the foundation for the empirical work of chapters six through eight.

Chapter six is devoted to presenting, discussing and analysing the findings of the first research question, which is related to the motivational factors that led Saudi Arabian companies to disclose (or not disclose) CSR issues in their annual reports. Chapter seven will present, discusses and analyses the second research question's findings, which are related to the challenges companies face in reporting CSR activities. Chapter eight, which presents the final empirical chapter, is devoted to presenting, discussing and analysing the third research question's findings about the role of non-corporate actors (i.e., the media, academics, NGOs, CSR consultants and regulators) in influencing companies to report CSR and their perceptions about current CSRR practices in Saudi Arabia. In these three chapters, the empirical findings are discussed and analysed using the neo-institutional theory as proposed by DiMaggio and Powell (1983) and Scott (2008) as well as the complementary model suggested by Battilana (2006) and Battilana et al. (2009).

Chapter nine is the concluding chapter. It summarises the key findings relating to the three research questions and highlight the study's contribution to current literature and knowledge. The chapter will conclude by pointing out research limitations and offering suggestions for future research.

## **Chapter 2: Literature Review**

### **2.1 Introduction**

According to Belal et al. (2013, p. 81), “we know very little about social and environmental accounting practices in many of the emerging and less developed economies”.

The aim of this chapter is to review the existing literature regarding corporate social responsibility reporting (CSRR) with particular focus on studies conducted in developing countries in general and Saudi Arabia in particular. The chapter proceeds by outlining arguments associated with the definition of CSR and then focuses on CSRR research within developing countries in accordance with the classifications posed by Belal and Momin (2009). The classification focuses on: studies related to the extent and the level of CSRR and their determinants, studies related to managerial perceptions towards reporting CSR, and studies related to stakeholder perceptions towards CSR reporting. The focus will then shift towards CSR studies conducted in Saudi Arabia. That will be followed by identification of the gaps in the existing studies and how the research in this thesis contributes to the literature. The chapter ends with some concluding remarks. The structure of the chapter is provided in figure 2.

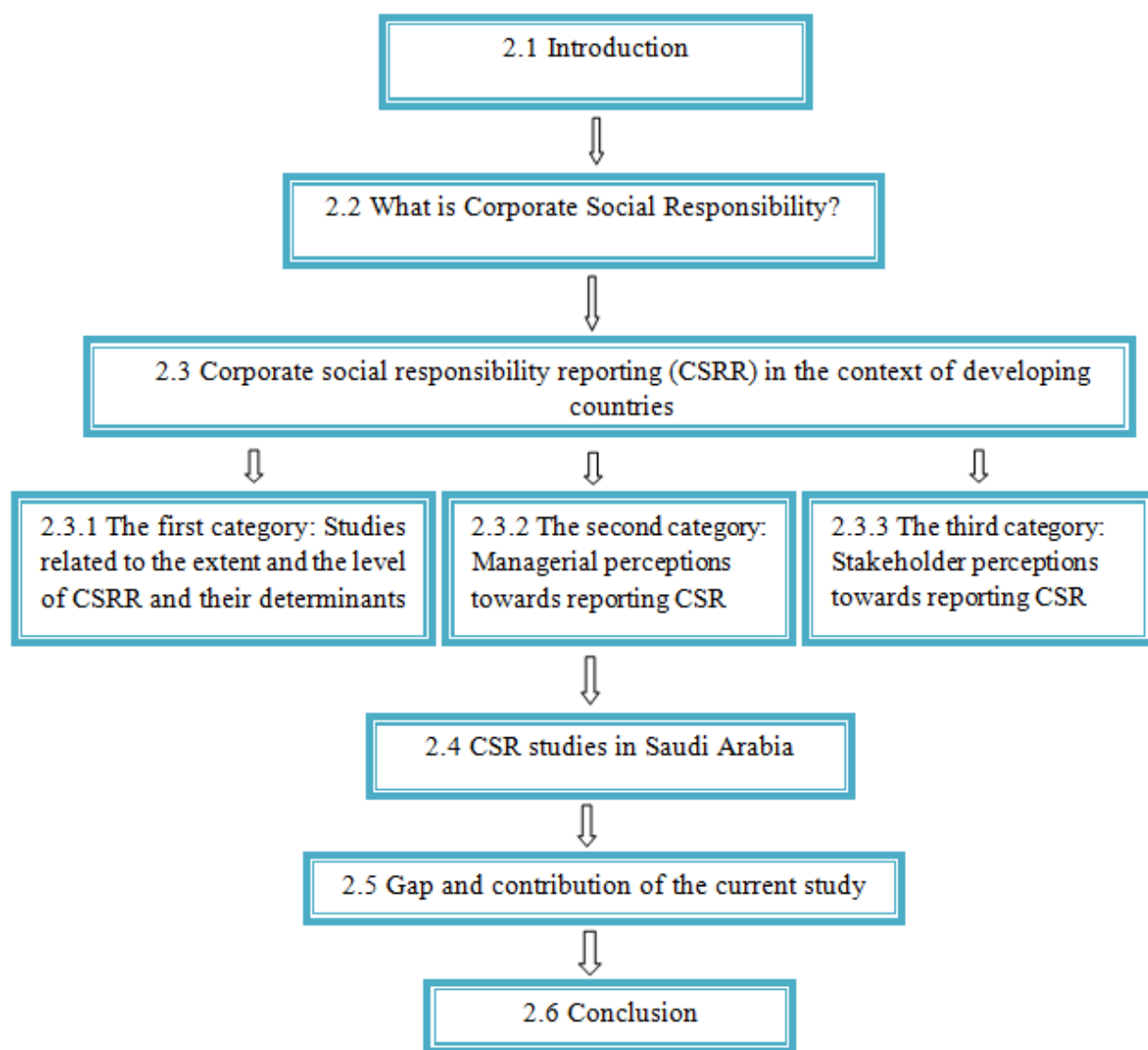


Figure 2: Structure of Chapter 2

## 2.2 What is Corporate Social Responsibility?

The number of companies making ethical claims about the products they produce, services they provide, and other aspects of their behaviour in society has noticeably increased in recent years (Scott, 2007; Gray et al., 2014). Indeed, the term CSR features prominently on company websites and annual reports and bulletins published by companies worldwide, along with reference to other common issues such as stakeholder dialogues, corporate citizenship, global compact, and sustainable business (Scott, 2007; Amran and Haniffa, 2011; Hahn and Kühnen, 2013; Gray et al., 2014). So what is CSR?

Freeman and Hasnaoui (2011) argued that despite the fact that the term corporate social responsibility has existed for over 70 years, the concept of CSR is debatable and understood differently among various countries and entities and that there is no universally agreed-upon definition or exact meaning of CSR. As pointed out by Matten and Moon (2008), defining CSR is problematic as the concept of CSR tends to overlap with other concepts such as business ethics, corporate philanthropy, corporate citizenship, environmental sustainability, and responsibility. This was emphasised by Hoskins (2005, p. 5-6), who stated:

CSR is often interchangeable with CR (Corporate Responsibility), and some companies use Sustainability or Corporate Citizenship instead of CSR. The argument about CSR is the ‘S’ – Social – which some companies have suggested detracts from their business-related responsible activity by focusing on the social impacts (typically in the community area) while not giving due regard to the importance of their ensuring the company’s operations are run ethically and responsibly.

Accordingly, interpretations of CSR have varied among scholars. In defining CSR, some scholars have looked at it from a business-case perspective. According to Carroll and Shabana (2010), the business case for CSR focuses on arguments justifying CSR initiatives from an

economic and financial perspective. They pointed out that, based on CSR business-case arguments, firms that engage in CSR activities are rewarded in economic and financial terms by the market. However, they also contend that there is “no single business case for CSR” (Carroll and Shabana, p. 8). In some cases there is a clear correlation between CSR activities and firm performance, whereas in other business cases, there is no correlation and the effect of CSR activities on firm performance is dependent on situational circumstances. In this regard, it has been pointed out by Berger et al. (2007) that the business case for CSR can be viewed from two perspectives: the narrow and the broad. The narrow perspective is relevant if there is a direct relationship between firm performance and CSR activities; the narrow view focuses primarily on immediate cost savings<sup>11</sup>. On the other hand, the broad view of CSR from a business-case perspective is justified if there are apparent direct and indirect links to firm performance. This broad view enables firms to benefit in a number of ways, such as enhancing their competitive advantage, legitimacy and reputation benefits, cost and risk reduction, and creating win-win relationships with stakeholders. The win-win perspective of CSR allows firms to satisfy their stakeholders’ demands and enhance their profits while operating according to good business sense and pursuing interests in terms of profitability (Banerjee, 2008; Carroll and Shabana, 2010). In the same vein, some scholars have argued that CSR needs to go beyond a concern whether it enhances profit making. Carroll (1991, p. 43) argued that a “CSR firm should strive to make profit, obey the law, be ethical and be a good corporate citizen”. In support of this conclusion, Scott (2007) has drawn attention to five themes for an authentic definition of CSR practice, as exemplified by the following: responsibility to the community, promotion of democracy and citizenship, reduction of poverty and the inequality between rich and poor, preservation and enhancement of employee rights and improvement of work conditions, and promotion of ethical behaviour. These concepts were emphasised in the definition of CSR given

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<sup>11</sup> According to Kurucz et al. (2008 as cited in Carroll and Shabana, 2010), practicing CSR helps firms lower their costs while realizing tax benefits and avoiding strict regulation.

by the European Commission (2001, p. 6): CSR is “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. This definition was broadened and renewed by the commission in 2011 (p. 6) to include,

The responsibility of enterprises for their impacts on society. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental and ethical human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:

- maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large and
- identifying, preventing and mitigating their possible adverse impacts.

Despite the aforementioned arguments raised by scholars regarding the concept of CSR and how CSR firms need to go beyond profit making in their efforts regarding social responsibility, scholars such as Friedman (1970) have argued that corporations are artificial persons and are the property of their shareholders and that the only responsibility of corporations is to maximize shareholder wealth. Friedman (1970, p. 6) pointed out that “there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud”. This is consistent with the assertion in the Corporate Watch Report (2006) where it accuses companies of “cherry-picking which stakeholders they engage with, and engage only with those that are useful to them”.

Further arguments related to variations in the definition of CSR were raised by Dahlsrud (2006) who conducted a content analysis of 37 existing definitions of CSR, finding that CSR definitions are largely congruent and based on five basic dimensions: stakeholders, social, economic,

voluntariness, and environmental. He argued that the problem is not related to the lack of a universally accepted definition for CSR, but rather it is in a lack of any guidance on how to manage the challenges within the phenomenon. Accordingly the challenge for business is to understand how CSR is socially constructed within a specific context and how that should be taken in consideration when developing business strategies (Dahlsrud, 2006). Indeed, Gray (2010) argued that in spite of the increasing quantity of well-established literature on CSR, which has been accumulating for 40 years, the term CSR is still open to the interpretation of organizations and how they choose to understand and implement it.

By reviewing the various definitions and meanings of CSR, it is clear that scholars have focused on certain particular themes, such as the link between financial and non-financial performance, various measurements (qualitative and non-qualitative ones), and the importance that should be given by organizations in the course of their activities to go beyond serving shareholder interests to include the stakeholders at large (see e.g. Gray, 1995; Islam, 2009).

From the above discussion, it can be understood that the majority of views, though not by Friedman (1970), suggest that corporate social responsibility is basically founded on a notion that business activities need to take a wider responsibility that goes beyond maximising shareholder value to encompass society at large in their consideration. Business activities affect and are affected by a number of factors like environmental issues, economic issues, and larger social systems. Reporting on CSR activities is vital in reflecting a company's impact and commitment toward society and the environment and keeping enterprises accountable to their various stakeholders (Hassan and Harahap; 2010; Khemir and Baccouche, 2010).

The next section will be devoted to discussing CSRR in the context of developing countries.

### **2.3 Corporate social responsibility reporting (CSRR) in the context of developing countries**

During the last three decades, it has been noticed that the volume of voluntary reporting of corporate social responsibility has increased noticeably among companies at a global level (Waller and Lanis, 2009; Unerman et al., 2010; Gray et al., 2014; Stubbs et al., 2014). Accordingly, it has been argued that the accountability of organizations has exceeded the well-known traditional role of providing only the organization's financial information, which is mostly in the interest of the shareholders, to also include non-financial information, which is in the interest of the society at large (see e.g. Gray et al., 1987; Kamla, 2007; Benn and Bolton, 2011). Various media have been used by organizations to communicate their social responsibility activities including corporate websites, stand-alone CSR reports, special bulletins, and traditional annual reports (Hussainey et al., 2011; Mäkelä and Laine, 2011). CSRR is defined by Gray (1996, p. 3) 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. 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

This kind of disclosure, according to Lehman (2002), Unerman and Bennett (2004), and Hahn and Kühnen (2013), facilitates the companies' dialogue with a greater number of stakeholders by explaining the effects of corporate activities on their environments. It also enhances the level of transparency by companies by reflecting information about the company's commitment to society at large beyond shareholders, which in turn contributes to the enhancement of brand



values and increases the legitimacy of the company. Scholars such as Buhr and Reiter (2006) and Laine (2009) emphasised the importance of CSR reports and their contribution in creating change in corporate behaviour, and how CSRR acts as a communication tool that is used by companies to represent their activities. Corporate rhetoric and image management are powerful tools used by organizations to strengthen social belief in how business mitigates social and environmental problems and delivers sustainability even though there are numerous indicators that point in the opposite direction (Gray, 2002; Gray et al., 2014).

A recent survey by the KPMG (2013) indicated that CSRR has become the mainstream business practice for businesses worldwide; 71% of the 4,100 largest companies in the world produced these reports in 2013 compared to 64% in 2011. With the growing volume of reports, studies have increasingly been conducted around various issues related to CSR and CSRR. However, most of this research has focused on Western developed countries (see e.g. Gray et al., 1995; Kolk, 2003; O'Dwyer, 2003; Bansal, 2005; O'Dwyer, 2005; Adams and Whelan, 2009; Bebbington et al., 2009; Chen and Bouvian, 2009; Reverte, 2009; Hussainey and Salama, 2010; Reining and Tilt, 2012; De Villiers and Alexander, 2014).

The findings of studies conducted in the developed world have shown different results regarding companies' attitude toward CSRR. For instance it has been found that there is a positive relationship between the extent of CSRR in the USA and the regulatory disclosure requirements (Alciatore et al., 2004); also internal and external determinants related to companies' size, industry type and public pressure; found to be positively associated with the level of CSRR in listed companies in Denmark (Cormier et al., 2005; Cormier et al., 2004); in the UK Campbell (2003) showed that more environmentally sensitive companies provided more environmental disclosure voluntarily over the years as a response to the exposure to criticism. Studies in developed countries have also shown that membership in professional bodies and their associated workshops can have an impact on organizations' views and drive them towards CSRR

(Bebbington et al., 1994; Matten and Moon, 2008; Bebbington et al., 2009; De Villiers and Alexander, 2014); or to show their commitment to the media (Brown and Deegan, 1998; Bansal, 2005; Clarkson et al., 2008); and to respond to stakeholders pressures in Spain (Prado-Lorenzo et al., 2009); or as a response to pressures from NGOs in Australia (Deegan and Blomquist, 2006). Studies also showed the role that CSR international reporting guidelines such as the Global Reporting Initiative (GRI) can help to guide companies in their CSR disclosure (Graham and Woods, 2006; Adams and McNicholas, 2007; Du et al., 2010); and the role of CSR education in Europe and top 50 global business school in advancing CSR knowledge among students (Matten and Moon, 2004; Christensen et al., 2007).

The findings of studies conducted in the developed world added to the knowledge regarding CSRR in general and in those developed countries specifically. However, taking in considerations that CSRR in developed countries is already advanced and developed compared to developing countries in terms of regulations and awareness of CSRR from companies and stakeholder sides (Belal and Momin, 2009; Fifka, 2013), it has been argued by Tsang (1998), Gray et al. (2002), Kamla (2007), and Belal and Momin (2009) that, generalizing and extrapolating those findings to developing countries is dangerous. This is because the results of those studies have been influenced by a number of factors, including regulatory, economic, cultural, and national differences, as well as social values and religious beliefs. Therefore, generalizing and extrapolating the findings of studies that have been conducted in developed countries to less developed ones is inappropriate (see also e.g. Helg, 2007; Ibrahim et al., 2012). Emphasis added in this regard by Islam and Deegan (2008) on the importance of understanding different pressures that influence industries in developing countries toward CSRR as each developing country has their unique socio-political, economic and cultural issue that drives its CSRR. Identifying these drivers will contribute to enrich knowledge about CSRR in developing countries.

Although scholars have begun to direct their attention toward CSRR in developing countries, many of these earlier studies are descriptive in nature and rely on quantitative data collection methods to study CSRR (see e.g., Andrew et al., 1989; Imam, 2000; Gao et al., 2005; Gautam and Singh, 2010). Despite the expansion and broadening of the research scope, qualitative studies are still limited for developing countries (Belal and Momin, 2009).

Studies of CSRR among developing countries can be classified into three categories, as suggested by Belal and Momin (2009). The first category is related to studies focused on the determinants of CSRR among companies and the extent of reporting CSR. The second category is focused on the managerial perceptions toward CSR reporting. The last category is focused on the stakeholders' perceptions towards reporting CSR. These three types of studies have used different methodological approaches, methods, and theories to study the issue of CSRR in developing countries. However, these are not the only categories for studying CSRR in developing countries. Some scholars have examined the relationship between CSRR and the financial performance of firms (see e.g. Alsaeed, 2006; Cheung et al., 2010). Others have studied CSRR and organizational commitment (see e.g. Turker, 2009). The current research will focus on the Belal and Momin (2009) classification for CSRR studies as they constructed their classification based on the common themes of studies conducted in developing countries.

The following section highlights studies that have been conducted in developing countries in terms of their major findings, methods and theories.

### **2.3.1 The first category: Studies related to the extent and the level of CSRR and their determinants**

Studies in this category are mainly quantitative and descriptive, seeking to measure the volume and the extent of CSRR as well as the factors that determine this disclosure. Content analyses of secondary data such as annual reports and testing hypotheses have been used basically to answer research questions related to those studies. One of the earliest studies in this regard was

conducted by Andrew et al. (1989). The authors conducted a comparative study between Malaysian and Singaporean publicly listed companies for the year 1983. The authors aimed to measure the extent of CSRR among those companies in addition to the effects of specific firm characteristics, such as firm size and industry type, on the level of disclosure. The annual reports were content analysed and they found that apart from large foreign-owned companies the reporting of CSR was limited. It can be noted that the findings of this study were based on a sample from the industrial and commercial sectors though they generalised their findings to all corporate sectors in both countries. It can be argued that the findings of those sectors may not be applicable to the other sectors, which is one of the limitations of this study.

A number of studies conducted around this time found a positive association between firm size and the level of reporting of CSR (Gao et al. ,2005). They basically examined the patterns and determinants of CSRR for 33 listed companies in Hong Kong from 1993 to 1997. Based on the content analyses of the companies' annual reports and statistical tests they found that firm size and industry sector positively influenced the level of reporting of CSR. Furthermore, they reported that a small amount of attention was given to reporting certain CSR themes such as environment and health and safety issues. Later studies have also tended to find a positive association between firm size and the level of reporting of CSR (Imam, 2000; Gautam and Singh, 2010; El-Halaby and Hussainey, 2015).

A further study in another developing country was conducted by Hussainey et al. (2011) who aimed to identify determinants affecting CSRR in the Egyptian context. From a sample of 111 Egyptian listed companies for the period from 2005 to 2010, the study tested six hypotheses with different variables, including size, profitability, liquidity, gearing, ownership type, and audit type. The authors argued that the key determinant of CSRR is profitability, whereas a negative correlation between community and audit type and the level of disclosure was observed. The study also found that ownership structure, company size, gearing, and liquidity did not affect the

level of CSRR among Egyptian companies. Similarly, Aly et al. (2010) found no association between firm size and the level of voluntary disclosure among companies listed on the Egyptian stock market. It can be noted from the aforementioned presented studies that results related to the companies' size and level of CSRR are not conclusive. That can be attributed to specific research design. Apart from companies size, cost burden found to be an important factor determine the level of CSRR. Hossain and Reaz (2007) found that cost burden affect negatively the level of CSRR in Indian banks.

There have been a number of studies that have sought to measure the extent and the determinants of CSRR by using content analysis in many developing countries such as Bangladesh (Belal, 2001; Belal, 2008), China (Liu and Anbumozhi, 2009), and South Africa (De Villiers, 1999; De Villiers and Van Staden, 2006). Some studies, in examining the level of CSRR in developing countries, have relied extensively on content analysis categories that have been developed in the context of Western economics, such as categories proposed by Ernst and Ernst (1972–1978) (see e.g. Haniffa and Cooke, 2005; Hamid and Atan, 2011). In this regard, it has been argued that there is a danger in applying techniques that have been developed in a Western context as each emerging economy has its own socio-cultural issues and political contexts and therefore relying on Western developed categories may miss important issues, (Kamla, 2007; Gray and Kouhy, 1993).

Accordingly, cultural and religious dimensions were included in the research instrument used by Kamla (2007) in her study of the value, quality, and nature of CSRR and the extent of Western influence on this practice in 68 annual reports of nine Arab Middle Eastern countries<sup>12</sup>. By adopting a post-colonial theoretical perspective and content analysis, the study found that narrative of disclosure has very little quantitative information, low level of environmental

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<sup>12</sup> The examined countries included namely Saudi Arabia, Kuwait, Qatar, United Arab Emirates, Syria, Bahrain, Jordan, and Egypt.

disclosure, and majority of disclosure is positive and neutral in nature with hardly any references to bad news. The low level of environmental disclosure is echoed with findings addressed by (De Villiers, 2003; De Villiers, 2006; Mitchell and Hill; 2009). These findings suggested similarities in companies' attitude towards environmental disclosure in developing countries.

Kamla (2007) also found that content analysis for sentences under dimensions related to culture and religion revealed that Arabic countries in their disclosure give importance to mention some versus from the Holy Quran in their annual reports and a thanking statement to the rulers of the country.

There are other studies that have been conducted in the Middle East, and in Gulf countries in particular, but those studies are mainly quantitative in nature relying on content analysis and testing hypothesis. One of the earliest studies conducted in the Middle East was done by Abu-Baker and Naser (2000) who studied the practices of CSRR in 143 Jordanian companies. Little attention has been found towards CSRR in terms of space and addressed CSR issues. In addition the disclosure in annual reports was directed basically toward financial aspects of companies activities. Naser et al. (2006) studied the determinants and extent of CSRR in Qatar and found that firm size and business risk positively influence the extent of CSRR. The findings of the study have supported agency and political economic theory and rejected stakeholder theory. Similarly, a study of non-financial Saudi listed companies for the period 2006-2007 conducted by Alsead (2006) regarding the impact of firm characteristic on voluntary disclosure<sup>13</sup> found that large companies were more active in voluntary disclosure compared to small companies. The results of this study were informed by a disclosure index that consisted of 20 voluntary items. Accordingly it can be argued that the results of the study are dependent on the construction of the index and therefore the results might be reflecting the nature of that index.

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<sup>13</sup> CSRR formed part of the voluntary disclosure.

In addition, a comparative study between Saudi Arabia and United Arab Emirates (UAE) was conducted by Al-Janadi et al. (2011) to measure the level and the quality of voluntary disclosure from 2006 to 2007. By focusing on three aspects of voluntary disclosure including general and financial information, corporate governance information, and social and environmental information and by using descriptive statistical analysis, they found that the quality of voluntary disclosure in both countries was low and that in both countries, this disclosure needed to be improved to attract more investors and help users of the annual reports make investment decisions. They also found that the level of voluntary disclosure in the UAE was higher than in Saudi Arabia, although both countries needed to give more concern to the disclosure of social and environmental issues<sup>14</sup>.

Many of the current studies to date conducted in Middle Eastern countries were mainly descriptive and focused only on measuring the determinants that can affect the level of CSRR. Although these studies have contributed to the literature by identifying the relationship between specific variables (e.g., firm size, profitability, and ownership) and the level of disclosure, they provide little explanation for the phenomena. There was a separation between the phenomena under study and the researchers, who adopted an external observer role, studied association relationships between variables and CSRR, and tested a number of hypotheses to gather the required data. The findings of these studies were limited and have not sought to understand what these companies are attempting to achieve by disclosing social, ethical, and environmental information. They do not answer the question why companies in developing countries disclose CSR information. For example they do not distinguish between companies reporting their CSR activities for marketing purposes to reflect a specific image of the corporation (e.g., are they important actors in society) and companies that are merely imitating what other companies are

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<sup>14</sup> The findings were analysed using statistical analysis for 87 annual reports in Saudi Arabia and 63 annual reports in UAE.

doing. These studies merely tell us that larger companies report more CSR information (although there is no specific agreement on the effect of firm size on the level of disclosure).

The next section will investigate the studies conducted in the second category, which pertains to managerial perceptions of CSRR.

### **2.3.2 The second category: Managerial perceptions towards reporting CSR**

Unlike previous categories, studies in this category are interested in understanding managerial perceptions and motivations for reporting CSR activities. It has been argued by Lungu et al. (2009) that the importance of studying managers' perceptions and motivations in reporting companies' social and environmental issues stems from the vital role that managers play in crafting the information disclosed in companies' annual reports.

A number of studies have explored the motivation behind managers' decisions to report their CSR activities. Interviews and questionnaires have been used as the primary data collection methods to understand the managerial decisions for their CSRR practices. Some studies have found that the main reason managers report their corporate social and environmental activities is to respond to external pressure from international financial organizations such as the World Bank. For example, a study conducted by Rahaman et al. (2004) attempted to identify the motivation for CSR reporting by Volta River Authority (VRA) in Ghana. The investigation of the company's annual reports for the period from 1985 to 1995 revealed that VRA had been reporting more information regarding their social and environmental activities than other Ghanaian companies. People from the top management and relevant government departments were interviewed to help researchers understand the motivations behind this action, and both legitimacy and institutional theories were utilised to analyse the findings. The results showed that the main driver for reporting social and environmental activities for VRA was to respond to the World Bank conditions and other international lending institutions to guarantee financial



support. Findings of this study were analysed using institutional theory and it was suggested that coercive pressure was the main driver for CSRR.

In addition to the pressures from external internationally funded organizations, Belal and Owen (2007) pointed to another driver that led managers to report their CSR. In their study, they interviewed senior managers of 23 companies in Bangladesh representing multinational companies, domestic private companies and public sector organizations. The interviews revealed that multinational companies reported their CSR to respond to requirements from their parent companies, investors, and international agencies such as the World Bank. On the other hand, the interviews revealed that motivations for reporting CSR by domestic companies drew particular attention to the pressures from international buyers who require this information particularly for companies that compete in the export market. These findings were similar to those of Islam and Deegan (2008), who examined the motivations for reporting CSR in Bangladesh, but their focus was on a case study of one of the biggest Bangladeshi garment companies. The content analysis of the 19 years' worth of annual reports for the Bangladesh Garments Manufacture and Exports Association (BGMEA), along with interviews with senior managers, revealed that multinational buyers appeared to be the main driver for why companies reported their CSR. With respect to theoretical concerns the authors suggested that the findings from their study supported stakeholder, legitimacy, and institutional theories.

The findings of both Belal and Owen (2007) and Islam and Deegan (2008) agreed with findings of Belal (2001) in highlighting the role that international environmental bodies and international environmental buyers play in forcing companies in developing countries to report on their environmental issues. These findings suggest the role that international bodies play in driving companies in developing countries toward CSRR.

In the same vein and also in Bangladesh, a study was conducted by Momin and Parker (2013) to identify managers' motivations in multinational company (MNC) subsidiaries to report their

CSR activities. Momin and Parker found that multinational subsidiaries are motivated to engage in CSRR practices to maintain an internal legitimacy with their parent company by mimicking their CSRR practices and to respond to the pressure of external powerful stakeholders such as international NGOs and media. The findings of the study were analysed through the lens of legitimacy theory and institutional theory. The findings of Momin and Parker regarding the role media play in driving companies to report their CSR activities echoes with findings of both Belal and Owen (2007) and Islam and Deegan (2008). These findings suggesting that media plays a role in deriving companies in developing countries to report their CSR activities and that CSR and CSRR is still in its early stages in these countries. Momin and Parker also found that some cultural traits can lead to absence of CSRR in MNC (e.g good deeds). This findings suggested that culture is an important determinant in CSRR which is in line with studies of (Haniffa and Cook, 2005; Belal, 2008). Also in Bangladesh, Belal (2008) studied the managerial motivations in both multinational and domestic companies to report their CSR activities. The study found that managers in both companies are motivated to report their CSR to meet the interests of powerful stakeholders such as investors, international buyers. Belal study also sheds light on the relevance of International CSR reporting guidelines for domestic companies operating in Bangladesh and found that these standards are irrelevant. This finding suggests differences between applicability of these standards in developed and developing countries.

In different country context, Amran and Siti-Nabiha (2009) in an interview-based study whose objective was to identify the perceptions and motives of selected Malaysian managers on CSRR used institutional theory. The MNCs operating in Malaysia were found to be the main reason why domestic Malaysian companies reported their CSR activities. Domestic Malaysian companies chose to mimic MNCs in order to attract foreign investments and position themselves in external markets. Also the study found that NACARA governmental sustainability reporting award seemed to be as a strong motive for CSRR decision in Malaysian companies. In the same

context, Amran and Haniffa (2011) sought to understand corporate management motivations for engaging and reporting on sustainability by eliciting and interviewing actors' on their views and perceptions of the CSRR. Using institutional theory, Amran and Haniffa found that the three mechanisms of isomorphism, coercive, normative, and mimetic contributed to Malaysian companies CSRR decision. In addition to the aforementioned institutional pressures, Amran and Haniffa found that there is no relationship between managers' educational qualifications which considered as a form of normative pressures and CSRR. Furthermore, Amran and Haniffa in agreement with Amran and Siti-Nabiha (2009) study found that NACARA governmental sustainability reporting award seemed to be as a strong motive for CSRR decision in Malaysian companies. These findings imply to the role that government can play in promoting CSRR in terms of providing sustainability reporting award.

Apart from the aforementioned external pressures, a number of studies revealed that managers' decisions to include CSR information in the company's annual reports was motivated by the desire to build and enhance the firm's reputation rather than discharge corporate responsibility towards the environment and society at large (see e.g. Owen et al., 2001). For example, a study conducted by Haniffa and Cooke (2005), which covered listed companies in Malaysia from 1996 to 2002, revealed that maintaining legitimacy guaranteeing continued inflow of foreign shareholders, appeasing ethical investors and stakeholders in general, and reflecting a good image of the companies were the main goals for managers reporting CSR. This in line with the findings of (Maali et al., 2006; Belal and Owen, 2007; Sobhani et al., 2009) in which CSRR was found to be used to enhance the corporate image. Similarly, a study conducted by Bebbington et al. (2008) indicated that reporting CSR either explicitly or implicitly was driven by reputation concerns and legitimacy preservation issues. Following this line of thought, a number of academics have suggested that the main driver for reporting CSR is the desire to gain economic benefit. For example, Zu and Song (2009), in their study about the managerial and executive

perceptions on CSR in the Chinese firms, found that the true nature of managers' willingness to involve and report CSR activities is business-oriented rather than morally motivated.

By reviewing studies in these categories, it should be noted that although these studies have indicated some managerial motivations for reporting CSR activities, they have not investigated whether there are external and/or internal factors motivating managers to report their CSR activities and the role that agents (either organizations or individuals) play in driving companies to report CSR. It is also apparent that most CSR studies in emerging economies focused on Asian-specific (Bangladesh, India, Hong Kong, and Malaysia) and some African countries, Belal and Momin (2009).

Belal and Momin (2009) and Belal and Cooper (2011) suggested that further studies were needed in other emerging economies where the context differed from that in Asia. This was echoed by Kisenyi and Gray (1998, p. 16) who noted:

Whilst we are steadily learning more about social and environmental accounting and disclosure practices in the English-speaking and European countries, we still know too little about practices in ex-colonial, smaller and/or emerging countries. Learning about these countries is not only valuable for the stimulation, it offers to the jaded palettes of western scholars but also, more importantly, it can provide vivid challenges to the presuppositional baggage with which Western researchers typically approach issues.

Gray (2002) and Belal and Momin (2009) have called for engagement-based research to understand managerial motivation for reporting CSR activities through in-depth interviews with company managers. It is argued that studies from different emerging economies might have different findings because of the cultural and socio-political differences between the countries. Accordingly, there is scope for further exploration of this issue and in this regard, this study is

considered as a contribution towards determining the motivations of management to report CSR<sup>15</sup>.

The next section will investigate the studies conducted in the last category, which pertains to stakeholder perceptions of CSR.

### **2.3.3 The third category: Stakeholder perceptions towards reporting CSR**

Studies in this category investigate different stakeholders' perceptions of CSR in general and CSRR in particular. According to Gray et al. (1995; 2001), stakeholders either influence an organization's social activities disclosure or are influenced by this disclosure. Stakeholders are defined as "persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. Such claimed rights or interests are the result of transactions with, or actions taken by, the corporation, and may be legal or moral, individual or collective. Stakeholders with similar interests, claims, or rights can be classified as belonging to the same group: employees, shareholders, customers, and so on" (Clarkson, 1995, p. 106).

Although a number of studies have investigated stakeholders' perceptions of CSR and CSRR in emerging economies, most of these have focused on exploring the perceptions of economically powerful stakeholders. Very few studies have examined the perceptions of less economically powerful stakeholders (see e.g. Unerman and Bennett, 2004; O'Dwyer et al., 2005; Belal and Roberts, 2010). Scholars in emerging economies have responded to this gap in the literature by researching less powerful stakeholders' perceptions of CSR. Some stakeholders have pointed out the important role that CSRR plays in reflecting a company's role in society and the contribution that the law can have in encouraging CSR. Al-Khater and Naser (2003) examined the perceptions of four indigenous stakeholder groups regarding CSR disclosure and accountability in Qatari companies. Data was collected by distributing a survey to accountants, external

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<sup>15</sup> Further discussion in section 2.5 will be devoted to address the gap and the contribution of the study.

auditors, bank officers, and university lecturers. The findings indicated the importance of legally requiring companies to report their CSR activities rather than having authorities merely encouraging reporting. The participants believed that disclosing such information would legitimise the existence of companies and would benefit social development and environmental protection. The participants also indicated that a lack of knowledge about CSR can result in unsatisfactory levels of CSRR. This finding related to the lack of knowledge about CSR and its effect on the level of CSRR is in line with the findings (Belal, 2001; Ramasamy and Ting, 2004; Zulkifli and Amran, 2006; Belal and Cooper, 2011; Hossain et al., 2012).

The findings of Al-Khatat and Naser (2003) were consistent also with a study by Naser and Baker (1999) in Jordan. Surveys were distributed to public accountants, academics, governmental officials, and finance managers to explore their perceptions of the lack of CSRR in Jordanian companies. The study's participants attributed the lack of CSRR to the absence of legal requirements. Accountants and financial managers believed that companies should only be required to undertake CSRR and to fulfil social responsibilities if those responsibilities were beneficial to the company and represented a win-win business case. Academics and governmental officials, on the other hand, believed that companies should be socially responsible in general and that CSR activities should not necessarily be business-oriented. It can be argued that although the lack of legal requirements toward CSRR can result in these views from accountants and financial managers, however it seems that lack of awareness about the role that CSRR plays in reflecting companies' commitments toward the environment and society in large can be another reason for these views.

In a similar study, Belal and Roberts (2010) interviewed non-managerial stakeholders from different groups about their perceptions of CSR in Bangladesh by employing stakeholder theory. The interviewees supported mandatory CSR requirements. However, some stakeholders with accounting backgrounds doubted the merit of the emerging CSR agenda in Bangladesh. These

stakeholders were reluctant to adopt a standpoint that conflicted with the economic interests of the organizations' shareholders. This suggests that companies prioritise economic interests over being transparent toward their social and environmental impact. In the same context (Bangladesh), Momin (2013) conducted a study to explore the perceptions of NGOs on social and environmental disclosure. Relying on stakeholder theory and using semi-structured interviews, the study found that NGOs are sceptical of the undertaken CSRR practices. The practice of CSRR was described by the interviewed NGOs as ad hoc, more toward public relations, and lacking credibility to address ethical information such as the child labour and employment conditions. These findings suggested that the practice of CSRR by companies in developing countries is still in its early stages, which is in line with the argument addressed by Belal et al. (2013) and Fifka (2013).

It might be thought that the stakeholders with accounting backgrounds would have the same perceptions regarding CSR that were found by the aforementioned study of Belal and Roberts (2010); however, Kuasirikun (2005) found a positive attitude towards CSR among Thai accountants, who were enthusiastic about their role in constructing and developing CSR. These accountants, however, were ambivalent about the practicality of social and environmental accounting, recognising that a company's decision to report CSR activities depended upon the sensitive nature of the information. However, the accountants insisted upon the importance of engaging institutional members and governmental parties to assist them with future development of Thai companies' CSR.

Investigating the perceptions of accountants in Arabic countries revealed different findings from those in non-Arabic countries. For example, Kamla et al. (2012) investigated Syrian accountants' perceptions of the role, future development, and implementation of social accounting in Syrian companies. Using Gallhofer and Haslam's (2003) critical perspective on accounting, Kamla et al. (2012) conducted 24 semi-structured interviews with three categories of accountants: regulators,

academics, and practitioners. The interviewees believed that social accounting could enhance well-being in Syrian society, but it was perceived as a new, Western concept. Implementation of social accounting in Syria, therefore, was not seen as an urgent issue. Kamla et al. (2012) argued that categorising social accounting as a “new” form of accounting served as a justification for Syrian firms postponing or even dismissing social accounting. The study concluded by a call for legislation that would make CSRR mandatory which echoes the call for legislation previously addressed by Gray et al. (1996) and O’Dwyer et al. (2005).

Some stakeholders exert pressure on companies to take a more active role in CSR and CSRR. For example, Deegan and Islam (2012; 2014) investigated the role of NGOs and the news media in changing the social, environmental, and disclosure practices of multinational companies operating in or sourcing from Bangladesh. A number of issues were found to be of concern to NGOs in Bangladesh: workplace health and safety, freedom of associations, maternity leave, and child labour. They found that the role played by the media was crucial in shedding light on issues requiring action. Without the focus of the news media, it was considered that NGOs would be powerless to change the operations and disclosure policies of organizations sourcing products from Bangladesh. This suggests that it might be useful for future research to address the influence of media, NGOs, and other stakeholders on CSR and CSRR activities in developing countries (Deegan and Islam, 2012).

Previous studies have investigated the influence of stakeholders on and their perceptions of CSR and CSRR and have found that there tends to be a symbiotic relationship between stakeholders and CSRR in emerging economies. Although stakeholders are important to CSR and CSRR practices, few studies have investigated this relationship in developing countries (Belal and Momin, 2009; Deegan and Islam, 2012; Kamla et al., 2012). There have been several calls to investigate the role and perceptions of different categories of stakeholders (NGOs, media, and academia) in both developing and developed countries (Adams and Whelan, 2009; Deegan and



Islam, 2012; Kamla et al., 2012; Momin, 2013). The current study aims to respond to this call and to contribute to the literature by exploring the perceptions about CSR and CSRR in Saudi Arabian companies among NGOs, media, and academia. This study will also investigate the perceptions of regulators in the country as well as CSR consultants, whose perceptions according to the best of the researcher's knowledge have never been investigated in the context of the country under study. This study also aims to contribute to the literature not only by investigating the aforementioned non-corporate actors' perceptions on current practices of CSRR, but also their role in influencing companies to report their CSR activities.

#### **2.4 CSR studies in Saudi Arabia**

As noted in the aforementioned discussions, studies about CSRR in developing countries in general are limited and, to the best of the researcher's knowledge, few studies have shed light on CSRR in Saudi Arabia.

It has also been noted that previous studies in Saudi Arabia tended to use mainly quantitative and questionnaire methods to focus on the extent of CSRR and were limited to, investigating the level of voluntary disclosure through testing hypotheses (see e.g. Al-Janadi et al., 2012) or to explore the perceptions of companies' managers and employees about their understanding of the concept of CSR and its dimensions, (see e.g. Ali and Al-Aali, 2012) or exploring the level of awareness of the CSR dimensions between MBA students in a major Saudi university (Khurshid et al., 2013). In a similar vein in terms of the employed methodology, Mandurah et al. (2012) conducted a study that sought to also understand the level of managers' awareness of CSR, the extent of integrating CSR activities with the overall corporate policy, and the type of CSR activity that is implemented by Saudi organizations. The latest study about CSR conducted by Nalband and Al-Amri (2013) sought to explore the relationship between CSR and the perception

of managers, companies' practices as well as performance of companies. Survey questionnaire was used as the main data collection method.

Reviewing all the aforementioned studies in Saudi Arabia revealed that these studies were narrow and limited in focussing on a particular aspect of CSR and most relied on survey methods and tested hypotheses to collect the relevant data to answer their research questions without paying sufficient attention or relating their results to any theoretical perspective. Also, although these studies have indicated the areas of CSR practices (community involvements, environmental issues, and employee issues), none of the previous studies in the context of Saudi Arabia have sought to investigate the motivations of managers for reporting companies' CSR and whether there are internal or external factors that influence them to disclose such information in the narrative section of the company's annual report. Also, none of the aforementioned studies sought to determine the role of non-corporate actors such as NGOs, media, regulators, CSR consultants, and academics in influencing companies to report their CSR activities and investigating their perceptions about the current situation regarding CSR activity reporting among Saudi companies. Considering the innovative nature of CSR and CSRR in Saudi Arabia, none of the above studies have looked at the challenges facing companies in reporting their CSR activities and sought to investigate managerial perceptions about these challenges.

## **2.5 Gap and contribution of the current study**

The overall discussion in this chapter of studies conducted in developing countries in general and Saudi Arabia in particular, using a number of different methods and theories, leads to the conclusion that there are a number of gaps in the literature.

1. In general research on CSR is limited for developing countries and in Saudi Arabia in particular. The current literature is dominated by research in Bangladesh, India, Malaysia, with very few studies conducted on Saudi Arabia.

2. There is a relatively limited amount of research directly investigating the motivations for CSRR from the managerial perspective and identifying the internal and external factors that drive companies to report their CSR activities and the role that agents play in driving the change. A call for further investigations about the different motivational factors from managerial perceptions has been made by a number of scholars including Belal and Momin (2009), Belal and Cooper (2011), Belal et al. (2013), and Spence and Gray (2007).
3. Very little, if any, attention has been given to identifying the challenges that managers experience in reporting their CSR activities.
4. The majority of CSRR studies that sought to investigate the roles of non-corporate actors focused on NGOs and media in driving companies to report their CSR activities and to study their perceptions, and little, if any, attention was given to the role and perceptions of regulators, CSR consultants, and academics. In Saudi Arabia these groups might be influential in shaping CSRR and developing its norms and regulations. Therefore following the call by O'Dwyer et al. (2005), Belal (2008), Adams and Whelan (2009), Islam and Deegan (2010), Deegan and Islam (2012), Kamla et al. (2012), and Momin and Parker (2013) for further investigation of the role and the perception of NGOs, media, and academia this study responds to that call and in doing so fills this research gap. Furthermore, this study will also investigate the role played by regulators and CSR consultants in influencing the nature and extent of CSR reporting.
5. Earlier studies in developing countries were mainly descriptive and tended to be based on quantitative methods. Despite the fact that the research scope was broad, qualitative studies are still limited for developing countries (Belal and Momin, 2009). The same issue is applicable to the studies conducted in the context of Saudi Arabia where the use

of quantitative methods tends to be the norm. This study employs a qualitative approach using interviews as the main data collection method and documentary analysis as a secondary data collection method to answer the research questions.

6. Previous studies have tended to use legitimacy theory and stakeholder theory when researching CSRR. More recently, studies have begun to use institutional theory, which has been identified as a powerful theory that complements both legitimacy and stakeholder theories (see e.g. Amran and Siti-Nabiha, 2009; Amran and Haniffa, 2011), but has been criticised for neglecting the role that agents play in change. It is argued that CSR research in developing countries seems to be under-theorised (Belal and Momin, 2009) and therefore in this study institutional theory will be used along with the data from the interviews as a means to understanding CSRR.

This study aims to achieve the following objectives:

1. Explore and identify the different motivational factors that lead Saudi Arabian organizations to report their CSR activities.
2. Explore and identify the challenges that Saudi Arabian organizations face in reporting their CSR activities.
3. Explore and provide insight into the role of non-corporate actors (media, academics, NGOs, CSR consultants, and regulators) in influencing companies report their CSR activities and their perceptions about the current practice of CSRR in the country.

To achieve the above objectives, the following questions will be addressed:

RQ1: What are the managerial perceptions of the motivations for Saudi companies to report their CSR activities?

RQ2: What challenges do Saudi Arabian companies face in reporting their CSR activities?

RQ3: What is the current role of non-corporate actors (the media, academics, NGOs, CSR consultants, and regulators) in influencing companies to report their CSR and their perceptions about current CSRR practices?

## **2.6 Conclusion**

This chapter provided a review of the different meanings of CSR with a particular focus on analysing and discussing studies related to developing countries in general and Saudi Arabia in particular. The studies reviewed for developing countries was based on the categorizations of studies suggested by Belal and Momin (2009), which are related to: studies regarding the extent and the level of CSRR and their determinants, studies related to managerial perceptions towards reporting CSR and studies related to the stakeholder perceptions towards reporting CSR. This review has enabled the researcher to identify gaps in the literature in previous studies in developing countries. The review of the literature indicated limited research in developing countries regarding CSRR in general and in Saudi Arabia in particular. Also, the review of studies conducted in the Saudi Arabian context has enabled the researcher to identify the gaps that differentiate the current study from previous studies conducted in the context of Saudi Arabia, especially in terms of the scope of the research, theory, and the methods employed. The next chapter will be devoted to discussing the Saudi Arabian context in which this study is going to be conducted.

## **Chapter 3: Country Context**

### **3.1 Introduction**

The previous chapter discussed the literature review and identified a number of gaps that has informed the research questions for the current PhD study. The current chapter provides some background information about Saudi Arabia in order to understand the environment for this research. The chapter starts with providing a general background of the country, and then discusses the country's political and legal profile. Following that will be a discussion of Saudi Arabia's economic, social, and environmental aspects, and a description of the Corporate Social Responsibility agenda in the country. The country's culture will be discussed, and then the focus will move to outlining the companies' regulatory, monitoring and supervisory bodies in Saudi Arabia. The discussion will then move on to focus on the Saudi Stock Exchange Market (TADAWUL) and finally, the chapter will close with a summary and conclusion. The structure of this chapter is illustrated in figure 3.

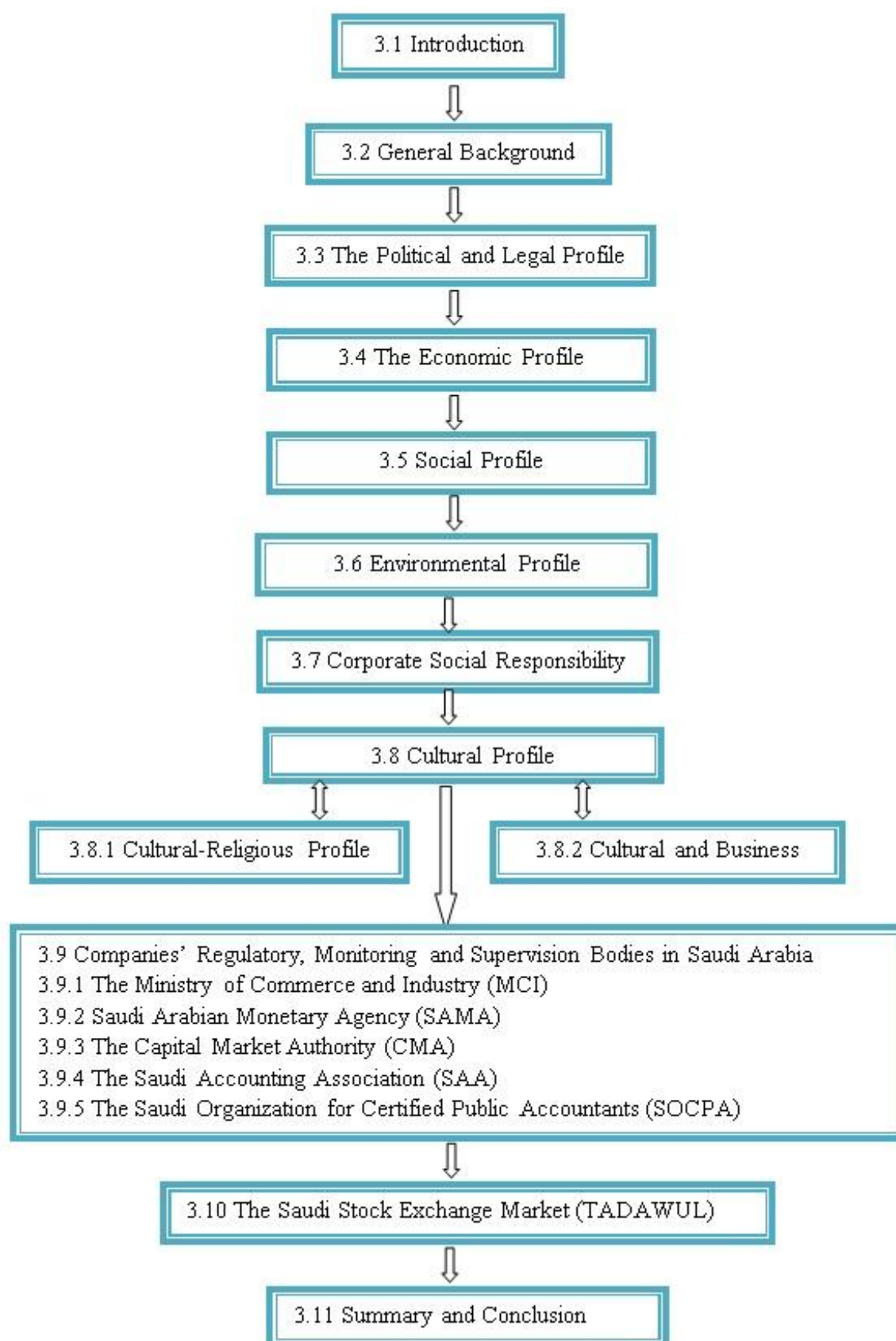


Figure 3 : Structure of Chapter 3

### 3.2 General Background

Saudi Arabia in its current form was founded and established by King Abd al-Aziz Al Sa'ud on 23 September 1932 (Alzaidi, 2004). It is the largest country in the Middle East, occupying almost 80 percent of the Arabian Peninsula. Desert covers more than half of the country's total area of 2,150,000 square kilometres (Ministry of Economy and Planning, 2015). The country has four main regions, including the central region where Al Riyadh, the capital city is, the eastern region where the most important and largest petrochemicals companies such as Aramco and Sabic have headquarters, the southern region, and the western region in which the two holy cities Makkah and Al Madinah are located (Ministry of Economy and Planning, 2015). Prior to 1932, the country was not united as a single state but was divided and ruled by different clans and tribes; for instance, the eastern region was ruled by the Al-Rashid family and the western region or "Hejaz Area" was governed by the Ottoman Empire (Alajlani, 1994). The first initiative to unite the regions was in 1744 when Shaikh Mohammed bin Abdulwahab<sup>16</sup> formed an alliance with Mohammed Ibn Sa'ud the Shaikh of Dariyah<sup>17</sup> to set up a country with Islam as the main religion (Alzaidi, 2004). Subsequently, the Al Sa'ud family ruled over the Arabian Peninsula until 1932 when the country achieved its current status (ibid).

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<sup>16</sup> Shaikh Mohammed bin Abdulwahab is an Islamic scholar who took the mission to return Islamic principles to the Arabic Peninsula through teaching Islam from Quran "the holy book" and sunnah of prophet Mohammed (PBUH) after idolatry rituals started to spread in Najd province, the middle region of current Saudi Arabia. He was weak and only the alliance with Mohammed bin Sa'ud enabled him to fulfil his task (Alzaidi, 2004).

<sup>17</sup> It is a small village located in Al Riyadh and was the only area ruled by Alsa'ud family.





Figure 4 : Map of Saudi Arabia

Source: World Atlas Maps (2015)

Although the country is a developing country and was founded less than 100 years ago, the country has developed rapidly specially after the discovery of oil in 1938<sup>18</sup>, (Ministry of Economy and Planning, 2015).

### 3.3 The Political and Legal Profile

The Saudi Arabian political system is monarchical and the country has been ruled by the Al-Sa'ud family since 1932 (PESTLE Country Analysis Report: Saudi Arabia, 2015). The line of succession is limited only to the sons of King Abd al-Aziz, the founder of the country. Article 5, clause (b) of the Basic Law of Governance in the country states:

Governance shall be limited to the sons of the Founder King 'Abd al-'Aziz ibn 'Abd ar-Rahman al-Faysal Al Sa'ud, and the sons of his sons. Allegiance shall be pledged to the most suitable

<sup>18</sup> More discussion about the transformation of the country after the discovery of oil is going to be included in section 3.4 which is related to the country economic profile.

amongst them to reign on the basis of the Book of God Most High and the Sunnah of His Messenger (PBUH) (Basic Law of Governance, 1992).

The Shura Council (Council of Consultation) and the Council of Ministers are the main legislative bodies in the country. They are headed by the king and consist of members selected by the king, including princes from the royal family and individuals from the public who are well educated and have knowledge and experience in different fields (The Shura Council , 2015). These two powerful bodies work together to create laws and approve the state's general policies. Consultation, discussion and debate are important Islamic principles and are of paramount importance in achieving the ideal Islamic society. Therefore, the Shura Council has the right to do all of the following: discuss and plan for economic and social development; revise, analyse and give suggestions about the country's laws and regulations, international treaties, agreements and concessions; and discuss and attach new proposals if required for the annual reports of governmental agencies (The Shura Council, 2015).

Resolutions of The Shura Council must be submitted to the king for approval, and the approved resolutions then transfer to the Council of Ministers, which help the king to carry out his duties (The Shura Council, 2015). Legislative, executive and judicial powers are primarily vested in the king (ibid).

Islam is the official religion in the country. It has a great influence on all aspects of Saudi society and it is part of the Saudi identity (Hilal et al., 2015). The laws in the country are based fundamentally on the Quran and the Sunnah, the two components of Islamic Shari'ah (Basic Law of Governance, 1992). Islamic principles have influenced the culture, business environment, and accounting and auditing practices (Khan et al., 2013).

### **3.4 The Economic Profile**

Saudi Arabia is one of the leading countries in oil and petrochemical production, second only to Venezuela in terms of the world's proven petroleum reserves (OPEC, 2015). Saudi Arabia holds

about one quarter of the world's oil reserves and ranks as the world's largest exporter of petroleum, (OPEC, 2015; Saudi Arabian Ministry of Petroleum and Mineral Resources, 2015). The economy in Saudi Arabia is oil-based and relies heavily on oil as the main source of income in the country. Oil forms 92% of the Saudi budget revenues and 55% of the country's GDP (Ministry of Economy and Planning, 2015). The oil wealth has enabled the country to become an important economic player in the world and to have a leading political role in the region (Niblock, 2013). It has also allowed Saudi Arabia to become a member of important worldwide organizations such as the Group of Twenty (G20), The Organization of the Petroleum Exporting Countries (OPEC), The World Trade Organization (WTO), International Organization for Standardization (ISO), The Gulf Cooperation Council (GCC), and Muslim World League.

#### OPEC share of world crude oil reserves, 2014

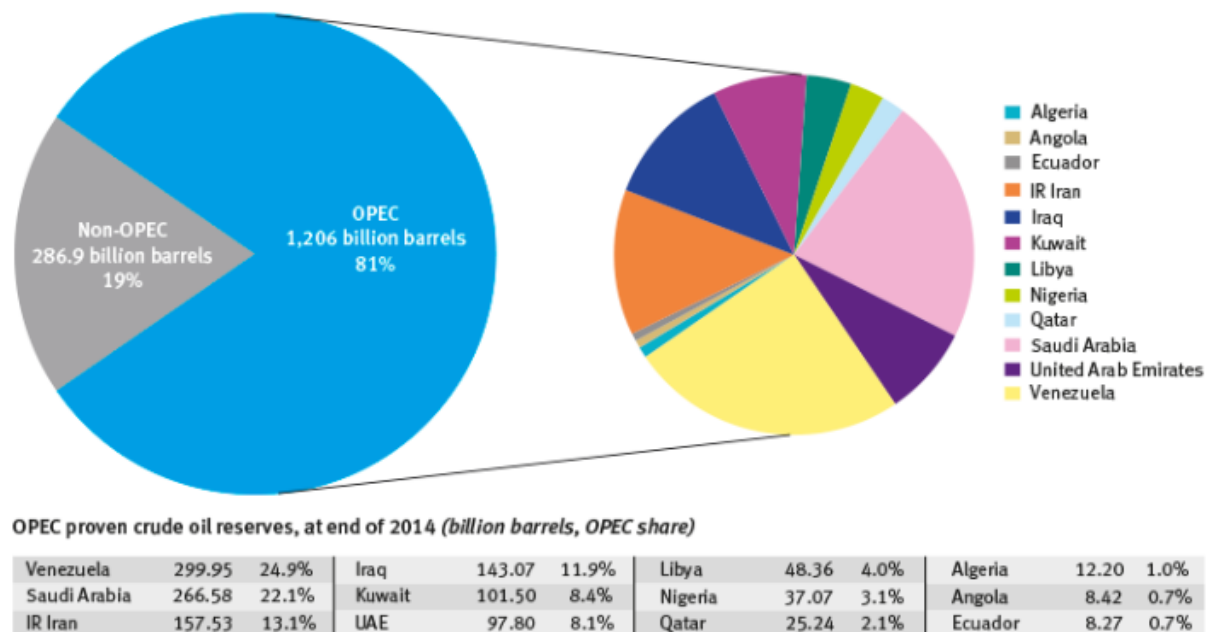


Figure 5: The Saudi Oil Reserve Compared to Other Countries

Source: OPEC Annual Statistic Bulletin 2015

Prior to the discovery of oil, the Kingdom was one of the poorest countries in the world with a very low standard of living (Niblock and Malik, 2007). However, Saudi Arabia has transformed,

developed, and modernized rapidly over a short period of time with the discovery of oil in 1938, in the era of King Abd Al-Aziz Alsa'ud. The year 1970 witnessed a remarkable increase in worldwide oil prices and more development occurred in the country, especially after the issuance of the government's first five year country's development plan focusing on the development of education, expansion of health care and improvement of the country's infrastructure (PESTLE Country Analysis Report Saudi Arabia, 2015).

Between 1980 and 2009 there was volatility in oil prices and instability of the country's oil revenues. The economy's near-total dependence on oil means the country's GDP growth will remain subject to the oil prices (PESTLE Country Analysis Report Saudi Arabia, 2015). In addition, in the early 1980s the country experienced enormous population<sup>19</sup> growth, coupled with a decline in per capita income (Al-yahya, 2012). It has been pointed by Al-yahya (2012) that with the decline of oil prices and the instability of the oil revenue the government's ability to provide public services and provide welfare assistance to citizens have been affected and seemed to be breaking down. In addition, although oil is a useful source for economic growth, oil, like any natural resource, will not last forever and accordingly may not be relied upon for the country's long-term sustainable development (Alodadi and Benhin, 2015). The government has realised that if this issue is not resolved, the country's unemployment rate is going to increase and the standard of living in Saudi society is going to decline, which will undermine the stability of society and the government itself (Al-yahya 2012). The government has become increasingly convinced of the importance of diversification of the economy and the need to reduce dependence on oil income and to the important role that the private and public sectors can play in promoting sufficient economic growth and helping the government to ensure employment for citizens (ibid).

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<sup>19</sup> The population growth in the country reaches to 3.8% annually which was greater than the average rate of population in the Middle East which was 2.5% and the world average of 1.5%.

These ideas led the government to undertake a number of strategies to diversify the economy including, but not limited to, the creation of The Saudi Arabian General Investment Authority (SAGIA) in 2000 with the aim of improving the economic competitiveness of Saudi Arabian companies and making the country one of the world's 10 most competitive economies by 2010. SAGIA strategies for achieving these goals include focusing on facilitating and attracting foreign direct investment, eliminating the obstacles for local investors, and proposing plans and regulations to advance the country's investment climate (SAGIA, 2015). Also, in 2002 the Council of Ministries issued resolution No. 219 approved a privatization strategy for a number of formerly government-owned enterprises such as telecommunications, electricity, water, airlines, and sea ports, which were opened to private investment (Ministry of Economy and Planning, 2015). Moreover, the government continued to build a framework of five-year socio-economic development plans to leverage and develop the country's economic growth and GDP by targeting different aspects of the economy every five years. Plans were developed focusing on education, health care, the environment, the country's infrastructure, reduction of the unemployment level and emphasis on the role of the private sector as an important pillar of the Saudi economy in terms of its contribution to the socio-economic development (ibid).

In the latest development plan (the 9<sup>th</sup>) for the period 2010-2014 the government has focused mainly on improving the standard living of society, increasing competitiveness and increasing employment. The government assigned \$385 billion to achieve the plan's targets - an amount which is 67% higher than the previous (8<sup>th</sup>) development plan (PESTLE Country Analysis Report Saudi Arabia, 2015).

The 9<sup>th</sup> development plan has reemphasized the role that the private sector can play in enhancing the socioeconomic and environmental development in the country and its role in helping the country to solve critical issues such as reducing the unemployment rate, protecting the environment, and providing social services that contribute to the economic and social

development needs of Saudi Arabia (ibid; Ministry of Economy and Planning, 2015). The country's 9<sup>th</sup> plan also emphasized the importance of the private sector strengthening the measures that ensure transparency and credibility of companies published annual reports; the importance of developing the education in the country and continuing the socioeconomic and institutional reform; and developing regulations aimed at raising efficiency which works toward entrenching transparency and accountability in the country (ibid).

### **3.5 Social Profile**

The population of Saudi Arabia has witnessed rapid growth over the years, from about 3 million in 1950 to 30,770,375 million in 2014 (Central Department of Statistics and Information, 2015). With a large percentage of the population aged under 25, the expanding of the youth population presents a serious challenge for the government in terms of unemployment (Hilal et al., 2015). In fact, the increasing rate of unemployment is not due to a lack of jobs, but because there is a mismatch between the quality and type of courses available in the education system and the qualifications required by the job market (Al-Nahdi and Katbakhna, 2014; Ministry of Economy and Planning, 2015).

Considerable efforts have been made by the government to solve this issue. The government realises the importance of providing a solid and effective education system for the society, and an important educational plan was initiated by opening up the King Abdullah Scholarship Program (KASP) (Ministry of Higher Education, 2015). The programme which started in 2005 is to educate and send Saudis to study in the best universities around the world in order to prepare, train and qualify Saudi citizens in an effective manner to enable them to compete and to meet the requirements of the labour market locally and on an international level (Ministry of Higher Education, 2015). A better higher education system for citizens is seen by the government as a way to solve many issues in the country, and to achieve a more skilled citizenry who can become

as an important economic driver that helps the country in achieving its ultimate economic goals (Hilal et al., 2015).

In addition to the above a number of resolutions requiring the private sector to replace foreign workers<sup>20</sup> with Saudi manpower has been issued by the Ministry of Labour, including the “Nitaqat Program” or “Saudization Program” in 2011, to which the private sector responded relatively positively (Ministry of Economy and Planning, 2015). Nevertheless and despite these efforts, the country’s unemployment rate remains a challenge for the country. The employment rate in the private sector under the 8<sup>th</sup> development plan was limited to 3.6% compared with the target rate of 7.2% (ibid). Accordingly reducing unemployment rate has been reassured in the 9<sup>th</sup> development plan and this calls for continuous action for the contribution of the private sector in taking role on solving this challenge (ibid).

In addition to the unemployment issue, the rapidly-growing population has also affected the standard living of Saudi society. According to Sullivan (2013) in *The Guardian* newspaper, King Abdullah announced plans to spend \$37 billion in 2012 on housing, wage increases, unemployment benefits and other programmes to improve the standard living in the country and to reduce poverty. *The Guardian* also pointed out that although there is little official data about the poverty rate in the country, the government is spending several billion dollars each year to provide free education and health care to all citizens, provide pensions, monthly benefits and payments for food and utility bills to the poor, elderly, disabled, orphans and workers who are injured on the job and provides social welfare programmes (Sullivan, 2013).

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<sup>20</sup> It is important to note that the labour rights either for local citizen or foreign workers are protected by the labour policy issued by the Ministry of labour. A major amendment to the National Labour law was introduced in 2005 and all companies have to adhere to these regulations and violating labour rights gives the labour the right to sue the employer and is likely to result in them incurring penalties, (Ministry of Labour, 2015).

According to Alriyadh News, the private sector and individuals from the community also have been urged to contribute to the social welfare through charities and paying their annual Zakat<sup>21</sup> amount which is 2.5% of the total monetary values of assets (Albalawi, 2010).

### **3.6 Environmental Profile**

Preserving the environment from pollution is receiving considerable attention from the Saudi government (Presidency of Meteorology and Environmental Protection, 2015). In fact, the rapid population growth in the country, accompanied by industrial development from different sectors around the country, has resulted in number of environmental issues that have been addressed in the 9th development plan. Issues addressed are related to air quality and CO<sub>2</sub> emissions, potable water, protection of coastal areas, solid waste, hazardous waste, and safe use of chemical and radioactive contamination (Taher and Al-Hajjar, 2014; Ministry of Economy and Planning, 2015). The Saudi Arabian government has undertaken a number of strategies to protect the environment as part of a commitment to implement Article 32 of the Basic Law of Government, which states that “the state shall work towards the preservation, protection and improvement of the environment, as well as prevent pollution” (Ministry of Economy and Planning, 2015). Efforts undertaken by the government to meet this commitment include the issuance of the General Environmental Law in 2001 and the establishment of the Presidency of Meteorology and Environmental Protection (PME) in 2001 which is responsible for preparing environmental standards and monitoring and controlling environmental indicators and coordination with other ministries in the country. The government also endorsed the Kyoto Protocol in 2005, approved the National Strategy for Health and Environment in 2008, and updated of the environmental protection regulations for the industries located in Jubail and Yanbu cities that are supervised by the Royal Commission for Jubail and Yanbu (RCJY), which is concerned with air pollution,

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<sup>21</sup> More discussion about Zakat is going to be included in section 3.8.1 which will be about the country is Cultural-Religious Profile.



water environments, usage of hazardous material, waste management, and dredging. The RCJY applies rigorous fines and sanctions for noncompliance with these regulations by industries located in that area. Apart from the strict environmental laws implemented by the RCJY on the industries located in their area however, overall the country's environmental laws tend to be minimal and flexible. The result of this is a lack of serious environmental commitment by corporations in the country and poor compliance with environmental laws (Mandurah et al., 2012). This might suggest that companies are likely to have low levels of transparency about their environmental commitments.

The 9th five-year country development plan has emphasized the necessity of the participation of the private sector in the implementation of the government's environmental protection programs. The economic planners also emphasised the importance of raising environmental awareness among businessmen and investors in the private sectors, especially regarding the use of modern production techniques for waste disposal and recycling, and the necessity for cooperation between the private sector and the Presidency of Meteorology and Environmental Protection (PME) to help the country face its environmental challenges (Ministry of Economy and Planning, 2015).

### **3.7 Corporate Social Responsibility**

The identified objectives of the country's five-year development plans suggest that a key decision has been made by the economic planners that cooperation between the state and private sector will be vital to help the government deliver its public policy goals effectively and to contribute to the welfare of the society and future generations by overcoming current social and environmental challenges (Ali and Al-Ali, 2012). Recently CSR has been identified as a functional mechanism for fostering the partnership between government and business and the government sees CSR as a component of the country's social welfare. The government believes that social welfare will contribute to achieving global competitiveness for the country and result

in the country being one of the world's 10 most competitive economies (Ali and Al-Ali, 2012; SAGIA, 2015).

Efforts have been taken by different governmental organizations to promote and encourage CSR practices and CSRR among corporations as part of their agendas (Ali and Al-Ali, 2012; Khan et al., 2013). For instance in 2008, SAGIA which was established in 2000 with the aim to make Saudi Arabia one of the world's 10 most competitive economies, conducted the first leadership dialogue to discuss the CSR agenda in the country. The meeting was co-convened in association with Harvard Kennedy School, senior representatives from academia, international NGOs, the King Khalid foundation<sup>22</sup>, AccountAbility<sup>23</sup> and local chambers of commerce. The meeting resulted in the following recommendations: cooperation efforts from the media and the press are required to promote CSR; emphasis on strategic, competency-led philanthropy; a focus on transparency and accountability and rewards for this behaviour; the necessity of integrating CSR in universities and business school curricula; and the need for required equal cooperation from public and private sector with the government to overcome the country's challenges and to contribute to economic and social development (SAGIA, 2015).

Also in 2008 SAGIA, with cooperation of King Khalid Foundation (KKF); a global non-profit international network, AccountAbility; and Tamkeen<sup>24</sup> a local CSR consultant firm have jointly

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<sup>22</sup> King Khalid foundation is a non-profit organization (NGO) which was established in 2001 by the family of King Khalid bin Abd Al-aziz the 4<sup>th</sup> king of the Kingdom of Saudi Arabia. The mission of the foundation is to contribute to the welfare of the Saudi society by providing innovative solutions to critical social and economic challenges in the country and to be the leader and role model in the philanthropic and development work. The foundation is doing that by working on strengthening the non-profit sector in the country (NGOs) Including but not limited to, providing funding for community development projects ; and provide ongoing support for poor and disadvantages communities in the country by funding their projects , (KKF, 2015).

<sup>23</sup> AccountAbility is an international organization specialised in setting standards for corporate responsibility and sustainability development, providing advisory service and doing relevant CSR research, (AccountAbility, 2015).

<sup>24</sup> Tamkeen (CSR) was established in 2006 and considered as the first company that specialized in providing CSR consultancy services for both private and public sector in the country. The company aims to enable corporations to employ their resources to participate in the national development agenda and to achieve both sustainable and corporate growth, (Tamkeen CSR, 2015).

established the Saudi Arabian Competitiveness Index (SARCI) for ranking and evaluating the companies' CSR contribution (The Saudi Responsible Competitiveness Index, 2008). In addition to the aforementioned efforts, in order to encourage the private sector institutions to fulfil their responsibilities to Saudi society, the King Khalid Responsible Competitiveness Award is granted to the top three companies with the strongest SARCI results and exceptional achievement in the field of CSR (KKF, 2015). Although this index is considered a soft guideline for companies to inform them of the country's most urgent CSR issues, SAGIA is not a CSR regulator and it contributes only to undertaking initiatives that promote CSR among corporations in the country. The CSR practices in the country remain voluntary and there are no compulsory regulations from any governmental bodies for CSR or CSRR in the country.

In addition to the aforementioned discussions and taking into consideration the innovative nature of CSR and CSRR as a new business issue that has only recently arrived in Saudi Arabia (Khan et al., 2013), the government has started to hold CSR training and educational workshops for organizations. These workshops aim to emphasise and strengthen the role of corporations in society, to boost knowledge about CSR and CSRR among organizations, and to encourage businesses to adopt acceptable CSR norms and values that include CSR reporting. By doing this, the government is trying to build and surround the organizations with normative structures that influence organizational practices.

In fact, one of the country's 9<sup>th</sup> five-year development plans has emphasised providing many forms of support and assistance for the corporate development and removing any related obstacles by expanding training courses that raise the capabilities of corporations in different areas including accounting and its related aspects such as the CSR. SAGIA, the King Khalid Foundation, and the Chambers of Commerce & Industries located in different regions have been used to achieve this purpose and to invite institutions from both the public and private sector to attend workshops and training about CSR and its relevant issues such as CSRR.

Moreover, some organizations that pioneered CSR and CSRR in Saudi Arabia, have received a number of local and international CSR prizes, decided to contribute in setting the educational agenda for CSR in the country. Approval from the Chamber of Commerce and Industry was required for facilitating this mission as the Chamber of Commerce plays an important role in the development of the private sector in various levels such as organizing private sector activities.

### **3.8 Cultural Profile**

Culture is defined by Sulaiman and Willet (2003, p. 5) as a “system of meanings through which social life is interpreted. Hence culture exists only in the meaningful interaction of individuals in a society.” According to Sulaiman and Willet (2003), culture and religion are intimately related as culture is influenced by religion and culture also influences the way in which business is conducted. The next section is devoted to discussing these matters, with emphasis on its relation to CSR and CSRR.

#### **3.8.1 Cultural-Religious Profile**

Saudi Arabia is an Islamic religion-based country in which the Islamic religion is considered as an important institutional order that plays a central role in shaping the identity of Saudi society in different aspects of life such as culture, lifestyle, laws, rules and regulations, politics and education (Hilal et al., 2015). The holy Quranic principles and Sunnah<sup>25</sup> are the two main sets of rules and laws that serve as guidelines for Muslims in conducting all aspects of their daily life, teaching individuals to be responsible in life and business and distinguishing good and acceptable behaviour from bad and unacceptable ones (Haram) (Ali, 2009; Khan et al., 2013). Ethics and religion go hand in hand in Islam, and Muslims are supposed to fulfil and respect

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<sup>25</sup> Sunnah is path or method that Prophet Mohammed may God's blessings and peace be upon him (PBUH) prescribed that included the basis of teaching Muslims' norms and values and served as guidelines for Muslim in conducting their life (Al Qaradawi, 2010).

individual rights (Huquq-Al-Ebad) by being responsible human beings who care about society, community and the environment (Al Qaradawi, 2010; Khan et al., 2013).

In fact Islamic values and ethos are deeply rooted in the Saudi business world and the emphasis Islam places on CSR practices and giving back to society is nothing new for corporations in Saudi Arabia (Khan et al., 2013). There is a strong and deeply-embedded culture of giving that exists in the Saudi Arabian corporate sector especially amongst family-owned businesses for charity and providing community services and programmes that contribute to the community welfare at large (Azhar, 2012). Both cultural and religious causes have been identified as the main drivers for the social infrastructure in the country and that fosters a culture conducive to philanthropy (ibid).

The teachings of Islam emphasise the importance of charity, and Zakat (obligatory charity) is one of the five pillars of the Islamic faith. Zakat emphasises giving needy people<sup>26</sup> a pre-determined share of wealth from wealthy people as prescribed by God, “Allah the mighty”. These acts based on Islamic principles ensure an equitable redistribution of wealth among society and ensure welfare for the society in large (Al Qaradawi, 2011). Zakat is one of God’s laws and non-fulfilment is a sin that results in punishment in the hereafter, whereas the fulfilment will reap rewards in this world and hereafter (Haniffa and Hudaib, 2007; Qaradawi, 2011).

In Saudi Arabia a Zakat By-Law<sup>27</sup> was issued per Ministerial Resolution 393, dated 13/5/1950 and consists of 20 articles. The first article states: “All Saudi companies and persons: male, female, adults, minors, or legally competent, are subject to Zakat after completion of one year

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<sup>26</sup> Quran has specified beneficiaries whom Zakat should be payable to them and needy people is just one of those beneficiaries.

<sup>27</sup> (<https://dzit.gov.sa/zakat-regulations>)

under the provision of Islamic Jurisprudence. Regulations started from 6/8/1370 Hijrah date (corresponding to 13/10/1950)” (Department of Zakat and Income Tax, 2015).

The government also encouraged donations to governmentally-authorized charities and the companies’ donated money is exempt from the calculation of the legal Zakat requirements for companies (Ibid). A clear reflection of this commitment from Saudi corporations can be seen in the yearly Zakat income in the country. In 2014 the Zakat income was 28 billion Saudi Riyals and has been transferred to a specific account for the ministry of social affairs, to be distributed to needy people and to ensure a dignified life for families,<sup>28</sup> as well as supporting programs that secure the welfare of society (Director General of the Department of Zakat and Income as reported in Al-jazzerah News (2015), see also Ministry of Social Affairs (2016). In Saudi Arabia, the community welfare services organizations which are categorised as NGOs encourage companies to fund them to pursue their causes which include but are not limited to: providing training that can qualify citizens for the job market; executing programs to help poor families to be self-reliant; and participation in providing educational training programs and consultations in different careers and for different sectors in the country. NGOs also includes some charitable foundations that work toward encouraging companies to institute sustainable CSR programmes<sup>29</sup> (KKF, 2015 ).

Islam also emphasises the Khilafah (vicegerency), which speaks to the responsibility of an individual toward himself and society at large (Sulaiman and Willet, 2003). As such it emphasises preserving the environment, respecting employees’ rights, and transparency and accountability in the issues that are to be classified for business as CSR (ibid). In Islam, accountability has to be to God and to the community at large, therefore disclosure about business activities including CSR should not be limited to one aspect of CSR activities such as

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28 Such as divorced women, orphans, widows, and the disabled, and the families of prisoners, pendants, abandoned, and no breadwinner him. (Ministry of social affairs, 2016).

29 See Also International Centre for Not-for-Profit Law (<http://www.icnl.org>).

charity and not dependent on the self-interest of the company. Rather disclosure about business activities should be guided to meet what is the best for the society at large.

However, despite these guiding principles CSR and CSRR in Saudi Arabia, a CSR consultant (Azhar, 2012) states it sometimes misinterpreted by corporations as charity and donations and focusing on one-off community initiatives rather than having strategic CSR plans. This misinterpretation make the general perceptions of what CSR entail far from what responsible business involves and this lack of understanding has slowed the spread of practicing different aspects of CSR (ibid). In fact it is not only this misinterpretation that lead companies to focus their CSR activities on charitable donations and ad hoc community initiatives, but rather there are other influences for this self-interested behaviour from some organizations (Azhar, 2012).

For instance Saudi corporate culture in terms of CSR and CSRR seems to be influenced by positive media coverage for activities related to charities and ad hoc community initiatives. This might be because such an attitude will appease the general public (Azhar, 2012). This issue implies that positive media coverage seems to play a role in directing companies' CSR and CSRR focus to charities and one-off community initiatives rather than other aspects of CSR.

Saudi Arabia is one of the largest social media markets in the Middle East (BBC, 2015). However, mass and publishing media are conservative and subject to censorship in the country and must use decent and approved language in reporting news. Although Saudi investors are playing an important role in the media industry, the country has one of the region's most tightly-controlled media environments (BBC, 2015). According to the Basic Law of Governance which was issued by the Royal Order No (A/91) on 1 March 1992, article 39:

Mass and publishing media and all means of expression shall use decent language and adhere to State laws. They shall contribute towards educating the nation and supporting its unity. Whatever leads to sedition and division, or undermines the security of the State

or its public relations, or is injurious to the honour and rights of man, shall be prohibited.

Laws shall set forth provisions to achieve this.

Azhar (2012), in addition to the aforementioned reasons, suggested that the non-existent role of consumer-driven CSR and CSRR can be the reason companies focused on charity and ad hoc community initiatives and may hinder any development in this area. There is a lack of awareness among the community of the implications of irresponsible business practices and the consumer's main concern being focused on product prices that relate to the purchasing decision (ibid). The last suggested reason for the diffidence towards CSR is that although different ministries deal with the different aspects of CSR (i.e. environment, social affairs) there is a necessity for a strategic CSR umbrella from the government to encourage and incentivise companies to make the right leap toward CSR (ibid; Khan et al., 2013).

### **3.8.2 Culture and Business**

One of the most well-known studies about Saudi Arabian culture and their business environment is Hofstede (1980). Collectivism, high uncertainty-avoidance, short-term orientation and power distance, have been identified as key traits of Saudi Arabian culture that influence the business environment (Cassell and Blake, 2012)<sup>30</sup>. This section is devoted to discussing the aforementioned key traits of the culture.

Collectivism is the first cultural aspect of Saudi Arabian society. Such cultures consider that the members of a society have a tight social framework, and all members of the society consider themselves as one family. The concept of "we" holds sway rather than "I" Hofstede (1980, p.48). Accordingly, loyalty between members of society is considered paramount in Saudi Arabian culture (Cassell and Blake, 2012). This cultural trait can help explain companies' involvement in

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<sup>30</sup> This study was based on Hofstede cultural model.



CSR and CSRR practices as companies' managers feel that they are members of society and CSR and CSRR are the right things to do to conform to social expectations.

The second cultural characteristic of Saudi Arabian society is the high uncertainty avoidance. According to Hofstede's cultural value model, Saudi Arabia's uncertainty avoidance rank is 68, which indicates a low level of tolerance for uncertainty and feeling threatened by ambiguity (Hofstede, 1980; Cassell and Blake, 2012). In such societies there is a necessity for the existence and implementation of rules, laws, policies and regulations to reduce the uncertainty level as the society seeks clarification to control everything to avoid any unexpected results (Cassell and Blake, 2012). As a result, innovation may be resisted and change is not easily accepted. Saudi managers are generally risk-averse and do not tolerate deviation from the generally accepted company rules and issues that affect the organizations' environment (ibid). According to Cassell and Blake (2012, p.156), "there is a notion that Saudis prefer government intervention in business practices" in order to avoid any uncertainties and ambiguity in their business practices. These characteristics can help to explain the country's slow road in respect of innovative and new business practices of which CSR and CSRR are part.

The short-term orientation is the third cultural characteristics of Saudi society. That means Saudi society is a normative society that exhibits a great respect for traditions and accepted norms and values that the people have grown up with (Cassell and Blake, 2012). Saudi managers' decisions are usually based on normative thinking and focus on achieving quick results without taking into consideration long-term consequences. Decisions that contradict the accepted norms and values will likely lead to shame and the loss of face of the decision-maker. This is another reason suggested to explain the slow road of acceptance of innovative and new business practices.

And lastly there is a very large power distance in Saudi society, which means that individuals accept unequal distribution of the power and people accept a hierarchical order in which

“everybody has a place which needs no further justifications” (Hofstede, 1984: p.83). The high power distance in Saudi Arabian business impacts decision-making and enables managers to make autocratic and paternalistic decisions which subordinates accept because they expect to be told what to do as they are dependent on powerful members. (Cassell and Blake, 2012). Therefore, decisions from higher management tend to be accepted without resistance. This may suggest that decisions for companies’ undertaken CSR activities and CSRR can be highly shaped by companies’ management beliefs.

These aforementioned cultural traits that have been discussed in terms of the influence of culture and religion on Saudi society and the influence of culture on business as classified by Hofstede have been presented to reflect the different factors that can influence CSR and CSRR in Saudi organizations. Culture is identified as having undeniable effects on accounting practices by some scholars such as Gray, (1988), Hofstede and Bond (1988). CSR and CSRR is no exception (Belal, 2008; Matten and Moon, 2008; Momin and Parker, 2013).

### **3.9 Companies’ Regulatory, Monitoring and Supervision Bodies in Saudi Arabia**

#### **3.9.1 The Ministry of Commerce and Industry (MCI)**

The Ministry of Commerce and Industry (MCI) plays an important role in the development of the Saudi Arabian economy by supervising, regulating and monitoring all companies in the country (MCI, 2016). It works to improve the effectiveness and efficiency of companies in the private sector by participating in setting the commercial policies, developing and encouraging domestic and foreign trade, and supervising the application of commercial systems such as legal accounting systems and trading systems (MCI, 2016). The Ministry also works to reinforce the private sector’s role in participating in the national economy and developing the private sector through providing workshops and organizing its activities by different chambers of commerce around the country.

In addition, the ministry is responsible for supervising indirectly different monitoring bodies in the country such as the Capital Market Authority, the Saudi Stock Exchange and Saudi Organization for Certified Public Accountants (MCI, 2016).

The Ministry of Finance (MOF) and Ministry of Economy and Planning (MEP) work hand in hand with the MCI to develop and improve the economic infrastructure environment in the country (MCI, 2016). The Ministry of Finance is responsible for preparing the government budget and assigning funds for governmental bodies to execute their projects (MOF, 2016). The Ministry of Economy and Planning plays an important role in framing and preparing the five-year development plan for the country and put the plan for the required contribution of each ministry in the development of the country (MEP, 2015).

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

The Saudi Arabian Monetary Agency (SAMA) is the central bank of the country and was established in 1952 (SAMA, 2015). SAMA is the monitoring and the regulatory body for the financial sector in the country which includes the banking, insurance and financial sectors (SAMA, 2015). In addition to that, there are other important functions for SAMA according to (SAMA, 2015) including, but not limited to, dealing with the banking affairs of the government; and promoting the growth and soundness of the financial system.

SAMA also regulated and monitored the Capital Market activities until 2003, when the Capital Market Authority (CMA) was established (TADAWUL, 2015).

### **3.9.3 The Capital Market Authority (CMA)**

The Capital Market Authority (CMA) is a government organization which was established in 2003 with the Royal Decree (M/30) and applying full financial, legal and administrative independence. The CMA is directly linked to the Prime Minister (CMA, 2015). The CMA acts as a regulator and developer for the Saudi Arabian Capital Market. The CMA issues rules and

regulations for implementing the provisions of Capital Market Law. Reinforcing transparency and disclosure in all listed companies, protecting investors and dealers from illegal acts in the market, improving confidence in the market, and creating and maintaining an appropriate investment environment are the main objectives of the CMA (CMA, 2015). There are other duties entrusted to the CMA including, but not limited to: Regulating and developing the capital market and entities involved in securities trade operations by promoting appropriate standards; Protecting investors and the public from unethical practices of listed companies such as, but not limited to, fraud and inside information trading; and working to achieve and preserve efficiency and transparency in securities transactions.

In November 2006 and as a result of the crash and collapse of the Saudi stock exchange market in February 2006 due to the lack of transparency in companies' annual reports, the CMA issued corporate governance regulations to restore the investors' confidence in the market (PESTLE Country Analysis Report: Saudi Arabia, 2015).



Figure 6: The crash of the Saudi General Stock Market Index in 2006

Source : (Alamri, 2011).

These regulations aimed to ensure the protection of shareholders' and stakeholders' rights by ensuring the compliance of listed companies with best governance practices (CMA, 2015). The

regulation dealt with three main topics including Rights of Shareholders and the General Assembly, with 7 articles; Disclosure and Transparency, with 2 articles and Board of Directors, with 9 articles.

Although not all regulations in this code are mandatory, companies must disclose in the Board of Directors' report the provisions that were implemented and not implemented, providing the reasons for non-compliance and following a "comply or explain" policy (CMA, 2015). For Instance, part 4, article 10, which is related to the main functions of the Board of Directors in clause (e), number 5, which is related to the company's social contribution stated:

Outlining a written policy that regulates the relationship with stakeholders with a view to protecting their respective rights; in particular, such a policy must cover the following:

5. The Company's social contributions (Corporate governance regulations in the kingdom of Saudi Arabia, 2010: p.11).

This means companies where they make CSR contributions have to have a written policy explaining their contribution. This policy needs to be sent to the CMA with the companies' annual reports. However CSRR remain unregulated. The CMA does not have regulations for CSRR in the corporate governance regulations and it has been allowed to remain voluntary.

Although the corporate governance code has been updated in 2010, however, recently The World Bank has ranked Saudi Arabian companies' 4.8 out of 10 for the extent of shareholder governance (World Bank, 2015). Such a low score place the country even under other developing countries in which CSRR is regulated such as Malaysia in which the country received 7 out of 10 for the extent of shareholder governance (World Bank, 2015).

### **3.9.4 The Saudi Accounting Association (SAA)**

In 1979 the Deputy Minister of Commerce and the head of the Alrashed accounting firm<sup>31</sup> conducted a fruitful discussion to develop the accounting and auditing profession in the country (SAA, 2016). The discussion resulted in approval from the Ministry of Commerce to perform a study to develop the accounting profession in the country with the association of King Saud University (SOCPA, 2015). In 1981 the study was conducted with the aim of finding ways to develop and promote the accounting profession and creating accounting standards in a way that met the developing needs of the Saudi economy (SAA, 2016). The study resulted in the establishment of the Saudi Accounting Association (SAA) with the goal of developing accounting concepts in the country, providing advice in the accounting field, conducting conferences, and supervising accounting research on accounting issues (SAA, 2016).

1986 witnessed the Ministry of Commerce's approval to put the objectives and concepts of financial accounting and standards of presentation and general disclosure in companies' annual reports (SOCPA, 2015). However, in order to achieve more development in the accounting and auditing field in the country in 1992 the authorization for the SAA was withdrawn and the Saudi Organization for Certified Public Accountants (SOCPA) was set up and more authorities and duties were given to it.

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

The Saudi Organization for Certified Public Accountants (SOCPA) was established in 1992 by Royal Decree No. M/12 and supervised by the Ministry of Commerce with the aim of developing and improving the accounting and auditing profession in the country (SOCPA, 2015). The Board of Directors of this organization consists of 15 members who are representatives from the Ministry of Commerce and Industry, Ministry of Finance, Department of Zakat and Income Tax,

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<sup>31</sup> One of the oldest accounting firms in the country (SAA, 2016).

General Auditing Bureau, academics from universities, representatives from chamber of commerce and industry. The Minister of Commerce and Industry serves as chairman (SOCPA, 2015). SOCPA has updated the Disclosure and Transparency Accounting Standard issued by the Ministry of Commerce in 1986 and further duties have been assigned to it as cited in (SOCPA, 2015) such as, but not limited to: reviewing, developing and approving accounting and auditing standards; organising continuing education programs in accounting and auditing and providing solutions for new accounting and auditing issues.

The establishment of SOCPA is considered a landmark in the development of the accounting and auditing standards and of the profession and Saudi companies are using these standards as a basis for their accounting transactions and for preparing their annual reports. However, SOCPA has not issued any standards related to CSR and CSRR to date.

### **3.10 The Saudi Stock Exchange Market (TADAWUL)**

In the mid-1930s Saudi joint stock companies had their informal beginning with the establishment of the “Arab Automobile” company (TADAWUL, 2015). The oil boom in 1970 and the rapid economic growth since then has resulted in expansion in the number of the established companies and joint stock banks (ibid).

The market remained informal and unregulated until the founding of SAMA in 1984 to regulate and monitor the market’s activities (SAMA, 2015). By the establishment of the CMA in 2003, SAMA had delegated its authority over the Stock market to CMA, allowing it to become the sole regulatory and supervisory body to the Capital Market. The CMA issued rules and regulations for listed companies to protect investors and ensure fairness, transparency, and effectiveness of the market (TADAWUL, 2015).

By 2007, the Council of Ministers approved the establishment of the Saudi Stock Exchange Market (TADAWUL) as a joint stock company for daily stock trading for listed companies in the market (TADAWUL, 2015).

The Saudi stock exchange market is considered the largest in the region in terms of market capitalization and annual turnover (Piesse et al., 2012; Ovaska and Fitch, 2015).

Rank	Stock exchange	Country	Market capitalization
<b>1</b>	<b>Tadawul</b>	<b>Saudi Arabia</b>	<b>\$569.87 billion</b>
2	Qatar SE	Qatar	\$176.53 billion
3	Abu Dhabi SE	U.A.E.	\$114.04 billion
4	Dubai Financial Market	U.A.E.	\$96.88 billion
5	Kuwait SE	Kuwait	\$96.49 billion

Figure 7: Saudi Stock Market is the Largest in the Middle East

Source: (Ovaska and Fitch, 2015) [www.graphics.wsj.com](http://www.graphics.wsj.com)

Since the establishment of TADAWUL the number of listed companies has increased noticeably from 111 companies in 2007 with 57829 million trading shares<sup>32</sup> to 150 companies in 2011 with 48544.6 million trading shares. In 2013 there were 163 companies with 52306.3 million trading shares (TADAWUL, 2015).

<sup>32</sup> This referring to the number of share's transactions.



Table 1: The growth of the Saudi Stock Market from 2007 – 2013

<b>Year</b>	<b>Number of listed companies</b>	<b>Number of Shares Traded (Million)</b>	<b>Value of Shares Traded (Billion SAR)</b>	<b>Market Capitalization of Issued Shares (Billion SAR)</b>	<b>Share Price index</b>
2007	111	57829	2557.7	1946.4	11038.7
2008	117	58826	1962.9	924.5	4803
2009	144	56685	1264	1195.5	6121.8
2010	147	33255	759.2	1325.4	6620.8
2011	150	48544.6	1098.8	1270.8	6417.7
2012	158	86006.1	1929.3	1400.3	6801.2
2013	163	52306.3	1369.7	1752.9	8535.6

SAR means Saudi Riyal

Source: SAMA annual Report (2014).

Table 2: Listed Companies in TADAWUL by 2013

<b>Sector</b>	<b>Number of Firms</b>	<b>Percentage</b>
<b>Banks &amp; Financial Services</b>	11	7%
<b>Petrochemical Industries</b>	13	8.2%
<b>Cement</b>	13	8.2%
<b>Retail</b>	13	8.2%
<b>Energy &amp; Utilities</b>	2	1.3%
<b>Agriculture &amp; Food Industries</b>	16	10.1%
<b>Telecommunication &amp; Information Technology</b>	5	3.2%
<b>Insurance</b>	35	21.5%
<b>Multi-Investment</b>	7	4.4%
<b>Industrial Investment</b>	14	8.9 %
<b>Building &amp; Construction</b>	16	9.82%
<b>Real Estate Development</b>	8	5.1%
<b>Transport</b>	4	2.5%
<b>Media and Publishing</b>	3	1.9%
<b>Hotel &amp; Tourism</b>	3	1.9%
<b>Total</b>	163	100%

Source: TADAWUL (2015).

In 2015, for the first time, the country allowed direct foreign investment (including individual and financial institutions) to trade in the Saudi Stock Exchange Market. As a result the Middle East and North Africa equities of both Morgan Stanley and Credit Swiss group have been shifted from Dubai To Riyadh (PESTLE Country Analysis Report: Saudi Arabia, 2015). With the opening up of the market to foreign investors it is expected that there will be improvement and reforms in the Capital Market rules and regulations including corporate governance code and transparency and disclosure standards (ibid).

### **3.11 Summary and Conclusion**

This chapter provided a brief background about the Saudi Arabian context to understand the environment in which the phenomena of CSR and CSRR are explored. In order to do so, the chapter started by providing a general background about Saudi Arabia and its political and legal profile. Then the economic profile of the country was discussed to shed the light on the governmental efforts to diversify the economy, especially after the instability of the oil prices, between 1980 and 2009, as the country relies heavily on oil income as the main source of the country's GDP. The main features of the 9<sup>th</sup> five-year country development plan for the period (2010-2014) was discussed with a particular emphasis on the Challenges related to unemployment in the country and environmental degradation and the role required of the private sector.

The discussion then moved to show the link between the identified objectives of the country's five-year development plans and CSR as a functional mechanism for fostering the partnership between government and business. CSR is seen as part of the government goal to make the country part of the world's 10 most competitive economies. The government is seeking to achieve this with the cooperation of the private sector by helping the country to contribute to the welfare of society and future generations to overcome current social and environmental challenges. It also shed light on the different governmental efforts to educate organizations about

CSR and CSRR through SAGIA, King Khalid foundation and the Chamber of Commerce and on SAGIA recommendations for enhancing the role of academics, media, regulators, CSR consultants and NGOs to promote CSR and CSRR in the country and incentivise the CSR practices.

As an Islamic country, the Islamic religion played a role in shaping the culture of Saudi Arabian society and business. However the reflection of Islamic beliefs seems to be misinterpreted to focus on donations and charities with its relevant disclosure and with little attention for other aspects of CSR (e.g environmental protections). The discussion of Hofstede's cultural model helped to identify the different cultural traits that have influenced the ways in which business is conducted in Saudi Arabia. Uncertainty avoidance and short-terminism as cultural traits have been suggested to explain the business world's slow progress in different areas such as developing innovative and new business practices, and suggested some implications for CSR and CSRR.

The Companies' regulatory, monitoring and supervisory bodies in Saudi Arabia such as SOCPA, SAMA and the CMA play a significant role in improving and developing the Saudi business environment. These bodies were discussed to provide detail on their main roles and duties in regulating the different aspects of companies' activities, including disclosure. Finally, background about the Saudi stock exchange TADAWUL was presented.

The context suggested implications to understand the CSR and CSRR in Saudi Arabia which will help to inform the findings of this study. The next chapter is devoted to discussing the theoretical framework for the current study.

## **Chapter 4: The Theoretical Framework**

### **4.1 Introduction**

Corporate social responsibility (CSR) is a subject that has not been limited to research by business researchers. Brammer et al. (2012) point out that CSR moved beyond a narrow focus and has attracted the attention of scholars in various disciplines such as economics, politics, finance, law and sociology. Indeed, CSR has been researched in many different country contexts, using different methodological approaches, and through various theoretical lenses (Ali and Rizwan, 2013).

Scholars have used a number of different theoretical frameworks to understand issues related to CSR in general and of corporate social responsibility reporting (CSRR) in particular (see e.g. Islam and Deegan, 2008; Momin and Parker, 2013). Theories play an important role in research. According to Mills (1993, p.103 ), theory ‘helps the researcher to make sense of what is going on in the social setting being studied’.

In the current study, neo-institutional theory, as developed and proposed by DiMaggio and Powell (1983) and Scott (2008) will be adopted as the main theory to interpret the findings of the study and to help the researcher to answer the following research questions:

RQ1: What are the managerial perceptions of the motivations for Saudi companies to report their CSR activities?

RQ2: What challenges do Saudi Arabian companies face in reporting their CSR activities? RQ3: What is the current role of non-corporate actors (the media, academics, NGOs, CSR consultants and regulators) in influencing companies to report their CSR and their perceptions about current CSRR practices?

In this chapter, the researcher will provide an overview of neo-institutional theory and an explanation of the organizational field, institutions, and mechanisms of institutionalisation. This will be followed by a comparison of neo-institutional theory and two theories commonly used in CSRR studies, namely stakeholder theory and legitimacy theory. This comparison will identify the distinctiveness of each theory and provide justification for using neo-institutional theory in this study. This will be followed by addressing the limitations of neo-institutional theory.

Although the theoretical framework in this study relies basically on the neo-institutional theory as proposed by DiMaggio and Powell (1983) and Scott (2008), the framework has been developed to consider the role of agents in creating change in the form of institutional entrepreneurs at both the organizational level and the organizational field level as proposed by Battilana (2006) and Battilana et al. (2009). The development of the theoretical framework will be followed by an explanation of the proposed situations that enable actors to act as institutional entrepreneurs (or the change agents).

The justification for the development of the theoretical framework and the expected contribution for developing the theoretical framework will be discussed before presenting the conclusion. The structure of the chapter is given in figure 8.

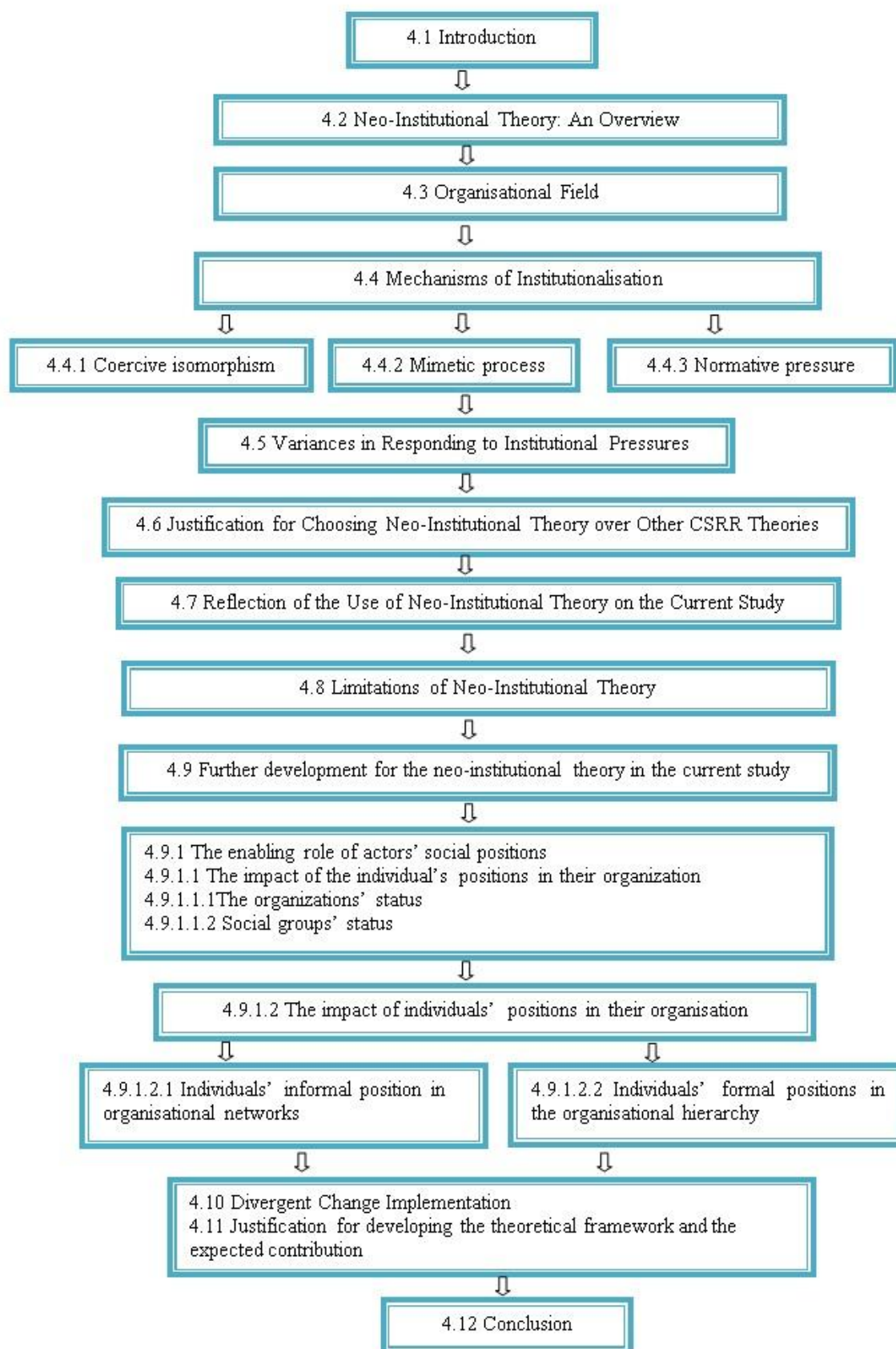


Figure 8: Structure of Chapter 4

## **4.2 Neo-Institutional Theory: An Overview**

In neo-institutional theory, attention is directed to the external factors that influence organizations' actions (Scott, 2008; DiMaggio and Powell, 1983). According to DiMaggio and Powell (1983), neo-institutional theory is founded on the belief that an organization's structures, practices and behaviours are dependent on the characteristics of the environment in which its activities occur. All organizations, according to this theory, are assumed to exist in institutional environments that define social reality (Scott, 1987, p. 507). These institutional environments are multiple and changeable over time, and their presence and power are taken into consideration by organizations, since neglecting their presence means ignoring significant factors that shape organizations' structures and practices (ibid). In this theory, the role of social influence and pressures for social conformity in shaping organizational actions and practices are examined (Oliver, 1997; DiMaggio and Powell, 1983; Scott, 2008;).

Neo-institutional theory has downplayed the role of managerial actions and gives more attention to the role of social context in influencing organizational participants to behave relatively unconsciously, specifically in ways that are "normal" in order to "fit in" and appear "appropriate" in the place where the organization practises its business. This allows an organization to legitimise its existence (see e.g. Berger and Luckmann, 1967; Tolbert and Zucker, 1999; DiMaggio and Powell, 1991; Bebbington et al., 2009, p. 592).

This concerns with the description of organizational behaviour provided by Greenwood and Hinings (1996, p. 1027), as they noted that organizations "become infused with a taken-for-granted quality, in which actors unwittingly accept the prevailing template as appropriate, right, and the proper way of doing things" (see also Oliver, 1991).

Accordingly, it has been argued that organizational activities are chosen from a "narrowly defined set of legitimate options determined by the group of actors composing the firm's organizational field" (Hoffman, 1999, p. 351). Firms are assumed to be approval-seeking,

susceptible to social influence, and as conforming to social expectations, all of which contributes to the legitimacy and success of the organization.

The significance of this theory is its organizational field and the homogenisation or “isomorphism” of organizations. In the next section, these two components of neo-institutional theory will be discussed.

### **4.3 Organizational Field**

An organizational field is “a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field ” (Scott, 1994, pp. 207-208). An organizational field may include “key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products” (DiMaggio and Powell, 1983, p. 148) or any institution that exerts a coercive, normative, or mimetic pressure on the organization (DiMaggio and Powell, 1983; Scott, 1991).

Hoffman (1999) suggested that the field is not formed around ‘industries’ or companies that produce common products, but rather around important issues that bring together different field constituents (e.g. NGOs, governments, key suppliers) who have different interests and may share different beliefs and attitudes about specific issues. Hoffman pointed out that field membership coincides with an emergence of issues and their growth, and this membership mostly ends with the decline of those issues. However, the field membership or the specific societal group can influence the adoption of common practices that have not been previously present, such as CSRR in the current study.

In this regard, Hoffman (1999) argued that a field is more than just a ‘collection of influential organizations’ but rather that a field is the centre of common dialogue and discussion in which different institutions influence the practices and behaviours of an organization. Accordingly, ‘a



field’ as described by Gray et al. (2009, p. 26) is considered as “socially constructed space arising from interactions, shared interests, common concerns, joint activities and so on”.

Scott (2001, pp.136-207) argued that through the emergence of the concept of the organizational field, a new level of analysis to study the institutional process has been provided, and it allows us to understand the broader significance of the role that organizations play in society (see also Scott, 2008). DiMaggio (1986, cited in Scott, 2008, p. 183) asserted that “the organizational field has emerged as a critical unit bridging the organizational and the societal levels in the study of social and community change”. In the context of the current study, the researcher is focusing the analysis on the field of CSRR in Saudi Arabia in order to understand different factors that determine company actions regarding CSRR within the Saudi listed companies. The organizational field in this study refers to the socially constructed space in which different institutions and organizations interact and influence the CSRR practices.

An organization, according to this theory, is expected to respond to different institutional pressures. DiMaggio and Powell (1991) and Scott (2008) argue that organizations’ behaviours, practices, and structures may be influenced by different institutions at any time (e.g. coercive, normative, or mimetic). *Institutions* are defined as legal, moral and cultural boundaries that provide guidelines to differentiate legitimate activities from illegitimate ones. In fact, institutions throughout history have been known as humanly devised in order to create order, reduce uncertainty, and constrain social interaction (North, 1991; Friedland and Alford, 1991). Institutions can consist of informal constraints such as “sanctions, taboos, customs, traditions and code of conduct” and formal rules such as “constitutions, laws, property rights” (North, 1991, p. 97).

In explaining institutions, Scott (2008, p. 48) pointed out that “institutions are comprised of regulative, normative and cultural-cognitive elements that, together with associated activities and resources, provide stability and meaning to social life.”

Institutions undergo change, and certain institutions can exert more influence on organizations than others can (Scott, 2008). The effect of these institutional pressures is to make organizations resemble each other more and become similar in their behaviours, practices, and structures, in what can be called “isomorphism and homogenization” (DiMaggio and Powell, 1991). In the next section, the mechanisms of institutionalisation will be presented.

#### **4.4 Mechanisms of Institutionalisation**

According to Larrianga-González (2007, p. 151), institutionalisation refers to “both the process and the outcome of the process, by which a social practice/behaviour becomes usual, desirable, and/or taken for granted in an organization”. Indeed, previous studies (see e.g. Larrianga-González, 2007; Bebbington et al., 2009) have noted that CSRR became a common practice for organizations in different countries and, accordingly, is powerful evidence of the institutionalisation process.

As previously noted, DiMaggio and Powell (1983) emphasised that institutionalisation brings about the homogenisation of organizations (isomorphism) and the homogenisation of organizational structures due to the need for organizations to respond to societal expectations to guarantee their success in the environment in which they operate, and, accordingly, their legitimacy and survival (Oliver, 1991).

In identifying how this institutional isomorphism occurs, DiMaggio and Powell (1983) identified three primary mechanisms, *coercive*, *mimetic*, and *normative*, that motivate organizations to adopt new structures, practices and behaviours such as CSRR. These mechanisms were mapped and elaborated on by Scott (1995, 2005, 2008) who categorised them as three types of institutional pillars: *regulative*, *normative*, and *cultural-cognitive* (Scott, 2008). These mechanisms differ in the type of institutional order they support, on the basis of compliance and indicators, and on the basis of legitimacy. According to Scott (2008), each of these mechanisms can provide a rationale for the actions that organizations take to justify and preserve their

legitimacy as well as to support and sustain an institutionalised social order. While some companies do change their behaviours, structures and practices to comply with regulations and avoid sanctions, others feel that they have a moral obligation towards society to behave in a certain way or imitate other companies' behaviours to avoid uncertainty. In the next section, these three mechanisms will be discussed.

#### **4.4.1 Coercive isomorphism**

Coercive isomorphism is considered one way in which organizations conform to external expectations and homogenise with other companies in the organizational field. According to DiMaggio and Powell (1983, p. 150), coercive isomorphism can result from both formal and informal pressures on organizations, either by organizations on which they are critically dependent to survive or by cultural expectations in the society where the organization practises its activities, or by both. Coercive pressures on organizations can be explicit as companies change their practices and behaviours to respond, for example, to governmental rules and regulations to avoid sanctions, and as a result, legitimate their actions and survive. Companies may, for example, adopt new pollution control technologies to conform to environmental regulations imposed by the government. However, coercive pressures are not always explicit and mandated by government. Bebbington et al. (2008), in the context of CSR, pointed out that some companies initiate these kinds of reports to respond to the requirements of outside rating agencies/investment funds or to respond to demands from company owners. Also, in reviewing the literature in chapter 2 it was shown that pressures from the World Bank, International Monetary Fund, international pressure on export-oriented companies, parent companies' pressures on subsidiaries and powerful stakeholders from multinational buyers' companies are some of the obvious reasons that lead the companies to report their CSR activities (Rahman et al., 2004; Belal and Owen, 2007; Islam and Deegan, 2008; Islam, 2009).

Based on the above discussion and in the context of the current study, it can be argued that Saudi Arabian companies can be coerced to respond to and fulfil the requirements issued by the government and other regulative bodies to report CSR. It is also expected that powerful stakeholders, as well as international organizations, may exert coercive power on organizations.

#### **4.4.2 Mimetic process**

According to DiMaggio and Powell (1983), mimetic isomorphism stems from uncertainty. Organizations in a situation of uncertainty that, for instance, lack clear organizational goals, face a problem with an unknown cause, or lack of clear guidelines for certain issues that they need to deal with, may tend to model themselves and to look at other organizations in their field to imitate their behaviours and practices in order to reduce the dilemma of uncertainty. This type of model organization is seen as successful or legitimate in the same field in which other organizations operate, and as a convenient source of practices that other organizations may borrow.

It has been argued that it is not necessary that this model organization be aware that other organizations are imitating them or have a desire to be copied. The diffusion of modelled practice can occur either directly, through the use of consulting firms or trade associations, or indirectly by employee transfer over time.

*In regard to CSRR and mimetic pressures* and in the context of this research, the researcher argues that CSRR has become a broadly diffused practice amongst firms around the world which can reflect a clear insight that CSRR has become institutionalised (Larrinaga-González, 2007). However, a numbers of studies have shown that reporting social responsibility and the notion of CSR are still in the primitive stage and are innovative in most developing countries (Abu-Baker and Naser, 2000; Belal, 2001; Naser et al., 2006; Hassan and Harahap, 2010; Bayoud and Kavanagh, 2012). The reasons for mimitic isomorphism in organizations can result from organaisations' desire to follow the prevealing trend of innovative practices that other

organizations practice in the same field in order to maintain their legitimacy (Unerman and Bennett , 2004; p.692). Therefore, this research will explore whether the reasons for reporting CSR issues among Saudi Arabian listed companies can be seen as the result of direct mimicry of large leading and successful companies within the same organizational field as a response to the innovative nature of CSRR.

#### **4.4.3 Normative pressure**

The last source of isomorphic organizational change is normative pressure. The focus of this source is related to both norms and values (Scott, 2008). Values refer to what is desirable in the society in which existing structures and behaviours can be assessed, and norms identify how things should be done (Scott, 2008). In other words, a normative system defines goals and specifies appropriate ways to achieve these goals in order to meet the expectations of society. Greenwood et al. (2008) argued that respecting social obligations is considered an important aspect of companies becoming normatively homogenised. In the context of CSR, Bebbington et al. (2009) found normative isomorphism among companies they interviewed and found that companies believe that initiating this kind of report is considered to be the “the right thing to do.” It has been argued that despite the fact that a normative system is seen as imposing constraints on social behaviour, it empowers and enables social action because it confers “rights as well as responsibilities; privileges as well as duties; and licenses as well as mandates” (Scott, 2008, p. 55). Therefore, normative rules are not derived by coercive pressures, but rather through the legitimate authority of values and norms that may be adopted by companies with less resistance.

DiMaggio and Powell (1983) pointed out that normative isomorphism is propelled by professionalization. Professionals in a particular field play an important role in the diffusion of and influence on organizations to adopt new behaviours and to “establish a cognitive base and legitimation for their occupational autonomy” (DiMaggio and Powell, 1983, p. 152).

Professionalization occurs through universities and formal education, professional networks that reflect the ability of companies' managers to diffuse their personal attributes, and through exchanges of information between professionals within the same organizational field. An example of normative pressures in the context of CSRR provided by Larrinaga-González (2007) is the ACCA environmental reporting and the GRI reporting guidelines.

In the context of the current study and based on the above discussion, it is expected that normative pressures will play a role in influencing companies to change their behavioural practices and meet the obligations they are expected to fulfil in society. In addition, with the increase of professionalisation and professional networks, there is greater likelihood for organizations to be influenced by normative pressures.

DiMaggio and Powell (1983) asserted that it can be difficult to distinguish between the three mechanisms of isomorphism, and sometimes more than one mechanism can influence the institutionalisation of the organization's norms and behaviour. This view was supported by Ashworth et al. (2009), who pointed out the effectiveness of coercive and normative pressures in turning organizations toward a particular model of management and the role that mimetic pressure plays in making organizations resemble each other very closely.

In this regard, it can be argued that despite the expected interference that may occur between different mechanisms, the main idea of these mechanisms is to advance organizational isomorphism in order to meet social expectations and achieve legitimacy.

#### **4.5 Variances in Responding to Institutional Pressures**

In the previous section, an explanation of coercive, normative, and mimetic pressures was provided. According to Meyer (1977), organizations conform to institutional pressures (institutionalised beliefs) because they are rewarded by gaining social acceptance for organizational actions, and accordingly maintain legitimacy and survival capabilities. However, scholars such as Scott (2008) argued the ways that organizations respond to different institutional

pressures vary, and some organizations are resistant to change, to adopting new practices, and to conforming to meet societal expectations (e.g., CSRR—see also Jennings and Zandbergen, 1995).

Scott (2008) argued that some organizations may resist responding to institutional pressures by adopting decoupling behaviour. Decoupling behaviour allows organizations to reflect a superficial image about their actions by creating structures that differ from their actual actions to maintain legitimacy. In other words, and in the context of CSR, an organization may adopt an environmentally friendly logo even though their actions do not reflect that stance. The logo serves only to create an image that meets social expectations, which may be far from the company's actual actions. This decoupling behaviour can only be distinguished through monitoring the actual practice of the company compared to what has been reported.

#### **4.6 Justification for Choosing Neo-Institutional Theory over Other CSRR Theories**

There are a number of theories, including stakeholder theory and legitimacy theory in addition to institutional theory, that have been widely used in studies related to CSR in general and CSRR in particular. In the context of this PhD research, neo-institutional theory has been chosen for the following reasons.

First, although stakeholder theory, legitimacy theory and institutional theory are all originally derived from the broader political economy perspective, and some scholars argue that there is some overlap between these theories, each of them has distinct (although not completely distinct) uses depending on the objective (see e.g., Amran and Siti-Nabiha, 2009; Islam, 2009; Chen and Roberts, 2010; Gray, 2010; Amran and Haniffa, 2011; Gray, 2014). Under the lenses of these theories, according to Deegan (2002, 2009), organizations are considered as system-oriented entities that both influence and are influenced by the society and the environment in which they operate.

In the context of this research, the researcher is aiming to use neo-institutional theory as a lens to interpret the findings of the current study. This research is interested in identifying plausible explanations for CSRR in Saudi Arabian organizations. The researcher in particular will focus the analysis on and investigate whether or not external pressures from society at large have led the companies to change their behaviours and practices in a certain way to meet social expectations and, accordingly, to guarantee their survival and legitimacy.

It can be argued that stakeholder theory as it is addressed by Freeman (1984), is interested in the relationship of an organization and its environment, with a special focus on stakeholders within the field, in or outside the institutional environment (see also Freeman, 2010). However, the scope of this theory (the managerial part in particular), as argued by Ullmann (1985), Chen and Roberts (2010) and Gray (2010), has too narrow a focus on powerful stakeholders. The power of stakeholders is determined by the amount of resources provided by them on which companies rely on to survive. In other words, the more critical and important stakeholders are to the organization's survival, the more influence they will exert on the company and accordingly, the more effort will be made by the company's managers to respond to the demands of these stakeholders and to manage the relationship with them (Ullmann, 1985; Islam, 2009; Gray, 2010).

However, neo-institutional theory is broad in this sense, and the focus in this theory is not merely given to the powerful stakeholder, but rather to the pressure that is exerted on the organization by society at large to meet their expectations and by different institutions that exert *coercive*, *mimetic* and *normative* pressures on the organization. That does not mean that there is no overlap between these two theories with regard to the coercive pressures that lead the organization to respond to certain pressures exerted by powerful stakeholders (Gray et al., 1996; Gray, 2014), but as stated before, neo-institutional theory does take a broader view by analysing the role of



different institutions using the three mechanisms identified by DiMaggio and Powell (1983) to understand the reasons for the organization's adoption of certain behaviours and practices.

Also in regard to stakeholder theory, Freeman (1984) stated that it provides a framework for the "host of differing moral views" (p. 210). However, this theory has been criticised for not providing concrete directions as to what a corporation should stand for, and for not providing justification for companies' moral actions to legitimise their presence other than managing the requirements of a particular group of stakeholders (Chen and Roberts, 2010). Therefore, as Deegan (2002) argues, CSR information, for example, will be disclosed as a strategic response to these powerful stakeholders rather than reflecting the organization's accountability and responsibility to the society at large.

The current research will focus not merely on the influence of powerful stakeholders, but rather on investigating the broader reasons and motivations for companies to report their CSR activities, as well as identifying challenges and determining whether or not institutions within the environment in which the organizations operate cause them to behave in a certain way. Therefore, the researcher argues that neo-institutional theory rather than stakeholder theory provides the appropriate lens to achieve the objective of the study research questions.

Legitimacy theory has also been used in a number of studies related to CSRR (see e.g. Magness, 2006; Islam and Deegan, 2008; Cho, 2009). Legitimacy theory, as stated previously, emanated originally from political economy theory. Gray et al. (1996, p. 45) defined political economy theory as "the social, political and economic framework within which human life takes place." Consistent with this definition, political economy theory and its branches such as legitimacy theory view organizations as part of a broader social system. Legitimacy theory according to Deegan (2002) is a "social contract," which means that organizational survival depends on the organization's social audience (the society). Accordingly, society can present a threat to the

organization and the “social contract” can be revoked if the organization does not operate in an acceptable or legitimate manner (ibid).

From the aforementioned discussion, it can be observed that there is some overlap between legitimacy theory and neo-institutional theory with respect to the importance of meeting social expectations in the environment in which companies operate in order to maintain legitimacy (Deegan, 2002; Gray, 2010). However, it can be argued that legitimacy theory has not provided an explanation for how congruency with social expectations can be achieved by managers<sup>33</sup> to gain social support and to achieve legitimacy (Chen and Roberts, 2010). On the other hand, institutional theory has overcome this issue by emphasising institutionalised norms and rules that companies’ managers need to incorporate to preserve stability for the organization and to gain the required legitimacy (Deegan, 2002). In other words, under institutional theory, managers are expected to conform to “norms” imposed by external constituents and to change their organizational behaviours and practices to maintain the legitimacy of the organization. In this sense, neo-institutional theory has overcome the deficiencies of legitimacy theory.

Therefore, in the context of the current study, legitimacy theory is not used by the researcher and the focus is on neo-institutional theory because one of the goals of this research is to understand managerial perceptions about the motivations for CSRR. Neo-institutional theory will provide a more appropriate lens to interpret the findings of this research question.

Furthermore as Deegan (2006, p. 305) argues,

“A key reason why institutional theory is relevant to researchers who investigate voluntary corporate reporting practice is that it provides a complementary perspective to both stakeholder theory and legitimacy theory, in understanding how organizations understand and respond to changing social and institutional pressures and expectations. Among other factors, it links

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<sup>33</sup> For example, according to Deegan (2002) within legitimacy theory, there is the possibility for managers to alter the perception of legitimacy (e.g. targeted disclosure to overcome the legitimacy threat of a specific issue).

organizational practice (such as accounting and corporate reporting) to the values of the society in which an organization operates, and to a need to maintain organizational legitimacy. There is a view that organizational form and practice might tend towards some form of homogeneity; that is, the structure of the organization (including the structure of its reporting systems) and the practice adopted by different organizations tend to become similar to conform with what society, or particular powerful groups, consider to be ‘normal’”.

In line with the above discussion, the researcher contends that the use of neo-institutional theory will provide a richer insight for interpreting the findings of the current study because it goes a step further than legitimacy theory and stakeholder theory in explaining how particular institutions, using coercive, normative and mimetic isomorphism, can influence organizations to behave in a certain way to preserve their stability and guarantee their legitimacy.

#### **4.7 Reflection of the Use of Neo-Institutional Theory on the Current Study**

The above discussion and the assumptions of neo-institutional theory focus on how firms operate within a social framework of norms, values and taken for granted assumptions about what constitutes legitimate and acceptable organizational behaviour and how organizations respond to different institutional pressures to conform to the norms and expectations of society. Hence, the researcher suggests that this theory will provide a better understanding for the analysis of the data in this thesis for the following reasons.

First, CSR is a socially constructed issue, and CSRR is seen by firms as a constructed image that the firm uses to convey their commitment to meeting social expectations to the outside world in order to gain legitimacy (Reverte, 2009). Also, the growing popularity of CSRR and the diffused practice of CSR among firms around the world, is a clear reflection that CSRR has become institutionalised (Larrinaga-González, 2007).

The researcher contends that using neo-institutional theory will help with the interpretation of the results of this study and strengthen the understanding of the different institutional pressures

under the three institutional mechanisms suggested by DiMaggio and Powell (1983) (coercive, mimetic and normative) that influence companies to behave in a certain way in order to maintain legitimacy and meet social expectations. In other words, using this theory will contribute to identifying under which institutional conditions organizations will report or not report their CSR activities. Using managerial perceptions of these conditions will enable us to gain insight into the first research question.

Second, normative pressures, as well as mimetic pressures are also expected to contribute to the interpretation of the findings of the second question of this study. In the second question, the researcher is interested in investigating the challenges that Saudi Arabian companies face in reporting their CSR. It has been suggested in a number of studies that CSRR in developing countries suffers from a lack of legislation (see e.g. Hoq et al., 2010), and that is considered as one of the main challenges of CSR among developing countries. Such a challenge would be expected to raise the issue of normative pressure as well as mimetic pressure. The researcher believes that interviewing managers will help in identifying the challenges that face companies in reporting their CSR, and by using institutional theory, a broad picture of these challenges can be created.

Third, the normative dimension of this theory, which focuses on the accepted norms and values of the society and the coercive pressure that can be exerted by stakeholders, is expected to help interpret the answer to the third research question regarding the role of non-corporate actors (the media, academics, NGOs, CSR consultants and regulators) in influencing companies to report their CSR and their perceptions about the current situation of reporting CSR. As DiMaggio and Powell (1983) pointed out normative isomorphism is propelled by professionalization and formal education (through academics) can contribute to influencing professional attitudes towards pursuing society's desirable actions. CSR consultants, by promoting CSRR norms and values, are expected to contribute to the establishment of the normative environment of organizations. In

addition, each of the NGOs, media, and regulators represent non-corporate actors that can play a coercive role either implicitly or explicitly in the way that organizations behave toward CSR reporting.

#### **4.8 Limitations of Neo-Institutional Theory**

Despite the popularity of neo-institutional theory which has been used widely in a number of CSR studies and CSRR in particular to steer research and to help in interpreting findings (see e.g. Momin and Parker, 2013; De Villiers and Alexander, 2014), it like any other theory, has limitations. According to Hodgson (1989, p. 261), ‘no scientific theory can ever be fully realistic. Some simplifying assumptions must be added’.

One of the most prominent limitations of neo-institutional theory is that it considers an organization as a “black box” in responding to external pressure exerted by the institutional environment in which the organization is located (Suddaby, 2010). In this sense, neo-institutional theory assumes that organizations and actors within the organizations are constrained, captive, powerless and passive in the way in which they respond to the external institutional pressures in the form of coercive, normative or mimetic pressures (Zucker, 1987; DiMaggio, 1988; Kraatz and Zajac, 1996).

In order to overcome the criticism of neo-institutional theory in regard to its dominant macro-oriented view a number of scholars (such as DiMaggio, 1988; Moll et al., 2006; Tsamenyi et al., 2006) have focussed attention on the importance of understanding the micro explanation of actors’ power and self-interested decisions and incorporating them into the perspective along with the macro analysis. Neo-institutional theory contributes to explaining how organizations are pressured to change their behaviour in accordance with external pressures; nevertheless, it does not succeed in explaining how the intra-organizational power exemplified by actors within the organization can contribute to this change. According to Friedland and Alford (1991, p. 254), ‘without actors and without subjectivity, there is no way to account for change’.

In this regard, scholars (such as Battilana, 2006; Greenwood et al., 2008; Hardy and Maguire, 2008; Battilana et al., 2009) have proposed how individuals<sup>34</sup> and organizational actors<sup>35</sup> can be a key variable in contributing to initiating change in the form of institutional entrepreneurship. Despite the fact that the proposition of institutional entrepreneurship emerged as a promising way to account for the active role of both individual and organizational actors, a number of controversial discussions have focussed on this notion (see e.g. Lawrence et al., 2011; Thornton et al., 2012). The view of the active role of agency and its contribution to institutional change poses a problem for the main tenets of institutional theory. According to Scott (2008), institutional theory assumes that behaviour is shaped by taken-for-granted institutional propositions. Accordingly, giving the actors an active role in initiating change is questionable on the basis of how they can enact change in the context in which they are originally embedded (as argued by Lawrence et al., 2009; Mutch et al., 2006).

Battilana (2006) and Battilana et al. (2009) have attempted to solve this issue by providing a model that takes into consideration the influence of actors' actions and the structure in which they are embedded. The model basically focuses on explaining and understanding the interplay between actors and structure. Battilana (2006) and Battilana et al. (2009) propose two conditions for enabling the role of institutional entrepreneurship which are actors' social positions and the field characteristics.

Accounting researchers have drawn on different sociological approaches, for instance Giddens' (1984) structuration theory and Bourdieu's theory of practice (Bourdieu, 1986; 1990) in their attempts to study agency and agents. However, taking in consideration the innovative nature of CSR and CSRR practices in Saudi Arabia it can be argued that Battilana (2006) and Battilana et al. (2009) model is useful in explaining how actors' social positions and the field characteristics

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<sup>34</sup> By individuals, the researcher is referring to the agents outside the organization.

<sup>35</sup> By organizational actors, the researcher is referring to the agents within the organization itself.

enable agents (institutional entrepreneurship) to depart from prevailing taken for granted institutional arrangement to conduct a change that diverge from the existing institutional arrangements which may not be able to be seen by applying a theory like Giddens (1984).

In the next section, a development of neo-institutional theory in light of the work of Battilana (2006) and Battilana et al. (2009) is provided.

#### **4.9 Further development for the neo-institutional theory in the current study**

Battilana (2006) and Battilana et al. (2009) proposed a model that complements the shortcomings of neo-institutional theory with its narrow focus on the analysis of the organizational level and macro level in changing the institutional behaviour of organizations. Their model provides a basis to investigate the micro level of analysis, in which agents in the form of institutional entrepreneurship can contribute to changing organizations' behaviour despite external institutional pressures. For example, it helps to explain the broader context in which external pressures of the institutional environment drive organizations to report their CSR but neglects the individual level of analysis that can shed light on the active role agents can play in deciding to report their companies' CSR issues.

It is important, before starting to talk about the change that can be achieved by institutional entrepreneurship, to point out as that not every individual can be an institutional entrepreneur and so this raises the question of who exactly can be institutional entrepreneurs. According to DiMaggio (1988), institutional entrepreneurs are agents who have sufficient recourses that enable them to create new institutions which work for interests they value highly.

Battilana et al. (2009; p.70) defines institutional entrepreneurs "as change agents who, whether or not they initially intended to change their institutional environment, initiate, and actively participate in the implementation of, changes that diverge from existing institutions".

Institutional entrepreneurs can be exemplified either as organizations or groups of organizations, or individuals or groups of individuals (see for example Hardy and Maguire, 2008). Battilana et al. (2009) argue that despite the fact that the aforementioned institutional entrepreneurs being the ones who initiate and actively participate in the implementation of the change, they remain independent from whether the change has been successfully implemented and whether it occurred or not. In other words, although institutional entrepreneurs are seeking to change the status quo, change may not necessarily occur.

Battilana (2006) and Battilana et al. (2009) proposed two key categories to enable institutional entrepreneurs to conduct divergent change either on the field level or organizational level, namely actors' social positions and field characteristics. The next section will discuss these two propositions.

#### **4.9.1 The enabling role of actors' social positions**

Battilana (2006) and Battilana et al. (2009) proposed that individuals' social positions in both the organizational field and within the organizational hierarchy are key variables to enable the emergence of institutional entrepreneurship and to understand their ability to initiate a divergent change despite institutional pressures.

##### **4.9.1.1 The impact of the individual's position in the organizational field**

Battilana (2006) pointed out that each organization's status and the social group that the individual belongs to are likely to have an influence on the individual's ability to act as an institutional entrepreneur. Next sections will be devoted to discuss each organization's status and the social group that the individual belongs to.



#### 4.9.1.1.1 Organization's status

An organization's status<sup>36</sup> may play a key role in enabling institutional entrepreneurship. In this regard, a distinction between lower and higher status organizations has been made by Battilana (2006).

Battilana argued that individuals in lower status organizations which are less embedded in the organizational field are more likely to be in a challenging position that makes them more willing to transform the existing institutional arrangement and create a divergent change compared to individuals from higher status organizations. While some studies have concluded that organization members who belong to lower status organizations and sometimes members from a peripheral field that belong to organizations that are classified as lower status organizations have carried out divergent changes (see, e.g., Kraatz and Moore, 2002). On the contrary, studies such as that of Greenwood and Suddaby (2006) have found that divergent changes in the organizational field have been attributed to high status organizations. Such differences in the results in regard to the organization's status and divergent changes that can be carried out by individuals, is argued by Battilana et al. (2009) to arise because of the differences in field characteristics, which is explained in section 4.9.2.

With regard to the current study, it is expected that an organization's status within the sample of the study may contribute to enabling agents to create a divergent change in the institutional arrangement across and within the organizational field, e.g., the reporting of the CSR activities and its relation with the organization's status in the field.

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<sup>36</sup> Status refers to the rank of the entity in relation to its value in the organizational field that it is embedded in, as is pointed out by Nicholson (1997).

#### **4.9.1.1.2 Social groups' status**

The social status of the group an individual belongs to in the organizational field is also expected to affect the ability of an individual to create a divergent change. It has been argued by Battilana (2006) that it is more likely for individuals who belong to lower status social groups to create divergent change, as they are less favoured by the status quo of the institutional arrangement. Individuals who belong to higher status social groups are likely to benefit from their powerful incumbent position in the organizational field, and accordingly, they are less likely to want to change the existing institutional arrangement that gives them dominance over individuals who belong to lower status social groups.

In a study conducted by Ferlie et al. (2005), it was noted that higher status doctors have used their power to maintain the prevailing institutional arrangement in the National Health Service in the United Kingdom. Doctors have benefited from their higher status as professionals in deterring the spreading of certain medical innovations amongst other health professionals who are in a lower status position.

In the context of the current study, it is expected that the social status group an individual belongs to in the organizational field is going to reflect the individual's ability to create a divergent change in relation to CSRR.

#### **4.9.1.2 The impact of individuals' positions in their organization**

According to Battilana (2006), the ability of individuals to create a divergent change and to become an institutional entrepreneur in the organization is determined by their informal position in organizational networks and by their formal position in the organizational hierarchy.

#### **4.9.1.2.1 Individuals' informal position in organizational networks**

Individuals who belong to a lower status social group within the organization are likely to have dissatisfaction with the existing institutional arrangement, and accordingly, they are willing to conduct a divergent change (Battilana, 2006). However, those individuals in informal positions, unlike the individuals who belong to higher status social groups, are powerless and lack the necessary resources that enable them to conduct such a desired change (Battilana, 2006). Accordingly, they are only going to be able to conduct a divergent change if they maintain strong ties with those individuals who belong to a higher status social group so they can access through them the required resources in order to conduct the divergent organizational change.

Individuals' informal positions in organizational networks in the context of the current study may play a key role in creating a divergent organizational change related to CSRR.

#### **4.9.1.2.2 Individuals' formal positions in the organizational hierarchy**

It is argued by Battilana (2006) that individuals who occupy a high hierarchal position in the organization are in a state that enables them to have more power, more authority, and more access to the necessary resources that enables them to conduct a divergent change. Indeed, these individuals, because of their position, are responsible for making strategic decisions, and they are more knowledgeable about their organization and its environment. Accordingly, they are less likely to accept the prevailing institutional arrangement as a taken-for-granted option, but rather, with the resources that they have, they can change the status quo to suit their interests. It has been suggested by Batillana (2006) and Batillana et al. (2009) that inter-organizational mobility, a top hierarchy position, and the duration of the individual's tenure in a formal organization position may enable individuals to conduct divergent organizational change, and to break with the existing norms of their organizational institutional arrangements.

In the context of the current study, inter-organizational mobility, a top hierarchy position, and the duration of the individual's tenure in a formal organization position are expected to have the potential to create divergent change related to CSRR.

It is important to note that not all studies have confirmed that managers in higher positions are always eager for change despite their ability to initiate and implement divergent organizational change. These studies have attributed this to the desire of top managers to maintain the status quo in their organizations, as they are satisfied with it, and to ensure their continuing control in their organization as any changes might affect their power in some way (Pfeffer, 1981; Hambrick et al., 1993; Peckham and Exworthy, 2003; Hine and Preuss, 2009). In addition, Batillana (2011) found that no statistical relationship between the ability of individuals to conduct divergent change in the NHS hospital system and their hierarchical position, tenure in their position and inter-organizational mobility.

Batillana (2006) suggested that the ability for individuals to conduct a divergent change depends also on the characteristics of the field which are going to be discussed in the next section.

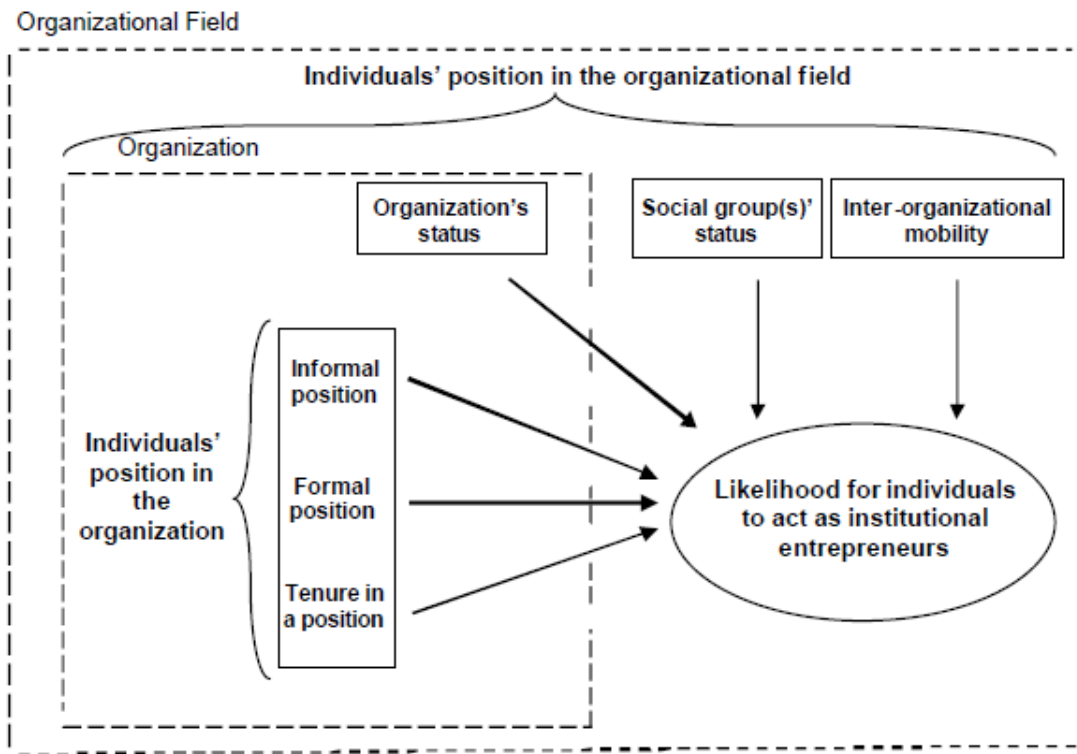


Figure 9: Impact of Individuals' social position on the likelihood for them to act as institutional entrepreneurs (cited in Battilana, 2006; p. 40)

#### 4.9.2 Field characteristics

Battilana et al. (2009) consider that field characteristics play an important role in enabling individuals to create divergent change. In particular, the extent of the institutionalisation and the maturity of the field are likely to affect the ability of individuals to change the prevailing institutional arrangement (Battilana et al., 2009; Greenwood and Suddaby, 2006; DiMaggio and Powell, 1983). A mature organizational field, unlike an emerging field, is well-defined and structured with a high level of homogeneity, which makes divergent change unlikely to happen (Kraatz and Zajac, 1996; Battilana et al., 2009). It is important to note, however, that there is no general agreement about the possibility of a mature field undergoing divergent change. Thus, a study conducted by Greenwood and Suddaby (2006) showed that a change in institutional

arrangement was introduced by actors from elite accounting firms<sup>37</sup>, whose organizations represent the centre of mature organizational fields.

In the context of the current study, it is expected that the field characteristics may enable actors to create a divergent change in either mature or emerging fields.

#### **4.10 Divergent Change Implementation**

Implementing change is challenging if it is built within the existing institutional arrangements and it is even more challenging if it is going to break with the existing institutional arrangements (Batillana et al., 2009). In order for the change agents to be able to implement a divergent change, Batillana et al., (2009) suggested some activities that need to be taken, including *Developing a vision* and *Mobilising people*.

Developing a vision means that the change agents need to craft and frame a vision that appeals to and attracts the required people needed to implement this change. This includes three steps. The first is *diagnostic framing*. In this step the change agents seeks to explain the problem with the current institutionalised practice. The second step is *prognostic framing*. It entails an explanation that the new project that is going to be undertaken is going to be superior compared to the existing institutional arrangements; and the third step is *motivational framing*. It entails providing compelling reasons that align with the interests of those who can facilitate the implementation of change.

Battilana et al., (2009) also proposed that for divergent change to be implemented, agents need to *mobilise allies* who enable agents to secure endorsement and support the implementation of the change, as divergent change without support can seldom be implemented.

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<sup>37</sup>Actors who contributed to initiating a divergent change in this study were from the big five accounting firms.

#### **4.11 Justification for developing the theoretical framework and the expected contribution**

As indicated previously, the current PhD study is aiming to uncover the reasons and factors that lead Saudi Arabian firms to report their CSR, to identify the challenges that are associated with reporting, and to investigate the role of non-corporate actors in influencing companies to report their CSR and their perceptions about the current situation of CSR reporting.

Neo-institutional theory, with its propositions and assumptions about what constitutes legitimate and acceptable organizational behaviour and how organizations respond to different institutional pressures to conform to the norms and expectations of society, is going to be used, as explained previously, as the main theory in this research.

Neo-institutional theory, has the ability to reflect the different institutional pressures that influence organizations to behave in a certain way that maintains their legitimacy, e.g., reporting CSR activities by organizations in the current study. It also has the ability to offer both an organizational level and field level explanation about the external reasons that pressure organizations to report their CSR activities. However, this theory has a weakness when it comes to explaining the change that agents can make within the organizational level and the organizational field level. According to Greenwood and Hinings (1996, p. 1023) “institutional theory is not usually regarded as a theory of organizational change, but usually as an explanation of the similarity ‘isomorphism’ and stability of organizational arrangements in a given population or field of organization”.

Accordingly, it has been argued that human agency is key when it comes to change in organizational behaviour (see for e.g. DiMaggio, 1988; Dorado, 2005; Hardy and Maguire, 2008; Greenwood et al., 2008). In this regard, it can be argued and expected that reasons for reporting CSR can be attributed not only to external pressures but can also be as a result of decisions that

come from institutional entrepreneurs in the organization itself or in the organizational field or from outside the organizational field. Some may wonder how agents can contribute to change in an institutional environment which constrains them; however, scholars such as Battilana (2006) and Battilana et al. (2009) have suggested an approach that allows some scope for human actors to initiate change. Battilana (2006) suggests that each organizational status and social group status in the organizational field can contribute to enabling actors to initiate a divergent change. If this is the case then it opens up the possibility for actors to bring about change in CSRR. Also, individuals' both in formal and informal positions, as well as the field characteristics, as explained previously, can enable actors to initiate change related to CSRR. These suggested possibilities can contribute and help the researcher to enhance and understand the issue of CSRR in Saudi Arabia and the important role that actors, in the form of both non-corporate actors or actors within the organization, can play in this phenomenon under study.

Therefore, the theoretical framework based on neo-institutional theory has been developed and complemented by Battilana (2006) and Battilana et al.'s (2009) model to overcome the main shortcomings and criticisms that were associated with the original version of the neo-institutional theory and to acknowledge the important role that actors can play.

***In regard to the contribution*** for developing the neo-institutional theory in the current study, it has been argued that despite the fact that a number of scholars have suggested solutions to integrate institutionalism and agency in the form of institutional entrepreneurs (see for e.g. Greenwood and Hinings, 1996; Dorado, 2005; Battilana, 2006), the application of these suggested solutions in regard to CSR studies is 'embryonic' (McWilliams et al., 2006). Also, to the best of the researcher's knowledge, no previous studies related to CSRR in developing countries has used Battilana (2006) and Battilana et al.'s (2009) model to examine the role that agents can play in changing the institutional behaviour despite the external pressures that the organization is exposed. Accordingly, this study contributes to the literature gap in studies



related to the CSRR in developing countries by extending neo-institutional theory and complementing it with Battilana (2006) and Battilana et al.'s (2009) model.

#### **4.12 Conclusion**

The theoretical framework that is going to be used as a lens in interpreting the findings of the current study has been discussed in this chapter. The discussion encompasses the main assumptions of neo-institutional theory and its relation to the current study. Also, the limitation of neo-institutional theory in being able to explain change has been addressed by incorporating the insights provided by Battilana (2006) and Battilana et al. (2009).

Since this study is basically interested in investigating the reasons that lead organizations to report or not report their CSR issues, the challenges of reporting, and the role of non-corporate actors in influencing companies to report their CSR issues and their perception about the current CSRR practices, it was important to consider the role that actors play in initiating change in the institutional environment either in the organization or in the organizational field.

The next chapter is going to discuss the methodology and methods that are going to be employed to achieve the aim and objective of this study.

## **Chapter 5 : Research methodology and methods**

### **5.1 Introduction**

The previous chapter was devoted to discussing and presenting the neo-institutional theory proposed by DiMaggio and Powell (1983) and Scott (2008) as the main theory that is going to be used in this study. The chapter also discussed the limitations of the theory and how the complementary model suggested by Battilana (2006) and Battilana et al. (2009) is used to overcome the limitations of the neo-institutional theory. The theory is going to be used against the backdrop of the interpretive approach. The interpretive approach assumes there are multiple realities and that agents create this reality. Thus employing this approach enables the researcher to explore the realities that corporate management and non-corporate actors assign to CSRR.

This chapter will describe the research methodology and methods that were employed to fulfil the aims of the study. This chapter will start by discussing and justifying the interpretive paradigm as the chosen paradigm for this study and its underpinning philosophical assumptions compared to positivistic and critical paradigms. This will be followed by discussing and justifying the chosen research methods, which are going to be qualitative methods. Semi-structured interviews have been used as the primary data collection methods in this study and documentary analysis has been used as the secondary data collection method to supplement and complement the interviews. This is followed by, discussion about the interview process and then the documentary analysis will be presented. The chapter will then highlight the study's validity and reliability issues, and finally end with a summary and conclusion. The structure of this chapter is illustrated in figure 10.

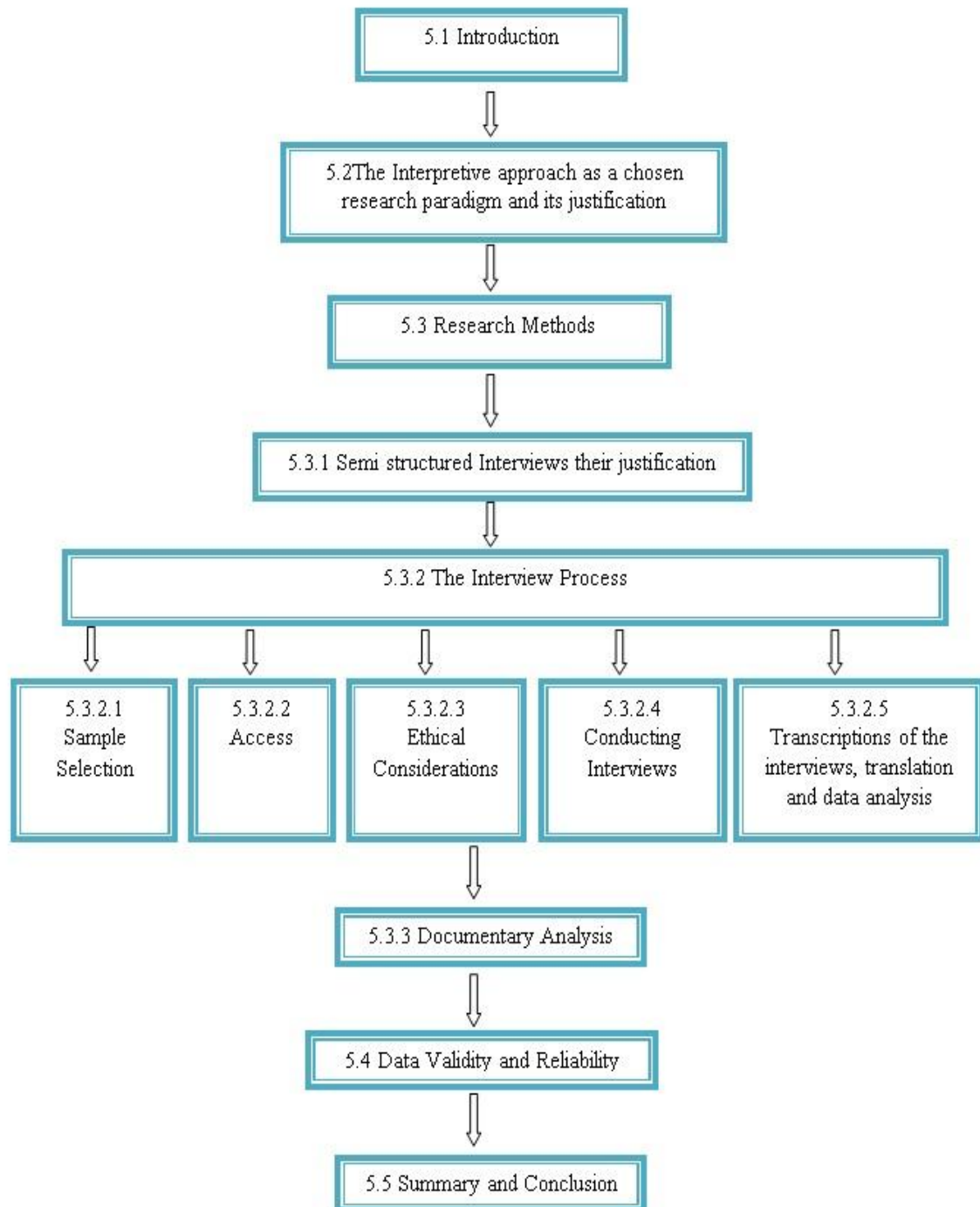


Figure 10 : Structure of Chapter 5

## **5.2 The Interpretive approach as the chosen research paradigm and its justification**

A paradigm or research approach is a term that has been used widely in social sciences research and is defined as ‘a way of examining social phenomena from which particular understanding of these phenomena can be gained and explanations attempted’ (Saunders et al., 2007, p.605). In accounting research, Chua (1968) suggested three different research paradigms; positivistic paradigm, interpretive paradigm, and critical paradigm. Each of these paradigms has its own unique underlying philosophical assumptions based on different views of the nature of reality (ontology) and of what constitutes knowledge (epistemology) and methods.

This PhD study aligns itself with the subjective interpretation of the social world and adopts an interpretive approach to achieve the study’s aims and objectives. The interpretive approach is concerned with understanding the social world with the aim of making sense of the shared beliefs that actors have and the motivations for their actions (Hopper and Powell, 1985). It emphasises the role of language and interpreting the subjective meaning that actors assign to their actions, as actions cannot be understood without reference to their meaning (Chua, 1986). Reality in the interpretive approach is multiple, socially constructed, and subjectively created and influenced by social actors (Burrell and Morgan, 1979; Chua, 1986). Accordingly, interpretation of these multiple subjective realities is an important matter in order to understand the plausible explanation for CSRR in Saudi Arabia. Interaction with participants and observing them are essential to provide interpretations for their behaviour (Hallebone and Priest, 2009).

The interpretive approach, rather than the positivistic or critical paradigms, has been chosen for a number of reasons. Ontologically, the researcher in this study rejects the assumption of the positivistic approach, which assumes that there is a single reality, which is outside, and waiting to be observed by the researcher. In the positivistic approach, the researcher is assumed to be a dispassionate outside observer with the objects of study waiting to be observed reduced to mere

variables. In this study, the researcher assumes that reality is socially constructed and that there is no separation between the researcher and the existing reality. That is, this study adopts a subjective view of social reality. Therefore, the researcher in this study explores reality as constructed by companies' managers and non-corporate actors by accessing the meaning that participants assign to CSRR. For this to be achieved, participants should be studied in their own contexts according to their perspectives instead of being reduced to variables. The researcher is interested in understanding and describing multiple realities and does not believe that a single reality exists. Thus, from an epistemological perspective, the researcher opposes the positivistic approach's assumption that knowledge is generated by studying the cause-and-effect relationship derived from testing a hypothesis based on specific selected variables. Since there is but one reality for the positivist, the findings from studying the relationship between variables can be generalised. In contrast, the intention of the current study is to gain a deeper understanding of CSRR in Saudi Arabia from the perspective of corporate managers and non-corporate actors, so the researcher will not try to impose her prior understanding to verify or reject specific facts but will let the participants speak for themselves. The researcher is mainly interested in understanding the motives and challenges for CSRR from managements' perspective and in grasping non-corporate actors' perception of CSRR practices and what influence they may have in order to better understand their subjective experiences, which are time and context bound (Sedmak and Longhurst, 2010). Therefore, this study does not aim to make any single explanation or generalizable statement for CSRR in Saudi Arabia. The knowledge acquired is primarily based on subjective interpretation of the managerial and non-corporate actors' perceptions of CSRR derived from the interviews and documentary analysis as a secondary data collection method<sup>38</sup>.

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<sup>38</sup> More discussion on the data collection methods and their justifications will be included in Section 5.3.

It is also argued that utilizing the critical approach would not be an appropriate methodology for this study. This study is an exploratory study that aims mainly to study the status quo of CSRR in Saudi Arabia and to provide an understanding of the phenomena based on managerial and non-corporate actors' perceptions. Therefore, although the current study explores CSRR and the desired change and improvement of the status quo, the researcher does not seek to challenge the interpretation of the status quo and bring about radical change, which is the main aim of the critical approach. Instead, the researcher's intention is to shed light on the desired incremental change, especially given that CSR and CSRR in Saudi Arabia, like in other developing countries, is still in its early stages of development. Therefore, the interpretive paradigm is seen as the most appropriate paradigm for this study, and thus the study aligns itself with previous studies that used the interpretive paradigm in their examination of CSR (see e.g. O'Dwyer, 2003; Chapple and Moon, 2005; O'Dwyer et al., 2005; Momin and Parker, 2013).

### **5.3 Research methods**

CSR and CSRR as socially constructed practices require unique data collection methods to capture their subjective nature and address the socio-political as well as economic environments in which these practices are initiated. Qualitative methods are used in this study that ontologically assumes that there is no single reality and that reality is socially constructed and epistemologically knowledge is generated by the interaction between the researcher and what is being studied. This is consistent with the exploratory objectives of this research, with its emphasis on understanding and explaining managerial perceptions of the different motivational factors that lead Saudi companies to report on their CSR; the challenges that motivate companies to report their CSR activities; and the role of non-corporate actors (e.g. media, academics, NGOs, CSR consultants, and regulators) in influencing companies to report their CSR and their perceptions of the current situation of CSR reporting.

Given this study's philosophical assumptions and the existence of a variety of qualitative data collection methods, this study's data collection methods have been determined by their appropriateness for answering the research questions of this study (Yin, 2009; Ritchie et al., 2013). More generally, Patton (2002) has suggested that data collection using qualitative methods can be carried out using three methods, including interviews, direct observation, and written documents.

The researcher argues that in order to achieve the aims and objectives of this study, it is essential for the researcher to immerse herself in the field of study by interviewing the actors having an involvement in the phenomena being studied and observing and communicating with them, allowing them to provide interpretations. Therefore, the emphasis is placed on understanding how the individuals interviewed (corporate officials and non-corporate actors) see things from their own perspectives (Ritchie et al., 2013). This is consistent with Chua's (1986) argument that the interpretive approach is concerned with 'the role of language, interpretation, and understanding in social science' (1986, p. 613).

Accordingly, the primary data collection methods used in this study is semi-structured interviews. Additionally, secondary data collection methods, including the analysis of documents<sup>39</sup> related to published government documents (e.g. Corporate governance code from the CMA) and official documents derived from company sources such as annual reports and online news, have been used to provide insight into the understanding of CSR and CSRR in a Saudi Arabian context. These multiple data collection methods were deliberately chosen to complement and strengthen one another. Additionally, according to Yin (2003), this triangulation increases the validity of the research evidence particularly if they are derived from alternative independent sources. However, in this thesis the importance of triangulation will not be overly emphasised because the data sources might be connected.

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<sup>39</sup> More discussion about the documentary analysis is going to be presented in section 5.3.3

The following section is devoted to providing more discussion on the chosen data collection methods.

### **5.3.1 Semi-structured interviews and their justification**

A semi-structured interview is a unique data collection method that has been widely used in studies on CSR and CSRR (see e.g. Belal and Cooper, 2011; Momin and Parker, 2013; Abdalla and Siti-Nabiha, 2015). Broadly speaking, interviews<sup>40</sup> are defined as a verbal conversation intended to gather descriptions of the life world of the interviewees with an emphasis on understanding the meaning that the interviewees give to the phenomena under study (Kvale, 1983, p. 174; Sedmak and Longhurst, 2010, p. 103).

Semi-structured interviews were chosen as the most appropriate type for this study because although it has a list of themes and questions, it is flexible and not standardised (Saunders et al., 2007). The flexibility of this kind of interview gives the researcher opportunities to change the order of the interview questions, modifying and adding new questions whenever needed to achieve the aims of the study. Accordingly, the researcher is able to probe answers when there is a need for further explanation from respondents. This enables the researcher to understand the meaning that respondents ascribe to CSR and CSRR in relation to the motivation and challenges for CSRR from company officials' perspectives and in relation to the roles and perceptions of non-corporate actors with regard to CSRR. In fact, by applying semi-structured interviews, interviewees are given the opportunity to provide detailed answers and express their knowledge freely rather than being constrained to provide one answer like in questionnaire survey or structured interviews. Therefore, semi-structured interviews have been chosen as the primary data collection method in this study.

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<sup>40</sup> Interviews can take three forms: structured, semi-structured, or unstructured one (Saunders et al., 2007, P.213). Structured interviews are usually based on predetermined and standardised questions for each respondent and are used in large-scale surveys. Unstructured interviews, on the other hand, are informal conversations where there is no predetermined list of questions and the interviewee is allowed to talk freely. In between the two forms of interview, there is an intermediate position in which semi-structured interviews are located (ibid).



### 5.3.2 The interview process

#### 5.3.2.1 Sample selection

A total of 34 semi-structured interviews were conducted to achieve the aims of this study with two different groups of interviewees; 22 interviews with corporate officials and 12 interviews with non-corporate actors. *In relation to the first group of interviewees*, this study aimed to understand managerial perceptions toward the different motivational factors that lead Saudi Arabian companies to report their CSR issues and to address the challenges that the companies face with reporting their CSR activities. To achieve the aim of this part of the study, which is related to RQ1 and RQ2<sup>41</sup>, 22 semi-structured interviews with senior managers from a broad range of industrial sectors were conducted. There were different primary justifications behind the selection of this sample. Firstly, the reason for selecting different organizations from different industrial sectors is to identify the different motivational factors that lead these different organizations to report their CSR activities as well as the challenges they face in CSRR, so the findings are not applicable to one industry. Additionally, although these different industries come from 16 out of the top 100 Saudi companies listed in the Saudi exchange market, size was not the only criteria for the selection of these companies; the other criteria were the willingness of corporate officials to be interviewed. Secondly, interviewed corporate officials were at the senior level and therefore it is expected they would have a significant input into the formulation of the CSR strategy<sup>42</sup> in their companies in addition to CSRR. They are thus expected to have a broad perspective and knowledge of their organizations' operations, which makes their selection to answer RQ1 & RQ2 in relation to their perceptions of motivations and challenges for CSRR

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<sup>41</sup> Chapter 6 has been devoted to presenting and discussing the findings for RQ1, and Chapter 7 has been devoted to presenting and discussing the findings for RQ2.

<sup>42</sup> This information has been obtained from the companies' websites which identified the interviewees' positions and information.

relevant and justifiable. Table 3 provides details of the number of the interviews from the selected companies and the interviewees' positions<sup>43</sup>.

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<sup>43</sup> Names of participants and names of companies have been removed to preserve anonymity and confidentiality.

Table 3: Number of interviews from the selected companies and the interviewees' related information

Sector and Code of Companies	Number of Interviews	Position of the interviewee	Years of Experience	Gender	Age	Educational Qualifications
Banking						
1. B1	1	Manager of the CSR department	10	Female	35	Master/MBA
2. B2	1	Manager of the CSR department	10	Male	36	Bachelor
3. B3	1	Manager of the CSR department	12	Male	42	Bachelor
4. B4	1	Compliance officer	18	Female	43	Bachelor
5. B5	2	Manager of the HR department	14	Female	45	Bachelor
		Compliance officer	12	Female	38	Bachelor
Agriculture and Food						
1. A1	3	CSR manager	11	Male	36	Bachelor
		Regional Head of the company	15	Male	40	Bachelor
		Manager of the HR department	10	Male	39	Bachelor
Telecommunications and Information						
1. T1	2	Director of CSR and corporate communications	13	Male	38	Master
		Preparer of the Annual Report	11	Male	35	Bachelor
2. T2	1	Manager of CSR department	12	Male	37	Bachelor
Cement						
1. C1	2	CEO	35	Male	55	Bachelor
		PR department manager	9	Male	40	Bachelor
Petrochemicals						
1. P1	1	PR department manager	14	Male	38	Bachelor
2. P2	1	Senior Executive officer	30	Male	50	Master
3. P3	2	Manager of the HR department	15	Male	42	Bachelor
		General Manager of Environmental Issues	17	Male	44	Bachelor
Building and Constructions						
1. N1	1	CSR manager	12	Female	36	Master
2. N2	1	CEO	30	Male	52	Master
3. N3	1	PR department manager	15	Male	44	Bachelor
Energy and Utilities						
1. E1	1	Manager of the marketing communication and PR department	10	Male	38	Bachelor
Total number of interviews	22					

*Regarding the second group of interviewees*, who are selected to answer RQ3<sup>44</sup>, which is to investigate and understand the role of non-corporate actors in influencing companies to report their CSR activities and their perceptions of current CSRR practices in Saudi companies, a total of 12 semi-structured interviews were undertaken. The interviewed non-corporate actors' included participants from media, academics, NGOs, CSR consultants, and regulators. Both prior literature and internet research helped in the selection of these categories of participants, who are expected to play a role in shaping CSR in Saudi Arabia. Furthermore, a number of scholars in the literature such as O'Dwyer et al. (2005); Belal (2008); Adams and Whelan (2009); Islam and Deegan (2010); Deegan and Islam (2012); Kamla et al. (2012) and Momin and Parker (2013) have called for further investigation on the role and the perception of NGOs, media, and academia. Accordingly, this study is responding to the call to fill this research gap and also contribute to the literature by interviewing regulators from CMA who are in charge of regulating and developing Saudi Arabian capital markets by issuing rules and regulations that emphasise transparency<sup>45</sup>. Additionally, this study interviewed regulators from the Saudi Organization for Certified Public Accountants (SOCPA), who are in charge of developing and approving accounting and auditing standards for Saudi Arabian companies<sup>46</sup>. CSR consultants were also interviewed in this study as they are the key to companies' CSR plans. Their role is to provide CSR consultancy services and help companies to develop their CSR strategies including CSRR<sup>47</sup>. It should be noted that the selection of the interviewed non-corporate actors was highly dependent on gaining access and the amenability of the interviewees to be interviewed. Table 4

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<sup>44</sup> Chapter 8 has been devoted to presenting and discussing the findings for RQ3.

<sup>45</sup> <http://www.cma.org.sa>.

<sup>46</sup> <http://www.socpa.org.sa>

<sup>47</sup> <http://www.tamkeencsr.com>

contains information about number of interviews with non-corporate actors and the interviewees' related information.

Table 4: Number of interviews with non- corporate actors and interviewees' related information

None-corporate Actors	Number of Interviews	Position of the interviewee	Years of Experience	Gender	Age	Educational Qualifications
<b>Media</b>						
1.A	1	Senior Journalist	15	Male	45	Bachelor
2.B	1	Senior Journalist	14	Male	39	Bachelor
<b>Academics</b>						
1.A	1	Professor	30	Male	53	PhD-CPA
2.B	1	Professor	26	Male	49	PhD-CPA
<b>NGOs</b>						
1.A	1	Head of community-based organization	12	Male	45	Bachelor
2.B	1	Senior manager from charitable foundation	11	Female	39	Bachelor
<b>CSR Consultants</b>						
1.A	1	Owner of CSR-consultant companies	12	Female	47	Master
2.B	1	Owners of CSR-consultant companies	8	Female	42	PhD
3.C	1	Senior manager in CSR consultant firm	8	Male	34	Master
<b>Regulators</b>						
1.A	1	Representatives from the Capital Market Authority (CMA)	16	Male	44	Master
2.B	1		18	Male	47	Master
3.C	1	Representative from the Saudi Organization for Certified Public Accountants (SOCPA)	18	Male	46	PhD
<b>Total number of interviews</b>	12					

### 5.3.2.2 Access

In terms of access to interviewees, the process of securing access to interview both companies' officials and non-corporate actors was not an easy task. In regard to corporate officials, the Tadawul website<sup>48</sup> and the organizations' official websites were used to identify and obtain information on potential interviewees. Interviewees were contacted via emails requesting interviews. In some cases, direct email addresses for participants were not available, and so the researcher sent emails to the general information departments in these companies to obtain the direct email addresses. The emails included an invitation letter<sup>49</sup> that provided a broad outline of the research being undertaken and its purpose, and information on the researcher, to make the access request clear. Although the researcher sent a large number of emails (100 emails to top 100 listed companies), the response rate was very low. A total of 36 companies replied to the emails, and 20 companies agreed to be interviewed. Unfortunately, just when the field trip started, six companies declined citing workload, confidentiality issues, and other commitments as their reasons for declining. Snowball sampling<sup>50</sup> was then used to assist the researcher to gain access to more companies and officials. The researcher managed to build up a good relationship with the interviewees during the data collection period, which helped the researcher to overcome the problem of access (Bryman and Bell, 2011). These efforts helped the researcher to secure 22 interviews with corporate officials from 16 different companies<sup>51</sup>. The processes of sending emails and getting responses and sending follow-up emails and making phone calls to the companies were lengthy and difficult and took six months to finalise.

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<sup>48</sup> Tadawul's website is an official website that includes information about all Saudi listed companies. It belongs to the Saudi Stock Exchange joint stock company, which was established with The Council of Ministers' approval on 19 March 2007 under Article 20 of the Capital Market Law (cited in [www.tadawul.com.sa](http://www.tadawul.com.sa)).

<sup>49</sup> Invitation letters are provided in Appendix A.

<sup>50</sup> Snowball sampling, according to Biernacki and Waldorf (1981, p.151), is defined as a 'series of referral[s] that are made within a circle of people who know each other'.

<sup>51</sup> See table 3.

The researcher also encountered some difficulties in obtaining interview agreements from some non-corporate actors. CSR consultants and academics were the easiest to access, as they showed interest and willingness to be interviewed and their information, including their emails, were easy to obtain from their organizations' websites. However, securing the interviews with regulators, journalists from the media, and NGOs was problematic. Although a number of emails were sent and phone calls were made to obtain interview appointments with these targeted participants, these groups did not show any positive gesture to cooperate with the researcher and claimed to be unavailable due to their obligations at the time the interviews were scheduled to be conducted. In fact, these groups of interviewees can be described as 'hard to reach' due to their sensitive positions. To overcome this problem, the researcher used her personal social network and snowball sampling methods<sup>52</sup> to secure and arrange interviews with regulators, journalists from the media, and NGOs. In total, the researcher managed to interview 12 non-corporate actors to gain insights into their roles and perception regarding CSRR.

Facing such difficulties in securing access to collect the data was expected, as some previous studies on CSR in developing countries have also reported such difficulties (e.g. Belal, 2001; Hanafi and Gray, 2005; Kamla, 2007).

Upon receiving a confirmation of acceptance from the participants to be interviewed, interview guides<sup>53</sup> were emailed to enable participants to obtain an idea of the possible issues that would be discussed in the interviews and to familiarise themselves with the topic under research. The interview guide was tailored differently based on the interviewed groups' characteristics, and the questioning emphasis was different for different groups. For instance, the companies' interview questions were different from non-corporate actors' questions. The interview questions were informed by the literature review and theoretical framework.

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<sup>52</sup> The interviewed academics helped the researcher in this issue, as the researcher is working as lecturer at the same faculty in which these academics worked. Getting access without their help and that of the researcher's personal social network may have been impossible.

<sup>53</sup> See Appendices B & C.



Prior to conducting the fieldwork, the interview questions were tested and piloted with two companies in April 2014 during an exhibition for Saudi companies in London. That was done in order to gain some understanding of the nature and type of CSR reporting that was being developed by Saudi companies, as well as to identify the CSRR practices. The pilot interviews helped ensure the feasibility of the questionnaire and that no change was needed following piloting. In addition, annual reports of sample companies were scrutinised prior to embarking on the interviews so as to generate further insights into CSRR practices in the country.

### **5.3.2.3 Ethical considerations**

In the world of research, ethics has been identified as playing an important role in the appropriateness of researcher behaviour regarding the rights of participants involved in the research (Saunders et al., 2007; Zikmund et al., 2012). Because of the involvement of human participants in this research, ethical approval from the University of Essex ethics committee was obtained before conducting field interviews. An ethical form is a legal document that ensures the researcher's behaviour regarding treatment and collection of data, confidentiality and anonymity of participants, and participants' informed consent complies with certain standards.

This research was undertaken with the participants' consent, and all participants were informed about the nature of this study and its aims and objectives. Additionally, participants were assured that the confidentiality and anonymity of their organizations' names and their personal names would not be violated in any form. Hence, codes were used in the analysis and presentation of the data. Participants were also informed that any information they provided was not going to be shared with any other parties or used out of the scope of its academic purpose, and that the gathered information would not be used to harm the participants or their companies in any form. Further, participants were informed that they had the right to end the interview or withdraw from the study at any time. Participants were also informed prior to any interviews that the interviews would be audio recorded. In only three cases did participants not agree to be recorded despite the

assurance given to them regarding confidentiality. In these cases, the researcher did not audio record the interview but took notes instead.

The collected data, including the audio records, field notes, and interviews' transcripts, were kept in a safe location that could be accessed only by the researcher. Additionally, participants were given the right to be provided with the transcript of their interview if they wanted to confirm its authenticity<sup>54</sup>. Overall, the researcher took all ethical considerations into account in order to give credibility to this research.

#### **5.3.2.4 Conducting interviews**

The interviews conducted were undertaken between the period of May 2014 and September 2014. All interviews were carried out in the participants' offices in their organizations. The interviews were conducted in three regions in Saudi Arabia, the Eastern region, Western region, and Middle Region and in three major cities Al-jubail (an industrial city), Jeddah, and Al-Riyadh (the capital city). Before conducting each interview, a confirmation email was sent to the participants to confirm the appointment and the expected interview duration time, and to provide the interviewee with the interview question guide again. All interviewees were given the chance to choose if they would like the interviews to be conducted in English or Arabic. All interviewees preferred the interviews to be conducted in Arabic, as it was their native tongue and such a step would give them the chance to express their answers more clearly.

A written consent was obtained from the participants before the interview<sup>55</sup>. The interview started by giving the interviewees an explanation about the study aims and objectives. Further, the researcher stressed that she was not seeking right or wrong answers to the questions; rather, the interviewees' opinions and views were what mattered most. The researcher maintained her adherence to the ethical considerations stated in 5.3.2.3 and permission for audio recording, the

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<sup>54</sup> This was done in three cases.

<sup>55</sup> See Appendix D.

issues of confidentiality and anonymity, and the storage of collected data were sought from and communicated to the participants. The pre-prepared interview guides aided the researcher in asking relevant questions related to the issues central of this study, to probe where it was needed, and to ensure consistency of questions between interviews.

Despite the difficulties and challenges associated with the process of securing the interviews and the costly process associated with the researcher's need to travel to different cities and locations to interview the participants, the experience of conducting the interviews was fruitful. The interviewees cooperated and answered all the interview questions, and their managerial perceptions of different motivational factors and challenges for CSRR were obtained. The same attitude was found in the interviews with non-corporate actors. Overall, the participants were happy to be interviewed, as they were being given the chance to hear themselves think out loud about issues they had not considered fully before. They also offered to cooperate in any further investigation that the researcher might conduct in the future. The duration of each interview with both interviewed groups was 60 minutes to 120 minutes. Notes were taken during interviews as a backup for the audio records, and in some cases where the interviewees did not agree to be recorded, notes were used as the main source of data.

#### **5.3.2.5 Transcriptions of the interviews, translation, and data analysis**

All the 31 audio-recorded interviews were subsequently transcribed by the researcher herself after each interview so that more insight could be gained and used in subsequent interviews (Patton, 2002; O'Dwyer, 2004). Each interview was given a specific code number for ease of reference, for instance, 'B1' referred to Bank 1, 'N1' referred to Company 1 in the building and constructions sector, and 'Journalist A' referred to the first interview conducted with a journalist. These references were used when writing the findings and discussions in chapters six, seven, and eight.

During the transcription process, recurring themes were identified in relation to CSRR motivations, CSRR challenges facing the interviewed corporate officials, and the role of non-corporate actors and their views on current CSRR practices. Each transcript was double-checked for accuracy by playing back the audio record. This also allowed the researcher to identify some extra themes and errors or gaps that were missed during the initial transcriptions, and to make more sense of the data. Additionally, all notes taken during the interviews were read and compared in conjunction with the transcripts. Similar processes for analysing the data from the notes of the unrecorded interviews were conducted. Such processes enable the researcher to minimise the risk of missing any important information provided by the interviewees and to obtain valid and reliable data (O'Dwyer, 2004).

Because the interviews were conducted in Arabic, the first version of the transcription was mainly in Arabic. All the interviews were then translated by the researcher herself into the English language. The reasons the researcher translated the interviews by herself was that she wanted to maintain the confidentiality of the collected data and she wanted to immerse herself in the data to obtain a general 'sense' of the conducted interviews. To ensure the validity and reliability of the translation, the researcher consulted another academic researcher who was bilingual (English/Arabic) about the translation of some interviews quotations to ensure that the quotations were translated correctly.

During this process, important themes and sub-themes related to the motivations of CSRR, for instance 'Commitment to the community', were identified as motivational factors for CSRR. Additionally, themes like 'cultural traits' were identified under CSRR challenges, and themes like 'views' and 'roles' were identified for the role and views of non-corporate actors. The identified themes were very helpful when writing up the findings and in answering the study's research questions. The researcher has tried to use the Nvivo programme for analysing the data and organizing the extracted themes and sub themes. However due to some technical problem

associated with the software programme and the time constrain the analyses of the interviews was done manually.

Three concurrent processes were identified by Miles and Huberman (1994) for analysing qualitative data as follows: data reduction, data display, and drawing of the verifying conclusion. Data reduction was achieved by identifying the themes and sub-themes that noted during the transcriptions process as indicated above. The extracted themes and sub-themes revised again against the transcriptions to make sure that themes can answer the research questions. Subsequently, the themes and sub-themes were organised and important quotations were highlighted, and the data were then displayed on a mind map. This process helped the researcher to group themes together and make sense of the extracted quotations against the theoretical framework, which enabled the researcher to draw a narrative of the findings to achieve the research aims and objectives.

### **5.3.3 Documentary analysis**

Documents are an important source of written evidence that is used frequently in combination with other qualitative methods (e.g. interviews) as a means of triangulation (Bowen, 2009). The rationale for the triangulation is that it helps the researcher to merge evidence that raises the credibility of her findings and enables researcher to obtain richness into the findings and deny any claim that findings rely on a single method or a single investigators' bias, as the information of the study is gathered from different resources (Patton, 2002). In this PhD study, evidence from documents was used as a secondary source of data to supplement and reinforce data gathered from the semi-structured interviews. The documents examined included publically available government documents such as the corporate governance codes from the CMA, the Saudi government's 9th development plan for the country for 2010–2014, publications from the Chambers of Commerce & Industry, and published documents from the Saudi Arabian General Investment Authorities (SAGIA) and the King Khalid Foundation. Government websites such as

the Royal Commission for Jubail and Yanbu (RCJY) and Saudi Arabian Monetary Agency (SAMA), official documents derived from company sources such as annual reports and online news websites such as Saudi Press Agency (SPA), and online websites related to CSRR international standards such as the GRI, ISO, and the International Centre for Not-for-Profit Law were used to gain insights into the understanding of CSR and CSRR in the Saudi Arabian contexts. Additionally, information contained in documents also served a useful purpose in preparing interview questions by suggesting events and situations that needed to be observed and investigated.

The advantages of the documentary analysis method are clear in terms of its cost-effectiveness and its availability, as many documents are available for free in the public domain (especially with the advanced internet technology available today) and they can be downloaded from the internet without the authors' permission (Bowen, 2009). Further, the documents are rich in providing a broad coverage for many issues related to CSR and CSRR and covering many events and settings (Yin, 2003). Documents can also include exact names and references for events (e.g. dates, locations), an advantage that might not be available in other data collection methods (ibid). However, there are some potential flaws and limitations inherent in documents in relation to their low irretrievability, as the access to some documents may be deliberately blocked, which may necessitate more time and effort from the researcher to obtain the required documents (Yin, 2003; Saunders et al., 2009). In this study, for example, in some cases, there were some government documents that were not available for download online; however, the researcher managed to send emails to these government bodies and was able to obtain the documents. Despite the limitations of this method, it has enough merits to outweigh these limitations, and it can be effectively used to complement and supplement the interviews' findings to gain a wider understanding of CSR and CSRR in Saudi Arabia.

#### **5.4 Data validity and reliability**

Validity and reliability are important elements that need to be ensured in qualitative research (Zikmund et al., 2008). The following strategies were employed to maintain the validity and reliability of this study. Firstly, multiple data collection methods were employed to ensure validity and reliability, including semi-structured interviews and documentary analysis. Multiple data collection methods were deliberately chosen to complement and strengthen one another. Secondly, regarding the semi-structured interviews, although this data collection method helped the researcher to probe for answers, the process of conducting the interviews was highlighted as a limitation of this method (Saunders et al., 2009). The limitation highlighted is related to the process of conducting the interviews in itself as it can lead to bias and influence from the researcher's side, which may influence the validity and reliability of the given interview answers. However, to avoid bias in this research, the interview questions were designed intentionally to be open-ended questions so the conversation would be a loosely guided one (Easterby-Smith et al., 2008). This helped to minimise the possibility of participants' responding by giving the researcher what they believed she wanted to hear. Additionally, the participants were assured full anonymity in their answers and this also gave them the confidence to speak freely without any fear. Thirdly, the validity and reliability of the secondary data, 'the collected documents', was ensured, as they were collected from credible resources such as government authorities and authentic websites, and the relevant hyperlink was provided with each resource. Finally, each step of the data collection process was conducted by the researcher, and the transcriptions of the interviews were also done by the researcher.

#### **5.5 Summary and conclusion**

This chapter discussed the methodology and methods used by the researcher to achieve the study aims and objectives. The interpretive paradigm and its underlying philosophical assumptions were discussed and justified. This study explored the reality constructed by companies'

managers and non-corporate actors by accessing through interviews the meaning that they assigned to them. Qualitative data collection methods were used to obtain knowledge primarily on the subjective interpretation of managerial and non-corporate actors' perceptions of CSRR. Semi-structured interviews were used as the main data collection method in this study, and documentary analysis was used as the secondary data collection method. The chapter discussed and provided justification for the use of these two data collection methods. The limitations and challenges of these methods were also discussed. Additionally, issues of data validity and reliability were discussed. Chapters 6, 7, and 8 will be devoted to presenting and discussing the findings that resulted from using the aforementioned research methodology and methods.



## **Chapter 6 :The Motivation for CSR Reporting among Saudi Arabian Companies**

### **6.1 Introduction**

This chapter discuss the first part of the empirical work for the current PhD research study. It aims to investigate the motivations for Saudi Arabian companies to report on CSR issues from managerial perceptions, and to answer the following research question:

RQ1: What are the managerial perceptions of the motivations for Saudi companies to report their CSR activities?

By reviewing previous studies related to corporate social responsibility reporting (CSRR) it has been found that despite the growing number of studies about CSRR, most previous work has focused on Western developed countries, see for e.g.( Gray et al., 1995; Buhr and Freedman, 2001; O'Dwyer, 2003; Adams and Whelan, 2009; Bebbington et al., 2009; Reverte, 2009; Hussainey and Salama, 2010; Reining and Tilt, 2012; De Villiers and Alexander, 2014). Little attention has been given to CSRR in the context of developing countries, including Saudi Arabia (Belal and Momin, 2009; Jamali, 2010; Hussainey et al., 2011; Bayoud and Kavanagh, 2012; Belal et al., 2013; Momin and Parker, 2013; Islam and Deegan, 2014; Dagiline, 2015).

This part of the research aims to contribute to the CSRR studies in two ways. First, it has been noticed that though a few attempts have been made by local researchers to explore CSR in Saudi Arabia (Ali and Al-Aali, 2012; Al-Janadi et al., 2012; Mandurah et al., 2012; Nalband and Al-Amri, 2013), to the best of the researcher's knowledge no previous studies have emphasized or investigated the motivations that could explain the increase in the number of Saudi companies choosing to disclose their CSR in their annual reports. Accordingly, this study aims to fill this literature gap in CSR research about Saudi Arabia, and also to respond to calls made by

international scholars, such as Spence and Gray (2007) and Belal and Momin (2009), to investigate organizations' motivational factors for reporting their CSR activities.

Second, this study also aims to make a theoretical contribution. It analyses the data on motivations for CSR reporting by using neo-institutional theory as proposed by DiMaggio and Powell (1983) and Scott (2008), as well as the complementary model suggested by Battilana (2006) and Battilana et al. (2009). In this regard, the study seeks to shed light not only on the institutional pressures that leads organizations to report their CSR activities, but also on the role that various agents play in creating change in their organizations.

This chapter is informed by semi structured interviews as the main data collection method and documentary evidence as a secondary data collection method, details of which were given in chapter five.

This chapter is structured as follows. It starts by presenting, analysing and discussing managerial perceptions of the different motivational factors that are considered to be the drivers for companies to report their CSR activities. The findings are presented categorised by the different forms of institutional pressures that have been identified in the analysis of the interviews including first normative pressure, then mimetic pressure, and finally coercive pressure. The chapter ends with a summary and conclusion. The structure of the chapter is provided in figure 11.

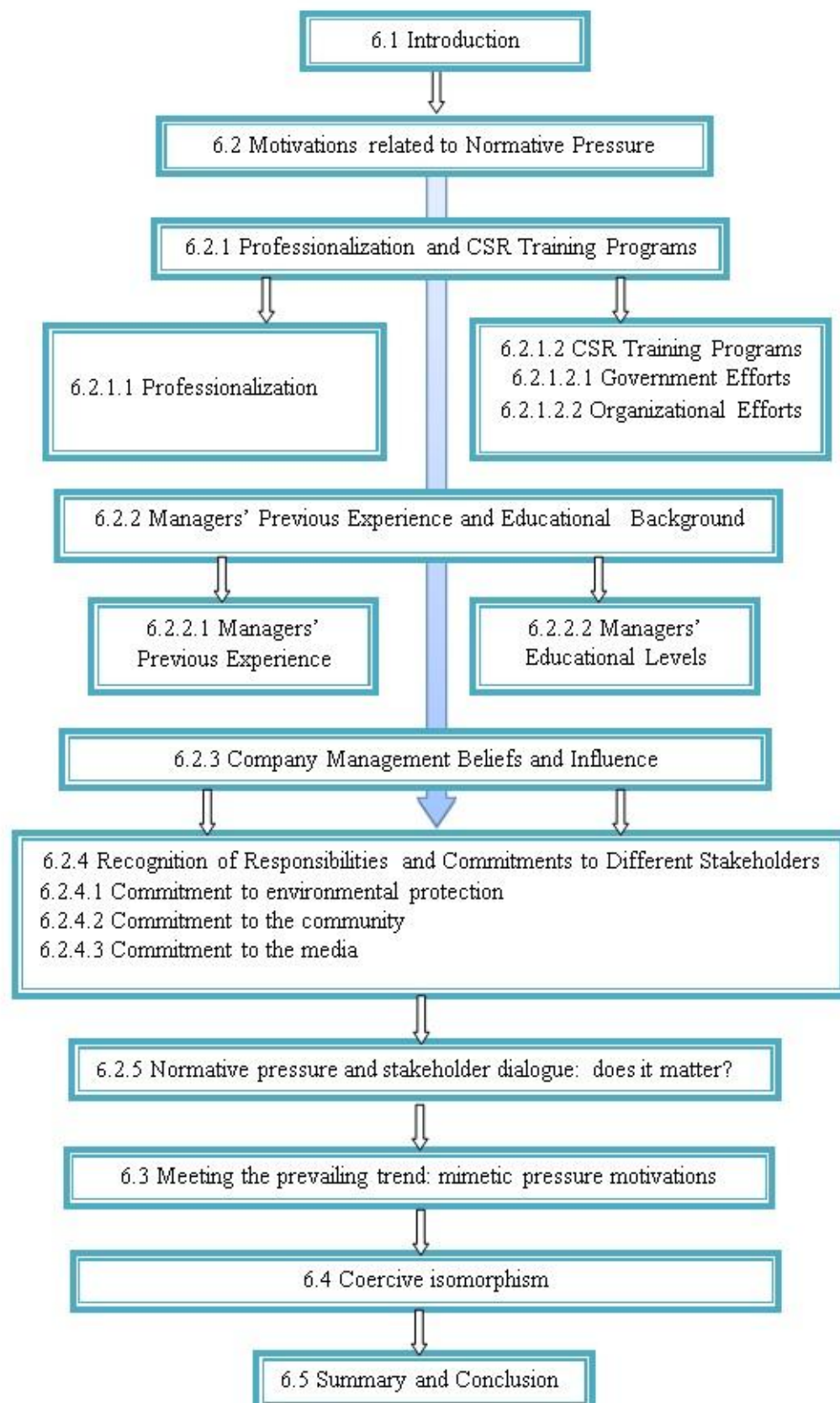


Figure 11 : Structure of Chapter 6

## **6.2 Motivations Related to Normative Pressure**

The interview analysis of managerial perceptions reveals that one important reason for organizations to report their CSR stems from normative pressure. Normative pressure influences managers to pursue various ends to meet the social expectations in the environment in which their organizations operate, and accordingly maintain their legitimacy (DiMaggio and Powell, 1983; Scott, 2008). This dimension encompasses values related to what is desirable and socially acceptable to pursue, and norms that define how things should be done to achieve the valued end (Scott, 2008).

Various types of normative pressures have been identified within this study as motives for companies to report their CSR issues, including professionalization, CSR training programs, managers' previous experience and educational background, the company's management's beliefs and motives, and recognition of responsibilities and commitments to different stakeholders. The findings and discussions related to normative pressure will be presented in the next section.

### **6.2.1 Professionalization and CSR Training Programs**

One of the themes identified as a normative pressure during the interviews is related to professionalization and CSR training programs, and their role in disseminating a normative isomorphism between organizations in relation to educating companies on CSR topics and motivating them to report their CSR activities.

#### **6.2.1.1 Professionalization**

Professionalization has been identified as an important factor which promotes and motivates companies to report their CSR activities, and to put CSR-related issues such as CSRR into a professional context. Indeed, professionalization goes hand in hand with normative isomorphism (DiMaggio and Powell, 1983). Specifically, the literature showed that training and professional

membership give organizational members the opportunity to interact, socialise, share learning and experience regarding what constitutes acceptable norms and values, share the same behaviour and attitudes, and accordingly change and influence the organizational behaviour to meet what constitutes acceptable norms and values (DiMaggio and Powell, 1983; Bebbington et al., 2009; De Villiers and Alexander, 2014).

This factor was especially prevalent in the interviews conducted in organizations that were members of certain associations, which will be explained later in this section. Analysis of the interviews revealed that companies that belong to the same association have strong ties with each other, and normally member organizations share similar philosophies and norms. This can also result in viewing problems and their solutions in the same manner. In fact, it can be argued that socialization acts as an isomorphic force in relation to CSRR amongst companies (DiMaggio and Powell, 1983).

For example, the interview analysis shows that companies in the cement industry have been much influenced and motivated to report on their CSR activities from attending programs and meetings organized by the *National Committee for the Cement Industry*, and from communications with other organizations and professions that operate in the same industry. In discussing this issue, an interviewee said:

3 years ago a national committee for the cement industry was formed. Most cement companies in the country became members of this committee. Membership of this committee allows companies to cooperate with each other. We exchange reports and see what kind of services each company offers in the different regions. For example, Northern Cement Company's reports are different from those of Southern Cement Company. We benefit from each other and from seeing other companies' reports. We get to know lots of things including some CSR issues, such as the amount of money each charity gets. We grasp even better ideas about what to report in respect of CSR in relation to the community involvement and charity aspect. We actually get to know these standards from the reports of other companies we meet with (C1, CEO, Cement Sector).

Similarly, membership in some petrochemical associations such as the Responsible Care

initiative and the Gulf Petrochemicals and Chemicals Association (GPCA) exerts normative pressure on companies to report on their CSR activities and to meet the prevailing norms and values in relation to CSRR.

Organizations, by such membership, have been given a great opportunity to learn from and communicate with other companies in the same field, both locally and internationally. The annual meeting for these groups and the training programs associated with these meetings have influenced the CSR activities and CSRR for companies in the petrochemical industry on many CSR issues. Through their frequent meetings, members get the opportunity to socialize with different organizations and to learn from each other; share similar norms, values, and ideas about issues of concern; grasp clearer ideas about CSRR; and be motivated more to report on their CSR. As one interviewee stated:

We are a member of the GPCA and its subcommittees. This association is very active in the petrochemical, HR, environment, and general safety fields. It holds an annual conference in Dubai. More than 4000 persons attend it from the Gulf States and all over the world. Well known and international companies in the petrochemicals field also attend, such as Exxon-Mobil, and several Italian and Japanese companies. There is an agenda alongside the main conference, and meetings with members concerned with safety, the environment, and health are usually conducted. Being a member of this association has enabled us to meet and discuss different CSR issues with different members of this association including CSRR (P2, Senior Executive Officer, Petrochemical Sector).

The same view was shared by another interviewee:

As a member of the Responsible Care initiative which comprises a number of local, gulf, and international companies, I can say that this membership was one of the reasons for us to report on CSR issues. We have two regular meetings with the members of this initiative. In our meetings we agreed to produce the first report that illustrates the levels of emissions and the relevant numbers of environmental issues in companies. Currently, we are establishing the second stage of the report, which presents the number of accidents that happened to our employees who are working in the company manufacturing activities. Yet, the process is still in its beginning stages in the gulf area, and not all corporations signed the agreement. However I can say that we almost all share the same CSR reporting issues (P3, General Manager of Environmental Issues for the Corporation, Petrochemical Sector).

These quotations suggest that members of the aforementioned associations have been privileged by their meetings with their peers in the same profession. These kinds of educational meetings have helped encourage the organizational members to put CSR and the issues related to CSR, including CSRR, into a professional context, and motivated them to report on the CSR aspects of their company activities. Further, membership allows frequent meetings with professionals in the same field which has enabled companies to use the same overall CSR framework and structure (and almost the same CSRR patterns). This echoes with institutional theory as managers are trying to conform to norms that other organizations in their field undertake to legitimise their presence. This also suggests that motives for CSR and CSRR practices stem from the desire of organizations to become similar to other organizations by adopting similar CSR and CSRR practices which society consider normal.

Such an educational environment is important for the development of organizational norms and values in relation to the disclosure of CSR, and motivates companies to undertake more steps toward CSR disclosure. It can be concluded that professional associations play an important role in providing continuous knowledge, which in turn creates normative pressures on its members. This finding is supported in the literature, which found that membership of professional bodies and their associated workshops can have an impact on organizations' views toward CSRR (Bebbington et al., 1994; Matten and Moon, 2008; Bebbington et al., 2009; De Villiers and Alexander, 2014). However, these previous studies were conducted in developed countries, and to the best of the researcher's knowledge no previous studies have examined the relationship between professionalization, association membership, and motivating companies to report on their CSR in developing countries.

### 6.2.1.2 CSR Training Programs

One of the normative pressures identified in the analysis of the interview findings as a motive for companies to report their CSR is the presence of CSR training programs. DiMaggio and Powell (1983) pointed out that professional training institutions and educational training programs are important aspects that contribute to developing organizational norms amongst companies' managers and staff. Such mechanisms enable organizational members to be surrounded with educational environments that familiarise them with acceptable CSR norms and values, and enable them to socialise with relevant professionals and exchange information about CSR issues.

Two types of effort to provide CSR training programs were identified in the analysis of the interviews as follows: the government efforts and the organizational efforts.

#### 6.2.1.2.1 Government Efforts

In regard to the *government efforts*, it has been found that despite the fact that CSR as a business issue has recently arrived in Saudi Arabia (Khan et al., 2013), the Saudi government is working noticeably toward providing and organizing training and educational programs related to CSR.

Indeed, given the volatility of oil prices and the fact that the country relies heavily on oil for its income, the Saudi government has realised the important role that the private sector can play in stimulating economic activity, and considers CSR an important part of it (Ali and Al-Ali, 2012). The government has also highlighted the private sector's importance in helping the country to overcome some critical issues, such as reducing unemployment, protecting the environment, and providing social services and sustainability. This was reflected clearly in the government's 9<sup>th</sup> development plan for the years 2010-2014.<sup>56</sup>

Accordingly the government has started to hold CSR training and educational workshops for organizations. These workshops aim to emphasise and strengthen the role of corporations in

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<sup>56</sup> Cited in <http://www.mep.gov.sa> and discussed also in Chapter 3 which is about the country context.



society, to boost knowledge about CSR and CSRR amongst organizations, and to encourage businesses to adopt acceptable CSR norms and values<sup>57</sup> that include CSR reporting. By doing this, the government is trying to build and surround the organizations with normative structures that influence organizational practices. Accordingly, organizational participants are going to behave relatively unconsciously in ways that are “normal,” so they “fit in” and appear “appropriate” in the society in which their organizations operate (Bebbington et al., 2009, p. 592).

Several channels have been used by the government to achieve this purpose, including the Chambers of Commerce & Industry located in different regions in the country and some authorities such as the Saudi Arabian General Investment Authorities (SAGIA) and the King Khalid Foundation. Several of the interviewees acknowledge the influence of the frequent workshops held in Riyadh (the capital city) with cooperation from “*Informa International Company for sustainability and CSR services*” to provide different aspects of CSR training, including workshops about CSR practices and CSR disclosure. As one interviewee stated:

We have recently started to receive invitations from the Chambers of Commerce in Riyadh and Jeddah to attend free workshops, conferences, and seminars related to CSR. I can say these are really beneficial workshops that have educated me and accordingly influenced the organization’s CSR scope and sometimes feature international speakers. These workshops have really increased my knowledge about CSR and motivated us as a company to value CSR reporting and to disclose more about CSR (T2, CSR Manager, Telecommunications and Information Sector).

Another interviewee supported this view:

As you know, CSR and CSRR have become new phenomena in Saudi Arabia recently. Attending workshops is essential to learn about this issue. Workshops provided by the governmental bodies, such as the ones provided by the Chambers of Commerce, are also essential so we can know what is required to be done in relation to CSR. Knowing that this workshop is provided and sponsored by a governmental body means that the workshop basically reflects what we need to fulfil in relation to CSR (N1, CSR Manager, Building and Construction Sector).

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<sup>57</sup> By thinking beyond only maximising the shareholders’ values and behaving as good citizens in the society. Cited in <http://www.csr.org.sa>.

A similar view was shared by another interviewee, who reported that he appreciated the workshop provided during the annual conference held by SAGIA<sup>58</sup>, and the role that these workshops played in influencing their CSR activities as well as their CSR disclosure. He stated that:

SAGIA, through its cooperation with AccountAbility<sup>59</sup>, is providing excellent training and workshops related to CSR at their yearly conferences. Their workshop from my point of view has improved my knowledge about CSR, and since SAGIA is the one who is providing one of the most important CSR awards in the country, then the workshops are mainly about CSR and relevant issues such as CSR disclosure. AccountAbility also used to conduct workshops about CSR reporting, but has now moved its workshops' focus toward sustainability reporting. Such emphasis on CSR reporting helped and influenced me as a representative for the company to know about the importance of reporting our CSR activities, and to know how things should be done (E1, Manager of the Marketing Communication and PR Department, Energy and Utilities Sector).

These excerpts imply that although these workshops and training programs do not aim to set any rules or regulations that companies have to comply with, they reflect the influence that such educational environments can have in showing companies how things should be done and the acceptable way of doing them to legitimise their presence (DiMaggio and Powell, 1983).

#### **6.2.1.2.2 Organizational Efforts**

In addition to the aforementioned governmental efforts to surround organizations with normative structures, in order to influence organizations' practice and to educate organizations about acceptable CSR norms and values, some private organizations have increased their efforts to educate their members about CSR and relevant issues such as CSRR. More specifically, organizations have started to fund their staff members to attend CSR training programs, either in

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<sup>58</sup> The Saudi Arabian General Investment Authority (SAGIA) is a governmental body established in 2000 to improve the economic competitiveness of Saudi Arabian companies, facilitate and attract foreign direct investment and encouraging companies to take part in solving social issues, e.g. unemployment. SAGIA awards a competitiveness-index prize to companies that report their CSR in accordance with specific standards. <https://www.sagia.gov.sa>.

<sup>59</sup> AccountAbility is an international organization specialised in setting the standards for corporate responsibility and sustainability development, providing advisory service and doing relevant CSR research. <http://www.accountability.org>.

or outside the country. Moreover, some organizations that pioneered CSR and CSRR in Saudi Arabia, and received a number of local and international CSR prizes, have decided to be change agents to help to set an educational agenda for CSR.

CSR, as indicated before, is a new issue in Saudi Arabia and has not yet been institutionalised. Given the absence of regulatory guidelines from regulatory bodies to educate organizations about acceptable CSR norms and values, some organizations have decided to take an active role in reducing the uncertainty about CSR in their institutional environments, and to engage in shaping the CSR agenda in the country. These organizations have organised and hosted CSR conferences and workshops, and have invited some well-known international speakers in the CSR field to educate companies regarding CSR. The speakers and hosted organizations themselves often talk about their own experience regarding CSR, describing its early adoption and how it became something taken for granted in their companies.

Indeed, these organizations that want to take a role in shaping the CSR agenda in the country have a high status among other organizations in the field, and the resources required to play such a role. This has enabled their members to be able to help create a normative and educational environment for CSR (Battilana, 2006).

In order to secure the endorsement needed to create the normative environment and provide organizations with the required CSR training, these organizations' financial resources and ability to mobilise their allies have facilitated their progress. Battilana et al. (2009) suggested that for divergent change to be implemented several processes need to be undertaken, including framing a vision for the change, mobilising allies and resources, and communicating with formal authorities that can facilitate and enable implementation of the change. These processes were completed by two of the largest organizations relevant to this study, each from a different field and located in a different region of the country: one in the Petrochemical Sector from the eastern

region, and one from the Agriculture and Food Sector from the western region. Both organizations were early CSR adopters and are large enough to be able to drive the change effectively.

The process started for both organizations by framing a vision about the change. During *diagnostic framing* the organizations exposed problems with the current CSR practices, and during *prognostic framing* they explained how the new project was going to be better than the current one (training provided by different institutions). Their professional and regional diversity allowed them to create a normative environment in relation to CSR for organizations in more than one region. Furthermore, because they have won prizes and been honoured more than other organizations in the field of CSR this has encouraged their colleagues to trust them to undertake such action. Finally, they undertook *motivational framing*, which entails providing compelling reasons that align with the interests of others, such as relating CSR practice and CSRR with high financial returns. These organizations' efforts to mobilise allies also identified actors with formal state authority who were involved in facilitating and supporting the divergent change implementation, and the organizations proposed that the new vision would ensure improvement in CSR practice and CSRR. Finally, the two companies' financial resources have enabled them to successfully arrange big CSR conferences, attracting national and international speakers who were able to talk about their own experience in CSR.

In talking about these efforts and process, a CSR manager from the Agriculture and Food Sector (A1) said:

As a company we have managed to talk with the Chamber of Commerce in the region about our aim to provide organizations with some CSR training programs. Our position as a large company cleared the road for us to approach the decision makers in the Chamber of Commerce, and we managed to convey to them that we have the experience as well as the financial resources to facilitate the mission

The manager continued and described the undertaken processes of prognostic framing and motivational framing and said:

We gave the Chamber of Commerce our vision that when companies see us providing the training, they will be more motivated to attend and learn about the training we offer. We're especially trying to open the companies' eyes about the relationship between CSR and the bottom-line profit, the importance of diversifying CSR channels instead on focusing on charitable giving, and the competitive advantages that an organization can gain as a result of reporting their CSR activities

The above interviewee acknowledged that their process is still in its early stages and more efforts are needed to achieve the required results specially given the innovative nature of CSR and CSRR to business and the required efforts to convince companies about its benefits.

The Manager commented on that and said:

This is the second year we have held this conference. We present our experience in every conference, and we always say that our doors are open for those who want to learn and that everything is available for learning. But in KSA the ego is very high. In fact, not all companies have the desire to learn. However, we are optimistic that with more marketing of our conference and training programs we will be able to achieve more success in these efforts

A petrochemical company has made similar attempts to create a normative and educational environment. The PR Manager from (P1) Petrochemicals Sector had this to say:

I'm proud to tell you that we are the first petrochemical company that has decided to provide CSR training and workshops for petrochemical companies in the same region, and to host conferences related to this issue. The good relationship we have with the Royal Commission of Jubail and Yanbu, who gives permission for any industry to operate in the region based on specific criteria, has enabled us to show them the deficiency in the current CSR practices and training programs provided by the commission, and our vision to improve the current CSR practice

The above manager drew attention to how the CSR training programmes provided where they are given by international speakers are advanced and not in line with the Saudi Arabian culture.

We have noticed that international speakers are trying to talk about CSR programs and concepts that are not suitable to the country. We have common ground with the international speakers when it comes to the environmental programs and the importance of reporting CSR, but we do not agree with most of their CSR issues. However, when we talked with the Royal Commission we agreed to provide training and conferences that are relevant to our country and culture. In the conference we talked about our experience in CSR, and we designed workshops that we believe are going to be relevant to the organization in the region

These narratives imply that different training efforts, whether taken by the government or the organizations themselves, create and surround organizations with educational environments to help them to meet acceptable norms and values that maintain their legitimacy. However, while some interviewees appreciated these efforts, as they helped them to grasp some ideas about the CSR issues that the country needs to overcome and motivated them to report on their CSR activities, these were not the answers for all the surveyed companies. Some have demanded extra workshops from other specialised institutions and ministries in the government (such as the CMA and Ministry of Social Affairs), as this interviewee commented:

The currently provided workshops are modest, and I cannot say they're not beneficial, but we need more ....We can seek help from external parties (leading CSR companies in the USA and the UK) and see how others have made use of CSR. We can't do this alone. As a shareholder company we need to be enlightened. We need help. We need somebody to tell us these are the mechanisms that take place in the advanced world. The government and the Ministry of Social Affairs are supposed to assume this role. They must go and bring expert people from outside, in order to see how they handle issues. They have to examine other countries and how they function, and determine how we can use it (C1,CEO, Cement Sector).

Another interviewee addressed another issue related to the CSR training programmes provided by local companies such as the (P1) company. The interviewee considered that the provided educational programs (conferences and forum) are designed to serve marketing purposes for the company image. The PR manager from (N3) Building and Construction Sector commented on that issue and said:

I have attended a four-day forum in Jubail about social responsibility sponsored by (P1) company. There was a noticeable contingent of around 35-40 PR (and CSR) managers in addition to officials and managers from most companies in Al-Jubail. However, the conference was more about publicity for the companies' CSR achievements. Even those who talked about their CSR activities were basically talking about providing humanitarian services: sponsorships and charitable donations

The above interviewee also described how CSR as a concept is bigger than just giving donations and sponsoring local activities and has to go beyond this narrow view that local companies are

trying to disseminate. He also agreed with the comment raised by the CEO from the C1 company from the Cement Sector on the necessity for governmental bodies to have a role in clarifying the meaning of CSR and said:

CSR as a concept is bigger than just giving donations and sponsoring local activities like what local companies trying to convince us with. I think we still have a long way to go to reach the western countries, or even get a bit closer in terms of CSR and CSRR. We need to see more efforts from governmental bodies such as the Ministry of social Affairs and CMA. I think that will be better than attending conferences that are organized by local companies who themselves needed to be educated about the real meaning of CSR

The above statements imply that spreading the CSR norms and values between organizations can be classified as an uphill task for organizations in the country, and that more efforts are required especially from governmental bodies. This also implies that while some companies have acknowledged the importance of workshops as an influential factor on their CSR practices as well as their CSR disclosure, other organizations seem to disagree on the value of provided conferences and forums. The perceptions of these managers highlighted the importance of governmental interventions in explaining business practices related to CSR and CSRR. This is consistent with the discussion raised by Cassell and Blake (2012, p.156) that, “there is a notion that Saudis prefer government intervention in business practices” in order to avoid any uncertainties and ambiguity in their business practices. Cassell and Blake (2012) pointed out that Saudi managers tend to be risk-averse and do not tolerate deviation from the generally accepted company rules. This seems to be the case with the current findings. This characteristic can help to explain the country’s slowness in adopting innovations or change such as new business practices in which CSR and CSRR can be considered a part. This supports Battilana et al. (2009) point that such resistance is expected, especially when the proposed divergent change threatens the established organizational privileges. Despite these objections, however, overall the CSR

training efforts and normative environments have contributed to motivating companies to report their CSR.

## **6.2.2 Managers' Previous Experience and Educational Backgrounds**

### **6.2.2.1 Managers' Previous Experience**

Another form of normative motivation that has been identified as a motive for CSRR is the managers' previous experience. Indeed, managers' decisions in relation to CSRR have been largely influenced by the experience that they gain through working in different organizations. Analysis of the interviews revealed that inter-organizational mobility has enabled managers to be exposed to multiple different organizational contexts, either locally or internationally. This allows them to become more aware of different management techniques, as well as the existing opportunities for their companies to work toward CSRR and the different CSR dimensions that they need to take into consideration. The achieved level of awareness has triggered the managers' reflective capacity to transfer their accumulated experience to their new organizations. It has been highlighted that the mindsets of managers in relation to CSRR are influenced by the type of organizations they worked for (Haniffa, 2002; AsyrafWajidi et al., 2008).

For instance, managers who worked with big firms that used to have joint ventures with international firms have attributed their motivation to report on CSR issues to the previous experience they gained. In particular, some of the interviewed managers have acknowledged that working with international firms has enriched their awareness about the CSR issues in their field. A Senior Executive Officer from P2 Company in Petrochemical sector in this regard commented and said:

Speaking from experience in the industrial field, as a former Sabic employee for 20 years, I can say that Sabic has made a major impact on Saudi society as to the oil and gas industry in general and to CSR in particular. Sabic entered into many joint ventures with famous oil and gas firms from the US, UK, and Japan who were strong



in safety, environmental protection, and other CSR aspects

The same manager described one of his experiences with Sabic and how that has impacted positively on his attitude toward CSR and CSRR:

When the Exxon leakage in the North Pole happened... I was on the team that was invited to the USA to see what they did for environmental protection, how the problem started and how they got out of it, and even how they reported on this issue in their annual reports. Being a member of a company that has joint venture with the most famous companies in the world in the petrochemicals industry such as Exxon and Mitsubishi... highly motivated us to learn how to run the business. We learned that if you excel in safety you are saving money; if you're applying measures to prevent employees' injuries, the result will be no injury and so on

He further said:

All this has translated into experience, and we reflected that in our reports. Such experience has enabled me to apply all the experience that I gained in the company I'm currently working with

This quotation suggests that the mindset of companies' managers is influenced largely by work experience, especially when it comes to big-name companies such as SABIC. Indeed, SABIC is considered one of the companies that rely heavily on foreign expertise from American-based corporations to develop and construct their business (Ali, 2009). American-based corporate expertise has contributed largely to the growth and development of Saudi Arabian companies and their employees, by transferring the knowledge and experience they have from developed countries to Saudi Arabia (Ali, 2009). This is reflected in the way in which managers' norms and values in relation to CSRR have been shaped and influenced largely by their experience.

Along the same lines, another interviewee cited previous experience as a motive to learn more about CSR, to be motivated to report on CSR, and to know how and what should be addressed as CSR by using the GRI reporting framework. Larrianga-González (2007) pointed out that an example of normative pressure in the context of CSR is the GRI reporting guidelines. These guidelines are normative in nature, and contain a set of generally accepted principles and indicators that organizations use to report on their economic, environmental, and social

performance (Global Reporting Initiative, 2014). These normative guidelines are important in shaping CSRR (De Villiers and Alexander, 2014).

For instance, an interview with a CSR manager from the banking sector revealed that her previous experience has helped her a lot in terms of the importance of reporting on CSR and preparing the GRI reports for her current bank:

When I was with Z International Telecom Company I worked on the first sustainability report to be issued by a Telecommunications Company in Saudi Arabia. I got the privilege to be taught everything from A to Z about the preparation of a sustainability report by an international CSR consultant firm. This experience really helped me a lot in my new job in the bank as a CSR manager. Now I'm doing everything including the GRI report based on my previous experience...I know now what should be reported and how to report the bank's CSR activities (B1, CSR Manager, Banking Sector).

A similar view was shared by other managers in regard to the role of previous experience as a motive for reporting CSR, but with slight differences. The analysis of the interviews revealed that in addition to their previous experience, in some cases managers are considered change agents who bring a divergent change to the institutionalised models in their organizations. It has been suggested by Batillana (2006) and Batillana et al. (2009) that inter-organizational mobility, a top hierarchy position, and the duration of the individual's tenure in a formal organization position may enable individuals (managers in this case) to conduct divergent organizational change, and to break with the existing norms of their organizational institutional arrangements.

This was especially apparent with the managers with previous experience who were newly employed in their current organizations. These managers came with a fresh perspective on their tasks and with the power associated with their hierarchy position as decision makers in their organization, so they were able to initiate divergent change and actively participate in implementing the change.

A General Manager of Environmental Issues from P3 company in Petrochemical Sector who worked for 17 years both inside and outside Saudi Arabia and has accumulated experience

gained not only from his work experience, but also from being a member of famous petrochemicals associations such as the Gulf Petrochemicals and Chemicals Association and from working on Responsible Care projects for both the corporation and the Gulf Association said:

I had started working in this company in 2009, after 5 years from its establishment. Since my arrival I've been able to use the power associated with my higher position to initiate some changes in the organization. The memberships that I have in the association and my work experience have given me legitimacy in the eyes of the organization's subordinates and superiors. My decision was basically to make the organization certified in Responsible Care by 2015, which is considered a massive change for the organization

The above manager has described what the change entails and said:

Being certified means that the organization has to be transparent in seven aspects, including programmes related to employee health and safety, environmental protection, and community development, and we have to reflect that in the company's annual reports, something that the company did not use to do before

Some studies in argued that despite the ability of top managers to initiate and implement divergent organizational change, not all managers pursue such changes. These studies have attributed this to the desire of top managers to maintain the status quo in their organizations as they are satisfied with it, and to ensure their continuing control in their organization as any changes might in some way affect their power (Pfeffer, 1981; Hambrick et al., 1993; Peckham and Exworthy, 2003; Hine and Preuss, 2009). However, the present study's findings have shown the opposite trend. In particular, the last excerpt supports the findings of Batillana (2011), who found a statistically significant relationship between an individual's high hierarchy position and his or her likelihood to initiate change. Also, although Batillana (2011) found that neither tenure in the current position nor inter-organizational mobility was significantly related to the likelihood of actors conducting a divergent change, the current results suggest otherwise. This may be because Batillana (2011) tested the changes within the whole NHS hospital system while the divergent change in the current study occurred within the boundary of the organization itself.

Likewise, the fact that this study examines different companies operating in different industries may account for the discrepancy with Batillana (2011).

Accordingly, these findings offer a new contribution to the body of literature in the context of CSRR studies in developing countries particularly in Saudi Arabia. These managers have been seen in some cases as agents of change, and their experiences reflect the fact that organizations are not merely black boxes that only respond to the external pressures to behave in a certain way. Rather, they suggest that organizations' behavioural change can stem from individuals themselves who are working within the boundaries of the organization.

#### **6.2.2.2 Managers' Educational Levels**

In addition to managers' previous experience, the interview findings suggest that managers' educational levels are considered another important factor that contributes to shape their mindsets, norms, and values in relation to CSR and CSRR. DiMaggio and Powell (1983) proposed that one source of normative pressures arises through formal education provided by universities. Specifically, managers and executives with high levels of education (i.e. an MBA or other Master's degree) share similar ideas, norms, and values regarding CSR, and those educated in the UK or USA were exposed to different and more advanced CSR education than those who were locally educated. Although Amran and Haniffa (2011) found that there was no relationship between managers' qualifications and CSRR, this was not the case in the present study.

According to the interviewees, influences from both education and exposure to the international community have contributed to enriching and building up the interviewees' level of awareness about CSR. This resulted in a blended mentality, rooted in Islamic Arabic culture but influenced by Western culture, and this education has enabled them to create business and social values simultaneously. For instance, one interviewee noted:

I learned about CSR during my postgraduate studies. When I was in the university in one of the business courses there was a CSR chapter, and I remember the professor said, 'mark my words, in every firm there will be a CSR function or department.' The course was informative and enabled me to acquire very good knowledge about CSR and its relevant issues such as CSRR. So besides my work experience I consider this course one of the basic effective factors that inspired me in relation to CSRR (B1, CSR Manager, Banking Sector).

Similarly, another interviewee shared the same view and said:

I have graduated from chemical engineering from King Fahad Petroleum University as an engineer. I have also made studies from USA, George Washington University and London business school in the UK. I have also trained in banking management from USA. I was regional management in western region in one of the largest banks in Saudi Arabia. All this learning and experience resulted in knowledge and information either in engineering, economy, governance and transparency about all the companies' aspect including CSR (N2, CEO, Building and Construction Sector).

However, interviewees who only completed a bachelor degree without any specific CSR courses, attributed their motive to report on CSR to other institutional pressures, as will be explained later. These findings clearly reflect the important role that education plays in shaping managers' mindsets, norms, and values in relation to CSR and CSRR.

### **6.2.3 Company Management Beliefs and Influence**

The influence exerted by senior company management, along with beliefs about moral obligations and duty to others, were also considered an important motivation for companies to become involved and report on their CSR. The influence of CEOs and board members in motivating CSR involvement as well as CSRR was acknowledged by some of the interviewed managers. Indeed, the hierarchy as well as the associated authority gave these individuals the power for a direct intervention and influence in relation to CSRR. These individuals are driven by the philosophy that their firms should not be considered as operating independently from the communities that have contributed to their success, but rather that corporations have to give back to the society and to be transparent and proud in reporting on their CSR activities. Such an attitude is consistent with the collectivist socio-cultural characteristics of the Saudi Arabian

society, as suggested by Hofstede's 5-D model (cited in Cassell and Blake, 2012). Such cultures consider that the members of a society have a tight social framework, and all members of the society consider themselves as one family. Accordingly, loyalty between society members is considered paramount in Saudi Arabian culture (Cassell and Blake, 2012).

In this regard, an interviewee said:

We are one of the major companies in KSA. In terms of profits, the company has accomplished sufficiency and we feel that we must give back to the community. In fact when I talk about CSR I can tell you that it is now part of the organization's culture, which is driven in the first place by the strong belief from the CEO and the board members of CSR's importance and necessity. We started our CSR programs in 2003 and now it's become taken for granted that a company like us is doing CSR. In regard to CSRR it is in line with the organization's culture, values, and the head management's belief. As a big and well-known company we like to be transparent in all aspects of our activities. It is the right of all stakeholders to know about the organization's efforts toward CSR and we want everyone to know about it (A1, CSR Manager, Agriculture and Food Sector).

The same view was shared by another interviewee from a different organization:

CSR and CSRR are purely something we have been asked to do by the head management of the bank. The chairman of the bank and another board member share a conviction that the importance of social responsibility resulted in our distinctiveness in this field. These people are not looking for media coverage, but their goal is to provide useful social work for the community (B3, CSR Manager, Banking Sector).

The aforementioned quotations imply how decisions from higher management in relation to CSR and CSRR tend to be accepted without resistance. It reflects how the high power distance in Saudi Arabian business impacts decision-making and enables managers to make autocratic and paternalistic decisions which subordinates accept because they expect to be told what to do as they are dependent and appreciate depending on powerful members (Cassell and Blake, 2012).

Similarly, though with slight differences, the nature of businesses have also played a role in reflecting the management's belief of the importance of CSRR. In one case, the belief of the company's management was associated with changing the nature of the business from a traditional bank to an Islamic one. This transformation was associated with lots of changes in positions within the bank, and new staff members have been assigned in accordance with the

staffing needs of an Islamic bank. Accordingly the new board members encouraged beliefs compatible with the new direction of the bank. Their plan also emphasised the importance of reporting the bank's CSR activities. According to one interviewee:

The decision to involve and report on CSR basically stemmed from the top management of the bank. At the start, the Bank made a superb profit and produced outstanding results compared to previous years. Therefore after sensing the success, the top management of the bank decided to thank the community who contributed to this success. And that also happened when the Bank was progressing from the typical, traditional banking system to the Islamic one. The head management decided to establish a fund for community service programmes with SR100 million to work on projects that cover most cities in the KSA, and to benefit as many people as possible. The decision of disclosure is compatible with the top management's view which emphasises that it is a basic right that the Bank provides the public with a description of what it is doing. In brief, there was a religious, national, and social aim in which the CSR found its fulfilment (B2, CSR Manager, Banking Sector).

Further analysis revealed that in some cases the members of the top management have been considered as change agents who initiate and drive CSR and CSRR, and impose divergent organizational changes in their companies. According to Batillana (2006), individuals who occupy higher hierarchical positions are less likely to take the prevailing institutional arrangement for granted. Rather given their position, authority, and knowledge about their organizations and its environment, they have the capacity to conduct change in the organization. This was the case for some companies in this study. As one interviewee put it:

The godfather of CSR in the company is one of the company's board members, the 'vice chairman.' He has the majority percentage of shares in the company and he is also the CEO for a famous company in the petrochemical sector. He is a very good man. He set the foundation as a member of the board of directors for the "P1" company. He decided to allocate 1% of the company's profits for social responsibility, wanted the company to be a role model for other companies in the sector in relation to CSR, and also wanted the company to report on its efforts toward CSR activities (P1, PR Manager, Petrochemical Sector).

Another influence in relation to CSRR related to family-owned businesses. Interviewees from family-owned companies, in which the original owner family has retained majority ownership and where the CEO, some board members, and the company manager are from the same family,

pointed out that the family's values, norms, and ethos have influenced the company's CSR and CSRR decisions. These families' norms and values include a sense of duty and commitment to the society and its employees, the service provided, and brand reputation. These companies believe that CSR is the right thing to do and that reporting on CSR is in line with their espoused ethics and values. Talking about this sort of normative pressure from top management, one interviewee said:

We are following the social responsibility path that has been paved by the norms and values of this family. This company is one of the pioneering companies in the KSA in employing women and youth. The company also has some social projects for orphans and for employing and training citizens around the whole country, and some of these CSR programs are headed by the CEO himself. Our social responsibility covers even our branches in Egypt, India, and Vietnam. As a PR unit we contribute in the selection of CSR programs but it is mainly driven by the board members who emphasise and encourage CSR and CSRR. As a shareholder company we must reflect our major role in the region in relation to our CSR commitment to everyone by doing CSRR. So even shareholders can know what we are doing (N3, PR Manager, Building and Construction Sector).

Similarly, another interviewee from a family-owned business highlighted how their corporation, which was established in 1979, from the very beginning had a vision and mission which are both business- and society-oriented. The interviewee described that CSR and CSRR have been driven mainly by the CEO's self-interest specially knowing that he is the owner of the majority of shares in the corporation and he is also the founder of multiple well-known charities in the KSA. This CEO has been active in sponsoring orphans under the name of the company and that is how CSR started in this company.

Talking about this, the interviewee said:

CSR in the company became institutionalised and a special department in charge of CSR was founded (12 years ago); it was linked with the Corporation and monitored by the CEO himself. CSR in this company is mainly directed toward building the capacity of Saudi youth and offering training for job seekers through non-profit institutions that are monitored and managed by the company itself. Our employees are valued and we do consider them as important assets for the continuity of the company and therefore we look after them very well and support them morally and financially. In relation to the CSRR, we do this because the CEO wants the company name to be associated with these activities. However the CEO does not like any disclosure about charities...we don't seek publicity



from charities but rather a reward from Allah (God) (N1, CSR Manager, Building and Construction Sector).

These findings confirm the significant role that the CEOs and board members play in the initiation of CSR practices and reporting. The narratives indicate that these top management members have convictions; moral and ethical beliefs about giving back to the society that contributed to the company's success. The influence on reporting CSR also reflects norms and values that family-owned businesses have in relation to CSR and CSRR, and shows that while some companies are eager to show publicly their commitment to CSR through CSR disclosure, some family business organizations prefer to be silent about their charitable efforts, seeking religious rewards instead. Indeed, these findings reflect the unique socio-cultural characteristics of the Saudi Arabian society, which is shaped by Islamic values and which also emphasises collectivism and considering organizations and society as one family.

Although the influence of top management on CSR practice and reporting has been highlighted in previous studies in developing countries, these studies highlighted that the CSR practice and reporting decisions were mainly driven by pressures either stemming from the World Bank and other international lending institutions (Rahaman et al., 2004; Belal and Owen, 2007), from their parent companies, investors, multinational buyers (Islam and Deegan, 2008), or a business-oriented motive rather than a moral one (Zu and Song, 2009).

Accordingly, the findings of this part of the study contribute to the body of literature on developing countries by highlighting that management's beliefs about their moral obligations and duty to others are considered as an important reason for companies to undertake and report on CSR and CSRR activities in a country like Saudi Arabia. Also, the findings indicated that members of top management senior positions, and with authority and knowledge about their organizations and environments, have the capacity to conduct divergent changes in their

organizations. Such findings help illuminate the role that agents themselves can play in initiating CSR changes, and contribute to the broader literature on CSRR studies.

#### **6.2.4 Recognition of Responsibilities and Commitments to Different Stakeholders**

One of the motivations identified for reporting CSR in companies' annual reports is related to the belief that by disclosing their CSR activities, companies are discharging their accountabilities and conveying their commitment to multiple stakeholders in relation to their activities. Meeting social expectations and their norms and values enables organizations to legitimize their presence, their activities, and the continuity of their business (DiMaggio and Powell, 1983; Scott, 2008; Gray et al., 2014). Indeed, using CSRR as a strategic communication tool to maintain organizational legitimacy has been often highlighted in the literature (O'Dwyer, 2002; Campbell, 2007; Bebbington et al., 2009).

The interviewed participants from all seven sectors agreed that although there is no formal authority that demands the establishment of corporate social responsibility or the disclosure of any numbers or issues related to CSR in their annual reports, reporting CSR is the right thing to do to "fit in" and act "appropriately" in the context in which their organizations operate (Bebbington et al., 2009). The next sections will be devoted to presenting and discussing the findings related to various CSR commitments.

##### **6.2.4.1 Commitment to environmental protection**

The increasing concern in Saudi Arabian society for environmental issues has led some companies to disclose their environmental information in their annual reports, to express their commitment to the community in general and to environmental protection in particular. Such disclosure is meant basically to meet the social expectation and to maintain the required legitimacy to operate in society (DiMaggio and Powell, 1983). This kind of perception about

disclosure has been found mostly in managers working in companies operating in environmentally sensitive industries. For example, one interviewee noted:

It is natural that each factory in the industrial field has environmental waste...I see it as our duty to disclose how we respond to this issue. I don't call that self-protection because we do it voluntarily: we want to explain to the society and the whole world that we are working on this issue. As you know, this year and even in the last few years the industrial region in which our factory is located has been through lots of criticism due to the environmental impact on residents' health. The criticism was more evident one year ago when there was gas leaking from a petrochemical factory located in the industrial region. Some suffocation and fainting took place and schools were closed. After that there was a collective request from people and the media in general to move the industrial region entirely, with all its factories, to another area which is free of people. I do understand their reactions. However I can see that our company's products are free of chemicals and we are trying to use environmentally friendly material. This is our responsibility to the society that we are living in, for our country and to preserve the environment for the future generations. Therefore we disclose so people know what we are doing about this critical issue (N3, PR Manager, Building and Construction Sector).

Along the same lines, a CEO from a cement company said:

Due to the nature of our business and the increased awareness of the society about the environment in recent years, we report on our environmental impact. In this company we have 25,000 shareholders, which might include ministers, regular people, or officials. We disclose the environmental impact of the company's activities in the annual report voluntarily because we want everybody to know about our responsibility. We even send the company's annual report to ministries, princes such as the prince of the eastern province where the company is located, and major officials in governmental and private sectors. We have also recently started to put the company's annual reports on the company websites...we want everyone to know about our efforts toward the environment (C1, CEO, Cement Sector).

Some companies even exceed the disclosure of the environmental aspects of their business activities to include the environmental prizes that the organization won, to give readers more assurance about the legitimacy of their presence in the environment in which they operate. In this regard, an interviewee stated:

In our annual reports we like to disclose the international environmental prizes that our company achieved, like the Rozpa award from the UK and the Dupont Safety and Sustainability awards. We are very proud of our achievements in relation to environmental safety. By this disclosure we don't target specific users of the annual reports but rather we want everyone to know about our efforts. Such a disclosure will give more confidence about our activities as a responsible company (P2, Senior Executive Officer, Petrochemical

Sector).

The following examples from the annual reports reflects these commitments,

We are always conscious of the need to protect the environment and to conserve energy in all our manufacturing process. As part of N3 ongoing environmental efforts we set aggressive goals for our business to improve our environmental footprints and to reduce carbon emissions that qualify for carbon credit under the Kyoto environmental protocol. We work closely with many partners and converters all over the world to develop ever higher value products in more environmentally-friendly ways. Significant progress was made during 2013 in reducing the frequency and severity of accident and improving safety, health and environment rate throughout the company (N3 annual reports, 2014, p.65).

P2 as a responsible corporate citizen is proud with its environmental protection achievements. Of special note in October was the receipt by P2 petrochemical company of the prized award for “Energy preservations and reduction of carbon emissions and electric power consumption” from Rozpa in the UK in 2013. This award is one of the most prestigious International awards in petrochemical industrial fields. P2 is one of the first companies in the Middle East to win this prize (P2 annual reports, 2014, p.21).

Such examples from annual reports and responses from organizational members about their perceptions about the motivations for this type of CSR disclosure mesh well with Deegan (2002). Deegan’s pointed out that managers’ CSR disclosure decisions should be based on their desire to be accountable to the society and to disclose what people need to know.

Despite the positive commitments to environmental protection reflected in the aforementioned quotations, this attitude did not prevail among all the interviewed managers. Despite the fact that environmental issues are considered one of the key issues in the country (Taher and Al-Hajjar, 2014) not all the interviewed managers showed a positive attitude about the motivations for this disclosure. For instance, some interviewees explained their lack of environmental disclosure as being due to the lack of interest from users of annual reports about such information, lack of enforcement power for environmental protection disclosure, and the nature of the company’s business. Talking about the low level of environmental disclosure, one interviewee said:

Honestly, in Saudi Arabia there is not much interest in environmental matters. There are not any enforcement criteria for corporations to make them adhere to any environmental preservation requirements or to say so in their annual reports. Nevertheless, we do not mind working with agencies that deal with environmentally-friendly materials. For instance, one of our companies imports domestic materials that are environmentally-friendly. In fact we did not ask for that specific criterion, but that is what they offer! (N1, CSR Manager, Building and Construction Sector).

Another interviewee further emphasised enforcement:

As for the environment, you have to go back to the country and its nature. The environment is the last thing we'll worry about or think to report on. There is not even pressure from the Ministry of the Environment on this issue. Honestly we are not in the UK or the USA...commitment will only be achieved by imposing punitive measures (A1, CSR Manager, Agriculture and Food Sector).

An interviewee in the banking industry agreed:

Well in regards to the environmental protection of our bank we do keep such information internally...I mean we include in our emails consider the environment before printing out any document, etc. But when it comes to the disclosure we do not give this issue a priority. I think you as a researcher are interested to see this information. However we know our audience. In our annual reports we need to communicate with our audience with the information and the language that they understand and can draw their attention (B4, Compliance Officer, Banking Sector).

In talking about the nature of his business, another interviewee made similar points:

This information is available internally, I mean in the company internal communication, but we don't disclose it in the annual reports. We have projects in the company related to the preservation of water and electricity. I agree on the importance of such disclosure but the company doesn't like to mention its weak points. We were approached by a lot of projects in the green environment field, but frankly we didn't want to get into it. Do you know why? We must not be compared to petrochemical companies...green environment; saving water and electricity is not the core of our work. We want to make our CSR activities and CSR disclosure in a way that is linked to information technology, which is the core of our business (T2, CSR Manager, Telecommunications and Information Sector).

In fact Saudi Arabia is facing a challenge and major concern toward the environment, and the Saudi government has repeatedly called on Saudi Arabian entities to help preserve the environment, as manifested in the country's 9<sup>th</sup> Economic Development Plan (2010-2014)<sup>60</sup>. However, these results show that the interviewed managers' perceptions and attitudes toward environmental protection efforts are weak. Likewise, despite the evident Saudi government

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<sup>60</sup> Discussion of the Environmental profile of the country has been included in Chapter 3.

commitment toward the environment, as shown for instance in the issuance of the General Environmental Law in 2001, the creation of the Presidency of Meteorology and Environment, and the endorsement of the Kyoto Protocol in 2005, it seems that such regulations will not be taken seriously by organizations, and will likely fail to make any real change on the ground without an enforcement act. Also, although the interviews reflect positive attitudes from some companies toward the environment and their efforts to reflect that in their annual reports, those companies are mostly in environmentally sensitive sectors. Other interviewees (N1, A1, B4, and T2) implied that environmental awareness is not deeply anchored among all the interviewed organizations, reflecting a narrow understanding of what CSR stands for.

Such findings support some previous studies of developing countries (De Villiers, 2003; De Villiers and Staden, 2006; Kamla, 2007; Mitchell and Hill, 2009) but contradict earlier findings that external pressures from international environmental bodies and international buyers play a major role in forcing companies in developing countries to report on their environmental issues (Belel, 2001; Belal and Owen, 2007; Islam and Deegan, 2008). As such, the present findings enrich our knowledge of CSR in developing countries in which the lack of enforcement power and pressure from either the local community or international buyers affect the CSR environmental disclosures. This supports the conclusion by Gray et al. (1995) that disclosure of environmental information is country-dependent and different countries have different results.

#### **6.2.4.2 Commitment to the community**

The analysis of interviews shows that participants from some companies consider CSR disclosure the best way to convey their CSR commitment toward the community, particularly in relation to community activities, and accordingly to meet social expectations (DiMaggio and Powell, 1983). The interviewees expressed different views on CSR disclosure in relation to

community involvement, but their views mainly stem from the idea that community involvement disclosure is the right thing to do. According to one interviewee:

The company philosophy regarding CSR is paying back to the society. The company feels it is an integrated part of the society where it operates. Although the company can't adopt all issues in the country, we do as much as we can to give back to the society. We do not merely write cheques to charities but rather we seek strategic partnerships in our community programs. For example, we have initiated a centre to train and offer jobs for disabled people, and with the cooperation of the Chamber of Commerce in Jeddah, we have also sponsored some educational, health, and entertainment social programs. No one will know about our commitment unless we disclose it...we are not seeking publicity, but this is the only way to show our commitment and meet social expectations for a big company like us (A1, CSR Manager, Agriculture and Food Sector).

Two other interviewees made similar claims:

As a leading cement company in the country I see that we have to report our social activities to the community, like sponsorship of social activities or providing summer jobs for students, in the company's annual reports. The society should know because not everyone attends the activities, so we announce them not only in the annual reports but even in the local media (C1, CEO, Cement Sector).

We are giving back to the society as a form of charity...giving back is something ethical and rooted in our Islamic culture. We disclose this information not only to inform the community about our commitments but also to encourage other banks and companies to follow our steps (B4, Compliance Officer, Banking Sector).

The following examples from the annual reports reflects these commitments,

Our employees, business partners and suppliers, shareholders, and members of the local communities in which we operate all deserve our best efforts to improve our impacts on society. As part of A1 commitment to serve the community, the company continued to implement a range of CSR programs. An initiative called 'Tayseer' to empower people with disabilities was established to employ people with disabilities in appropriate jobs in the company and empower them through on-the-job training. This year 145 people were employed and trained within the company and other entities in the private sector. Taking the total employed and trained to 590 since the inception of this initiative (A1 annual reports, 2014, p.25).

As a member of society, C1 social role has become greater and more noticeable. Contributions were made in cash and/or in kind. Some of these contributions were to official authorities involved in health care, education and other social services. In total the contributions exceeded 50 charitable organizations. In addition C1 has sponsored some social occasions and celebration. Exclusive diamond sponsorship was taken by C1 for Al-Tawfik Market organized by Chamber of Commerce. C1 was also the Silver sponsor for the summer festival in Al-Ahsa city. C1 carried co-operative and summer

training to train college and university students in its cooperative summer programmes. These dedicated efforts are to educate students and preparing them to deal with business demand (C1 annual reports, 2014, p.30).

Though companies want to gain goodwill by presenting themselves as being responsible toward the community, some managers also see these activities and disclosures as a way to create and associate their companies' image with positive activities, and to use the CSR disclosure as a marketing and brand-building tool. As an interviewee said:

I'll be frank with you. CSR is a way of marketing for the company. Even if charity and society work is mandatory from an Islamic perspective, I believe that these ethics are related to individuals more than companies....If we said this is ethical and we seek God's satisfaction then I can tell you that the company is an empty figure seeking nothing. Adopting social responsibility and its disclosure is not done because a company's CEO or management are good, but because the company has a point of view that supports reputation, marketing, and the presence of the company (T1, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

The same view was shared by another interviewee:

Well in our community we do engage in different activities such as sponsorship for some social activities, we give donations to some charities, and we do give interest free loans for some poor families to start their own projects. Disclosing these activities presents a good image of the Bank to the community and informs the community about our efforts. No one likes their image to be only 'sucking money.' Additionally, there is a misconception that many people think that banks are full of money and it is legitimate to question its help to the community; they do not realize that the money they deposit is used for granting loans, which any customer can apply to get...Disclosing the information is basically for the image of the Bank as well as our 'brand name' (B5, Compliance Officer, Banking Sector).

In addition to the aforementioned reasons, the analysis of interviews with some managers who showed that they never go beyond charitable donations in their commitment to the community reveals other reasons behind disclosing their community commitment in their annual reports. It has been found that although some companies are doing this to convey an image that they are benign companies, and they disclose to encourage other companies to follow their lead, some interviewees indicated another reason for such attitude.

These interviewees were reluctant to give any reasons for limiting their community involvement activities to charitable donations and sponsorship. Some interviewees attributed it to the



influence of the social infrastructure of the country, which is driven by cultural and religious causes. It can be argued that although in Saudi Arabia, the Islam shapes the culture and mindset of people in the country, and although Islam encourages and rewards charitable donations, Islam has nothing to do with these companies' decisions to limit their CSR and CSRR practices to charitable donations and sponsorship. Islam emphasises transparency, accountability and encourages Muslims to help each other and safeguard the welfare of the community, preserve the environment, and respect employees' rights. The reflection of Islamic beliefs seems to be misinterpreted by companies to focus on donations with its relevant disclosure and not giving attention to other aspects of CSR (e.g environmental protection).

Indeed, such attitudes from companies raise questions regarding the extent to which companies understand what CSR means as a concept. Evidently, companies have different interpretations of the meaning of CSR, and all of these interpretations are related to personal understanding rather than having a governmental institution to clarify what CSR is about and how CSRR should implemented. This part of disclosure is not regulated and not structured, and in fact, the only regulated narrative part of the disclosure in companies' annual reports is the disclosure related to the board of director information. However, the rest of The Board of Director's Report claimed to be used to 'sweeten the companies' yearly disclosures (T1, Preparer of the Annual Reports, Telecommunications and Information Sector).

Likewise, other interviewees in expressing their perceptions have accused the media (TV and newspapers) as the main reason behind motivating companies to concentrate their CSR activities and disclosure on donations and sponsorship. As one interviewee said,

The press directed companies to think in this way. PR and CSR employees read the newspapers and see the amount of donations provided by each company, and that is how they are directed. The media is promoting companies who are donating and sponsoring social activities (T2, CSR manager, Telecommunications and Information Sector).

Finally, some interviewees directly related the emphasis on charity donations to efforts to reduce companies' yearly *Zakat* payments. According to Islamic jurisprudence, *Zakat* is an obligatory payment any Muslim who possesses a certain amount of money for one lunar year must pay 2.5% of that wealth to poor and needy people, to contribute to the well-being of society (Al Qaradawi, 2011). In Saudi Arabia a *Zakat* By-Law<sup>61</sup> was issued per Ministerial Resolution 393, dated 13/5/1950 and consisting of 20 articles. The first article states: 'All Saudi companies and persons: male, female, adults, minors, or legally incompetent, are subject to *Zakat* after completion of one year under the provision of Islamic Jurisprudence. Regulations started from 6/8/1370 Hijrah date (corresponding to 13/10/1950)'. Donations to the governmentally authorised charities are usually exempt in the calculation of the legal *Zakat* requirements for companies. This can explain why companies limit their community involvement activities to donations. As one interviewee explained,

I'll tell you why companies like philanthropy. If our profits are 100 million Riyals and we want to pay *Zakat* which is 2.5%, in other words it is two and a half million. If I take from it 10 million and the 10 million is for CSR and it is directed to non-profit governmental sectors (charities) registered in the Ministry of Social Affairs... then we will be accountable as a company for 90 million, and the 10 million won't be included in the calculation of the *Zakat* amount...so it is a win-win situation (P1, PR Manager, Petrochemicals Sector).

These quotations imply that although the disclosure and practice of CSR in terms of community involvement commitment stems from companies' desire to meet social expectations and to legitimise their presence, some of them are motivated primarily by image-building concerns and/or a desire to reduce their annual *Zakat* amount. These motivations make the companies' actual commitment toward the community questionable as it basically comes down to enlightened self-interest and enhancement of corporate image rather than any real responsibility. Merely giving money to charities without having any joint or strategic partnerships to provide

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<sup>61</sup> Available at (<https://dzit.gov.sa/zakat-regulations>).

community programmes reflects only what organizations wish rather than what the community needs (Gray et al., 2014).

The current findings are in line with previous studies of developing countries that related CSR disclosure to the enhancement of corporate image (Haniffa and Cook, 2005; Maali et al., 2006; Belal and Owen, 2007; Sobhani et al., 2009). However to the best of the researcher's knowledge previous studies conducted in Islamic developing countries have not touched on the relationship between the reduction of the payable Zakat amount and the company's desire not to go beyond charities in their community involvement activities.

#### **6.2.4.3 Commitment to the media**

Several interviewees identify the media as a stakeholder in relation to CSR disclosure. Social media such as Facebook and Twitter, along with traditional TV programs and newspapers, have motivated companies to report their CSR activities to legitimise their activities and meet social expectations. One interviewee explained the issue this way:

Generally speaking media is saying that banks do not provide or give anything back to the society compared to the profit gained. Well they need to take a look at our annual report to see our CSR activities, and this year we even started to put this information on the bank website. Although no one has talked particularly about our bank in the newspaper, some journalists and writers in social media "twitter and facebook" may be interested to see such disclosure. Thankfully, we are never targeted, and at the same time we pay no-one to praise us or promote that the Bank seeks attention. We leave our annual reports to talk about the bank's achievements so everyone can know, including media people (B3, CSR Manager, Banking Sector).

However, this attitude toward the media did not prevail among the majority of participants. It has been found that some companies downgraded the importance that has been given to the media as an important stakeholder that companies need to show their CSR commitment to or is doing CSR disclosure for. These participants agree that the media does not have enough power to pressure companies to disclose their CSR, and described the media as merely benefit seekers:

Although there are some critics on social media such as Twitter, they are former workers in the company who are also working as journalists. They ask about what the company provides for the society however they are only 1 or 2 people. I can tell you that media personnel (including newspaper journalists) do not have influential power on us to force social responsibility, and we don't do our disclosure for them...it is a win-win situation. They realize that at the end of the day we give the newspaper the value of ads, so they make profits. The company has continuous advertisements and each month the company publishes news and buys advertisements... so in a way the press publishes positive news for us, and in return we buy advertising (T1, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

Similarly, another interviewee commented,

In CSR there are no press drive companies. You may find efforts done by journalists who are well informed, but they talk individually and not as journalists from certain newspapers. All the newspapers are on our side and we have a very good relationship with newspapers, to the extent that we tell them what we want them to write about the company. We do have a media plan based on the company calendar. All newspapers are invited to cover any event and we pay them also for ads on a yearly basis...so do you expect that they are going to say anything negative about us...we are good customers for them and they are working on retaining this positive relationship (T2, CSR manager, Telecommunications and Information Sector).

It seems that while some companies want to show their commitment to the media, most do not consider the media particularly influential in driving CSR or CSRR, contrary to previous literature (Brown and Deegan, 1998; Bansal, 2005; Belal and Owen, 2007; Clarkson et al., 2008; Islam and Deegan, 2008; Momin and Parker, 2013). Overall, it seems companies that disclose their commitments are driven by their own conscience because they believe that CSR disclosure is the right thing to do. Again, the discrepancy between these findings and those in previous studies seems to relate to cultural context: outside of Saudi Arabia, the media seems to be more interested in the capability to address critical issues such as CSR more than simply in advertising profits. In other words, it seems that media's attitude in Saudi Arabia towards writing news about companies is heavily influenced by companies buying advertising space in their publications. These results confirm previous findings by Kamla (2007) and Matten and Moon (2008) that national differences shape CSR reporting. More specifically, institutional pressures

and companies' different responses to those pressures seem to be affected by and mainly related to the political, social, cultural and legal context in each country.

### **6.2.5 Normative pressure and stakeholder dialogue: does it matter?**

Despite the aforementioned normative pressure related to CSR reporting and its role in discharging companies' commitments to stakeholders and meeting the acceptable norms and values for the society, thus far the relationship between CSR reporting and potential stakeholder dialogues has been notably absent. Potentially, CSRR can help determine what stakeholders expect from a company, and close the expectation gaps between its CSR performance (including the selection of CSR activities and CSRR) and what the society expects from the company. Although it has been argued that attention to stakeholder dialogue might result in more inclusive and comprehensive CSR reporting (Adams, 2002), that was not the case with the findings of the current study. Only 2 out of 16 companies made any effort to survey the stakeholders' opinions on the company's CSR activities and whether they are interested in the company focusing on certain CSR issues. In talking about this issue, an interviewee said:

I don't feel that it is important at the moment to initiate a stakeholder dialogue ...CSR is still a new thing for the company and although we are striving to maintain social responsibilities I think it is not suitable now to start a stakeholder dialogue ...if we started this dialogue that will increase demands on issues that we may not be able to fulfil, and instead of portraying ourselves as a responsible company we will likely appear irresponsible if we did not fulfil their expectations (T2, CSR manager, Telecommunications and Information Sector).

Similarly, another interviewee said:

Well in the first place this company is working basically to do business that maximises shareholders' profits...we do CSR voluntarily because we feel we have obligations toward the society ....Initiating stakeholder dialogue is important, but we know that there will not be enough responses to help us to know what these stakeholders are interested in seeing...people's knowledge about CSR in this country is not as advanced as knowledge in the US or the UK yet... it is less likely we'll find people interested in such dialogue, so I don't feel it is appropriate at least at the moment (N1, CSR manager, Building and Construction Sector).

These findings are in line with studies such as Adams (2002) and Belal and Owen (2007). Such findings clarify the fact that CSR disclosure in the surveyed companies has stemmed basically from the organization's desire to be legitimised rather than a reaction to any dialogue or pressures from stakeholders in relation to CSR disclosure. CSR in Saudi Arabia is still in its infancy, and attitudes toward CSR and CSRR seem to be driven by norms and values of actors, in the absence of robust stakeholder dialogue. As argued by Matten and Moon (2008), national and cultural differences can play a significant role in determining CSR stakeholders and their concerns. The findings indicated that the level of awareness regarding CSR is yet to be improved on both organizational and societal levels. It seems, as argued by KPMG (2008) and Matten and Moon (2008), that national differences play an important role in shaping the institutional environment in which organizations practice their business, and are also likely to shape the CSR reporting practices and the findings in this thesis seem to support that assertion.

### **6.3 Meeting the prevailing trend: mimetic pressure motivations**

One of the motivational factors identified by the analysis of interview findings is mimetic pressure, which basically stems from uncertainty. In fact, previous studies have shown that reporting social responsibility and the notion of CSR are still in the primitive stages in most developing countries (Abu-Baker and Naser 2000; Belal, 2001; Naser et al., 2006; Hassan and Harahap, 2010; Bayoud and Kavanagh, 2012). In this respect Saudi Arabia is no exception. However, while giving back to society is nothing new for Saudi companies, CSR as a terminology and CSRR practice is still a novelty in many companies. One interviewee explains:

We did not use the term (CSR) in the beginning. We use to call it community service or some religious name which is more general and comprehensive than the term social responsibility, and in the meantime we didn't call it donations. This term was used lately, when other organizations started to use it and agreed upon this word ... then the terminology spread and became known as CSR. Then we started to call it CSR services and reporting it under CSR terminology. Before we had various programs but they were not reported under social responsibility, i.e. it was in the form of donations and aid and it wasn't under the same name and budget (P1, PR Manager, Petrochemical Sector).

The same view was shared by another interviewee as he said:

Frankly social responsibility is new in KSA. I mean as terminology; as reporting and as work –I mean institutional work – it was regarded with another perception like social support, social aid, or social awareness. But we didn't use to call it CSR. We have just recently in the last 3 or 4 years started to call it CSR when our peers began to call it like that (N3, PR manager, Building and Construction Sector).

These views imply that despite the existence of CSR as a practice in organizations, they seem uncertain toward what constitutes CSR and CSRR. The interviews suggest that the absence of any legislative intervention to prescribe detailed mechanisms for companies to explain issues related to CSR and CSRR has put companies in a situation of uncertainty. According to Hofstede's cultural value model Saudi Arabia's uncertainty avoidance rank is 68, which indicates a low level of tolerance for uncertainty (cited in Cassell and Blake, 2012).

Therefore, and as suggested by DiMaggio and Powell (1983), in order to reduce their uncertainty and to legitimise their presence organizations have started to model themselves after successful organizations in their field, and determine what should be done by imitating their peers' behaviours and practices, to reduce the dilemma of uncertainty and accordingly legitimise their presence.

Peer pressures and enhancing companies' competitive advantages are the two main themes that have been identified as key reasons many managers imitate the practice and behaviour of similar organizations in their field, in this case to reduce their uncertainty toward CSR and CSRR. In talking about how competition between companies leads them to imitate peers' CSR activities and CSRR patterns, an interviewee remarked:

As you know there is no clear guidance for CSR in the country. I can tell you that this company is located in a region in which the company is surrounded by giant petrochemical companies who are superior and well known in the CSR field. When the company started its activities one of the reasons for starting and reporting on CSR is related to the fact that when I looked around I found that this was the prevailing trend. I realised that if we didn't do the same the company would be left behind. Frankly speaking, if this company were located in another city and those competitors were not around me I wouldn't do as much as I do now (P2, Senior Executive officer, Petrochemical Sector).

The same view was shared by another participant:

Now if you look at T1 and T2 companies which are in the same field what do you notice...I can tell you that competitive advantage now is not only about the company's offers, but also in providing social responsibilities activities and improving its reputation. CSR and CSRR is now about branding as well as positioning. It became a logo the public wants to see everywhere in the society. You're looking for the best way to appear. If we didn't do what T2 is doing and what other big companies are doing our image will be affected ...we are trying to keep pace with our peers (T1, Director of CSR and corporate communications, Telecommunications and Information Sector).

This mimetic pressure has not been limited to motivating companies to report on CSR but has also influenced even the selection of the reported CSR issues and the selection of CSR activities undertaken. Although the government in 2008 provided soft guidelines for companies through SAGIA to direct companies on the country's most urgent CSR issues, by establishing the Saudi Arabian Responsible Competitiveness Index (SARCI) and encouraging CSR reporting by providing awards, most of the surveyed companies are resistant to SAGIA and its award. It appears from the analysis of the interviews the fact that SAGIA is not a regulatory body and argument surrounding the credibility of the selection of the award winners has discouraged companies from taking the guidelines and the reporting prize seriously. One interviewee put it this way:

Currently and for 2 years I have stopped entering the competition to get the award provided by SAGIA. I see my company is better committed than other companies in relation to CSR and despite that, other companies win. Indeed the evaluation criteria are not clear. If T1 Company were compared with major companies who pioneered CSR such as Sabic and Aramco then the comparison would be fair. But when we enter the competition and unknown companies in the CSR field win, then the evaluation criteria have to be questioned. Therefore I won't participate in a local competition that can harm my brand and image with unfair evaluation (T1, Director of CSR and corporate communications, Telecommunications and Information Sector).

Similarly, another interviewee said:

Indeed the SAGIA guidelines about CSR are not clear. For example ISO guidelines say to focus on four things: employment, environment, sector, and community. SAGIA is not clear about employment. One of their conditions for companies to be socially responsible is about hiring females. That means companies that are not hiring females are not socially responsible! This is nonsense. This company has won CSR global awards on the international level and the company was ahead of many well-known international



companies such as Coca Cola and Unilever. So it is not acceptable for an organization like SAGIA to say that I'm not socially responsible. None of the SAGIA winner companies can do even 40% of what we do as CSR. Unknown companies only win because they sponsored some of SAGIA conferences... that's it... not fair evaluation (A1, CSR Manager, Agriculture and Food Sector).

Neo-institutional theory would say that organizations like SAGIA become part of the establishment of CSR in the country when their soft guidelines and their CSR prize are generally accepted. However, this seems not to be the case.

The fact that SAGIA is not a regulatory body and its lack of an enforcement mechanism has also limited the importance of this governmental body as a driver for CSRR in the country.

According to one interviewee:

First of all and before CSR, SAGIA is interested mainly in facilitating foreign investment in the country. So banks are not their specialty. The only authority that we have to follow is the bank regulatory body, which is SAMA<sup>62</sup> not SAGIA. So SAGIA's efforts are aimed at the parties that belong to them, but not banks... Even their award is not in our interest and we have never even taken a glance at what it is about (B2, CSR Manager, Banking Sector).

With such resistance combined with ambiguity and uncertainty, companies preferred to look at the annual reports of other successful companies to model their CSR behaviour, which includes the selection of CSR issues and the CSRR practices. For instance, an interviewee commented that:

We always keep an eye on everyone who is working in the same field like us and other well-known firms who are pioneers in the CSR field. We get their reports which help us to know the direction of the CSR trend. For example if supporting the youth is the trend we will move in the same direction...we don't want to lag behind (B1, CSR Manager, Banking Sector).

Similarly, another interviewee echoed this strategy:

When we decide on our CSR and CSRR direction we like to look at what other companies are disclosing. For instance the national challenge in the country now is unemployment. Everyone is interested in beating unemployment and employing more nationals. In other words, it is the topic of the hour and most companies started to talk about their efforts

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<sup>62</sup> Saudi Arabian Monetary Agency (SAMA), the central bank of the Kingdom of Saudi Arabia, was established in 1372H (1952). It has been entrusted with performing many functions pursuant to several laws and regulations. One of SAMA functions is to supervise, monitor and regulate financial companies and commercial banks in the country. (<http://www.sama.gov.sa/en-us/about/pages/samafunction.aspx>)

especially after the Saudization law was issued in the country. It is, therefore, sensible that we focus on this matter. Perhaps in the future when there is an environmental dilemma, people will be interested in the environment and will disclose information about the environment...it's all about moving with the trend (N3, PR Manager, Building and Construction Sector).

The aforementioned discussion implies that the organizations are surrounded with uncertainty in relation to CSR and CSRR. Despite the governmental efforts to reduce such uncertainty by providing organizations with soft guidelines for CSR and an award for CSRR, such efforts seem not to be influential for most of the surveyed organizations. The interviewees' perceptions suggested that the voluntary nature of CSR disclosure, the fact that SAGIA is not a regulatory body for organizations, the criticism addressed toward the clarity of the Saudi Responsible Competitiveness index guidelines, and the doubt about the credibility of the reporting awards suggests that SAGIA and its award are not influential factors or drivers for organizations to report on their CSR activities. Such results are contrary to the findings of Amran and Siti-Nabiha (2009) and Amran and Haniffa (2011), who noted that the NACRA reporting award in Malaysia is considered a strong driver for CSR reporting in the country. Indeed these studies indicated that winning such an award would confer legitimacy on Malaysian companies in the eyes of the government as well as foreign business associations, and this legitimacy would bring economic benefits that would ensure their survival amongst the growing number of MNCs in Malaysia. This suggested that CSR in Malaysia is institutionalised and NACRA is an indication of this institutionalization and generally accepted by Malaysian companies.

Although Saudi Arabia has been opening up its market for foreign companies to operate different businesses in the country, the level of competition between MNCs in Saudi Arabia and local companies is low, and not considered a motive for companies to try and win the CSR reporting award to gain a competitive advantage, or to imitate the foreign companies' CSRR practices. Rather, the Saudi organizations are keen to gain legitimacy and reduce their uncertainty by

modelling themselves on successful local organizations, either in their own or related field, as suggested by DiMaggio and Powell (1983). It is found that peer pressure, competitive advantage, and meeting the trend of other companies' CSR disclosure are the key reasons companies mimic their local counterparts and try to legitimise their presence. This finding is also contrary to the findings of Amran and Siti-Nabiha, (2009), Amran and Haniffa (2011) and Momin and Parker (2013) in which mimicry pressure was mainly coming from pressures from MNCs. Accordingly, the current findings contribute to the body of literature in the context of developing countries in relation to the motivations for CSRR.

#### **6.4 Coercive isomorphism**

According to DiMaggio and Powell (1983) coercive isomorphism occurs as a result of both formal and informal pressures exerted by stakeholders or other organizations upon which an organization is dependent. Accordingly the organization is coerced to change its practice to legitimise its actions and guarantee its survival. Some previous studies in both developed and developing countries have found that organizations are reporting their CSR activities as a response to coercive pressures exerted by powerful stakeholders such as NGOs, media, government and its regulations, international lending bodies, international rating agencies, and parent companies (Cormier et al., 2004; Rahman et al., 2004; Belal and Owen, 2007; Liu and Anbumozhi, 2009; Prado-Lorenzo et al., 2009; Deegan and Islam, 2014). However, for the interviewees who were asked about their perceptions they indicated that was not the case for companies in Saudi Arabia.

The analyses of the interviews have revealed the absence of coercive pressures on organizations in relation to CSRR. Indeed, although the CMA has issued corporate governance regulations with the ultimate goal of protecting the rights of shareholders and stakeholders from companies' illegal behaviour by reinforcing transparency and disclosure standards on all listed companies,

CSRR remains voluntary for companies. In particular, the only clause in corporate governance regulations that mentions CSR is related to the main functions of the Board of Directors in clause (e), number 5, part 4, article 10, which requires companies to have a written policy related to their social contributions (Corporate governance regulations in the Kingdom of Saudi Arabia, p.11, 2010). This written policy has to be attached to the companies' annual reports that need to be sent on a yearly basis to the CMA. However no disclosure is required in any form in the companies' annual reports regarding their CSR activities.

Talking about this issue, an interviewee said:

There is no formal authority that demands the establishment of social responsibility, or the disclosure of any numbers related to the expenditures on CSR or those who benefited from our CSR programs, or even what CSR issues we covered. But because of the nature of our work at a bank that works on community service, we feel rather inclined to have some rules and controlling procedures and to reflect that in the annual reports. The disclosure is simply meant for people to view it and nothing more (B2, CSR Manager, Banking Sector).

The same view was shared by another interviewee:

There is nothing compulsory or obligatory related to the CSR disclosure in companies' annual reports. But currently any annual report of any company, part of it has to be by default about CSR. I believe that this happens morally from the companies, but we don't mention how much we spent on each CSR programme because the total amount of the company CSR contributions is already disclosed in our financial reports (T1, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

Apart from a lack of pressure from the CMA, interviewees indicated that they never experience any pressures or demands from shareholders or any other parties regarding CSRR. For example, one interviewee said:

Generally speaking investors never demanded CSRR. Their primary interest is related to the return on investments (T2, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

Also, although interviews with the petrochemical and cement companies located in the industrial city in the eastern region of the country have faced some coercive pressure related to some CSR aspects concerned with environmental protection, there are no disclosure requirements associated

with environmental protection. However, the Royal Commission for Jubail and Yanbu which supervises the industrial city in the eastern region has issued the “Royal Commission Environmental Regulations (RCER)” which all companies and industries located in Jubail and Yanbu have to comply with. These regulations basically relate to environmental protection, including air pollution, water environments, usage of hazardous material, waste management, and dredging. The Commission is very strict on these environmental matters and any industry that wants to operate in Jubail or Yanbu must provide an environmental information report for the Commission to be able to get a license to operate in the region. Along these lines, an interviewee commented:

I can tell you that there are noticeable developments in KSA in relation to the environment. Currently officials are more aware and show more interest. The Royal Commissions put out standards and they have regular mobile patrols; they install equipment to read the level of pollution and above all they have an increase in mobile researchers. They go around several industries, not only us as a cement company. They visit several industries and measure the standards of emissions. If there is a dangerous level or an increase, we are immediately informed. Although we have to issue monthly and annual reports to the Royal Commission and to the Environment and Meteorological Protection Authority (PME) we are not required to disclose this in our annual report... if we mention it we mention just a little information and not a detailed account, just to inform stakeholders about it, but it's not compulsory (C1, CEO, Cement Sector).

Similarly, another interviewee said:

I can tell you that the Royal Commission for Jubail and Yanbu has strict requirements for industries located in Jubail. Before commencing plant operations we have to obtain an environmental permit. We have to write down exactly what are we going to do in order to avoid a spill, and our contingency plan if we have a gas or ammonia release. These things exist in the company and the factory from day 1. You cannot operate or have any facilities in your industry like electricity or even water before you have the environmental permit from the Royal Commission...but they do not interfere in any disclosure in the annual reports (P2, Senior Executive Officer, Petrochemical Sector).

The aforementioned findings clearly imply that there is lack of coercive pressure on companies to report on their CSR activities. Such findings are expected taking into consideration that CSR in Saudi Arabia is still in its early stages and has not been institutionalised yet, and that the general level of awareness about CSR and CSRR is yet to develop, including aspects such as the

disclosure and transparency regulations from a governmental regulatory body such as the CMA. According to Belal et al. (2013), each developing country has a different socio-economic and political reality from other developing countries.

Saudi Arabia has a unique political infrastructure, and pressures from groups and constitutions are not legally allowed to exist<sup>63</sup>. Consultation, discussion and debate are important Islamic principles and are of paramount importance to achieving the ideal Islamic society. Therefore discussions and plans for economic and social development is allowed only through legal governmental bodies such as the Shura Council who has the right to do so and to revise, analyse and give suggestions about the country's laws and regulations (The Shura Council, 2015).

Also, the economic factors in Saudi Arabia differentiate it from other developing countries: the fact that it is considered one of the largest oil producers in the world makes the driving forces for CSR and CSRR in Saudi Arabia differ from what has been found in the literature related to other developing countries. For instance, pressures from the World Bank, International Monetary Fund, international pressure on export-oriented companies, and parent companies' pressures on subsidiaries found in previous studies such as (Rahman et al., 2004; Belal and Owen, 2007; Islam and Deegan, 2008) are absent in the context of Saudi Arabia.

Also, although institutionalists argue that the diffusion of new phenomena (such as CSR and CSRR in the current study) can occur through coercive, normative, and mimetic pressures, the findings gathered from this study indicate that normative and mimetic pressures are the main driving forces for CSRR, and no coercive pressure as a driver for CSRR has been identified.

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<sup>63</sup> Cited in <http://www.icnl.org/research/monitor/saudiarabia.html>. Discussion about the country political legal profile has been provided in chapter 3.

## 6.5 Summary and Conclusion

This chapter aims to identify the different motivational factors that lead Saudi Arabian companies to report their CSR issues from managerial perceptions, and to answer the following research question:

RQ1: What are the managerial perceptions of the motivations for Saudi companies to report their CSR activities?

By interpreting the findings using the lenses of neo-institutional theory proposed by DiMaggio and Powell (1983) and Scott (2008) as the main theory, and the complementary model suggested by Battilana (2006) and Battilana et al. (2009), it has been found that combinations of institutional motivational factors (external pressures) and the roles that managers and CEOs play in their organizations (internal pressures) are the main drivers for companies to report on their CSR activities.

In particular and from a neo-institutional perspective, it has been found that organizations react differently to institutional pressures. The findings indicated that motivations for companies' CSRR have been driven largely by normative and mimetic pressures, however there was a lack of clear evidence for coercive pressure as a driver for CSRR. Generally speaking the analysis of interviews with the interviewed companies indicated clearly that companies are initiating their CSRR to "fit in" and act "appropriately" in the context in which they operate. In terms of the normative pressures, professionalization and CSR training programs, managers' previous experience and educational background, the company's management beliefs and influence, and recognitions of responsibilities and commitments to different stakeholders have all been identified as drivers for CSRR.

Mimetic pressures stemming from the desire of meeting the prevailing trend that organizations follow, have also been identified as motives for companies to report on their CSR activities.

Indeed, the lack of clear guidance on CSR and the resulting uncertainty, combined with strong competition between organizations and peer pressure, have left organizations with no option other than modelling themselves after other successful and pioneering CSR organizations. These organizations try to imitate their competitors' attitudes in terms of CSRR and also in terms of the selection of CSR types reported and activities undertaken. Taking into consideration the current socio-cultural, economic, and political differences between Saudi Arabia and other developing countries, it has been found that there are differences in the findings related to mimetic pressure as a motive for CSRR between this study and others in the literature. In particular, the findings are contrary to earlier findings that mimicry pressure mainly came from MNCs (Amran and Siti-Nabiha, 2009; Amran and Haniffa, 2011; Momin and Parker, 2013), as in this case it is driven mainly by pressures from local companies. Although Saudi Arabia has opened up its market for FDI, pressures from MNCs in the country to motivate organizations to report on their CSR were absent.

Further, by applying the complementary model suggested by Batillana (2006) and Batillana et al. (2009) it has been confirmed that in some cases organizations are not merely "black boxes" in which managers have no role other than complying with the external pressures exerted on organizations, but rather managers and CEOs can also be drivers for CSRR. The analysis of the interviews showed that managers and the CEO played a prominent role in driving their companies to report on their CSR activities. Their high hierarchical position, resources, and previous work experience have enabled managers and CEOs in some companies to be the change agents and the change drivers toward companies' decisions to report on their CSRR.

This chapter has aimed to contribute to the studies in CSRR in two ways. First, although the researcher is not aiming to generalise findings of this study to other developing countries because each country has its unique socio-cultural, political, and economic factors that influence and shape the motivation for CSRR, this study does aim to give insight into what management



believe determine companies' decisions to report on their CSR issues in Saudi Arabia. By doing so, it attempts to close the gap in academic CSRR literature on developing countries in terms of local studies about Saudi Arabia, and also to respond to calls made by international scholars, such as Belal and Cooper (2011) and Spence and Gray (2007), to investigate organizations' motivational factors for reporting CSR activities in their annual reports.

Secondly, in terms of the theoretical framework, this study contributes to institutional theory by complementing it with the model suggested by Batillana (2006) and Batillana et al. (2009). By doing so the findings of this study reveal that organizations do not simply acquiesce to the external institutional pressures to report their CSR issues; actors within organizations can themselves be the change agents and the decision makers for companies' CSRR. Such a model, to the best of the researcher's knowledge, has not been used previously in CSRR studies.

In order to give more insight and explanation about the CSRR practices, the next chapter is devoted to answering RQ2 which aims to shed light on what interviewees (management) believe are the different challenges that companies experience in reporting their CSR activities.

## **Chapter 7: Managerial Perceptions of CSRR challenges**

### **7.1 Introduction**

This chapter discusses the second part of the empirical research conducted in this PhD study. The previous empirical chapter was devoted to outlining and discussing managerial perceptions of the different motivational factors that lead Saudi companies to report on their CSR. This chapter aims to complete the investigation of CSRR in Saudi companies by extending the discussion and analysis of the previous chapter and investigating the challenges that companies face in reporting their CSR activities. This chapter aims to answer the following research question:

RQ2: What challenges do Saudi Arabian companies face in reporting their CSR activities?

Data was gathered through in-depth semi-structured interviews from the same 22 managers who addressed their motivations for CSRR in Chapter 6. The literature review highlighted a few studies that addressed the reasons for the absence of CSRR in developing countries (Belal and Cooper, 2011; Momin and Parker, 2013). However, these studies shared the same context (Bangladesh) and did not discuss the challenges faced; both mainly focused on the reasons for the absence of CSRR in Bangladesh. This study responds to the dearth of studies by addressing the challenges faced by companies in developing countries like Saudi Arabia in CSRR.

The findings were analysed using neo-institutional theory as developed by DiMaggio and Powell (1983) and Scott (2008) and the complementary model suggested by Batillana (2006) and Batillana et al. (2009) to provide insight and interpretations about the different challenges addressed by the interviewed managers.

The chapter is structured as shown in figure 12. It begins by outlining the first challenge identified by the interviewed managers: a lack of awareness and knowledge. In this section, three issues will be discussed and analysed: the lack of a clear definition of CSR terminology and guidelines from company regulatory bodies; CSR training, which is large in quantity but not in quality; and the challenges faced in the collection of CSRR information from different departments within the organization. This is followed by a discussion about the challenges related to cultural traits and the cost burden. The chapter will then discuss the challenges related to the use of international CSR reporting guidelines. Under this section two challenges will be discussed and analysed. The first challenge is related to the applicability of some international standards to companies in Saudi Arabia. The second challenge is related to the extent of the disclosure of companies in CSRR. Finally, a summary and conclusion are provided.

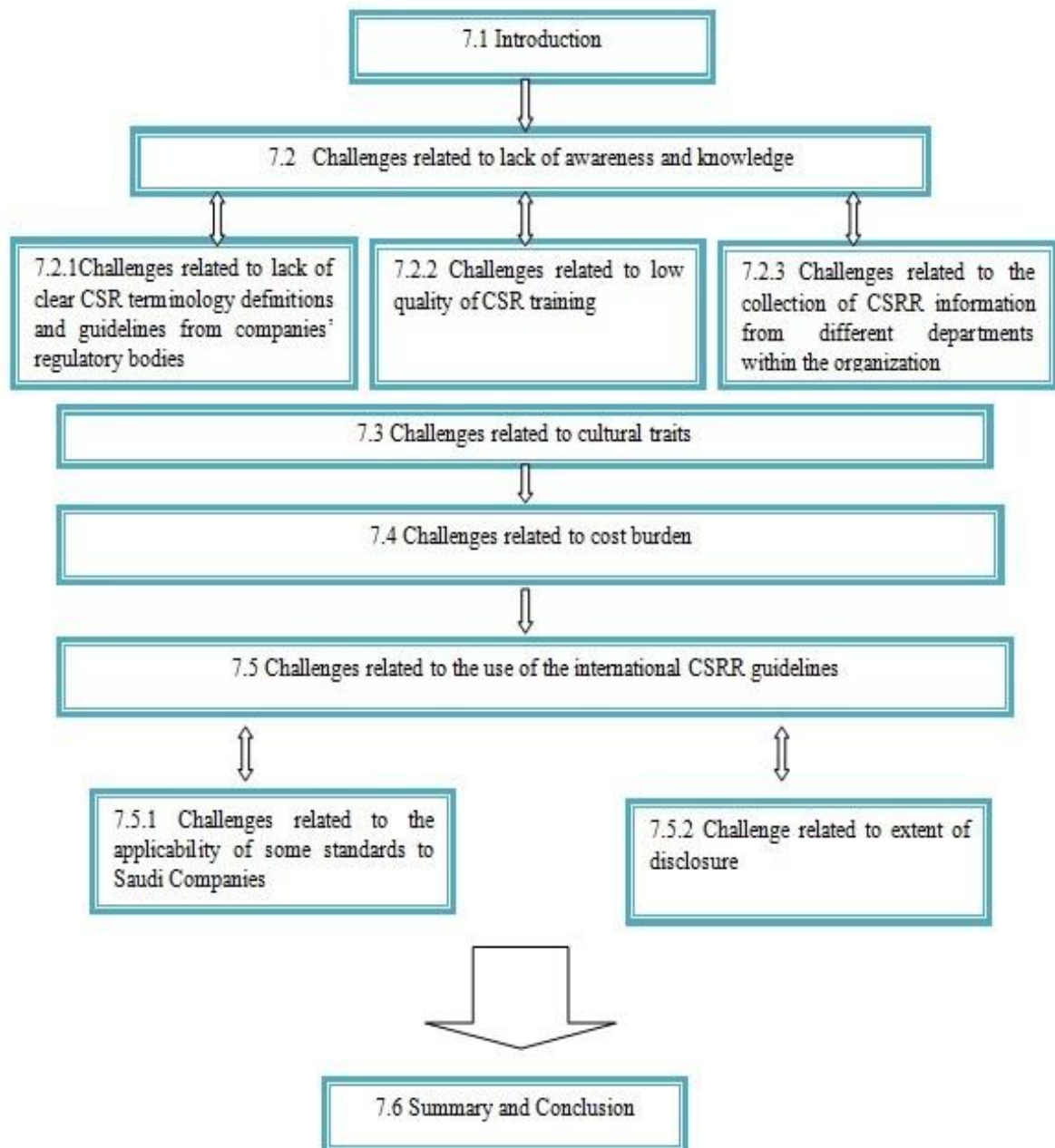


Figure 12 : Structure of Chapter 7

## **7.2 Challenges related to lack of awareness and knowledge**

The literature suggests that CSRR is considered a comparatively new phenomenon in many developing countries (Belal and Owen, 2007; Islam and Deegan, 2008; Belal and Cooper, 2011) and among which Saudi Arabia would be considered a member. It is likely that the innovative nature of CSRR in Saudi Arabia contributes to the challenges that companies face in relation to a lack of knowledge about the CSRR process and requirements, as found in the interviews conducted in this study.

In particular, three main challenges related to lack of knowledge and awareness were identified in analysing the interviews: the lack of a clear definition of CSR terminology and guidelines by companies' regulatory bodies; CSR training being large in quantity but not in quality; and challenges related to the collection of CSRR information from different departments within the organization.

### **7.2.1 Challenges related to lack of clear CSR terminology definitions and guidelines from companies' regulatory bodies**

The lack of a clear definition of CSR terminology from companies' regulatory bodies, associated with the absence of clear guidelines in relation to CSRR, have resulted in a lack of awareness and knowledge related to CSR. These issues have resulted in confusion as to what to report as CSR and in what form and level of detail. The lack of awareness about CSR in developing countries has also been addressed in previous studies (Ramasamy and Ting, 2004; Zulkifli and Amran, 2006). Many of the interviewed managers cited a lack of precision of the meaning and nature of CSR as a cause for variations in the level of CSR disclosure.

Concerns about understanding the concept of CSR and its importance were expressed by the interviewees. For instance, one interviewee said:

The concept of CSR is relatively new not only at the company level but even at the country level. So we still can't say that we have reached a full understanding of what CSR is meant to be. We are interpreting the meaning of CSR based on our simple knowledge, which we gain from looking at other companies' reports! We do not have a reference that can verify whether what we are doing is right or wrong. Even when it comes to CSRR, such a lack of knowledge led the company to disregard some reporting aspects of the company's social activities because we simply do not have enough awareness and knowledge about this area (B4, Compliance Officer, Banking Sector).

This view was supported by another interviewed manager (T1, Director of CSR and Corporate Communications, Telecommunications and Information Sector), who said:

I will tell you what I mean by the awareness weakness. Everybody wants to do good deeds and wants their companies to pay back to the society; however, CSR in its current definition is still confusing. There is no precise definition for CSR so far. So, for example, we see CSR as mainly about community involvement activities, and we don't consider the environment or the employee issues and programs as CSR . . . while some companies are defining CSR the same as we define it, others are taking the employee issues into consideration and so on

The same interviewee highlighted that while clear guidelines exist about the preparation of companies' financial statements from regulatory bodies like SOCPA and CMA, there are no similar guidelines for CSRR, which makes the reporting process problematic. He stated:

We all want to be good, but we need clarification. If you look at the financial statements, you can see that it is prepared on clear standards and guidelines which were asked to be followed by SOCPA and from the CMA . . . with CSRR there is nothing like that. Such absence creates a challenge for us. We need to be enlightened in this area

These responses indicate that interpretations of the concept of CSR are coloured by individual perceptions and efforts in acquiring knowledge. Furthermore, the responses suggest that companies make efforts to reduce the uncertainty concerning what is classified as CSR by looking at other companies' annual reports. This might be seen as a form of risk reduction and an example of mimetic isomorphism, where firms are concerned not to be seen as different from other companies. However, the catalyst for looking at other companies' annual reports is uncertainty around the definition of CSR. Interviewees also mentioned that such weaknesses

even affect their levels of CSR disclosure. This implies that CSR and CSRR cannot be understood and considered in isolation from each other; they are inextricably intertwined. The lack of clear definition for CSR and guidelines from companies' regulatory bodies shows that CSR and CSRR still have to be institutionalised. The development of such structures requires both governmental and regulatory bodies such as the CMA to make more efforts to enlighten and educate companies about CSR. It has been argued that the development of CSR at the organizational level requires several learning and educational processes (Dashwood, 2012). Educational training programs according to DiMaggio and Powell (1983) is an essential feature in shaping and developing organizations' norms among companies' managers and staff. The next section will discuss issues related to CSR training.

### **7.2.2 Challenges related to low quality of CSR training**

Despite the government's efforts to provide organizations with relevant CSR and CSRR education and training through conferences and workshops, some managers in the interviews expressed the belief that the expected results of these efforts were not as successful or beneficial as expected. One interviewee said:

I can tell you that the currently provided conferences and workshops can be considered large in quantity but not in quality . . . they do give us some general knowledge about CSR, like for example it is important to sponsor and participate in some social activities; it is good to think green; but they do not inform us what is the definition of CSR or what issues can be classified as CSR. We might do lots of activities that can be classified as CSR, but because we do not have enough knowledge about this issue, we do not consider it as CSR, and accordingly that will affect our CSR disclosure level (B5, Compliance Officer, Banking Sector).

Another interviewee agreed and commented:

The volume of CSR events has started to increase in the country recently, I mean in the last three years. However, it has spread in breadth but not in depth. So, for example, I went to a workshop organised by the Chamber of Commerce in Al Riyadh City that was titled "CSR: The Way Ahead". I can tell you that although the workshop may have created awareness about the importance for companies to be involved in and report on CSR, it doesn't help us to know what and how we should prepare and report on CSR, it does not even give us examples or illustrations of good CSRR . . . we just attended conferences and CSR

workshops with attractive slogans, but in actual fact, after attending them, I still feel that the picture of CSRR is not clear to me. The workshops so far are lacking in that (A1, CSR Manager, Agriculture and Food Sector).

The aforementioned sentiments imply that although the provided workshops succeeded in creating awareness about the importance of CSR, the quality of the CSR training workshops has been questioned. In particular, some of the interviewed managers perceived that the content of the currently provided workshops and conferences was insufficient to help them to grasp full knowledge about CSR and CSRR.

These CSR training programs have created a normative environment that has motivated companies' managers to report on CSR. However, the currently provided training programs seem not to provide participants and interested parties with the necessary qualifications, skills or knowledge of what and how to report on CSR or the extent of CSRR. Such inadequacy in providing companies with specialised training programs that have informative content about CSRR, and the novelty of CSR as a concept with no clear definition, has resulted in a low level of awareness and knowledge about the nature and content of CSRR.

Based on the interviews, this lack of awareness and knowledge implies that the status of CSR in Saudi Arabia is similar to that in other developing countries; CSR is still being established, and the acceptable norms and values are still developing. Such findings echo previous studies on CSRR in developing countries, in which a lack of knowledge was shown to result in an unsatisfactory level or even an absence of CSRR (Belal, 2001; Al-Khater and Naser, 2003; Belal and Owen, 2007).

### **7.2.3 Challenges related to the collection of CSRR information from different departments within the organization**

CSR and CSRR have only recently arrived in Saudi Arabia (Khan et al., 2013), which means that employees of companies in different departments within the organization are still learning about



CSR and CSRR. They may be trying to understand both concepts or taking them for granted but in general the interviews suggest there is considerable disparity in awareness and knowledge of CSR within companies. Therefore, introducing, applying and institutionalising CSR and CSRR in organizations will take time.

The time, process and efforts required for employees to understand and practice new innovative business issues have been addressed by some scholars in different areas of accounting such as the management accounting field (Burns and Scapens, 2000; Siti-Nabiha and Scapens, 2005). These scholars have pointed out that the introduction of new management accounting techniques in organizations takes time, efforts and procedures until they become institutionalised within the organization.

In this study, other identified challenges to CSRR are a lack of awareness about the importance of CSRR within different departments of the company and the difficulties of collecting the required CSR information to prepare the CSR report. While the interviewed participants work on CSR and CSRR individually or as part of a small team, they indicated that the collection of the required information for CSRR is difficult in terms of communication and coordination between departments. Some interviewees pointed out that although they work in the CSR department, they only have access to information related to community involvement aspects of their organization's CSR activities and not to other required CSR information such as employee, environment or health and safety issues in the organization. Accordingly, many of the interviewees explained that collecting the information for the report is not an easy task. Indeed, the interviewees noted that the low level of awareness about the importance of CSRR amongst the staff of other departments, e.g., HR or Health and Safety departments, makes the collection of CSRR information difficult and time consuming. The interviewed managers feel that this issue can affect their CSR disclosure and may result in an incomplete picture of CSR activities. Regarding this issue, an interviewee said:

One of the major challenges that I face in preparing the CSR report is related to the collection of the data required to prepare the report. I usually send a request to collect some exact data required for the preparation of the CSR report to, for instance, the HR department and the Health and Safety department. Unfortunately, not everybody in these departments takes the issue seriously, and not all departments cooperate. I can tell you that there is a lack of awareness by staff within those departments about CSR and the importance of the CSR report. Basically, they do not value this kind of work and do not consider it as a priority or as something that needs to be done, and unfortunately I don't have any access to this information. This is the major obstacle that I face in preparing the report (B1, CSR Manager, Banking Sector).

This sentiment was also reflected in the response of another interviewee, who said:

CSR terminology is new in the company. I can tell you that not all employees in the company departments are aware of CSR. So, for example, when I contact the HR department to collect information about the employee programs, the people in this department keep asking questions like, "Why do you need it?" and, "What are you going to use it for?" The HR department considers such information an internal matter and not necessarily to be included in the company's annual report! This lack of awareness, co-ordination and a communication issue makes the collection and preparation of the CSR data challenging (N3, PR Manager, Building and Construction Sector).

The above findings show that not all employees across departments are aware of CSR or the importance of CSRR. The findings also indicate that the CSR information required for the preparation of CSRR is scattered across different departments rather than restricted to one department. It can be inferred from this that CSR and the importance of CSRR are still developing in companies and have not yet been institutionalised in company policies to an extent that would make CSR issues clear to all staff members. It also shows that although the interviewed participants work on CSR and CSRR individually or as part of a small team, their scope only allows them to access information related to the company's community involvement issues. They are not empowered to access additional information such as that related to employee issues, which requires them to contact the HR department and request the information. Since CSR is a new concept for companies in Saudi Arabia (Mandurah, 2012), which is confirmed in the current study, raising awareness of CSR and CSRR amongst company staff is crucial for effective and informative CSRR. Furthermore, raising awareness must be supported by senior management, as their position and power enable them to enact changes in the company.

According to Hofstede's cultural value model, Saudi Arabia's power distance rank is 80, which indicates a very high level of power distance between managers and subordinates (Cassell and Blake, 2012). This high power distance in Saudi Arabian businesses impacts decision-making and enables managers to make decisions that must be accepted by subordinates. The subordinates, based on the high power distance characteristic, have respect for authority and the power of managers (Cassell and Blake, 2012). As such, decisions from senior management tend to be accepted without resistance. Therefore, raising awareness must be supported by senior management.

Professional training institutions are important for building a normative system that defines goals, objectives and the appropriate way to pursue valued ends (DiMaggio and Powell, 1983). Training, accordingly contributes to boosting the staff's knowledge and awareness of new concepts such as CSR and CSRR in their organizations. Although the analysis of interviews in the previous chapter<sup>64</sup> showed that the staff members of CSR departments already attend training workshops, it seems there is a need for CSR norms and values to be distributed and explained to the members of other departments within the company to close the gap of knowledge among the staff.

The findings suggest that there is a strong need for internal CSR educational policies to help raise staff members' awareness of CSR and CSRR, providing structures and processes and institutionalising certain values within the company. Creating an educational environment to familiarise the companies' staff members about CSR norms and values can help the staff of other departments embrace the CSRR process and cooperate with CSR departments.

Previous studies have outlined how a lack of awareness of CSR can result in unsatisfactory levels of CSR information and, sometimes, the absence of some CSRR sections (Belal, 2001;

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<sup>64</sup> Chapter 6 has shed light on the training provided for organizations in the country.

Belal and Owen, 2007; Belal and Cooper, 2011; Hossain et al., 2012). However, these studies were not concerned with issues such as the distribution of knowledge related to CSRR within companies. Thus, the current findings contribute to the literature by shedding light on external and internal issues related to training and awareness and the challenges related to the difficulties of collecting CSR information from other departments within the organization. The findings also shed light on how a lack of awareness of CSR across different departments can reduce levels of cooperation with the CSR department regarding obtaining the information required for the preparation of the CSRR.

### **7.3 Challenges related to cultural traits**

An analysis of the interviews revealed that managers appreciate the importance of CSRR, as it helps their organizations to conform to social expectations and thus legitimise their presence by meeting the expected social norms and values (DiMaggio and Powell, 1983). However, managers considered that some challenges in reporting their CSR activities arise from cultural traits. In fact, culture has been identified as an important determinant in CSRR (Haniffa and Cook, 2005; Belal, 2008; Momin and Parker, 2013). The culture in Saudi Arabia is shaped widely by Islamic values, in which the self-disclosure of good deeds is not desirable. In Saudi Arabia, there is a widely held perception that it is not culturally desirable for people to seek credit for their good deeds, as it is considered part of *Riya* (showing off) (Alsaleh, 2013). When considering values and norms, the interviewees felt that normative pressures have caused an ambivalence and reluctance to follow the company's desire to be transparent in disclosing CSR issues in their annual reports related to their donations to charities and their good deeds. The interviewees indicated that the disclosure of such information does not culturally promote an image of the company as a participatory member of society; rather, it might be counter-productive, appearing as self-promotion. One interviewee described the issue this way:

Sometimes we become reluctant to include disclosures saying the company has donated X thousand Riyals to charities. You know why? We don't want the reader of our annual reports to feel that we are showing off or bragging. It is the culture here in this country that discourages you from making such disclosures . . . it's important, but the Saudi society may not interpret such a step positively (N3, PR Manager, Building and Construction Sector).

In fact, many managers felt a fear of misinterpretation or questioning of the company's real motive for disclosure by the users of the annual reports and society at large. An interviewee said:

Let me be honest with you. The company might be accused of not disclosing too much information about its good deeds in the annual reports. Well, we are really ambivalent about whether we should report the company's charities and good deeds or not. We give back to the society because we feel that this is an obligation and a responsibility. But the disclosure of these facts, especially with a culture based on values that emphasise concealing them, makes the handling of this CSR issue challenging (P3, Manager of the HR Department, Petrochemical Sector).

These statements imply that although companies believe in the obligation of giving back to society, in some cases, the cultural norms and values may make companies reluctant to disclose their charities and good deeds. Neo-institutional theory, as proposed by DiMaggio and Powell (1983) and Scott (2008), emphasises that organizations tend to conform to established institutional patterns and social expectations to legitimise their presence in their operational environment. Linking the aforementioned findings to the neo-institutional theory suggests that managers, in their decision to disclose their CSR information related to good deeds, seem to attempt to meet the social expectations of their operational environments to maintain their legitimacy and preserve the stability and survival of their organizations.

The views of the interviewees imply that the interpretation of this kind of disclosure (about charities and good deeds) may not be in line with the image that organizations are expected to convey. Such perceptions reflect a concern that CSRR might be culturally seen as undignified in Saudi Arabia. Cassell and Blake<sup>65</sup> (2012) indicated that Saudi managers are generally intolerant

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<sup>65</sup> The authors relied on Hofstede's cultural value model in their study.

and fearful of changes that deviate from generally accepted cultural norms and values. In addition, Saudi Arabian society has been classified as a short-term orientation society (ibid), i.e., Saudi society is a normative society that exhibits a great respect for traditions and the accepted norms and values (Cassell and Blake, 2012). Saudi managers' decisions are usually based on normative thinking, and they focus on achieving quick results without taking long-term consequences into consideration. Decisions that contradict the accepted norms and values will likely lead to the shame of the decision-maker, which may also explain the slow acceptance of innovative business practices. Therefore, culture undeniably influences business decisions in various ways, and CSRR is no exception.

Further, Islamic values prioritise not disclosing good deeds and seeking reward from Allah the almighty instead. Although, based on Islamic cultural values, there is no harm in disclosing your good deeds and charities; it is better and preferable not to disclose them. Such emphasis is explicitly mentioned in the Quran in Surah Al-Baqarah:

‘If you publish your almsgiving, it is well, but if you hide it and give it to the poor, it will be better for you, and will atone for some of your ill-deeds. Allah is informed of what you do’. (Verse 271: Chapter 2 in Quran; translated by Pickthall, 2008)

This finding is in line with those of Momin and Parker (2013), in which the interviewees of multinational companies in Bangladesh reported that their reluctance to disclose their CSR (and their good deeds in particular) was because the Islamic-dominated culture in Bangladesh is not in favour of such disclosures.

#### **7.4 Challenges related to cost burden**

Despite the fact that managers believe in the importance and necessity of CSRR, an analysis of the interviews revealed that the cost burden associated with providing detailed CSR information is a challenge that affects companies' CSRR.

A number of interviewees directly mentioned the difficulty of balancing their desire to be transparent about their CSR activities and the associated costs of providing CSRR. In particular, since CSR is new in Saudi Arabia, it is still developing and is not yet institutionalised. This, accompanied by a lack of trained staff to prepare this kind of report, has put a cost burden on companies preparing their CSRR. An analysis of the interviews revealed that companies are seeking to assign professionals and intermediary organizations to help them in formatting, simplifying and explaining their CSR data and converting it into readable and understandable written information. The translation of technical information, e.g., related to the company's ecological footprint and the calculations associated with it, into easily understood language is not an easy task; it requires time, resources and technical capacities that incur extra costs for companies. The interviewees argued that although they want to be transparent regarding their CSR activities, they do face difficulties in balancing the aforementioned costs and the commitment of the company to maximise shareholder wealth. One interviewee described the issue this way:

As an electricity provider, we have sophisticated environmental information that needs to be simplified for the reader to be able to understand our efforts towards protecting the environment. The CSR budget is limited and the cost associated with simplifying the information through the consultant firm is high (around \$100,000), requiring more money than the specified amount we are working with. As custodians of shareholders' value, we need to minimise rather than increase the cost associated with the voluntary disclosure. We need to be very logical in our assessment of how much money we can spend on CSRR (E1, Manager of the Marketing Communication and PR Department, Energy and Utilities Sector).

Another interviewee agreed with the above comments, stating:

We want to be transparent about every single CSR activity we are doing, but we face some issues that affect the company's CSRR. The CSR department is small and we are only five employees . . . we work within a specific budget and we can't depart from it. I remember that I sought the consultation of Ernst and Young auditing firm to provide us with some technical consultations regarding the CSR reports, and the proposed cost was massive. The administration refused the idea as it would incur extra costs for the company and it would be hard to justify to the investors the reason for such a cost, especially since CSRR is voluntary. This kind of cost burden affects the level of the company's CSR disclosure . . . we cannot simply do whatever we want. There has to be added value for all transactions

that the company is doing (T1, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

The aforementioned quotations demonstrate that the cost burden associated with CSRR affects companies' CSR disclosures. The quotes also suggest that incurring this cost may make the company depart from its main objective, which is the maximisation of shareholder values. Such an argument is in line with that advocated by Friedman (1970), who indicated that the only responsibility of a corporation is to maximise shareholder wealth and use its resources for activities that will increase profit within "the rules of the game" (p.6). It also shows that although the interviewees are keen to be transparent, the cost burden and desire to reduce costs and maximise shareholder value seems to put pressure on companies and affects their CSRR, as the rule of profit appears to be dominant.

Previous studies have addressed how the cost burden can be an important factor that not only affects the level of CSRR but also prevents companies from providing any CSR information (Cormier et al., 2004; Hossain and Reaz, 2007). However, to the best of the researcher's knowledge, previous studies do not address the cost burden as a challenge that conflicts with the shareholder value maximisation target that companies seek to achieve.

### **7.5 Challenges related to use of international CSRR guidelines**

As pointed out previously, one of the challenges identified by analysing the interviews is related to the lack of knowledge and understanding of CSR terminology accompanied by a lack of clear guidelines from the regulatory bodies of companies, e.g., CMA, on what constitutes best CSR practise.

The literature has highlighted that adhering to international CSRR standards such as the GRI can help guide companies to report their CSR (Graham and Woods, 2006; Adams and McNicholas, 2007; Du et al., 2010). These guidelines are normative in nature and contain a set of generally



accepted principles and indicators that organizations use to report on their economic, environmental and social performance (Global Reporting Initiative, 2014). These normative guidelines are important in shaping CSRR (De Villiers and Alexander, 2014). However, an analysis of the interviews revealed some issues related to international CSRR reporting guidelines that make companies reluctant to implement the guidelines within their organizations. These challenges are discussed in the following section.

### **7.5.1 Challenges related to applicability of some standards to Saudi companies**

A number of international CSR reporting standards and guidelines provide companies with frameworks containing principles and guidance for defining the content and boundaries of CSR reports and aim to help companies achieve transparency in various aspects related to CSR<sup>66</sup>. These international CSR reporting standards include, but are not limited to, ISO 26000 and the GRI. Despite claims of the universal applicability of these standards by their advocates, some of the interviewed managers disagreed. An analysis of the interviews revealed a conflict between the values underlying international standards and the existing norms and values of CSR disclosure in the surveyed companies. In particular, these standards emphasise reflecting the attitude of businesses on issues such as human rights, labour rights and anti-corruption practises, which are not in line with existing disclosure culture in Saudi companies and do not seem to be important CSR issues for companies in the Saudi context. Accordingly, applying international CSRR guidelines challenges the disclosure procedure followed in the organization, as some of the required disclosure issues either do not exist or break from the norms and values of the company and the existing disclosure practices system.

Regarding this issue, an interviewed manager pointed out that some of the GRI standards require disclosure related to human and labour rights, which is not included in the company's accounting

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<sup>66</sup> (<https://www.globalreporting.org>; <http://www.accountability.org> ; <http://www.iso.org> )

procedure and is not in line with the company's disclosure norms and values, which makes applying these standards problematic. He stated:

I can tell you that by default we do not have any existing information about the issues related to human rights which are required by the GRI standards. In terms of labour rights, I can tell you that labour rights are preserved in accordance with the Ministry of Labour rules and regulations, and we consider this information as internal and not part of the CSR. I do agree on the importance of being transparent, but including such information requires different procedures that the one we have at the moment, including adding new tasks for the accounting department and HR department that break with the existing company policy and procedures . . . I consider this as a challenge, at least at the moment (T1, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

In agreement, another interviewee commented on the challenges associated with some of the standards if they were to be applied:

One of the GRI standards requires societal disclosure about the company's efforts against corruption! To be honest with you, we do not have any information about this, and we do not consider this a CSR. Also, there is a standard related to disclosure about labour rights in the GRI that required disclosing information we do not consider as core CSR issues. Labour rights for either foreigners or local workers are protected by the law and cannot be violated. We are more interested to focus the company disclosure about labour on talking about what is socially desirable to be seen and in line with the company's CSR vision and the country-specific issues like the disclosure about the company's efforts to balance between local employees and foreigners and our efforts towards Saudization and unemployment (T2, Director of CSR and Corporate Communications, Telecommunications and Information Sector).

It can be inferred from the above statements by Saudi managers that the implementation of international reporting standards seems problematic for Saudi companies. The quotations also indicate that international standards emphasise reporting on issues that are seen as either inconsistent with the existing Saudi CSR infrastructure or not important enough to be reported compared with other CSR issues such as the companies' community involvement activities. In fact, international CSR standards such as the GRI, ISO 26000 and AA1000 were basically developed in advanced economies such as the United Kingdom and the United States, in which CSR is already institutionalised and where companies have a strong CSR infrastructure. This implies that the CSR situation in Saudi Arabia is similar to the CSR situation found in previous

studies in other developing countries (Belal and Owen, 2007; Belal et al., 2013; Momin and Parker, 2013; Abdalla and Siti-Nabiha, 2015). Accordingly, it can be argued that the CSR issues requiring disclosure by CSR international reporting guidelines such as human rights, labour rights, and anti-corruption efforts can be based on issues and values that are functional in western companies but irrelevant to Saudi Arabian companies CSR disclosure culture. For instance, the interviewed managers do not perceive labour rights as an important part of their CSR to be disclosed in their annual reports perhaps because their attitudes and awareness about CSR and CSRR are limited and based on the disclosure patterns of their competitors. Companies are more interested in reporting on issues that are seen as socially desirable by society such as their contributions to the localisation of the company's jobs ('Saudization'). Therefore, managers are working under normative pressures, as reporting on these issues meets social expectations and the norms and values of the society and thus legitimises their presence in the environment in which their organizations operate. Normative pressure influences managers to pursue various ends to meet the social expectations of the environment in which their organizations operate and accordingly maintain their legitimacy (DiMaggio & Powell, 1983; Scott, 2008). Normative dimensions encompass values related to what is desirable and socially acceptable to pursue and norms that define how things should be done to achieve the valued end (Scott, 2008). It appears that the interviewees believe that this is the case for companies in Saudi Arabia; as suggested by institutional theory, companies are striving to conform to the established institutional pattern to maintain stability and legitimacy.

The following examples from the annual reports reflect the companies' commitment toward their efforts about Saudization and unemployment,

T1 in its efforts in national recruiting program is pleased to illustrate its role to comply with the Ministry of Labor's Nitaqat "Saudization" standards. 450 jobs were made available in 2013, a 300% increase compared with 2012. Furthermore, many local and external recruitment campaigns were implemented to attract national competencies from

the graduates of the King Abdullah Foreign Scholarship Program and the graduates of local universities (T1 annual reports, 2014, p.32)

T2 Company works continuously to recruit and develop Saudi nationals, who comprise a significant and growing proportion of its total workforce of 29,216, of whom 23,273 are employed in its different branches of the company in Saudi Arabia. Most of the Company's senior management are Saudi nationals. T2 will continue its efforts during 2015 to hire more young Saudis, male and female. The company is totally complying with the Ministry of Labor's Nitaqat "Saudization" standards. The platinum Nitaqat rating has been achieved this year (T2 annual reports, 2014, p.32)

These examples from the annual reports support the interviewees' perceptions about their commitments to meet the country-specific issues related to Saudization and its relevant disclosure.

The interviews quotations also imply that the challenge of implementing these standards makes companies diverge from their institutionalised norms and values and their corporate disclosure culture. Battilana et al. (2009, p. 78) pointed out that implementing change is a challenge, and implementing change that breaks with existing institutions is even more so.

International CSR standards need to be adapted and localised by regulatory bodies, e.g., CMA, to suit the circumstances of the country and issues related to CSR. The issues of the applicability of international standards to developing countries has been similarly noted in the context of international financial accounting standards (Abd-Elsalam et al., 2002; Tyrrall et al., 2007; Irvine, 2008), in which the standards proved to be problematic when adopted. Previous studies such as those by Kuasirikun (2005) and Belal and Owen (2007) suggested that domestic input and the involvement of governmental regulatory agencies in implementing social and environmental accounting is essential to address relevant CSR issues in developing countries.

The studies about international CSRR standards are limited, making this an under-researched area in developing countries. To the best of the researcher's knowledge, only a few studies have addressed the relevance of international CSRR standards such as Belal and Owen's (2007) and

Belal's (2008) studies about CSRR in Bangladesh. Accordingly, the findings of this part of the study contribute to the literature by shedding light on the challenges related to the applicability of international CSRR standards to Saudi Arabia, a developing country that is widely under-researched in the literature.

### **7.5.2 Challenges related to extent of disclosure**

An analysis of interviews revealed that some managers feel uncertain about using international CSRR standards, especially if their competitors are not using them. Managers feel that their companies will be exposed if they use guidelines that their competitors are not using, particularly in terms of the extent of their disclosed CSR information. Interviewees expect that such exposure might adversely affect the reputation of their company, especially if the company is not performing well compared to competitors in the aspects that they are required to disclose. Studies such as those by Bebbington et al. (2008), Brown et al. (2009) and Nikolaeva and Bicho (2011) have highlighted the importance of the reputation of a company, as reputation is perceived as an intangible asset that generates benefits and adds value to the company in terms of customer loyalty, share prices, etc. One interviewee in this regard stated:

The GRI requires us to state the amount of money we spent on the bank's social contribution activities. There are two issues with this disclosure: the first one is that competitors usually do not say how much they spent on their social contributions, and the other is that the bank might endanger its reputation and the image it wants to have in the society . . . for instance, if we said that we spent X Saudi Riyals and this amount was very little compared to the competitor's disclosed amount, then that would be like permission for the society to question the bank's reputation, as in our logo we do say that we are a socially responsible bank, but the disclosed number is not saying that compared to the competitors (B4, Compliance Officer, Banking Sector).

Another interviewee agreed with the above sentiment and said:

The company is interested in being transparent and in reporting on CSR. However, there is some information I find sensitive to be disclosed, like the company's environmental impact. The GRI requires intensive disclosure on this aspect. In fact, in our factories, we are making our best efforts to prevent any negative environmental impact, and if you pass by any of our factories, you won't see fumes as high as 50 meters or equipments to dilute pollution before it is spread into the air. We have pollution, but it is relatively small

compared to the competitors. None of our competitors are talking about their environmental impact or using the GRI . . . and I'm not sure that using these guidelines is the right decision (N2, CEO, Building and Construction Sector).

An analysis of the interviews suggested that the surveyed organizations are surrounded with uncertainty in relation to their CSRR and the use of international CSR guidelines, especially if their competitors are not applying these standards. Accordingly, and as suggested by DiMaggio and Powell (1983), to reduce their uncertainty and legitimise their presence, companies prefer to model themselves after successful organizations in their field and determine what should be disclosed as CSR by imitating the behaviours and practices of their peers. This implies that mimetic pressure has a pivotal role in determining the decisions of companies to follow international CSR guidelines, even in Saudi companies, where CSR and CSRR are still innovative and developing. It is also suggested that any decisions related to CSRR are based on meeting the prevailing trend of CSRR in relation to other companies, especially with the absence of local reporting guidelines. Such findings on the influence of mimetic pressure on CSRR have been reflected by previous studies (Amran and Siti-Nabiha, 2009; Amran and Haniffa, 2011; Momin and Parker, 2013) however, these studies do not shed light on international CSRR guidelines.

Moreover, the level of competition between organizations and the extent of the disclosure requirements of some international CSR reporting guidelines appear to be a challenge that companies face, especially when companies are trying to build a reputation of having social responsibility. Scott and Walsham (2005) pointed out that although reputation takes a long time to build, it is easily broken. It is therefore understandable that companies can be reluctant to release information that might be interpreted negatively by society or raise concerns about other companies not disclosing the same CSR information. Such responses from the interviewees also raise questions about the responsibility of companies to be transparent about their CSR activities.

Their comments suggest that although maintaining a good reputation sounds like an important business decision, CSRR seems to be basically restricted to economic rationales, more of an instrumental tool used to achieve managers' egoistic goals than anything else.

This finding highlights the challenges that companies in developing countries like Saudi Arabia face in the use of international CSR reporting guidelines like the GRI and the issue of mimetic pressure and the reputation of a company, which have not been discussed before in the context of developing countries to the best of the researcher's knowledge.

## **7.6 Summary and conclusion**

This chapter discussed and analysed managerial perceptions about the different challenges that they experience in relation to CSRR and may affect their companies' CSR disclosures. This chapter also answered the following research question:

RQ2. What challenges do Saudi Arabian companies face in reporting their CSR?

The data were gathered from in-depth, semi-structured interviews with the same 22 managers who expressed their motivations for CSRR in Chapter 6. The 16 sampled companies of this study come from a variety of industries<sup>67</sup>, and the findings are not applicable to a single industry. The details of the companies can be found in Chapter 5, which explains the research methodology and methods. It is important to emphasise that this study reports on the perceptions of only the 22 interviewed managers, and therefore any consideration of the findings can only be attributed to these individuals without any aim of generalising the findings to all Saudi companies.

Through an analysis of the interviews, a number of challenges were identified as affecting companies' levels of CSRR and the absence of reporting some CSR issues. They include challenges related to 1) a lack of knowledge and awareness about the process and requirements

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<sup>67</sup>The sampled industries included banking, agriculture and food, telecommunications and information, cementing, petrochemical, building and construction and energy and utilities.

of CSRR, 2) cultural traits, 3) cost burdens and 4) the use of international CSRR guidelines and their associated issues.

Due to the innovative nature of CSR and CSRR and the under-developed normative structure of CSR and CSRR practices, a lack of knowledge related to the process and requirements of CSRR has resulted. In fact, a lack of a clear definition of CSR terminology combined with a lack of guidelines from companies' regulatory bodies, e.g., CMA, in relation to CSRR has produced challenges related to what to report under CSR and in what form and the level of details. Such findings about the lack of awareness and knowledge of CSR have been reflected in other research (Ramasamy and Ting, 2004; Zulkifli and Amran, 2006). However these studies did not discuss this issue in relation to the challenges of CSRR. In addition, it has been found that the government's provision of workshops and training about CSR has been successful in convincing companies about the importance of CSR and reporting on their CSR activities. This is in line with DiMaggio's and Powell's (1983) proposition that professional training institutions and educational training programs are important for the development of organizational norms amongst companies' managers and staff. However, some managers' perceptions revealed that the provided training was large in quantity but not in quality. The content of the provided workshops has been criticised for failing to arm managers with the required skills and knowledge regarding what and how to report on CSR and the extent of CSRR details; accordingly, this affects their companies' CSRR levels.

In addition, a lack of staff awareness about the importance of CSRR across departments and the problems that CSR teams face in accessing the necessary information have also been identified as challenges affecting the company's CSRR level. As a CSR team can only access information related to the company's social activities, they need to communicate with other departments to collect information on additional topics such as employee programs. This study also sheds light on the importance of disseminating awareness amongst companies' employees about CSR and



CSRR and the necessity of having an internal CSR educational policy to help raise the awareness of a company's staff about CSR and CSRR, accompanied with the support of higher management. Previous studies have pointed out how a lack of awareness about CSR and CSRR can affect the level of CSRR (Belal, 2001; Belal and Owen, 2007; Belal and Cooper 2011; Hossain et al., 2012). The current findings contribute to the literature by examining the external and internal issues of companies, e.g., training and awareness, the challenges of collecting CSR information from other departments and how a lack of awareness between companies' departments about CSR reduces their level of cooperation with the CSR department.

This study also showed how cultural traits can be perceived as challenges in CSRR. It highlighted challenges created by specific cultural traits related to Saudi Arabia as identified by Cassell and Blake<sup>68</sup> (2012) including: 1) the low level of tolerance towards uncertain issues and the fear of change by enacting some CSRR reporting issues that deviate from the generally accepted cultural norms and values; 2) decision-making by Saudi managers, which is usually based on normative thinking that exhibits a great respect for the traditions and accepted norms and values of the society and the fear of misinterpretation and shame in disclosing the companies' good deeds and 3) the discouragement of disclosing good deeds according to Islamic values.

Another challenge identified was the cost burden that stems from assigning intermediary firms to help companies in formatting, simplifying and explaining their CSR information, which can affect CSRR levels. The discussion reflected the conflict that companies face from their desire to be transparent versus their desire to reduce costs and maximise shareholder value; since the rule of profit seems to be dominant, this issue can affect their CSRR. These findings echo studies about CSRR in developing countries (Cormier et al., 2004; Hossain and Reaz, 2007) and add an incremental contribution to the CSRR literature.

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<sup>68</sup> Their study was based on Hofstede's cultural value model.

Further, another challenge identified was related to issues concerning the use of international CSRR guidelines. The discussion revealed that even though promulgators claim that the standards are universally applicable, the same does not appear to apply to the sample companies in Saudi Arabia from which the employees interviewed were drawn. International CSRR standards require companies to report on issues that are not recognised as CSR issues in Saudi companies and did not exist in a company's disclosure culture such as those about human rights and the company's anti-corruption efforts. There are also issues that are not seen as important for disclosure such as labour rights, which are an internal matter already preserved by the law. Instead, managers are keen on reporting issues that meet social expectations and are desired by society such as Saudization and the companies' efforts towards reducing unemployment. Accordingly, companies are facing normative pressure to report on issues that meet social expectations and the norms and values of society (DiMaggio and Powell, 1983; Scott, 2008). Institutional theory proposes that an organization's actions are limited by external pressure, part of which is normative pressure. In fact, and as argued by DiMaggio and Powell (1983), organizational behaviour and responses are not derived from the imperative to make an organization efficient. Rather, organizational behaviour and responses are driven by the desire to legitimise their presence and conform to the expectations of the environment in which they operate. This is true in the case of the current findings in relation to the applicability of international CSRR standards to the Saudi Arabian context, especially knowing that these standards were developed independently from local Saudi Arabian CSR issues and concerns.

Another challenge identified related to international CSR guidelines stems from the issue that some managers feel uncertain about using international CSRR standards, especially if their competitors are not using these standards. Managers expect that their companies will be exposed if they use the guidelines that their competitors do not, which may adversely affect their reputation in society, especially if the company is not performing well in the aspects that require

disclosure compared to competitors. Based on the interviewees' opinions, this finding suggested that the surveyed companies are surrounded with uncertainty in relation to their CSRR and the use of international CSR guidelines. As suggested by DiMaggio and Powell (1983), to reduce their uncertainty and legitimise their presence, companies prefer to model themselves after successful organizations in their field and determine what should be disclosed as CSR by imitating their peers' behaviours and practices. An analysis of the interviews revealed a need for international CSR guidelines to be adapted, as interviewees believed that regulatory bodies, e.g., the CMA, must take an active role if internal CSR standards are to be implemented in Saudi Arabia.

Having presented the managerial perceptions of the motivations for CSRR in Saudi companies in Chapter 6 and the challenges of CSRR in Chapter 7, the next chapter will be devoted to expanding the investigation of CSRR in Saudi Arabia. Chapter 8 will discuss and analyse the role of non-corporate actors, i.e., the media, academics, NGOs, CSR consultants and regulators, in influencing companies to report their CSR activities. It will also discuss the perceptions of non-corporate actors about the current situation of CSR in Saudi Arabia and provide insight into CSRR in Saudi Arabia.

## **Chapter 8 : The role of non-corporate actors in influencing Corporate Social Responsibility Reporting (CSRR) and their perceptions about current Reporting Practices**

### **8.1 Introduction**

This chapter discusses the final part of the empirical work of the current research study. The chapter aims to complete the investigation of this study about CSRR in Saudi companies; to extend the discussion and analysis of the previous chapter by investigating the role non-corporate actors, such as the media, academics, NGOs, CSR consultants and regulators, play in shaping CSR in Saudi Arabia, and in influencing companies to report their Corporate Social Responsibility (CSR) activities and their perceptions about the current practice of CSR reporting (CSRR).

In reviewing previous studies related to Corporate Social Responsibility Reporting (CSRR) it has been found that little attention has been paid to investigating the role of the media, academics, NGOs, CSR consultants and regulators in influencing companies to report their CSR activities and their perceptions of the current practice of CSRR in the countries under study. As such, this PhD thesis seeks to fill this research gap and respond to a call from several scholars, including O'Dwyer et al. (2005), Belal (2008), Adams and Whelan (2009), Islam and Deegan (2010), Deegan and Islam (2012), and Momin and Parker (2013) to investigate this aspect of CSRR further. This chapter aims to investigate the following issue:

RQ3: What is the current role of non-corporate actors (the media, academics, NGOs, CSR consultants and regulators) in influencing companies to report their CSR and their perceptions about current CSRR practices?

This chapter is informed by semi-structured interviews as the main data collection method, details of which can be found in chapter five that explains the research methodology and methods.

The resultant findings and discussions have been analysed using the lens of neo-institutional theory, as proposed by DiMaggio and Powell (1983) and Scott (2008), as well as the complementary model suggested by Battilana (2006) and Battilana et al. (2009).

The chapter is structured by outlining the roles and perceptions of non-corporate actors in the following order: it commences with the media then the discussion moves onto academics, NGOs, CSR consultants and regulators. The chapter ends with a summary and conclusion on the findings. The structure of the chapter is provided in figure 13.

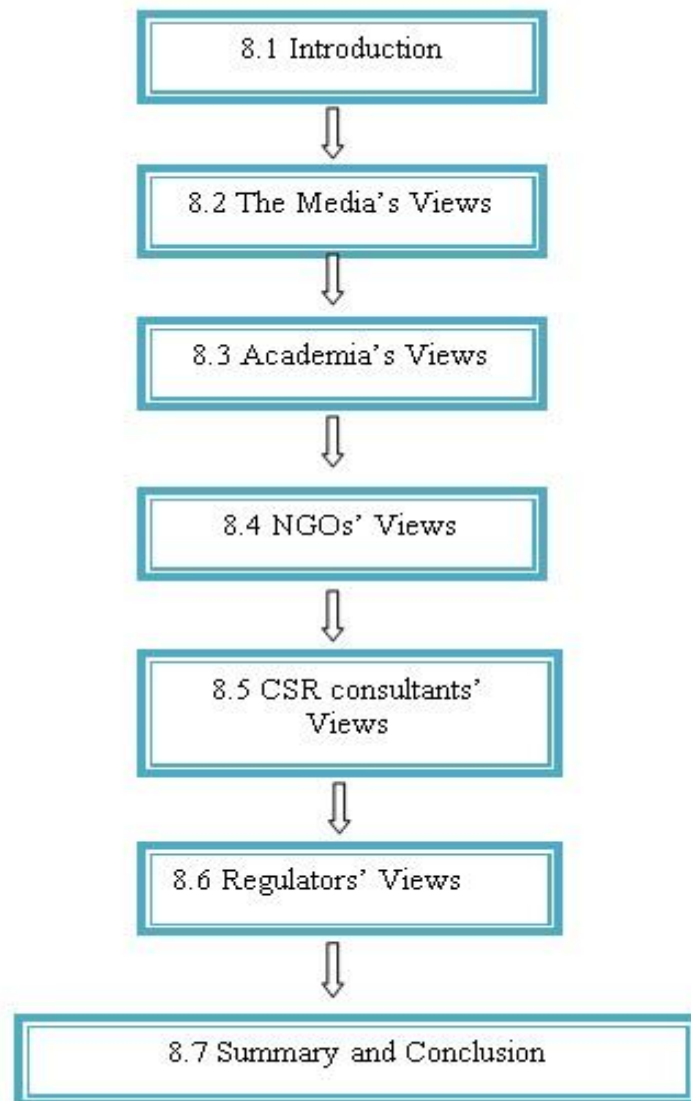


Figure 13 : Structure of Chapter 8

## 8.2 The Media's views

Journalists' views were sought mainly to understand two main issues related to the media's role in influencing companies to report their CSRs and their perceptions of the current practice of CSRR in Saudi Arabian companies. Previous studies have revealed that media attention can play a vital role in influencing companies to report their CSR activities in their annual reports (Bansal, 2005; Islam and Deegan, 2008; Momin and Parker, 2013). Analysis of the interviews showed that the journalists questioned made various efforts to advance and influence companies to report their CSR. For instance, the journalists mentioned that they disseminated information that promoted CSR and attempted to put CSRR in a professional context. They did this by arranging meetings and inviting CSR representatives from different companies to share their insights on CSR issues in general and CSRR issues in particular. One of the interviewed journalists summarised these efforts as follows:

We are currently, for the first time, holding forums for PRs in the governmental and private sectors under the slogan 'Towards a better future'. We want to bring them all together and sponsor them. The journalists have taken the initiative of coordinating this event itself with the hope that such a forum will foster an exchange of experiences with CSR issues in general and CSRR in particular. Everybody will get a chance to meet everyone else. Some companies have PR offices that don't communicate with the media; there are social responsibility programs out there, but nobody knows about them because there aren't any proper disclosures on them. Keeping people informed is the media's responsibility (Journalist A, AB newspaper).

Also, both journalists interviewed described their role in influencing companies as being representatives of society. As such, they said, they must ask questions and clarify ambiguity with regards to companies' CSR and CSRR for their readers, and they both described this role as the right thing to do. Commenting on this aspect of a journalist's responsibilities, one interviewee stated:

Generally, companies issue reports or releases stating their points of view, but readers inevitably have questions. My role is to ask those questions. Questions about social responsibility are always asked. We always ask about social responsibility, whether it's a matter of steps a company is currently taking or steps its plans to take. We also, for instance, ask, 'Why didn't you talk about your efforts towards lowering unemployment in your annual reports?' or 'Why didn't you tout your environmentally friendly initiatives?' and so on. Generally speaking, members of the press are constantly asking these questions (Journalist B, CD newspaper).

The media has also played a role in encouraging companies that are active in CSR and CSRR by distributing prizes and awards. As one journalist stated:

We have awards for both professional and company-wide excellence, and one criterion for eligibility is that the company in question must be active in CSR and CSRR (Journalist A, AB newspaper).

And yet, despite such positive, encouraging actions from media, the present study's interviews revealed that the journalists questioned were dissatisfied with companies' attitudes towards CSR and CSRR. Consequently, they are trying to modify the status quo.

However, it should be recognised that journalists are not independent, they may have their own agenda and they lack the influential power that would enable them achieve their aims. Basically, the media's role is constrained; news outlets are not at liberty to criticise anyone they want because many of the companies they would criticise are those buying advertising space. Both journalists interviewed for the present study agreed that this is the biggest problem with the media. One summarised his sentiments as follows:

The press deals with CSR on the basis of who buys adverts and who doesn't. If a company advertises with [our journal], nobody can criticise it. The positives about the company are always highlighted, but the negatives never are. Even if the company did not advertise with us, we cannot talk about it in particular nor mention the company's name but rather we talk about the whole sector in which the company belong to in a certain narrow way. Frankly, the media's basis is ads. Has anybody ever, for instance, won a case against a bank? Of course not!

Nothing can be published against the banks because their annual ad buying exceeds SR3 million. The same is true with telecommunications companies. And this isn't just a print problem; ads are on TV, on the radio, the Internet—everywhere in the country. So much



for the ‘fourth estate’; ads are king (Journalist B, CD newspaper).

The other journalist vehemently agreed with the above statement, adding the following:

Companies are paying good money to advertise in our newspaper, and it’s simply not feasible to criticise a company for not being socially responsible or not reflecting that in their annual reports. We have to maintain good relationships with these companies to guarantee our advertising partnerships (Journalist A, AB newspaper).

These views reflect the simple fact that Saudi Arabia’s press is not equipped to question the nation’s companies about their irresponsible behaviours. It implies that journalists are coerced in their attitude toward CSR and CSRR by companies buying advertising space in their publications. This pressure means that concerns about CSR can only be addressed privately or on a general basis; criticising specific organizations about their CSR and CSRR is strictly out of the question. This echoes with DiMaggio and Powell (1983) proposition in which coercive isomorphism results from pressure exerted on organizations by other organizations they are dependent upon.

And yet, despite these constraints, the journalists interviewed for this study did express their views on the current CSRR practice and shed light on a number of issues. For example, the interviewed journalists discussed how companies sometimes misunderstand what CSR stands for and how such misunderstandings are obvious in a number of CSR reports. This, they said, makes these companies’ CSR disclosures look bad and, in turn, it reflects poorly on the companies themselves. The CSRR reports of companies that lack strategic plans for their CSR programs and CSR disclosures reveal how insufficient such companies’ efforts are. Usually, such CSR plans are oriented towards charities and short-term community-service projects. It shows how unsustainable their CSR programs are. One of the interviewed journalists made the following comment on this issue:

The disclosure does not show sufficient information to discharge the company accountability towards society. It just shows small CSR programs or donations. What we need from our companies are programs that serve society over the long term; these are the kinds of programs that should be presented in their CSR disclosures. Claiming that CSR is no more than giving a donation—even if it was a SR10 million, or even SR200 million—is an insult. That's not what social responsibility is. That's charity (Journalist B, CD newspaper).

Although the journalists claimed they were covering general CSR news and trying to shed light on Saudi Arabia's core issues, including unemployment, pollution, poverty, etc., they admitted that it is hard to change companies' misperceptions of CSR. For instance one of the journalists commented:

Indeed, many companies' CSRs are determined by their executives, who have their own opinions on what CSR is, as you can clearly see from these disclosures. (Journalist B, CD newspaper)

Considering the amount of time and money companies devote to charities and community-service projects and the number of CSR initiatives that revolve around such activities, it can be argued that understanding what constitutes a strategic, long-term CSR strategy is not an easy task. Suggesting it, then, might be described as an attempt to sway companies from their traditional ways of thinking, which casts CSR as merely acts of charity and community service. Taking into consideration the innovative nature of CSR and CSRR as a new business issue that has only recently arrived in Saudi Arabia (Khan et al., 2013), and the lack of clear definition for CSR from governmental bodies as noted in previous chapters (6 and 7), implies that interpretations of the concept of the CSR are coloured by individual perceptions which influenced largely by deeply-embedded Islamic culture of giving and by individual efforts gained at acquiring knowledge.

The journalists argued, CSR disclosures that focus on charity and community service are merely marketing gimmicks, ways of improving society's opinion of a company, without the company having to bear any real responsibility for improving society in return. Of course, the two

journalists recognised that they would have no real impact on what companies' decide should be included in their CSR disclosures. One of the journalists characterised the dilemma this way:

Companies issue disclosures only to better themselves. Unfortunately, such practices are based on the companies' public-relations strategies, and the strength of this approach is how closely it connects business with the media. They issue disclosure reports not because they are scared of the media or influenced by the media, but to make themselves look good, nothing more. (Journalist B, CD newspaper)

As for the currently preferred CSR reporting mechanism, the journalists agreed that there is no need for companies to issue standalone CSR reports; rather, they said, CSR disclosures should be included in companies' annual reports. One of the journalists put it bluntly:

CSR is considered part of business strategy and is an important element of every business's activity. I'm inclined to say annual reports should give a holistic picture about a business's performance, and with CSR removed from these reports, or with standalone CSR reports, readers won't have holistic views of these companies. (Journalist B, CD newspaper)

Analyses of these interviews' suggest that the journalists interviewed were not satisfied with the current practice of CSRR. Their desire to change the CSRR status quo can be summed up in two points.

First, they believe international and local CSRR practices need to be similar, that the information gap between CSRR practices in developed countries and those in Saudi Arabia should be closed.

One of the journalists summed this idea up as follows:

The media must look to international examples of how CSRR is done beyond the local level, how companies in developed countries advance the world's sense of social responsibility with their CSRR. This is the only way for our CSRR to improve (Journalist B, CD newspaper).

Second, the journalists agreed on the necessity of having a government body that provides CSRR guidelines and explains clearly the preferred CSR disclosure pattern. However, they noted, this governmental body must also play a supervisory role in increasing CSR awareness, rather than

issuing penalties for noncompliance. Their opinion was that CSR and CSRR must remain voluntary but that the government should empower the media to shed light on CSRR shortcomings. On this point, one of the journalists said the following:

If an official law was passed that forced companies to commit to social responsibility, it will not be CSR. It will be as if it is tax. Companies would evade obeying the law, avoid government monitoring, and in the end, nothing would be accomplished. Voluntary initiatives for both CSR and CSRR would motivate companies to work on improving their behaviour, while increasing competitiveness and accountability. But increasing awareness is something only the government can do. The government should motivate, not monitor. Also, the media must be empowered to highlight and comment on CSR disclosures not on general basis but also on CSR and CSRR practices for specific irresponsible companies (Journalist B, CD newspaper).

Most of all, though, the two journalists agreed that adopting international CSR guidelines is necessary however they need to be adapted as these standards have been prepared in different countries contexts and developed to meet different CSR issues than those required in Saudi Arabia. This is in line with the discussion highlighted in chapter 7 when the role of international CSR guidelines was discussed.

The above interviews revealed that there is disagreement with the existing literature with respect to the media influencing companies to report their CSR. Previous studies such as (Islam and Deegan, 2008; Deegan and Islam, 2012; Momin and Parker, 2013) have acknowledged that the media has a direct effect on CSR disclosures that companies release and is a powerful driver for changing CSR-disclosure practices. In particular, previous studies in developing countries have shown that corporations are changing their CSR disclosure patterns in light of media reports, especially negative ones. This is in contrast with the views expressed by the Saudi media interviewees which suggests that media does not have a direct influential role on companies to report their CSR activities.

It can be argued that this difference should be expected, considering the cultural, socio-political, legal and economic factors that affect Saudi Arabia compared to other developing countries. This study shows that the media sits squarely in an adversarial position that is less favoured by the existing institutional arrangement with regards to CSRR. Accordingly, they are likely dissatisfied with CSR and current practice of CSRR and are seeking to modify it. The findings also show that the media is trying to create a normative institution that puts CSR and CSRR in one professional context through arranging meetings between companies' CSR representatives to facilitate a CSR-related knowledge exchange. This aims to help develop and shape companies' CSR representatives' norms about CSRR to conform to social expectations.

Journalists also raise questions about CSR issues and hope that companies will answer their questions to satisfy newspaper readers' query about companies' CSR and CSRR practices because it is the right thing to do. However, despite their best efforts to modify the status quo, they are powerless and lack the resources to instigate the targeted change. The journalists' attitudes are likely to be the result of their employers' current economic realities; although they are dissatisfied with the current practice of CSRR, they must prioritise their journals' bottom lines.

The evidence from the present study suggests the media is not powerful enough to influence companies CSR and CSRR policies. The interviewed journalists expressed how they wished they were empowered and equipped to constructively criticise companies on CSR issues. But they also, ultimately, said there is a need for a governmental body to be responsible for clarifying what CSR means and for helping companies align their efforts with the nation's needs, instead of limiting their CSR efforts to only one or two channels.

### 8.3 Academia's views

This study takes into account academics' views on CSR and CSRR to gain greater insight into the role academia currently plays in influencing companies to report their CSR activities, as well as to understand those academics' perceptions on current CSRR practices in Saudi Arabia. Universities help academic staff members to play an important role in creating and disseminating knowledge and, in so doing, potentially influence society's attitudes on various topics (Tilbury, 2011). It has been noted that, through their research and teaching, academics are potential sources for normative isomorphism and in that sense may influence corporate CSRR behaviour (Adams and Whelan, 2009). They, in effect, give rise to how CSRR is perceived and instigate changes to CSRR patterns (ibid). This is in line with the proposition of neo institutional theory as proposed by DiMaggio and Powell (1983) in which universities and formal education are important centres for the development of organizational norms among managers and their staff (p.152).

Interviews were conducted with faculty members from university business school. The goal in doing so was to better understand how the interviewees influence companies' CSRR policies, (particularly to report their CSR activities), as they are in charge of teaching companies' future managers about CSR and the importance of CSRR. Analysis of these interviews' findings shows that academics play an indirect role in influencing companies to report their CSR.

Most previous studies related to the role of academics in relation to CSR have been limited to developed countries, see for example (Matten and Moon, 2004; Christensen et al., 2007). Little attention, if any, has been paid to investigating the role academics play with regards to CSRR in developing countries. Accordingly, shedding light on academics' role in influencing companies to report their CSR and their perception about the current CSRR practices in Saudi Arabia aims to fill a gap in the current literature related to developing countries.

Although CSR and CSRR are relatively new concepts in Saudi Arabia, the interviews reveal that the country's academics have taken some steps to advance these concepts and initiate improvements on how CSRR is currently perceived and practiced. Analysis of the interviews shows that the academics believe CSR education serves a very important function in improving future business practices, and accordingly, they reported using their positions to disseminate information on CSR and CSRR.

The interviews also revealed that individual business-school faculty members have taken up a number of initiatives to promote and diffuse knowledge about CSR and CSRR. Recently, CSR has become an important topic on academics' research agendas. Because they are not satisfied with current CSR and CSRR practices, academics have begun diverging from the dominant logic of business, which concentrates mainly on maximising shareholder value. In order to initiate a shift in thinking, they have started publishing journal articles and conducting case studies related to CSR and CSRR practices in Saudi Arabia. One interviewee characterised such projects as follows:

We have started to do some research to assess current CSR practices, in which the disclosure of CSR is considered, but we still have a lot of research to do. I believe that conducting a survey will show what is happening. What we need to understand is how everybody perceives CSR. Only then we can decide how to influence and handle this behaviour. (Academic staff member A, business school)

Furthermore, the interviewed academics believe that their efforts help to institutionalise CSR and CSRR. They indicated that through their research articles and particularly in the recommendations parts, they have, in their eyes, succeeded in leveraging the companies' dominant concern (maximising shareholder value) to convince others of the necessity and importance of CSR and CSRR in legitimising companies' activities. They also, however, acknowledged that achieving this was not an easy task but considered that recommendations from their CSR studies have gained wider acceptance and have been discussed at local

conferences held by chambers of commerce in different cities throughout the Kingdom of Saudi Arabia (KSA) which they considered was evidence that they had some influence:

The proposals I've submitted are related to deepening peoples' understanding of CSR as it pertains to individuals, companies and society at large. The chamber of commerce held a conference on this topic within last two years, giving me the chance to present my findings and make recommendations based on my study, and I believe my presentation was well-received. (Academic staff member A, business school)

The interviews also show that, because they are dissatisfied with the existing institutional arrangement of CSRR, academics have taken on the role of challengers and tried to modify the status quo. Academics believe that CSR and CSRR activities need to be taken seriously by companies to legitimise their' activities and to conform to the social expectations. Accordingly, they are using their positions as professors to disseminate normative knowledge about CSR and CSRR, not only amongst companies but also amongst university students.

It can be seen from the findings of the interviews that the academics perhaps overstate their influence on current students and future managers because there is only one lecture on CSR. In addition it has been found that CSR is taught only to MBA and master's students; moreover, the business school itself provides no standalone CSR module for students who are expected to be future corporate managers. However, academics agreed and insisted on the importance of advancing and fostering CSR knowledge of students as well as drawing their attention to the advantage of CSR and CSRR on both society and organizations. There is a clear shortage on what students are taught about CSR and CSRR and what they really need to know. An academic professor in explaining his efforts toward advancing the CSR and CSRR knowledge in his lectures said:

I like to bring up CSR and CSRR during my lectures, but I talk about it wisely. We don't want to give the impression that our business school is radical on social issues. What I mean is we don't accuse any particular company of contributing to pollution; we don't even mention studies that name specific companies. We don't want the members of the business community to accuse us of defaming their reputations. But we talk in general and explain what CSR is and why it's important to report on CSR. Meanwhile, we remind our students



that, relatively speaking, it is a recently introduced concept they have to pay attention to (Academic staff member A, business school).

In similar vein with the above sentiment another academic said:

One class I teach is Accounting Theory. Disclosure expansion is part of the curriculum, so I talk about it. Addressing social and environmental responsibility is one kind of disclosure expansion. We don't have a class that talks about social and environmental responsibility specifically. It is one piece of information I mention while discussing disclosure expansion. And yet, I do always mention CSRR to our students to make things clear (Academic staff member B, business school).

Despite these individual efforts from professors to modify current CSR and CSRR practices incrementally, the interviewed professors were concerned that their university was lagging behind in advancing students' understanding of CSR. They noted that, even though CSR is necessary to prosperity and sustainability for the KSA and its companies, the university remains traditional in its educational philosophy, prioritising other modules over those related to CSR. This, they said, is contrary to the role the university should be playing in broadening future business leaders' awareness of new concepts like CSR.

Talking about their role, the professors said they have repeatedly raised the issue of including CSR lessons in the curriculum. But effecting the required changes has thus far proved a challenge. And this, they said, has in turn made their efforts to influence future company managers all the more difficult. Commenting on this issue, one of the professors made the following statement:

Let me explain something about myself and some of my colleagues: we are aware of social responsibility, but it's impossible to work by yourself. We have to all agree on making CSR, environmental responsibility and sustainability mandatory subjects. It's true; it is imperative that we increase awareness of CSR and that it should be part of our Ethics course at the very least. ... Frankly, the rest of the world is collaborating to foster and advance CSR modules in their universities, and we should follow the same steps for the sake of our country and future generations (Academic staff member A, Business school).

The above quotation implies that implementing change that breaks with traditional ideas in existing institutions is challenging for academics. This is echoed by Battilana et al. (2009)

who considered that implementation of change is challenging if it is built on existing institutions and it is more challenging if it is going to break and diverge from existing institutional arrangements. Despite the aforementioned challenges addressed by academics, they indicated that some steps have been taken by them to change the status quo in the university. These steps echo with Battilana et al. (2009) for implementation of divergent change. In particular, Battilana et al. (2009) proposed that for divergent change to be implemented agents need to mobilize allies who enable them to secure endorsement and support the implementation of the change, as divergent change without support can seldom be implemented. This is reflected in the following discussion.

The strong ties between the interviewed professors and the dean of the business school and other university leaders have allowed them to be catalysts and implement new strategies towards challenging current CSR practices, making their voices more influential with regard to CSRR. Indeed, the dean and other business-school leaders are convinced of the important role universities could play in driving changes in CSRR. For example, academics at the business school have recently succeeded in inviting several successful business leaders who excel in CSR to campus to talk about their experiences in front of students and other academics.

In expressing their perceptions about current CSRR practice, the academics interviewed raised a number of issues. As with the journalists, they pointed out that there is a general lack of knowledge among company leaders with regards to what CSR means, and this is clearly reflected in the nature of companies' CSR disclosures. One of the interviewed academics summed the situation up as follows:

Most companies know nothing about social responsibility. They confuse it with charity work, but there's big difference between the two. Companies need to take other aspects of CSR into account; there are very few companies that work to decrease their carbon footprints or reduce their negative impact on the environment and society, and this information is rarely disclosed in annual reports. This shows that environmental protection is weak [in Saudi Arabia]. Although some major companies claim they know what social-responsibility is their practices in relation to it are modest and tend to be of a propaganda

nature (Academic staff member A, business school).

Despite their best efforts to raise awareness about CSR and CSRR, the interviewed academics said they knew they had achieved little thus far. They said they were concerned that some companies were actively opposing their attempts to challenge the current notions of what CSR is and attempts to move the current understanding away from a focus on charity and towards other aspects of CSR, such as cultivating a sense of responsibility to the environment, employees and society at large. If CSR mechanisms were imposed by law, they suggested, companies would be more responsible and active in all aspects of CSR and CSRR.

CSR is a new and innovative practice in the country (Khan et al., 2013; Nalband and Al-Amri, 2013); it is a Western concept that has entered Saudi Arabia as a result of the country opening its markets to foreign companies. There are also clear cultural differences between the ways in which Saudi Arabian companies practice CSR and the way CSR and CSRR are practiced in Western countries. Although Western companies engage in CSR and CSRR on a voluntary basis, they are pressured by powerful stakeholders, such as academics and media outlets, both of which take CSR and CSRR seriously.

Considering the cultural differences between developed and developing countries, the overall impression the academics gave was that Saudi Arabian companies would have to be coerced by law into acting in socially responsible ways. As the first professor put it:

Currently, though, because of globalization, voluntarism is an insufficient way of achieving results. You have to have rules and laws. Frankly, it's clear to me that everybody's business is nobody's business. In other words, if things were left with no regulations and laws, results for social responsibility will never be achieved because every company would practice and disclose only as much as it wanted to. But when there's a law, there are standards for disclosure, competition and benchmarks. ... I believe forcing companies to behave responsibly would be much better than what we currently have. ... Currently, with globalization and development what they are, this issue cannot be left to volunteerism at all (Academic staff member A, business school).

The other academic added the following:

CSR and CSRR are weak in Saudi Arabia because they're optional. So companies are not interested. Their executives simply say they're not interested; only if they're pressured to change they will do so. They're just interested in making profits for their major shareholders and board members.

The only way to do it is companies must be required to disclose their CSR activities in accordance with international CSRR standards. The country is currently moving towards adapting to international financial-reporting standards. There should be similar binding standards for CSR disclosure. The disclosure should be verified and externally audited. Also in the auditor report there must be a statement related to the compliance with social standards and social responsibility, and any shortfalls in compliance have to be disclosed in the auditor's report (Academic staff member B, business school).

Moreover, although the interviewed academics agreed that CSRR has to be regulated some preliminary steps should be taken before full implementation is imposed. These steps, they said, should include motivating and rewarding socially responsible companies, raising awareness about the importance of CSR for companies that wish to legitimise their businesses, and translating and adapting international CSR reporting standards to suit Saudi Arabia. They said companies would need to think globally but act locally, as the international CSRR standards were developed in the West, and differences between developed and developing countries have to be taken into consideration when implementing these standards. On this point, a professor commented as follows:

For change to happen there must be regulation. This is a basic truism. For example, I'm on a committee tasked with changing an organization's accounting practices from meeting local standards to meeting international standards IFRS. This is a serious process that will affect companies throughout the KSA, but it will be adopted by the Saudi Accountant Association regardless.

It's a decision the Saudi Accountant Association's board of directors made in 2013. It will be effective as of 2017. This means four years from the decision to the implementation. First of all, these standards must be adjusted and translated. Before translating, we have to determine whether they need adjusting to fit the KSA's policies. Besides that, the association plans to hold seminars and courses on these standards for our major beneficiaries. In 2015, you say, 'International standards can be applied voluntarily.' After all, companies need time to make the change. But in 2017 you say, 'The compliance with the international standards is mandatory.' This is what applies for adopting IFRS. The same needs to be happen when adopting international CSRR standards (Academic staff member B, business school).

Analysis of the interview's findings reveals that raising awareness and changing misconceptions about CSR and CSRR to discharge companies' accountability and serve the country's needs should not be limited to one particular body (like a university). Rather, for change to happen a collective cooperation between more than one governmental body is necessary. The interviewed academics agreed that the Ministry of Commerce needs to take the leading role and not any other regulatory body such as the Capital Market Authority (CMA). An academic commented on this issue and said:

CSRR standards would naturally be issued and monitored by the Ministry of Commerce, as it's the governmental body that regulates corporate operations. They pass laws and regulations, and companies are required to abide by them. The CMA would not be expected to enact laws and regulations related to social responsibility. It has other responsibilities (Academic staff member A, business school).

As for the preferred media for CSR disclosures, the interviewed professors agreed that CSR disclosures would be best produced in conjunction with companies' annual reports, as CSR is considered as an important part of companies' activities that should not be reported in isolation. Once of the professors in this regard commented:

The readers of companies' annual reports want to grasp a general idea about the ad hoc performance of the company in which CSR is considered a part (Academic staff A , Business school).

The above discussion concerning the role of the interviewed academics and their attempts to influence companies in reporting their CSR activities, and their perceptions on the current practice of CSRR is quite revealing from different aspects.

Linking the findings to Battilana et al.'s (2009) model, it can be argued that, academics are institutional entrepreneurs and change agents who contribute not only by initiating divergences from the dominant institutional logic but also by contributing and actively participating in implementing change. Harnessing their professional authority and through their teaching and research, academics can educate both organizations and students on how to properly implement

CSR and CSRR, thereby influencing companies towards reporting on their CSR activities.

And yet, although they have had some success in developing a vision for change and have been able to invite speakers to talk about successful CSR experiences by leveraging strong ties with the dean of business school and university leaders, the interviewed academics reported that initiating change is challenging. This is in line with Battilana et al. (2009) proposition that Implementing change is challenging if it is built within the existing institutional arrangements and it is even more challenging if it is going to break with the existing institutional arrangements . For academics to take a major role in the CSRR debate, they need to be empowered by the university itself. They need, for instance, the ability to offer courses on CSR, and they need encouragement to continue their research into CSR practices and disclosures.

Indeed, learning about CSR must become a central part of all university-level business schooling, from the bachelor's level onwards as one source of normative pressure arising through formal education produced by universities (DiMaggio and Powell, 1983). It seems, too, that the essentiality of CSR must necessarily be recognised by academia in general and university leaders specifically; it must become a part of multidisciplinary teaching, and further research on it and initiatives to raise awareness of it must be given priority. Such awareness would surely help speed up the process of better understanding CSR, implementing true CSR, and requiring CSRR from Saudi companies.

As DiMaggio and Powell (1983) assert, normative isomorphism is propelled by professionalization, and formal education is expected to contribute to advancing such isomorphism by shifting attitudes towards pursuing desirable actions. The findings of this study suggest that academics are contributing to advancing normative isomorphism with regards to CSRR; however, their influence remains indirect.

#### 8.4 NGOs' views

NGOs' views have been solicited to understand the extent of their role in influencing companies to report their CSR activities and their perception of the current practice of CSRR.

Prior to discussing the study's findings related to NGOs, it is important to explain what constitutes an NGO in Saudi Arabia. It has been argued that NGOs are difficult to define (see Gray, 2006). Yet this problem has been overcome by Unerman et al. (2006), who categorised NGOs based on their activities. While some NGOs focus on providing welfare services, others focus on campaigning and advocacy, and still others combine providing welfare services with campaigning on certain issues such as child labour, human rights, etc. (Unerman et al., 2006: p. 309). In Saudi Arabia NGOs take the form of community-based organizations, charitable societies and foundations (they are also called non-profit organizations) that seek funding from companies to pursue their causes which include but are not limited to: providing training that can qualify citizens for the job market; executing programs to help poor families to be self-reliant; and participation in providing educational training programs and consultations in different careers and for different sectors in the country. They also work toward encouraging companies to institute sustainable CSR programmes<sup>69</sup> (KKF, 2015).

Previous studies conducted in developing and developed countries, such as Deegan and Blomquist (2006), Momin and Parker (2013), and Islam and Deegan (2014) have shown that NGOs play a direct role in influencing companies' CSR reporting practices and also in changing companies' disclosure patterns. However, Saudi Arabia's situation is different. An analysis of this study's interview findings shows that, although NGOs are considered important drivers for encouraging companies to take their role in fulfilling the country's CSR programme, the

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<sup>69</sup> See also, The International Center for Not-for-Profit Law, <http://www.icnl.org>.

interviewed NGOs said they do not exert power over Saudi Arabian companies' managers. One NGO made the following statement on this issue:

We don't pressure anybody. We market the program, and companies are free to respond to it and become socially responsible if they wish. We aren't like Western NGOs. In the KSA we don't pressure people. A non-profit organization would never pressure a private-sector entity to assume a socially responsible role. Sometimes there are requests from the Ministry of Social Affairs, and sometimes, government officials request the private-sector companies to activate their role in the society, but we never do (NGO A, community-based organization).

Accordingly, an NGO's from community-based organization only goal is to meet its programme needs. The aforementioned NGO manager also offered the following:

Our influence is limited to our needs. For example, I need to help 100 people find work at a certain company. I am working to meet this target. If I were simply able to convince the company to do what I wanted, the task is done. However, I can't interfere with the company's policies on responding to my proposal nor help all 1 million unemployed persons in the KSA (NGO A, community-based organization).

That said, it has been found that influence companies' CSRR practices differ between NGOs<sup>70</sup>. For instance, it has been found that NGO A, invites companies to an annual forum on CSR and social-development issues in Saudi Arabia, and although they come up with recommendations at the forum regarding CSR practices, they never discuss issues related to CSR disclosures; accordingly they do not have a role over companies' CSRR practices. The NGO's manager said the organization did not address such issues because it lacked the power to interfere with companies' CSRR practices. Concerning this the manager offered the following:

We don't have civil society or community establishments moving public opinion or interfering in companies' CSRR, and we don't feel it is our place either. Such things only

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<sup>70</sup> Interviews were conducted with two different NGOs, both are non-profit organizations, one a community-based organization and the other is a charitable foundation, that encourages companies to adopt sustainable CSR programmes. The interviewed charitable foundation's mission is to contribute to the welfare of Saudi society by providing innovative solutions to critical social and economic challenges in the country and to be the leader and role model in philanthropic and development work. The foundation is doing that by working on strengthening the non-profit sector in the country (NGOs) Including but not limited to, providing funding for community development projects; funding poor and disadvantage projects.



occur abroad. For us, influencing is about developing a good programme that convinces the private sector that contributing to it is a must. The programme has to be executed properly, too, because this is also an important factor in the development of social responsibility (NGO A, community-based organization).

In contrast, another NGO, from a charitable foundation, said it is influencing companies' CSR and CSRR practices by providing prizes for responsible competitiveness. This prize, sponsored by the government itself, is used to encourage and support exceptional companies' achievements in CSR and CSRR. Concerning this, the NGO's spokesperson stated the following:

We influence and persuade companies to report on their CSRs through the competitiveness award. To win the award a company must report on its CSR and not only give but also evince social responsibility in other areas as well. When determining the winner, we ask a number of questions, such as whether the company's activities are in line with the country's needs. So, to win the award, a company must address specific issues, such as protecting the environment, reducing unemployment, etc. This award is very prestigious and supported by the government (NGO B, charitable foundation).

In addition to awarding a prize, the NGO from the charitable foundation pointed out that media has been used as a tool to influence companies to activate their CSRR. As the NGO's spokesperson said:

We always use any media coverage we get to address how important it is for companies to report their CSR and to align their CSRR with CSR issues that are priorities for the country. So we like to see ourselves as the main player in the country when it comes to CSR and CSRR. We know the country has issues with CSR, and we're also aware that the topic of CSR is going to be addressed by officials during upcoming talks about the country future 5 years' development plan. So we use the media to help us achieve our aims (NGO B, charitable foundation).

Furthermore, in its effort to get companies to report their CSR, the same NGO is holding an annual forum with the aim of helping companies to put CSR and CSRR in a professional context. At the forum, CSR representatives from various companies will be able to discuss their CSR experiences with each other. The foundation is also trying to help the private sector better understand CSR and CSRR. The NGO's spokesperson provided the following comment regarding this:

We have ambassadors from throughout the private sectors who have been informed of our aims. And they are helping us carry our vision into companies in their sectors and into chambers of commerce throughout the entire country. This does a great deal to increase awareness of CSR and of our prize for CSRR (NGO B, charitable foundation).

Despite the aforementioned efforts, however, the charitable foundation has experienced some of the same problems as the community-based organization in relation to its ability to interfere directly in companies' CSR reporting and to develop disclosure protocols. NGOs, it seems, are outsiders forced to influence companies' policies indirectly. As such, they have little direct effect on companies' CSRR. NGO B's spokesperson affirmed this as follows:

It is outside the scope of our operations to interfere directly with companies' policies and report on their CSR; we are trying our best, but we don't have any enforcement power. So we can't drive companies to report their CSR activities or to change their disclosure patterns (NGO B, charitable foundation).

Thus, although NGOs actively participate in debates and mobilise resources (forums, competitiveness prizes, and the media) needed to introduce new managerial practices for organizations, e.g. CSRR, responses to these efforts are limited. Mostly they have failed to convince potential adopters (companies, in this case) to change their routines. In this case, NGOs are also institutional entrepreneurs; even though changes they hoped to effect have not yet been adopted. This echoes with Battilana et al. s' (2009) assumption that despite the fact that institutional entrepreneurs being the ones who initiate and actively participate in the implementation of the change, they remain independent from whether the change has been successfully implemented and whether it occurred or not. In other words, although institutional entrepreneurs are seeking to change the status quo, change may not necessarily occur. Implementing change is challenging if it is built within the existing institutional arrangements and it is even more challenging if it is going to break with the existing institutional arrangements (Battilana et al., 2009).

In inquiring into NGOs' perceptions on the current practice of CSRR in Saudi Arabia, the interviewed NGOs' spokespeople agreed that the current level of CSRR provided by numerous companies is insufficient, neglects the public's right to know how corporate activities impact their lives, and fails to discharge companies' accountability to many important issues that the country needs to overcome, such as reducing unemployment and protecting the environment. Moreover, the NGOs also criticise the current level of CSRR as mere PR and marketing:

Unfortunately, so far most companies have regarded CSRR as nothing more than a marketing tool, so they use it as a marketing tool in whatever they do. The easy thing would be to say that basically they are giving to charities, such as distributing school bags, organising aid during Ramadan, and sponsoring orphans. These things are very shiny for Saudi society because they're considered good deeds. However, their interventions always take the shape of donations. Although there is currently a developmental trend, most of their CSR activities consist of giving grants—and not sustained ones either. Nothing about it is sustained or sustainable. (NGO B, charitable foundation)

This might be attributable to companies' not yet having a clear definition for CSR, an issue that has been identified as a challenge for companies' CSRR in chapter 7. The NGOs' spokespeople also argued that, despite their best efforts to raise awareness including the second organization's instituting a prize for exceptional CSR and CSRR achievements—these efforts to improve companies' CSR and CSRR activities have faced resistance:

It is very hard to get them to understand what's really needed in the community. Their strategies need to be realigned to what the community needs in terms of helping and empowering it, and the disclosure of companies' CSR issues reflect this problem so clearly (NGO B, charitable foundation).

Accordingly, conducting the change that causes a break with the existing dominant logic is challenging (Battilana et al., 2009). Resistance to change has been attributed to several factors.

First, the business culture in Saudi Arabia is focused mainly on maximising shareholder value, as shareholders are considered the priority stakeholders and satisfying their needs is believed to guarantee the business's continuity. CSR has not been given the same priority. Accordingly, the

attention of disclosure focuses mainly on the financial aspects of companies' activities rather than their CSR activities.

Second, the role and voice of NGOs have been marginalised by their lack of power and companies do not take them seriously. There is, in fact, a consensus amongst NGOs that CSRR is poor in Saudi Arabia because Saudi companies, unlike their counterparts in developed countries, are not exposed to external pressure from stakeholders. This suggests that absence of external pressure results in companies not placing CSRR on their business agendas.

Third, there is a culture of secrecy when it comes to including CSR disclosures in companies' annual reports. The interviewed NGOs' spokespeople claimed that the companies 'cherry pick' when it comes to CSR disclosure. One of the interviewed NGOs' spokespeople stated the following on this point:

Companies tend to avoid disclosing details that might, from their perspective, endanger their business and reputation. For example, although some companies do cause damage to the environment, they don't disclose any information related to their companies' environmental issues in their annual reports, as they consider this kind of information confidential! (NGO B, charitable foundation).

The voluntarism approach to CSRR has been criticised by NGOs and is considered the main reason for poor CSRR performance. It has been suggested that there should be mandatory legislation on CSRR that is backed up with penalties for non-compliance. The NGOs considered this the only way to ensure better CSRR. NGO B's spokesperson commented:

It's all about legislation and having a legal framework. Currently, companies are using CSRR as a marketing tool. With legislation, companies would realise that CSRR is not a marketing tool. I realise there are a few companies that participate in CSRR on voluntary basis, but most do not because they do not have strategic plan towards CSR and because doing so is voluntary. There must be a law and regulations; otherwise, CSRR is not going to be taken seriously (NGO B, charitable foundation).

This study's findings calling for legislation that would make CSRR mandatory agree with the findings of other social-accounting scholars, including Gray et al. (1996), O'Dwyer et al. (2005),

and Kamla et al. (2012). The interviewed NGOs called for cooperation between governmental ministries that would create CSR and CSRR regulations. The aforementioned NGO spokesperson offered the following comment on this point:

The ministries are not working together on this. Each ministry has its own perspective. There must be cooperation between the various chambers of commerce, the Ministry of Social Commerce and the Ministry of Labour in order to direct companies to provide better CSR and accordingly better improve their CSRR (NGO B, charitable foundation).

Finally, with regard to the preferred reporting mechanisms for companies' disclosing their CSR activities, the interviewed NGOs agreed that CSR disclosures should be incorporated into companies' annual reports, as disclosure of CSR, they said, should be given the same weight as the disclosure of companies' financial information. In regards to this, NGO A's spokesperson said the following:

There is no need for companies to issue a separate report for their CSR. I believe that social work reflects a company's overall business. It is an integral part of its role in society and its financial results. (NGO A, community-based organization)

## **8.5 CSR Consultants' views**

As they are key to companies' CSR plans, CSR consultants' views on their influence over companies' CSRR and their perceptions about the current practice of CSRR were sought out.

Interview findings show that CSR consultants play a number of roles in influencing, both directly and indirectly, companies to report their CSR. Direct influence was most prevalent when a consultant is providing a client with services. One CSR consultant put it as follows:

My direct role is through providing CSR consultancy services to companies. When I start my work with a company, I start with a very basic assessment, kind of a social smart analysis, and based on that, I develop a CSR strategy. Based on this, in turn, I identify causes and develop programmes that best suit the client's goals and best serve Saudi society. So my first step is developing a strategy, my second step is developing a programme, and my third step is reporting and communicating on the outcome of the second step. These are the three distinct pillars I offer my clients (CSR consultant A, owner of a CSR-consulting company).

Consultants reported believing that full engagement allowed them to play a prominent role in influencing and spurring companies to report their CSR. They also said it allowed them to stress to companies that CSRR is the right thing to do, and is the best way to legitimise a business and reflect its commitment to society at large. Consultants by doing this are contributing to surrounding an organization with a normative environment that enables companies to conform to the social expectation in the environment in which their organizations operate, and accordingly maintain their legitimacy. This is in line with neo-institutional theory proposition that normative pressure is propelled through professionalization and profession by diffusing the acceptable norms and values among organizations (DiMaggio and Powell, 1983; Scott, 2008).

In addition to the aforementioned roles consultants play, they reported that they were also able to encourage companies to disclose their CSR activities by helping to develop and localise the CSR-reporting standards introduced by AccountAbility<sup>71</sup> for SAGIA<sup>72</sup>. As a CSR consultant commented on this issue and said:

I have had the privilege as a CSR consultant to take the lead in developing standards for a competitiveness index by which companies' CSR performances and CSRR are assessed. These standards were introduced by AccountAbility, and they are international standards. My role was to localize these standards and to make the required adaption suit the country's needs. By doing so we aimed to encourage companies to use these standards (CSR consultant B, owner of a CSR-consulting company).

The influence CSR consultants wield is not just limited to urging companies to change their CSR disclosure policies in accordance with local CSR reporting standards; they also urge companies to report their CSR in accordance with international guidelines. One main issue addressed by

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<sup>71</sup> AccountAbility is an international organization specialising in setting the standards for corporate responsibility and sustainability development, providing advisory service and doing relevant CSR research.

<sup>72</sup> The Saudi Arabian General Investment Authority (SAGIA) is a governmental body established in 2000 to improve the economic competitiveness of Saudi Arabian companies, facilitate and attract foreign direct investment and encourage companies to take part in solving social issues, e.g. unemployment. SAGIA awards a competitiveness-index prize to companies that report their CSR in accordance with specific standards.

CSR consultants is that CSR is a relatively new concept in Saudi Arabia, and most companies' managers lack awareness about CSR and CSRR.

CSR consultants, especially since the introduction of GRI-G4<sup>73</sup> International CSR reporting standards, have been able to convince companies' managers about the value that their companies will gain by adopting these international reporting standards on local, regional and international levels: for instance in becoming more transparent, getting nominated for international awards and improving their branding. The interviewed CSR consultants pointed out that previously with GRI-G3, promoting International CSR reporting standards at Saudi companies was impossible.

Discussing this issue, one CSR consultant said the following:

There are too many indicators within the G3 that are not relevant to Saudi Arabia and companies were not interested in standards that talk about human rights, labour unions, etc. All these issues are irrelevant in Saudi Arabia; however, with G4 this was no longer a problem. With G4, companies have more flexibility to choose their own relevant standards. I think G4 is the best thing that could have happened to CSR reporting in Saudi Arabia. There used to be companies that never wanted to talk about CSR reports, but now when we talk to them they say, like, 'Really? So we can use G4 and don't have to report on this and this and this?' Actually, with G4 we've managed to change a lot of things for the better (CSR consultant A, owner of a CSR-consulting company).

In addition to the influence they exert in their aforementioned roles, CSR consultants also indirectly convince companies to report their CSR. Interview findings reveal that CSR consultants have approached universities about giving seminars on CSR-related issues to business-school students. One interviewed consultant said the following:

I believe it's important to educate those who are our companies' future managers about CSR and CSRR. They represent the future that we're aiming for, the change we want to see. Since the CSR issue is new in Saudi Arabia, I think it is essential to instil a sense of responsibility towards community and country in these students (CSR consultant B, owner of a CSR-consulting company).

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<sup>73</sup> GRI-G4 is the fourth generation of Global Reporting Initiative issued in 2013. It aims to help reporter to prepare their CSR reports in accordance with specific robust and purposeful standards, (<https://www.globalreporting.org>).

CSR consultants have also used the media to raise awareness about CSR and the importance of CSRR. Journals and social media have been used as tools in changing companies' traditional ways of thinking, from maximising shareholder value to understanding that CSR and CSRR are also important and add tangible and intangible value to companies. This is consistent with Battilana et al.'s (2009) assertion that agents in their efforts to implement a change that diverges from the institutionalised arrangement use a discourse strategy as a tool to help their efforts succeed.

And yet, despite CSR consultants' aforementioned efforts to convince companies to report their CSR activities, when discussing their perceptions about the current practice of CSRR they noted a number of issues that needed to be addressed. The CSR consultants stated that although CSRR is still primitive in Saudi Arabia, and despite their efforts to nudge companies towards greater CSR disclosure, these efforts have, sometimes, faced resistance. Analysis of their interviews shows that CSR consultants feel the CSRR of most Saudi Arabian companies is insufficient, does not meet the information demands of wide-scale annual-report readers, and mostly tends towards PR and image building. Commenting on this issue, one consultant said the following:

Saudi Arabian companies need to understand that CSR is not a marketing tool and not PR. This is a big challenge for us. Marketing departments are now working on CSR and preparing CSRR at most companies. Marketing's role is to improve the image of the company, so there is kind of conflict of interest. CSRR is now being used to paint two pictures, one for marketing and the other to put the icing on the cake, so to speak. If you noticed, the rhetoric of CSR disclosures completely lack substance. ... You'll see some disclosures about community service and charity. OK. But what about the environment, employees, and so on. Such disclosures don't reveal any real commitments (CSR consultant C, senior manager).

The interviewed CSR consultants also agreed that while they have noticed some positive outcomes from their efforts, awareness about the value of CSRR has still not reached maturity. Companies are not taking the disclosure of CSR as seriously as they take financial reporting. Such views, they said, are difficult to change. One CSR consultant put it this way:



There are still lots of work to be done in educating companies about the value CSR reports can add to their businesses. We have noticed that even some companies who used to issue standalone CSR reports in accordance with international standards have stopped issuing them because it's costly. (CSR consultant A, owner of a CSR-consulting company)

The interviewed CSR consultants agreed that companies were resistant to improving their CSR disclosures for four main reasons. First, and foremost of these, is that companies do not feel CSR disclosure is a priority because their stakeholders are not demanding CSRR. One CSR consultant characterised this problem as follows:

There is a lack of public pressures on companies to disclose the social and environmental impacts of their activities. Stakeholders are basically only interested in financial disclosures, and the public is basically apathetic towards CSR disclosure (CSR consultant B, owner of a CSR-consulting company).

And this leads to the second reason for companies' unsatisfactory CSR reporting: the mentality and business cultures of Saudi Arabian companies is focused almost exclusively on financial disclosure, and there is a culture of secrecy when it comes to disclosing information on social and environmental impacts. This problem was addressed by one of the CSR consultants as follows:

Disclosure about CSR is not part of [Saudi Arabia's] business culture yet; on the contrary, our companies' prefer total secrecy, and their performance is evaluated in strictly financial terms. When it comes to the disclosure of certain social and environmental information companies prefer to avoid such disclosures entirely. It's basically an awareness issue (CSR consultant A, owner of a CSR-consulting company).

The third reason for Saudi companies' poor CSRR is due to the fact that many companies don't have CSR strategies. This problem was addressed by one of the interviewed CSR consultants with the following comment:

I don't think there's a single company in Saudi Arabia that is not doing some sort of CSR. That is expected of them. They are donating to charities, which essentially means they are doing some good for the society but they are not doing it in a strategic way, and I think that things can be improved (CSR consultant C, senior manager).

The last reason is that there is absence of a governmental body to regulate, monitor and evaluate the quality of CSR disclosure by companies. The interviews showed that although CSR consultants suggested that there is “need for minimum CSR disclosure level based on the sectors” (CSR consultant B, Owner of CSR-consulting company), CSR disclosure should remain voluntary. Talking about this issue a CSR consultant said:

I don't think there should be anything compulsory when it comes to CSR. If you make it mandatory, it's not showing responsibility. I know it will do some good if you require it, and you might get some societal benefits in the short term, but in the long run, companies will start to manipulate the whole process because they are only doing it because they're forced to do it; they will never make it something that's part of their core missions—part of their business cultures. Then, they will never make it a mainstream business discipline. It will always be always something you have to do because the government tell you to. (CSR consultant A, owner of a CSR-consulting company)

With regards to preferred reporting mechanisms, two different views were voiced by the CSR consultants. While standalone, and holistic, CSR disclosure reports were preferred by some CSR consultants, as they “[provided] detailed information about the company's CSR” (CSR consultant C, senior manager). The other CSR consultants interviewed insisted that including a company's CSR disclosure with its annual report is preferable to a standalone CSR report. One of the CSR consultants expressed her opinion on the matter thus:

Although it's too early in Saudi Arabia to say what will work and what won't, incorporating CSR disclosures into annual financial reports will help investors see financial and non-financial information side by side in one report. This will make companies more transparent about their overall performances (CSR consultant A, owner of a CSR-consulting company).

Finally, the CSR consultants said that, in an effort to amend the current problems with CSRR, they have begun taking more serious steps. These steps, as suggested by Battilana et al. (2009), are based on creating a vision for divergent change and begin with *diagnostic framing*, which is assigned with explaining the problem with the current CSR practice. Following this, there is

*prognostic framing*, which entails an explanation for the fact that the new arrangements toward CSRR are superior compared to the current CSRR one.

After this comes *motivational framing*, which entails providing compelling reasons to support the new vision and identifying the interests of those who can facilitate the implementation of divergent changes. The CSR consultants also used discourse with analogies that capture the attention of parties needed to support such changes. Finally, the steps end successfully by the ability of the CSR consultancy firm to approach and sit with formal state authority that has a formal position and authorities that will enable the CSR consultant firm (or the institutional entrepreneur) to legitimize and implement the diverge idea (Battilana et al., 2009). Talking about this issue one CSR consultant said the following:

Now in our work we are talking about corporate sustainability which is becoming a very important topic for the CMA. As you know shareholders companies' legislators are the CMA and their number one objective is to require companies to disclose. Accordingly I have managed successfully to attract their attention by highlighting this point. I did sit with CMA and I explained how advancing corporate sustainability will not only encourage adopting responsible initiations, but will encourage disclosure as well. They realized the commonality, and as a result they agreed to become a partner on a project to establish a centre specialising in corporate sustainability. We will offer training in this centre and we are also aiming to come up with a corporate sustainability index. There will be awards for companies adopting these standards. This centre will be credible enough to a point that is going to have partners that have impact on corporate legislations in the country like the CMA (CSR consultant B, Owner of CSR- consulting company).

## **8.6 Regulators' views**

Regulators are key players in creating the regulations that govern companies' activities. The views of regulators from two different regulatory bodies have been sought out to identify their roles in influencing companies to report their CSR activities and their perceptions of the current practice of CSRR. The interviews were conducted with regulators from the CMA whose purpose is 'to regulate and develop the Saudi Arabian Capital Market by issuing required rules and regulations for implementing the provisions of Capital Market Law and to reinforce transparency

and disclosure standards in all listed companies, and moreover, to protect investors and dealers from illegal acts in the market'<sup>74</sup>. In addition, regulators from the Saudi Organization for Certified Public Accountants (SOCPA) were interviewed, as part of their duty is to review, develop and approve accounting and auditing standards for Saudi Arabian companies<sup>75</sup>.

Regulators from the CMA expressed a great deal of knowledge about CSR, saying it has been discussed in the light of the corporate-governance regulations. Basically the regulators role is to regulate, organise and monitor the Saudi Capital Market, with the ultimate goal of cultivating a fair and transparent market that ensures justice for corporate shareholders. The regulators considered that there should be regulations that govern the practice of CSR in companies, yet they said, 'The CMA presently only interferes by asking companies to have a written policy for their CSR contribution' (Regulator A, CMA). This is reflected in Saudi Arabia's corporate governance code, part 4, article 10, which is related to the main functions of the Board of Directors in clause (e), number 5 which states:

Outlining a written policy that regulates the relationship with stakeholders with a view to protecting their respective rights; in particular, such a policy must cover the following:

5. The Company's social contributions (Corporate governance regulations in the Kingdom of Saudi Arabia, p.11, 2010).

The code includes several mandatory provisions, which means that companies have no option other than complying. The disclosure of CSR has been left as a voluntary disclosure. However, companies must have a written policy concerning their CSR contributions. One regulator stated the following:

If the company has a policy it will commit to paragraph (e). If it isn't committed, it should say, 'We're not committed because of 1, 2 and 3'; that's the disclosure part of it. This paragraph does not make CSR disclosure mandatory in a company's annual report.

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<sup>74</sup> Capital Market Authority, <http://www.cma.org.sa>.

<sup>75</sup> Saudi Organization for Certified Public Accountant, <http://www.socpa.org.sa>.

However, a form has to be filled in and sent to the CMA explaining the company's level of compliance and noncompliance with specific requirements of the corporate governance code in which this information needs to be mentioned. The extent of the policy's execution should be disclosed in the company's annual report, the CMA considers that to be the company's responsibility (Regulator A, CMA).

The interviews showed that regulators from the CMA are not giving the disclosure of CSR the same attention as the disclosure of companies' financial performances in terms of the rules and regulations of the disclosure. Accordingly, their influence over companies regarding CSRR is absent. In the corporate-governance code, there is a chapter about disclosure and transparency. Article 9 of the chapter mentions disclosure requirements for the Board of Directors' Reports, in which non-financial information is usually disclosed, and there is no mention of any disclosure requirements related to social responsibilities. However, the board of directors must have written policies concerning the company's social responsibilities or social contributions. The policy has to be clear, specific and adopted by the board of directors or CEO.

Accordingly, the main priorities of the CMA are to protect investors' and the public's rights from the misuse of a company's financial resources by CEOs or the board of directors and to reinforce transparency and disclosure standards in all listed companies and apply penalties for noncompliance with the CMA's standards. However, the CMA considers requiring companies to report their CSR activities outside its purview. One regulator characterised this as follows:

I agree with you that the process needs to be more organised and that companies need to be more motivated with regards to these issues, but this is not the CMA's role. Regulators in the CMA are responsible for the financial end of things. CSR reporting doesn't interfere with these issues. Civil social agencies like NGOs, foundations and some governmental bodies such as the Ministry of Social Affairs have to take on this role and to put together initiatives and guidelines for CSR and CSR disclosure (Regulator B, CMA).

This view was shared by the regulators from SOCPA, as they do not have any role in influencing companies to report their CSR issues. Rather, they said, their role is basically related to ensuring that companies are applying and preparing their financial statements in accordance with national

accounting standards and that certified public accountants maintain professional standards and comply with the provisions of the Certified Public Accountants Regulations and relevant bylaws.

One of the SOCPA regulators explained this situation as follows:

As an association we can't influence anything companies do in relation to CSRR because we have no authority over the companies. We have authority over accountants only. The only time we can interfere with a disclosure is when there is lies and contradiction between the company's financial disclosures and the CSR disclosure in the Board of Directors' report (Regulator C, SOCPA).

The regulators, in expressing their perceptions about the current practice of CSRR highlighted a number of issues. The regulators agreed that, because there is no general agreement on CSR disclosure policies in Saudi Arabia, current CSRR in most companies is very limited. The regulators attributed this to companies' lack of awareness of the value of CSRR. One regulator characterised this problem as follows:

Some companies say, 'I want to be transparent with my shareholders and the market participants to the point that every detail is mentioned'. Other companies might be less enthusiastic or, unfortunately, unaware of the importance of CSR and its relation to sustainability. In other words, some are sophisticated enough to know about the importance of this subject and disclosure and others aren't (Regulator B, CMA).

The other regulator argued that "not everything comes through laws and mandatory requirements" (Regulator A, CMA). And yet, a lack of public pressure has been noted as one of the reasons for companies' unsatisfactory CSRR practice. One of the regulators commented on this as follows:

There must be a reaction from society. What if the CMA required CSRR compliance, but the companies didn't disclose and simply said they didn't have any social responsibilities?

The problem is there is no social reaction. Do you expect they will improve next year or the year after? I don't think so because nobody cares. Public awareness isn't there yet (Regulator A, CMA).

The regulators agreed that awareness of the importance and meaning of CSR must increase at both the corporate and social levels before any mandatory steps might be taken regarding CSRR.

One of the regulators explained their position as follows:

Most people and companies know nothing about social responsibility and sustainability. As a result, they believe it is just donating. I believe there should be a specific mechanism directed towards awareness of social responsibilities and that would definitely lead to commitment. As a company, you could disclose everything to the public, but if people don't understand it, then the disclosure will be like you are talking in Greek! (Regulator B, CMA).

The regulator from SOCPA attributed companies' reluctance to provide CSRR to the fact that nothing encourages them to do so. The SOCPA regulator stated:

In fact, there's nothing motivating companies to carry out these activities. For example, if there was a financial motive, such as that doing so would provide a tax exemption—some foreign companies get—or if there was any distinction given to companies that disclose, then maybe they would. The current motivations for companies are religion and humanity, but generally speaking, nothing is binding. (Regulator C, SOCPA)

Consequently, it seems, for the situation to improve there needs to be cooperation between civil-society organizations and ministries with regards to organising and guiding companies towards CSR and relevant CSR issues such as CSRR.

Regulators also agreed that there is no need for companies to disclose their CSR in a standalone CSR report but rather CSR should be disclosed in the company's Board of Directors' report, as it is considered part of the overall company performance.

Lastly, the regulators argued that there should be a legal requirement and supervision from the Ministry of Commerce concerning CSRR to ensure companies uphold their commitments. The regulators also suggested that it would be preferable if companies adapted the international CSR reporting guidelines to suit the country's needs, rather than "reinventing the wheel" (Regulator C, SOCPA) and issuing national reporting standards. In the meantime, the accounting regulator from SOCPA said that SOCPA, as the accounting standard setter in the country, would be happy to issue and enforce CSR reporting standards if they were asked to do so by the government. The regulator asserted:

If the CMA or Ministry of Commerce, who are in charge of regulating companies' activities, asked us as SOCPA to require each company's legal accountant to submit reports showing the extent of the company's commitment towards, for example

- 1- The company's efforts to protect the environment
- 2- The company's commitment to philanthropy and charities

Then we will put standards that bind accountants to give an opinion about the level of a company's compliance and report on any noncompliance (Regulator C, SOCPA).

## **8.7 Summary and conclusion**

This chapter sought to present the role of non-corporate actors (the media, academics, NGOs, CSR consultants and regulators) in influencing companies' willingness to report their CSR activities and these actors' perceptions on the current practice of CSR reporting by Saudi Arabian companies. In doing so this chapter hopes to contribute to closing the gap in academic CSRR literature in developing countries, where studies about non-corporate actors (the media, academics, NGOs, CSR consultants, and regulators) in influencing companies to report their CSR are limited (see O'Dwyer et al. 2005; Adams and Whelan, 2009; and Islam and Deegan, 2010).

It has been found that non-corporate actors' roles in influencing companies to report their CSR activities are varied and ranged from direct roles, to indirect roles with some groups not playing any significant role.

This study found that media is influencing companies in an indirect way about CSRR. Media sheds light on CSR and tries to put CSRR in a professional context by arranging forums for companies and inviting CSR representatives to attend. Accordingly CSR representatives can exchange knowledge about CSRR. This study also found that journalists' attitude towards writing news about companies is heavily influenced by companies buying advertising space in their publications. The media in this dependent relationship with companies is not equipped to question companies' irresponsible behaviour nor to change CSR disclosure patterns that focus



only on displaying companies' charitable and community-service contributions.

These findings contradict those of previous studies investigating the role the media plays with regards to CSRR in developing countries. Although there is some similarity to previous studies that show the media is not satisfied with the current CSRR practice, this study differs because Saudi Arabia's media is not empowered and well-equipped to drive change. Previous studies found that the media plays a direct role in influencing companies to report their CSR and has also successfully changed CSR disclosure patterns, especially when they promulgated negative media-coverage reports (see e.g. Deegan and Islam, 2012; Momin and Parker, 2013). Considering the major differences in culture, socio-political issues and legal and economic factors, this difference is not unexpected. As argued by Matten and Moon (2008), national and cultural differences can play a significant role in determining CSR actors and their concern. Yet, clearly, the present study adds incremental insight to the existing body of literature on the role of the media in developing countries in influencing companies to report their CSR.

Similarly, academics played an indirect role in influencing companies to report their CSR. Academics, through their research papers, highlighting CSR issues can influence companies to report their CSR. Moreover, teaching and discussing CSR issues with university students who are expected to be future company managers is an important element in influencing CSR reporting. That is in line with DiMaggio and Powell's (1983) proposition in which universities and formal education are considered as important centres for the development of organizational norms among managers and their staff (p.152). In this way they create the potential for influencing present and future managers to pursue various normative ends to conform to the social expectations in the environment in which their organizations operate, and accordingly maintain their legitimacy. It was also found that academics, through maintaining strong ties with the dean of the business school and other university leaders were successful in raising the

awareness about CSR and CSRR by inviting business men considered as pioneers in CSR to discuss their experiences with students and faculty. This echoes Battilana et al.'s (2009) claim that for divergent change to be implemented agents need to mobilize allies who enable them to secure endorsement and support the implementation of the change, as divergent change without support can seldom be implemented.

With the interviewees from the NGOs, two different results were found in relation to their role. While NGOs from community-based organizations do not influence companies' decisions to report their CSR, as their only role is to market programmes to which companies might respond in activating their social responsibility. However, the interviewee from the NGO from the charitable foundation (B) considered that they had indirect influence over companies' decisions to report their CSR through their competitiveness awards. Such awards are used as tools for encouraging and supporting exceptional companies' achievements in the field of CSR and CSRR, and these awards are supported by the government itself. In comparing the findings related to the role of NGOs in influencing companies to report their CSR with previous studies in developing countries such as Belal and Owen (2007) and Islam and Deegan (2014), this study found that the NGOs played a different role. The aforementioned studies found that NGOs played a direct role in influencing companies to report their CSR and also in changing their disclosure patterns, but this does not appear to be the case in Saudi Arabia. Such previous studies, although they have also been conducted in developing countries, show that NGOs' voices are strong if they are empowered enough to directly impact corporate activities through their campaigning and advocacy activities. The relevant extent studies also show that when NGOs are more regularly involved in a global public-policy network (GPPN), this helps them to achieve their aims. Considering the differences among countries in terms of their infrastructures, politics, legal systems and economies, the fact that the present study's results for Saudi Arabia are different is not unexpected. As argued by Belal and Owen (2007) and Belal (2008), national,

cultural, political and legal differences can play a significant role in determining CSRR. The political and legal system of Saudi Arabia is influenced by Islamic principles in which consultation, discussion and debate is considered of paramount importance in achieving the ideal Islamic society. In Saudi Arabia NGOs do not have sufficient power to pressurise for change the way they do in developed countries<sup>76</sup>. Rather discussion and plans for economic and social development including suggestions, revision and analysis about the country's laws and regulations is done through governmental bodies such as the Shura Council (Council of Consultation) and the Council of Ministers who are the main legislative bodies in the country.

In contrast to the previous non-corporate actors' roles, this study found that CSR consultants play both direct and indirect roles in influencing companies to report their CSR. The CSR consultants' direct role is exemplified in their direct consultancy engagements with companies, which allow them to help companies have strategic CSR plans, and accordingly, to influence these companies CSRR. Their indirect role is carried out through the use of media and social media as tools to achieve their ultimate CSRR goals, which are related to improving current CSRR practices and increasing the number of companies that report on CSR. CSR consultants, by pursuing this role, help to disseminate normative isomorphism between companies. They are influencing the way companies think things should be done, and what they deem desirable allows companies to legitimise their business behaviour in society at large. This echoes with neo-institutional theory in which normative isomorphism is propelled by professionals who worked in specific field (CSR in the current study) through diffusion of acceptable norms and values for organizations (DiMaggio and Powell, 1983; Scott, 2008).

Finally, this study found that interviewees from the CMA and SOCPA regulators did not consider that they influenced companies to report their CSR. The CMA role is focused mainly on

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<sup>76</sup> The International Center for Not-for-Profit Law, <http://www.icnl.org>.

monitoring and protecting shareholders' rights through corporate-governance codes. The only regulation regarding CSR relevant to the CMA is that on directors' responsibilities. A company's board of directors must have written policies concerning its social responsibilities and social contributions, but the CMA never interferes in CSRR, nor seeks any influence on this issue. Similarly, regulators from SOCPA, although they do not have any accounting standards related to CSRR, indicated that they would be willing to issue such standards but only if they were officially asked to do so.

With regards to the perceptions of non-corporate actors towards reporting CSR, there were many agreements and disagreements on the current CSRR practices. For instance, all the non-corporate actors interviewed agreed that most companies' CSRR is insufficient and that the provided CSR information does not discharge the companies' accountability towards society at large. They also agreed that this behaviour violates the general stakeholder's right to know about the social and environmental impact of a company's activities.

Both the interviewed academics and NGOs elaborated at length on the necessity for legislation and mandatory requirements for CSR disclosure. However, the interviewed journalists, CSR consultants and regulators considered that CSRR should remain voluntary, because if it was made compulsory it would not lead to responsibility beyond fulfilling the required legislations. The views of non-corporate interviewees regarding the importance of legislation and mandatory requirements for CSR disclosure are similar to what has been found in previous studies such as Gray et al. (1996), O'Dwyer et al. (2005) and Kamla et al. (2012).

This study also found that the lack of a clear definition for CSR and minimal awareness regarding CSR affected the quality of corporate CSR disclosures, making them limited to, primarily, details about charities and community service so that they ignore other important

aspects of CSR. The interviewed non-corporate actors agreed that raising awareness of CSR on both the organizational and public levels is crucial to achieve greater and more effective CSRR.

Also, there was general agreement that there is no need for companies to disclose their CSR in standalone CSR reports but that, rather, they should include their disclosures with the companies' annual reports. Non-corporate actors generally agreed, as well, that CSR should be considered as an essential part of companies' activities, and this is the main reason why CSRR should be included with companies' annual reports.

Finally, another area in which the interviewed non-corporate actors agreed on was the necessity for companies to use international CSR standards as a basis for their CSR disclosures; however, the interviewees also agreed that such standards should be adapted to suit the CSR issues of the country.

Using neo-institutional theory to analyse the findings has enabled the highlighting of non-corporate actors' roles and perceptions and their efforts to encourage companies to consider more complete and effective CSRR practices.

## **Chapter 9: Summary and Conclusion**

### **9.1 Research Overview**

This study sought to explore the plausible explanations for CSRR practices in Saudi Arabian firms. In doing so, three main objectives have been achieved. The objectives focused mainly on exploring and understanding the different factors that motivate companies to undertake CSRR voluntarily, as well as the challenges they experience in reporting their CSR activities from a managerial perspective. The thesis also investigated the role non-corporate actors play in influencing companies to report their CSR activities and, their perceptions about current CSRR practices in Saudi Arabia were explored. These objectives have been addressed through the following three research questions:

RQ1: What are the managerial perceptions of the motivations for Saudi companies to report their CSR activities?

RQ2: What challenges do Saudi Arabian companies face in reporting their CSR activities?

RQ3: What is the current role of non-corporate actors (the media, academics, NGOs, CSR consultants and regulators) in influencing companies to report their CSR and their perceptions about current CSRR practices?

Reviewing the literature in Chapter 2 led to identification of gaps in the literature in this field, as well as the different theoretical frameworks and data collection methods that have been utilised in the literature related to CSRR. As explained in Chapter 5, a qualitative research approach was adopted to achieve the aims of the study. Semi-structured interviews were the main data collection method, with documentary analysis as the secondary method. The data collection process involved interviews with key individuals identified as having a direct role in shaping CSRR practices inside their organizations (managers and CEOs), and with non-corporate actors from outside the organizations. Thirty-four semi-structured interviews were conducted to achieve

the aims of this study; 22 interviews with corporate officials from 16 organizations operating in different industries, and 12 interviews with non-corporate actors from media, academia, NGOs, CSR consultancy and regulators. The data was interpreted and analysed through the lens of neo-institutional theory as proposed by DiMaggio and Powell (1983) and Scott (2008). This was extended by drawing on the work of Battilana (2006) and Battilana et al. (2009) to identify how various factors can explain CSRR practices in Saudi Arabia. This was done in order to overcome some weaknesses in neo-institutional theory which has been criticised because of limited role that agents play in shaping change, in this thesis shaping CSRR practices. Chapter 4 was devoted to presenting and justifying the selection of the theoretical framework employed in this study. The interpretation of the data was also informed by the specific unique legal, economic, social and cultural characteristics of the Saudi Arabian context, as discussed in Chapter 3. The discussion and analysis of the findings were presented in Chapters 6, 7 and 8, respectively.

## **9.2 Summary of the Key Findings**

Overall, the results revealed that although CSRR is a relatively new phenomenon there is evidence that it is seen as important and that various participants are paying it more attention. It may be argued that combinations of both internal and external factors have motivated companies to report their CSR activities. In particular, given the lack of clear regulations to guide companies to report their CSR activities, companies have been motivated to report their CSR either because of external institutional pressures stemming from normative and mimetic forces, or internal pressures stemming from the agents within the organizations, such as managers and CEOs. Generally, the analysis of the interviews with the surveyed companies' representatives indicated clearly that companies are initiating their CSRR to "fit in" and act "appropriately" in the context in which they operate. Companies do not experience coercive pressures from regulatory bodies or stakeholders to report on their CSR issues.

From the lens of neo-institutional theory, normative pressure stemming from professionalization and corporate social responsibility training programmes, managers' previous experience and educational background, the company's management beliefs and influence, and recognition of responsibilities and commitments to different stakeholders have all been identified as playing an important role in driving companies to report their CSR.

The lack of clear regulations for guiding companies to report their CSR activities, combined with strong competition between organizations and peer pressure on a local level, has resulted in high levels of uncertainty amongst companies in relation to CSRR. Accordingly, in order to meet the prevailing trend and not lag behind other companies in terms of CSRR, especially given the increase in local competitiveness, organizations tend to reduce uncertainty by modelling themselves on successful organizations in their field when reporting their CSR activities. Such mimetic pressure has been identified as another driver for CSRR, as reflected not only in the CSRR but also in the selection of CSR issues those companies have reported. In addition, the findings revealed that companies are motivated to report on perceived CSR issues that are of interest to society, such as community involvement and their efforts aimed at the nationalization of jobs in the form of "Saudization". The interviewees saw these forms of activity as beneficial because they reflected a good image of the organizations in the environment in which they operate.

In addition to the normative and mimetic pressures, agents within organizations have played a prominent role in driving their companies to report on their CSR activities. Their high hierarchical position, resources and previous work experience have enabled managers and CEOs in some companies to be the change agents or change drivers in companies' decisions to report on their CSR. Chapter 6 was devoted to presenting, analysing and discussing these issues.



However, despite these motivations, some challenges affect companies' CSRR in Saudi Arabia. It has been found that there is a lack of awareness and knowledge of the reporting process because of the novelty of CSR being a new concept for companies in Saudi Arabia. This is associated with lack of clear CSRR guidelines from regulatory bodies, insufficient content of CSR training programmes and a lack of knowledge within departments in the companies themselves about CSRR, which has resulted in weak coordination and communication between departments and has affected their cooperation with the preparer of the CSR reports. These issues have been expressed as challenges that affect the level of companies' CSRR, and have led to an absence of reporting some CSR issues at times. In addition, cultural traits related to uncertainty avoidance, the society's short-term orientation that exhibits a great respect for the traditions and accepted norms and values that the people have grown up with, have undeniably influenced companies' CSRR, especially in terms of companies' disclosure of their good deeds. Cost burdens associated with CSRR, as well as the issues associated with the use of international reporting guidelines, have also played a role in affecting the companies' CSRR. Chapter 7 was devoted to presenting, analysing and discussing these issues.

To complete the picture of CSRR in Saudi Arabia, the study examined the roles of non-corporate actors in influencing companies' reporting of their CSR activities and their perceptions of current CSRR practices. The roles of media, academia, NGOs, CSR consultants and regulators in influencing companies to report their CSR activities have varied between direct, indirect and sometimes non-existent. While CSR consultants played direct role, media, NGOs and academia have an indirect role, and regulators played no role. In the direct role consultants identified provided companies with CSR consultancy services to assist them in preparing their CSRR. In the indirect role the media sheds light on CSR and attempts to professionalise CSRR by arranging forums for companies and inviting CSR representatives to attend. At these events CSR representatives can exchange knowledge about CSRR. With respect to NGOs they exert an

indirect role on companies' decisions CSR/CSRR by providing competitiveness awards. These awards are used as tools for encouraging and supporting exceptional companies' achievements in the field of CSR and CSRR, and these awards are supported by the government. The indirect role for academia is achieved by them writing research papers, highlighting CSR issues which can influence companies to report their CSR and through encouraging discussions about CSR and CSRR in their lectures.

There were many agreements and disagreements regarding perceptions of CSRR practices. For instance, all non-corporate actors agreed that the current CSR information provided by companies is for marketing and brand-building purposes, which from their perspective is considered to be violating stakeholders' right to know about companies' social and environmental impact. Chapter 8 was devoted to presenting, analysing and discussing these issues.

### **9.3 Research Contribution**

This research study makes empirical and theoretical contributions to the CSRR literature, which will be presented in the following sections.

#### **9.3.1 Empirical Contribution**

The study contributes to the limited number of CSR studies within the Saudi Arabian context. Local researchers have made a few attempts to explore CSR in Saudi Arabia (Ali and Al-Aali, 2012; Al-Janadi et al., 2012; Mandurah et al., 2012; Nalband and Al-Amri, 2013), including some professional reports and magazine articles. However, to the best of the researcher's knowledge, no previous studies focused on managerial perceptions of the motivational factors that lead Saudi Arabian organizations to report their CSR, the challenges they experience in reporting and the role of non-corporate actors from the media, academia, NGOs, CSR consultants and regulators in influencing companies' reporting and their perceptions about the

current CSRR practices. Therefore, this study can be considered the first to examine CSRR in the Saudi Arabian context comprehensively.

The study also contributes to the CSR literature in developing countries by studying CSRR practices in Saudi Arabia. Previous CSRR studies have focused mainly on Western developed countries (see e.g. Gray et al., 1995; Buhr and Freedman, 2001; O'Dwyer, 2003; Bansal, 2005; Adams and Whelan, 2009; Bebbington et al., 2009; Reverte, 2009; Hussainey and Salama, 2010; Reining and Tilt, 2012; Villiers and Alexander, 2014). Little attention has been paid to CSRR in the context of developing countries, including Saudi Arabia (Belal and Momin, 2009; Jamali, 2010; Amran and Haniffa, 2011; Hussainey et al., 2011; Belal et al., 2013; Momin and Parker, 2013; Islam and Deegan, 2014; Dagiline, 2015). Therefore, this study has been conducted in an attempt to close this literature gap.

Another contribution is that many of the empirical studies seeking to explain CSRR motivations have been conducted without reference to the role that agents play in driving companies to report their CSR (see e.g. O'Dwyer, 2002; Belal and Owen, 2007; Islam and Deegan, 2008; Amran and Siti-Nabiha, 2009; Momin and Parker, 2013). This research identified the external institutional pressures and internal motivations for companies to report their CSR activities, and contributes to illuminating the prominent role that agent can play in driving their companies to report their CSR activities. In particular, the study sheds light on how hierarchical position, resources and previous work experience have enabled managers and CEOs in some companies to be the change agents or change drivers in companies' decisions to report on their CSR. To the best of the researcher's knowledge, this has not been done previously. The study also uncovers the reasons why some companies omitted particular CSR disclosure issues (e.g.; environmental disclosure). Accordingly, the study also sheds light on the motivations for not reporting some CSR issues, which is relatively limited in the literature on developing countries (Belal and Momin, 2009).

Few studies in the context of developing countries have indicated the role that media and NGOs play in influencing companies to report their CSR activities (Belal and Owen, 2007; Islam and Deegan, 2008; Momin and Parker, 2013). However, given the importance of non-corporate actors' engagement in shaping contemporary CSR and CSRR, this study presented empirical evidence on the role of academics, CSR consultants and regulators, media and NGOs, in influencing companies to report their CSR activities and their perceptions about current CSRR practices. The call to investigate these groups of non-corporate actors has been addressed by scholars such as Adams and Whelan (2009) and Islam and Deegan (2010).

The study also contributes to the field of CSRR in developing countries, in which CSR and CSRR is continuously developing, by identifying the external and internal obstacles and challenges that may affect companies' CSRR and sometimes lead to the non-reporting of some CSR issues. This issue, to the best of the researcher's knowledge, has not been given much attention from scholars in developing countries.

The study also contributes in terms of using a qualitative approach to achieve its aims. Scholars such as Gray (2002) and Belal and Momin (2009) observed that despite the growing number of CSRR studies there is a general lack of qualitative and engagement-based research in the field. Therefore, this study in the field provides an understanding of the different motivational factors for CSRR, the challenges to CSRR and the different roles and perceptions of non-corporate CSRR actors in the Saudi Arabian context utilising a qualitative approach. CSRR practice is a complex phenomenon that is not defined by numbers, especially when it comes to understanding the managerial motivational factors that cause them to engage with CSR and CSRR (Gray, 2002; Belal and Momin, 2009). Understanding CSRR dynamics required the researcher to depart from traditional quantitative-based studies to be able to explore and interact with agents identified as having a direct role in shaping CSRR practices, and to interpret their actions. Therefore, this study involved 34 semi-structured interviews as the main data collection method.

### 9.3.2 Theoretical contribution

A number of scholars have put forward different theories to explain CSRR practices in the CSR field, including stakeholder theory and legitimacy theory (Belal and Owen, 2007; Belal, 2008; Deegan and Islam, 2012). In recent years, scholars' attention has moved towards using neo-institutional theory in the area of CSRR (Larrinaga-Gonzales, 2007; Bebbington et al., 2009; Amran and Siti-Nabiha, 2009; Amran and Haniffa, 2011).

The prominence of neo-institutional theory stems from its complementary perspective to both stakeholder and legitimacy theories<sup>77</sup>. Neo-institutional theory, as proposed by DiMaggio and Powell (1983) and Scott (2008), has provided a useful lens to interpret and analyse the findings of this study, hence its use as the main theory in this research. This theory, with its propositions and assumptions about what constitutes legitimate and acceptable organizational behaviour, enabled the researcher to identify and analyse the different external institutional pressures (normative, mimetic and coercive) that motivate the organizations to report on their CSR activities in order to conform to the norms and expectations of society and legitimise their presence. In addition, it provides a better explanation of the complexity of CSRR in Saudi Arabia. The study overcomes the limitations of neo-institutional theory by using the work of Battilana (2006) and Battilana et al. (2009) to incorporate the role of agents in changing CSRR practice. In this respect a further contribution of the thesis is a theoretical one, in that it has involved the combining of two related theoretical perspectives.

It has been argued that human agency is a key player when it comes to changes in organizational behaviour (DiMaggio, 1988; Greenwood et al., 2008). This research revealed the link between structure and agency, and that agents are not entirely captive and constrained by an external structure, but rather take a role and generate structure. This study contributes to the existing

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<sup>77</sup> Details of, and a comparison between, legitimacy theory, stakeholder theory and institutional theory are provided in Chapter 4.

literature on CSRR by complementing institutional theory with the model of neo-institutional theory suggested by Battilana (2006) and Battilana et al. (2009). To the best of the researcher's knowledge, no previous study in the CSRR field has used this model to shed light on the role that agents play in driving and shaping companies' CSRR.

This development of the theoretical framework provides a unique insight into a Saudi Arabian CSRR experience, and a useful lens that enabled the researcher to identify both the external and internal dynamics of the initiation of CSRR. By using the developed theoretical framework, the analysis was useful in showing that organizations are not just black boxes merely influenced by external institutional pressures but that internal factors stemming from managers and CEOs also influence companies' CSRR practices. More specifically, hierarchical position, resources and previous work experience were identified as factors influencing the role that actors can play in initiating change. In addition, the analysis highlights the role that non-corporate actors play in CSRR, and identifies those with a direct influence on companies' CSRR activities.

Neo-institutional theory originated in Western developed countries, and hence the application of this theory as it is in developing countries like Saudi Arabia in which CSR and CSRR is still developing, may not help in providing sufficient explanations for the complexity of CSRR. Accordingly, it can be suggested that applying this theory with the Battilana model, together, can provide a unique insight to explain the CSRR experience in other developing countries with similar characteristics to Saudi Arabia (such as Gulf countries), and can be used as a model to understand CSRR practice in these countries.

#### **9.4 Implications of the Findings and Suggestions for Improvements**

A number of implications can be extracted from the findings presented in Chapters 6, 7 and 8, and these, and suggestions for improving CSR and CSRR in the future, are presented below.

#### **9.4.1 Implications for Policymakers in the country and other emerging economies**

It is evident from the empirical work carried out that improving and extending CSR and CSRR in Saudi Arabia will require some policy interventions from regulatory bodies. Unless this happens it is difficult to see any major change occurring in respect of companies' practices in the areas of social and environmental commitment and in terms of transparency of CSR. In particular, the findings show that although there are positive commitments toward reporting CSR, the managerial perceptions of the disclosure sometimes appear to be to serve their self-interests and image-building interest, rather than being accountable and transparent to the wider society. In fact, the volunteerism and lack of clear guidelines for CSR and CSRR implies that corporations are left to choose what, when and how to engage in social and environmental issues. Interestingly, this is the case at a time when the call for the private sector to cooperate with government to overcome social and environmental issues was specifically made in Saudi Arabia's recent 9<sup>th</sup> National Development Plan. Leaving the decisions relating to CSR and CSRR to the discretion of Saudi companies, especially given the innovative nature of it in the country and the fact that companies are still learning about it, is likely to result in stagnation and opportunistic reporting rather than the more preferred option of strategically planned CSR and CSRR activities. A lack of regulatory intervention is likely to lead companies to merely imitate other companies to reduce their uncertainty and mitigate their dilemma in terms of selecting CSR activities and even their CSRR. There is also likely to be a reluctance to commit to CSR issues in the long-term. Furthermore, the nature and extent of CSR will be based on following of other companies and be done to legitimate their activities.

Overall, this approach will not help the private sector achieving the targets expected of them by the government in taking a role in tackling social and environmental challenges.

The managerial perceptions suggest that organizations respond to CSR practices if they are mandatory, clearly defined and monitored by a regulatory body (e.g. environmental practices by

petrochemical and cement companies located in the Eastern region and monitored by the Royal Commission for Jubail and Yanbu). Moreover, the findings show that the corporations are willing to heed positively governmental regulations and guidelines in terms of CSR and CSRR if they are issued, as this reduces corporate uncertainty about what to report.

Therefore, it is suggested that policymakers, to achieve better CSR and CSRR practices in the future, should take a role in clearly defining the meaning of CSR for companies. They must also clarify the CSR issues that must be fulfilled by the private sector, legislate for the reporting mechanisms for CSR and specify the minimum CSR disclosure requirements for companies, including the medium of disclosure that needs to be used. It is suggested these legislations are mandated for all companies in terms of both the code of action for CSR practices and the code of reporting on this action. Furthermore, it is important that standards issued by regulatory bodies for CSRR are consistent with Saudi Arabia's specific cultural traits in order to avoid any opposition or clashes that might lead to noncompliance. International CSR reporting standards, such as the GRI, can be adapted to suit the characteristics of Saudi Arabia. The adaption is important due to the differences in the CSR issues between the countries in which these guidelines were developed and Saudi Arabia.

It is suggested that regulation is needed because some non-corporate actors considered that the voluntary nature of CSRR has for some companies turned the reporting into a mere public relations exercise. Enhancing the credibility of the disclosed CSR information by the actions of regulatory bodies will increase readers' trust of annual reports and counter any claim that companies are using the CSRR for self-interest purposes.

These suggestions are expected to guide, clarify and improve companies' transparency levels in relation to CSR disclosure. They will also make the country's investment climate more appealing to foreign and domestic stakeholders.



This implication can be also relevant to other developing countries in which regulations about CSR and CSRR are still developing.

#### **9.4.2 Implications on CSR Training and Education**

The findings showed that a lack of sufficient and informative content for CSR training resulted in challenges, difficulties in preparing CSR reports and a lack of trained and qualified staff in this area, and accordingly influenced the level of CSRR. Therefore, it is suggested that the content of provided CSR training needs to be revised and approved by, for instance, a regulatory body such as the Ministry of Commerce, which is in charge of organising private sector training and workshops to ensure the provided training will achieve its ultimate goal. This step can contribute to surrounding organizations with normative environments that provide the employees who are in CSR departments and in charge of preparing the CSR reports with the skills required to prepare the reports and to reduce the currently identified CSRR barriers.

It was also found that internal information gaps between departments within the organizations about both CSR and CSRR resulted in lack of coordination and communication between departments that were collecting the required CSR information. This may affect the quality, nature and amount of CSR information that is reported. Therefore, it is suggested that a combination of the two institutional pressures, normative pressures (e.g internal educations) and coercive pressures from senior management are required in order for co-operations between departments to occur. In particular, it is suggested that internal education about CSR within the organization is required to increase the level of CSR awareness amongst staff, close any information gap between the CSR departments and clarify what is required from all departments in terms of CSR information. In addition, coercive intervention from senior management regarding CSRR is required for effective cooperation between departments. If the senior management has a conviction about CSR and CSRR and makes this known throughout the

company, this is likely to result in an enhancement of their CSR disclosure. It is also suggested that the CSR department needs to be empowered to have access to the relevant CSR information required for preparing the CSR reports, rather than limiting their access only to one aspect of CSR, such as community-based activities.

The findings also show that managers and executives with high levels of education (i.e. an MBA or other Master's degree), and those educated in Western countries such as the UK or USA, were exposed to different and more advanced CSR education than those who were locally educated. The implication of this is that education plays an important role in forming the norms and values of managers and executives toward CSR and CSRR, and therefore unless CSR and CSRR are integrated into business schools' curricula, awareness about CSR and CSRR might not improve. It is also important to depart from the narrow focus of simply emphasising maximising shareholders' values to include greater focus on teaching social and environmental responsibility and its associated disclosure.

#### **9.4.3 Empowerment of Non-corporate Actors**

In the absence of a powerful role for academia, media, regulators, CSR consultants and NGOs, their ability to influence companies' CSRR practices seems remote. The findings show that non-corporate actors make different efforts to change the current CSR and CSRR practices. However, their role remains marginal, as they are not empowered and equipped to criticise companies constructively on CSR issues. Knowing that CSR and CSRR is new and innovative for companies in Saudi Arabia, and being aware of the knowledge and experience that different non-corporate actors have, the researcher suggests that empowering non-corporate actors is essential in achieving better CSR and CSRR practices. This can be achieved by, for instance, forming a committee that includes representatives from different non-corporate actors' groups. This committee needs to have direct contact with private sector regulatory bodies such as the Ministry

of Commerce or the CMA to address their concerns and suggestions for better CSR and CSRR practices. An integrated role for non-corporate actors is necessary to institutionalise CSR in Saudi Arabia and strengthen the corporate role in social affairs, which should be reflected in their annual reports. Without empowerment, non-corporate actors cannot achieve their roles. Such a process can enable good communication between companies and non-corporate actors, and enable them to learn from each other.

### **9.5 Limitations of the Research and Suggestions for Future Research**

This study was concerned with understanding motives and challenges for CSRR from managerial perceptions, and in grasping non-corporate actors' perceptions of CSRR practices and their influence in order to understand their subjective experiences, which are time and context bound. The narratives gathered from this sample have provided explanations for different motivational factors and challenges for companies' CSRR practices, and provided an understanding of the perceptions and the role of different non-corporate actors toward CSRR. It is important to clarify that like any studies involving interviewing a sample of individuals, the responses to some extent will reflect the beliefs, values and prejudices of the individuals who are interviewed. However, as far as possible the researcher tried to achieve a cross section of respondents in terms of gender, age, educational qualifications and work experience. Therefore as far as the researcher is aware the individuals are likely to be typical of managers working in firms or other non-corporate actors. The most likely bias is the individuals who agreed to be interviewed are those who have an interest in CSR.

Although these findings are limited to this particular sample and the researcher is not making any claim that the sample is representative of all Saudi Arabian companies and non-corporate actors, an attempt was made in the selection processes to insure the sample was not biased. There remains however the possibility that actors in other organizations might have different

motivational factors and perceive different challenges in terms of CSRR. The above also applies to non-corporate actors in relation to their perceptions and their influential role. Other non-corporate actors may have different perceptions and influential roles not captured by this research.

Considering the dearth of studies on CSRR practices in Saudi Arabia, it is suggested that future studies use the findings of this study to provide a basis for a comprehensive questionnaire survey that targets all listed companies so that the findings can be generalised. The reason for not using a questionnaire survey in this study was because of the exploratory nature of the research as it was considered that richer data would be obtained from interviews than if a questionnaire had been employed. Furthermore, future research on non-corporate actors can seek to explore the perceptions of some additional non-corporate actors such as annual reports analysts and auditors as they have a direct involvement in analysing and approving companies' annual reports. It is also important to remember that Saudi Arabia is an Islamic country, and since Islamic values teach individuals to be responsible in life and business, future research could consider the views of religious scholars. This is expected to give a fruitful insight into the study of CSR and CSRR practices in Saudi Arabia. The main reason for not incorporating them in this study was due to issues with access.

Another limitation of this study is its focus on companies that already undertake some CSR disclosure. It would be interesting for future research to focus on companies that do not participate in any sort of CSR disclosure to understand their reasons for this.

Finally, the findings of this study were interpreted largely through the lenses of neo-institutional theory, as proposed by DiMaggio and Powell (1983) and Scott (2008), and the complementary model suggested by Battilana (2006) and Battilana et al. (2009). Although this enabled the researcher to provide an explanation for CSRR practices in Saudi Arabia, using another theory

for future research could provide different explanations for the CSRR practices. Saudi Arabia is undertaking some reforms in terms of companies' disclosure regulations and its corporate governance code, especially after opening the stock exchange for foreign investors to trade in the Saudi market for the first time in 2015. Therefore, it would be beneficial to understand the CSRR practices once these changes take place and also to use different theoretical angles than the one provided by neo-institutional theory.

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## Appendices

### Appendix A : Invitation letter for Research Participation



Subject: Request for Interview in a PhD research

Date

Dear xxxxx,

My name is Maha Alsayegh. I am a PhD student at the University of Essex studying under the supervision of Professor Stuart Manson and Dr Magda Abou-Seada. I am writing to request your participation in a research study exploring the practice of Corporate Social Responsibility reporting in Saudi Arabian Firms. The study is seeking to understand the perceptions of relevant management involved in the production of Corporate Social Responsibility reports and the motivations for Saudi companies to report their CSR activities. I am seeking also to understand the challenges that face Saudi Arabian firms in reporting on their Corporate Social Responsibility activities. Lastly, I am trying to gain an insight into the perceptions and roles of the media, academics, NGO, CSR consultants, and regulators on the current state of Corporate Social Responsibility reporting practices in Saudi Arabia.

I would like to assure you that all the information provided will be treated in the strictest confidence. Complete anonymity of the organizations' names and the interviewees' names will be maintained and will not be mentioned in the thesis. None of the information provided will be shared with any other parties or used outside the scope of its academic purpose. The interview is expected to last for approximately 60 minutes. A list of the interview questions will be attached upon your agreement to be interviewed.

I would be very grateful if you agreed to be interviewed and took part in my study. In return for your cooperation I will provide you with a summary of the research findings. Your cooperation is highly appreciated.

Thank you for taking time to consider my request. I look forward to hearing from you.

Yours sincerely,

Maha Alsayegh

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## **Appendix B : Managers' Interview Guide**

- 1- Introduction to the research topic.
- 2- General questions related to participants' background:
  - What is your current position in the organization?
  - What is your role in relation to CSRR?
  - How long have you been working in this organization?
  - What is your previous work experience?
  - What educational qualifications do you have?
- 3- What does CSR terminology mean to you?
- 4- Why does your company report CSR activities?
- 5- How do you prioritise what to report and what not to report? What are the basis?
- 6- How is the CSR report derived and what systems, procedures, and processes are in place?
- 7- Who do you think will be interested in seeing companies produce CSR reports? Why?
- 8- Have you ever done a survey to find out whether users of the company's annual reports believe that this kind of information is useful for them? What was the result of the survey?
- 9- What important events in your view have played an important role in driving companies towards CSRR? Who organised and provided these events? How do you evaluate these events?
- 10- What challenges do you face during the preparation of this kind of report?
- 11- What is the system for collecting the required information for the CSR report?
- 12- How many departments and people are involved in the preparation of the CSR report?
- 13- To what extent do the involved departments and people cooperate in terms of providing you with the required information for the CSR report? Are there any issues?

14- There are number of CSR international reporting guidelines such as the GRI, ISO etc.

How much attention do you pay to these international guidelines when you are preparing your CSR reports? Are there any issues?

15- Is there anything else you would like to add ?

## **Appendix C : Non-Corporate actors' Interview Guide**

- 1- Introduction of the research topic.
- 2- General Questions related to participant Background:
  - How long have you been working in this field?
  - What is your previous work experience?
  - What is your level of education?

General questions to the whole group:

- 1- How extensive and sufficient do you feel the CSR reported information is?
- 2- To what extent does it address the CSR issues that the country needs the companies to help them address?
- 3- In what way do you play a role in shedding light on the CSR issues that need to be addressed by companies? And how? Are there any issues?
- 4- Do you think CSR has to be regulated by a governmental regulatory body to be more effective? Why?
- 5- To what extent do you think that firms are acting out of their self-interest when they report their CSR rather than satisfying societal needs?
- 6- Do you think companies need to produce standalone CSR reports instead of disclosing their CSR activities within the annual reports? Why/why not?
- 7- To what extent and in what way do you think it is going to be useful for Saudi companies to prepare their CSR reports in accordance with the international CSR reporting guidelines?
- 8- Is there anything else you would like to add in regards to CSRR in Saudi Arabia?

Additional questions:

For Media:

- 1- To what extent do the media comment on what is disclosed by companies in their CSR reports?
- 2- To what extent do you think attention from the media influences companies to report their CSR? And how?
- 3- How do the media contribute to shedding light on companies that are not doing any kind of CSR activity reporting? Can you give me examples please?

For Academics:

- 1- How do you think academic staffs are contributing to increasing levels of awareness about CSR and the importance of reporting these activities to students who are expected to be future managers of companies? In what way do you do that?
- 2- As an academic, have you ever commented on what is reported by companies to the media/ students and academic staff? What did you comment on?
- 3- What studies have you done to evaluate the current status of CSRR between firms and have you provided any suggestions to companies regarding their CSRR status? What were the results? How did you use them?
- 4- How do you think it is going to be useful for Saudi companies to prepare their CSR report in accordance with the international CSR reporting guidelines? Why?

For Regulators:

- 1- How do you as companies' regulatory bodies have a role in prescribing the guidelines for CSR and CSRR for companies?
- 2- What do you do to promote CSR reporting? How do you do this?

- 3- To what extent do you think that using international CSR reporting guidelines is going to be relevant for Saudi companies? Why?
- 4- Do you have any intention to make reporting on CSR compulsory for companies? Please give a reason.
- 5- To what extent do you think that it is suitable to initiate and promote local CSRR standards that take into consideration the circumstances and the context of Saudi Arabia and encourage companies to report their CSR activities based on these standards rather than using an international one? Why?

For CSR consultants:

- 1- What do you do to promote CSR reporting? How do you do this?
- 2- What do you do to promote the use of international reporting guidelines? Do you have any issues?

## Appendix D : Consent Form



### Informed consent form

I hereby consent to participate in the research conducted by Miss. Maha Alsayegh for her PhD study. I have been informed about the study aims and objective which are related to investigating and understanding Corporate Social Responsibility reporting practices in Saudi Arabian Firms. It is my understanding that the confidentiality and anonymity of my organization's name and my personal name will be assured and will not be violated in any form. It is also my understanding that any provided information is not going to be shared with any other parties or used out of the scope of its academic purpose, and that the gathered information will not be used to harm the participants or their companies in any form. It is also my understanding that I have the right to end the interview or withdraw from the study at any time. It is also my understanding that the interview is going to be audio recorded and if I don't wish the interview to be recorded then alternatively notes will be taken by the researcher.

It is also my understanding that the collected data, including the audio records, field notes, and interviews' transcripts, are going to be kept in a safe location that can be accessed only by the researcher. It is also my understanding that I have been given the right to be provided with the transcript of my interview if I want to confirm its authenticity.

Signature of participant

Signature of researcher

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Date .....