Exploring the Factors and Effects of Corporate Social Responsibility Disclosure in Saudi Arabia

(In the Area of Accounting and Finance)

By

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Copyright Statement

Declaration

I, Anas Alhazmi, hereby declare that this thesis and the work presented in it is entirely my own unaided work, except where explicit reference is made to the contribution of others. It is being submitted for the degree of Doctor of Philosophy at Nottingham Trent University. It has not been submitted before for any degree or examination in any other university.

Name: Anas Alhazmi

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Date: 05/05/2017

Dedication

This work is dedicated to my late mother and father. Your fingerprints of grace and wisdom touched my life. May Allah shower you with grace and blessings; and bless you with His holy and noble neighbour in Paradise.

Acknowledgement

All praises to Almighty Allah who gave me the strength, patience and ability to complete this research study. The prophet Mohammad, peace be upon him, said "*Allah does not thank the person who does not thank people*." Many people have inspired me to complete this phase of my life.

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Abstract

CSR (Corporate Social Responsibility) has attracted widespread attention in recent years a matter that has led international efforts to provide global standards and guidelines for reporting on CSR issues. The objective of the current research study is to explore whether corporate governance and firm-specific factors would influence CSRD (Corporate Social Responsibility Disclosure) practices in Saudi Arabia, and whether CSRD practices have effects on firms' market value.

The research study data was collected using a content analysis method and measured CSRD by word count. The data analysis was conducted using econometrics regression models based on a sample of unbalanced panel of 545 annual reports over a five-year period.

The findings provided evidence of CSR engagement and improvement over the period of the study among Saudi listed firms. In terms of factors, the study found that ownership structure, firm size, environmental sensitivity and firm age had a significant influence on CSRD practices. Finally, CSRD practices had a significant positive benefit on firm value in terms of the aggregated level of CSRD generally and *Saudization* specifically.

These findings provide policy-makers (for example, the Saudi government) with an understanding of how firms adopt CSR issues, thus helping to improve policy formulation. In terms of the literature, the current research study extends the limited CSRD literature in developing countries in general and Saudi Arabia in particular where there is a dearth of studies that examined the relationship between CSRD practices and corporate governance factors. Further, the current research study contributes to the literature by examining the benefits of CSRD practices, an area that lacks empirical investigations in both developed and developing countries.

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List of Abbreviations

BLoG	Basic Law of Governance
CGR	Corporate Governance Regulations
CMA	The Capital Market Authority
CML	Capital Market Law
CPAL	Certified Public Accountants Law
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure
G20	The Group of Twenty
GCC	The Gulf Cooperation Council
GDP	Gross Domestic Product
GLS	Generalised Least Squares
MENA	Middle East and North African countries
MEP	Ministry of Economy and Planning
MFA	Ministry of Foreign Affairs
MoL	Ministry of Labour
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
OPEC	The Organization of Petroleum Exporting Countries
POLS	Pooled Ordinary Least Squares
SAGIA	The Saudi Arabian General Investment Authority
SAMA	Saudi Monetary Agency
SARCI	The Saudi Arabian Responsible Competitiveness Index
SCL	Saudi Company Law
SOCPA	Saudi Organization for Certified Public Accountants
Tadawul	The Saudi Stock Exchange
WTO	The World Trade Organization

1 Introduction

1.1 Introduction

The purpose of the current chapter is to provide a general background to the current research study and to present the objective and purpose of this research study. To this extent, the chapter proceeds by discussing the research background in Section 1.2. Section 1.3 defines the current research study scope. After that, the research aims and questions are presented in Section 1.4. Section 1.5 summarises the research methodology and methods used in the current research study, while the research main findings are outlined in Section 1.6. The contribution of the current research study is discussed in Section 1.7. Section 1.8 presents the structure and outlines of the current research study. Finally, the chapter concludes by providing a summary in Section 1.9.

1.2 Research Background

Corporate social responsibility (CSR) has attracted widespread attention in recent years (Aguinis and Glavas 2012). It is concerned with business and society relationships and is underpinned by the notion that businesses have broader responsibilities to society beyond maximizing shareholders' wealth (see Carroll and Shabana 2010) and therefore there must be a "*shared value*" for business and society (Porter and Kramer 2011).

The increased interest in CSR practices could be attributed to events such as economic crises (e.g., global financial crisis) and irresponsible business practices (e.g., the Enron scandal; oil spills; child labour) and their impact on society (Mostovicz, Kakabadse and Kakabadse 2009). In this regard, the United Nations has held Earth Summits in Rio in 1992, Johannesburg in 2002, and more recently the Rio+20 conference in 2012 in order to highlight concerns of the social and environmental issues in economic development. The European Commission has also emphasized CSR issues and corporate accountability by introducing a Green Paper in 2001 and 2002 (Archel, Husillos and Spence 2011). Additionally, organisations such as the World Council on Sustainable Development, Business for Social Responsibility and Ethical Corporate have endeavoured to promote CSR initiatives (Carroll and Shabana 2010). Furthermore, institutional investors, such as CalPERS in the United States, have committed themselves to investing only in socially responsible business (Guenster et al. 2011).

In line with this, a number of international efforts has put forward initiatives for standardizing the provision of social and environmental information and providing global reporting guidelines (Benn and Bolton 2011). Among those initiatives are the Global Reporting Initiative (GRI), the United Nations Global Compact, the United Nations for Responsible Investment, the ISO 26000 Standardization for Social Responsibility, the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, and AccountAbility's AA1000 Series of Standards.

These efforts and pressures have led to corporate strategies and policies that integrate corporate accountability and transparency, with companies demonstrating CSR activities through disclosure (Gray, Owen and Adams 1996) through different communications methods, such as annual reports, standalone reports, and websites (Dhaliwal et al. 2011).

Consequently, there has been a growth in corporate social responsibility disclosure (CSRD) literature, more opportunities have become available for research and a number of themes have emerged in the literature. One trend investigates the motives behind CSRD and its influential factors, including corporate governance characteristics (see Brammer and Pavelin 2008; Gamerschlag, Möller and Verbeeten 2011; Rao, Tilt and Lester 2012) and firm-specific characteristics (see Roberts 1992; Clarkson et al. 2008; Sotorrío and Sánchez 2010). A second stream of studies has focussed on exploring the benefits of CSRD by investigating the relationship between firm performance and CSRD (see Dawkins and Fraas 2008; Prado-Lorenzo et al. 2008; Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016). However, many of these studies have focused on developed countries, and limited attention has been given to developing countries (Belal and Cooper 2011).

The findings from the developed countries might not reflect the circumstances in developing countries, which might stimulate and advance CSRD understanding differently because their contexts provide different challenges than those of developed countries (Visser 2009; Kisenyi and Gray 1998). First, the level of economic development is weak (Mangena and Tauringana 2007; Haniffa and Cooke 2005), and the legal systems may not be sufficiently strong enough to enforce CSR activities (La Porta et al. 2002). Second, there are differences in cultural norms, values, and customs (Visser 2009; Violet 1983) with implications for CSR activity. Third, there is unlikely to be strong CSR pressure groups and/or activists to influence a firm's behaviour. Finally, the prevalence of corruption in high offices (Mangena, Tauringana and Chamisa 2012) influence corporate behaviour in developing countries. To this extent, CSRD practices and their influential factors are likely to be distinct, depending on a country's institutional settings. As Pedersen (2010) argues, countries have different factors that shape and influence managers' perceptions of the business–society relationship, and such factors shape corporate behaviour and impact on CSR activities. Doh and Guay (2006) show that institutional differences between the United States and Europe influence corporate strategies related to CSR practices.

In the context of Saudi Arabia in particular, the social and economic development is driven mainly by Islamic law. Islamic teachings are prevalent in Saudi society and thus may shape individuals' mindsets and preferences about CSR issues because faith offers many spiritual teachings concerning the morals and ethics of business conduct (Dusuki and Abdullah 2007; Farook 2007). In this case, managerial behaviour in relation to CSR is likely to differ from environments that are not driven by Islamic law, such as those in the UK and US. Furthermore, the prosperity of oil production, which constitutes about 80% of the Saudi public budget revenues, allowed rapid expansion and expenditure on development projects, including environmental, social, and human developments (Ministry of Economy and Planning 2015). For example, the Saudi government has launched several *Saudization* (localization) programmes in order to incentivize employers to hire Saudi nationals and encourage the youth to join the private sector (MoL 2015). These elements could be extended to the business and society relationship by raising the awareness of CSR among society members, promoting the contribution of the private sector in the social development and reinforcing CSR issues.

However, very little is known about CSRD practices in the Saudi Arabian context despite having a unique institutional setting that might have implications for CSRD practices (as will be discussed in Chapter 3). Furthermore, there is a dearth of empirical studies that have examined the relationship between CSRD practices and corporate governance factors in developing countries (Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013) in general and Saudi Arabia in particular (Alotaibi 2016). Thus examining the effects of corporate governance on CSRD in the context of Saudi Arabia would make a contribution to the debate. Finally, there is also generally a dearth of empirical investigations of the benefits of CSRD practices in both developed countries (Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016) and developing countries (Aras, Aybars and Kutlu 2010; Cheng, Lin and Wong 2016) and particularly Saudi Arabia (Alotaibi 2016). This is important to understand. If companies understand the benefits that accrue when they engage in CSRD, they are likely to respond positively and benefiting society. Accordingly, the current research study is motivated to contribute to the CSRD literature by overcoming these limitations and filling the literature gap.

1.3 Research Scope

Ullmann (1985) analysed CSR literature and argued that there are at least three interactions under CSR construct, namely, social disclosure, social performance,[1] and economic performance. This has developed different strands in the literature to examine two or more interactions under CSR construct depending on how the subject is approached.

Given that, it is necessary to clarify this research approach to CSR in order to gain better understanding of the concept under investigation and answering the aforementioned research questions. Specifically, this research concerns with the provision of social and environmental information as its main purpose is to explore the factors and effects of CSR disclosure (CSRD) in Saudi Arabia; thus, the research will focus mainly on the literature relevant to CSR disclosure (CSRD) studies.

In this regards, Gray, Owen and Maunders (1987, page ix) defined CSRD as "*the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society*

[1] This distinction between social disclosure and social performance is significantly important, as there is a confusion among scholars between the two terms Ullmann (1985). Roberts (1992), for example, argued that social disclosure is one type of social performance. Wood (2010) defined social performance as a framework for assessing firms' social performance through a set of principles of social responsibility, processes of social responsiveness, and outcomes and impacts of performance.

and to society at large.” Furthermore, Mathews (1993, page 64) emphasised the voluntary nature of CSRD by defining it as “*voluntary disclosures of information, both qualitative and quantitative made by organizations to inform or influence a range of audiences. The quantitative disclosures may be in financial or non-financial terms*.” It is considered to be part of social accounting and extends the accountability of business organizations to provide more social and environmental accounts alongside traditional financial accounts (Gray, Owen and Maunders 1987; Mathews 1993). CSRD, therefore, is a means by which business organizations may discharge their accountability to a large circle of stakeholders (Unerman 2000; Gray, Owen and Adams 1996).

Although CSRD is unregulated in contrast with the highly regulated traditional financial disclosure, business organizations have increasingly adopted this reporting practice, especially since the 1980s (Gray, Kouhy and Lavers 1995a). This is evident by the recent survey by KPMG (2013) “*The KPMG Survey of Corporate Social Responsibility Reporting 2013*,” which found that CSRD is a current global trend with an increasing number of firms across nations publishing their reports. About 78% of the reporting firms referred to Global Reporting Initiative (GRI) as their guidelines indicating the tendency among reporting firms to adhere to international standards and improving the quality of reporting. What is even remarkable in the survey is the surge in CSRD among emerging economies, especially those in Asia Pacific.

1.4 Research Aims and Questions

The preceding discussion has shed light on the importance of CSR issues generally and for Saudi Arabia particularly. Accordingly, the main objective of the current research study is to explore the extent of CSRD practices in Saudi Arabia. In particular, the current research study aims to explore the nature and extent of CSRD practices among Saudi listed firms. The current study also aims to analyse the trend patterns of CSRD practices over time. Furthermore, the current research study aims to investigate the factors influencing CSRD practices among Saudi listed firms. Finally, the current research study aims to investigate whether Saudi listed firms benefit from engaging in CSRD practices. In particular, the following research questions are addressed in the light of the objective and aims of the current research study:

Q1 - What is the nature and extent of CSRD in annual reports of Saudi listed firms?

Q2 - To what extent has CSRD in annual reports of Saudi listed firms improved over the five-year period of the study?

Q3 - Do corporate governance and firm-specific factors influence CSRD practices in Saudi listed firms?

Q4 - Does CSRD provided by Saudi listed firms influence their performance?

1.5 Research Methodology

The research methodology and methods are detailed in Chapter 6. In this section, a summary of the research methodology and methods is provided. In particular, the main purpose of the current research study is to explore the factors and effects of CSRD practices in Saudi Arabia. To this end, after reviewing prior theoretical and empirical literature in Chapter 4, a conceptual framework for understanding the factors and effects of CSRD practices in Saudi Arabia was developed in Chapter 5. This framework suggests that a number of corporate governance and firm-specific factors would influence CSRD practices in Saudi Arabia. Furthermore, CSRD practices in turn would influence the performance of Saudi listed firms. In light of the purpose of the current research study objective and questions, a positivist paradigm is adopted and a quantitative strategy is implemented in order to answer the research questions.

In order to answer the first and second research questions, CSRD was measured by word count using the content analysis technique, a method has frequently been used to extract unstructured data from a wide range of communication means (Weber 1990; Krippendorff 2013; Neuendorf 2016) and has been commonly used in previous studies (see Haniffa and Cooke 2005; Holder-Webb et al. 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013; Muttakin and Khan 2014). Furthermore, the CSRD checklist used in the content analysis was developed based on the GRI framework.

In order to answer the third research question, two groups of CSRD influencing factors were identified as suggested in the CSRD literature: corporate governance and firm-specific factors (see Haniffa and Cooke 2005; Ntim and Soobaroyen 2013; Chan, Watson and Woodliff 2014; Qiu, Shaukat and Tharyan 2016). Corporate governance factors are divided into board characteristics and ownership structure. Board characteristics include six variables: board size, the proportion of non-executive directors, duality role, chairperson holding multiple directorships, directors holding multiple directorships, and board meetings frequency. The ownership structure includes three variables: director ownership, institutional ownership, and governmental ownership. The second group of factors includes five firm-specific variables: firm size, environmental sensitivity, firm age, profitability, and gearing.

In order to answer the fourth research question, the current research study measures firm performance by using a market value measure, namely, Tobin's Q ratio. Furthermore, two main econometrics regression models were developed to investigate the factors and effects of CSRD practices in Saudi Arabia. The first model examined the relationships between CSRD and its influential factors to answer the third research question. The second model examined the relationship between CSRD and firm performance as measured by Tobin's Q ratio to answer the fourth question. The following section summarises the research main findings.

1.6 Research Main Findings

Based on a sample of unbalanced panel of 545 annual reports, the current research study found evidence of CSR engagement among Saudi listed firms. First, the CSRD overall analysis findings revealed that Saudi listed firms disclosed 573 words on average for the Total CSRD in the annual reports. In terms of the main CSRD categories, the findings revealed that Saudi listed firms disclosed about 80 and 493 words on average for Environmental Disclosure and Social Disclosure, respectively, in the annual reports. In terms of the Social Disclosure subcategories, the findings revealed that Saudi listed firms disclosed about 263, 183, and 48 words on average for Labour and

Decent work, Society, and Product Responsibility, respectively, in the annual reports. Last, in terms of *Saudization*, the findings revealed that Saudi listed firms disclosed about 53 words on average in the annual reports.

Second, the trend analysis findings suggested that CSRD practices improved over the five-year period of the current research study. The largest increase documented for the Total CSRD was between the years 2012 and 2013 by 37 words, accounting for a 6.65% change. In terms of the CSRD main categories, the findings suggested that the Environmental Disclosure also improved over time. The largest increase documented for Environmental Disclosure was between the years 2012 and 2013 by seven words, accounting for a 8.31% change. The findings also suggested that Social Disclosure improved over time. The largest increase documented for Social Disclosure was between the years 2012 and 2013 by 31 words, accounting for a 6.39% change. In terms of the Social Disclosure, the findings suggested that the disclosure practices improved across the three subcategories. The largest increase documented for labour and Decent Work was between 2011 and 2012 by 24 words, accounting for a 9.60% change. The largest increase documented for Society was between the years 2012 and 2013 by 12 words, accounting for a 6.78% change. The largest increase documented for Product Responsibility was between the year 2012 and 2013 by five words, accounting for a 10.09%. Last, the findings also suggested that *Saudization* improved over time. The largest increase documented for *Saudization* was between the years 2011 and 2012 by eight words, accounting for a 16.61%

Third, the analysis of CSRD influencing factor findings suggested that corporate governance and firm-specific factors determine the CSRD practices in Saudi Arabia. In particular, the findings revealed that institutional ownership had a positive and significant impact on CSRD practices in Saudi listed firms across the Total CSRD, Social Disclosure, and *Saudization*. Environmental Disclosure, however, was found not to be related to CSRD practices in Saudi Arabia. The findings also revealed that governmental ownership, firm size, and firm age had positive and significant influences on CSRD practices in Saudi Arabia for the Total CSRD and across all CSRD categories. Furthermore, the findings revealed that environmental sensitivity had a significant impact on CSRD practices across CSRD categories but not on the Total CSRD. Lastly, all board characteristics (board size, non-executive directors, CEO duality, multiple directorships and board meeting frequency), as well as director ownership, profitability and gearing found not to be related to CSRD practices in Saudi Arabia.

Finally, the analysis of the CSRD effects on firm performance findings suggested that CSRD practices benefit Saudi listed firms. In particular, the findings revealed that the Total CSRD had a positive and significant impact on firm performance as measured by Tobin's Q ratio. In terms of CSRD categories, the findings revealed that *Saudization* also had a positive and significant influence on firm performance as measured by Tobin's Q ratio. Environmental Disclosure and Social Disclosure, however, did not influence the firm performance in Saudi Arabia.

1.7 Research Implications and Contributions

The study contributes to literature in several ways. First, Saudi Arabia is currently seeking to promote sustainable development, restructure the Saudi economy, enhance business environments, and attract foreign investors. This is evident in the national development plan (see Chapter 3). For example, the Saudi national development plans place more emphasis on education and training as a long-term solution to reduce unemployment rates through *Saudization* (Ministry of Economy and Planning 2015). Besides that, very little is known about CSRD practices generally and *Saudization* particularly in Saudi Arabia. The current research study provided evidence about CSRD generally and *Saudization* particularly in Saudi Arabia, which would enrich the Saudi government's understanding of how firms adopt CSR issues and, hence, improve policy formulation.

Second, despite the increasing interests in CSRD practices globally, the extant CSRD literature is concentrated in the developed countries (see Holder-Webb et al. 2009; Brammer, Brooks and Pavelin 2006; Post, Rahman and Rubow 2011; Rao, Tilt and Lester 2012; Reverte 2009; Branco and Rodrigues 2008). Accordingly, this study would add to the limited research on CSR in developing countries in general (see Esa and Ghazali 2012; Muttakin and Khan 2014),and Saudi Arabia in particular, which has a unique institutional setting that might have implications for CSR (see Chapter 3). For example, Saudi

Arabia Islamic teaching includes an important factor that influences the legal, economic, and societal systems. Deegan and Unerman (2006) suggest that religion as a cultural factor is a logical argument that could potentially affect how people do business and make decisions. In this regard, Hamid, Craig and Clarke (1993) indicated that Islamic teaching is a particular case that influences the structuring and financing of business in a way that differs from other religions. In support of this, Ali and Al-Aali (2012) found that Saudi managers believe that CSR is an obligation to them from an Islamic perspective.

Third, a limited number of empirical studies have examined the relationship between CSRD and corporate governance factors in developing countries (Haniffa and Cooke 2005; Esa and Ghazali 2012; Haji 2013; Khan, Muttakin and Siddiqui 2013; Ntim and Soobaroyen 2013). The literature suggests good corporate governance leads to good disclosure practices because corporate governance systems promote the responsibility and accountability of firms and consider wider stakeholder groups (Haniffa and Cooke 2005; Mangena and Tauringana 2007; Esa and Ghazali 2012; Khan, Muttakin and Siddiqui 2013; Mangena, Tauringana and Chamisa 2012). Very little is known about the relationship between CSRD practices and corporate governance in Saudi Arabia. The current research study provided evidence of the influence of ownership structure on CSRD practices in Saudi Arabia.

Fourth, the majority of prior empirical studies examined the factors influencing CSRD practices whether in the developed countries (see Branco and Rodrigues 2008; Reverte 2009; Holder-Webb et al. 2009); or in developing countries (see Liu and Anbumozhi 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013). There is, however, a dearth of empirical investigations on the relationship between CSRD practices and firm performance in both groups of countries. This current research study contributes to the literature by examining the benefits of CSRD practices by investigating if Saudi CSR firms experience an increase in market value as measured by Tobin’s Q. The current research study provided evidence that Saudi listed firms benefited from engaging in CSRD practices in Saudi society.

Fifth, a large number of prior studies in the both group of countries used either cross-section data (see Roberts 1992; Naser et al. 2006; Ghazali 2007) or short observation window (less than three years) (see Haniffa and Cooke 2005;

Reverte 2009; Alotaibi 2016). This indicates that findings from prior empirical studies provided limited insights into how CSRD changes over time and might be biased on identifying the actual factors influencing CSRD practices and its effects on firm performance (Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). The current research study contributed to the literature by examining longer periods of CSRD practices to describe how CSRD in Saudi Arabia has evolved.

Sixth, a large number of prior studies that took a longitudinal approach have employed the pooled ordinary least square (POLS) technique to estimate the econometrics model of panel data such as (see Haniffa and Cooke 2005; Reverte 2009; Ntim and Soobaroyen 2013; Alotaibi 2016). POLS may be problematic and inefficient in the panel regression model (Mangena, Tauringana and Chamisa 2012) because it ignores the structure of the panel data (Hsiao 2014; Baltagi 2008). The current research study contributed to the literature by employing more sophisticated models of panel data controlling for individual effects to produce reliable results (Cameron and Trivedi 2009; Kennedy 2008; Koop 2008) and advance the CSRD practices literature.

Finally, the current research study contributed to the literature by extending Alotaibi (2016). On the theoretical level, the current research study employed a wider theoretical framework, including stewardship and institutional theories. On the methodological level, the current research study used a longer observation window of five years and controlled for the individual effects. On the analytical level, the current research study examined the aggregated level of CSRD practices of Saudi listed firms as well as the Environmental, Social, and *Saudization* categories.

1.8 Research Structure and Outlines

As previously mentioned, the main objective for the current research study is to explore the factors and effects of CSRD practices in Saudi Arabia. To help accomplish this objective, the current research study is structured upon nine chapters. The purpose and outlines of each chapter are presented below.

Chapter One, Introduction. The purpose of Chapter 1 is to set the scene of the current research study by providing a background for this research study. The chapter also addresses the aims and questions of this research study.

Besides that, the chapter briefly discusses the research methodology used in the current research study and summarizes the main research findings. Finally, the chapter presents the contribution of the current research study.

Chapter Two, The Nature of CSR Concept. The purpose of Chapter 2 is to expound upon the concept of corporate social responsibility (CSR), and put the concept into the context of the current research study. The chapter, therefore, defines CSR and discusses the emergence and construction of CSR concepts. The chapter also discusses CSR characteristics and justifies the adopted CSR definition for the purpose of the current research study. Finally, the chapter presents the argument in favour and against CSR, and the underlying motivations behind engaging in CSR practices.

Chapter Three, Saudi Arabian Context. The purpose of Chapter 3 is to provide an overview of the context of the current research study, Saudi Arabia. In particular, the chapter discusses the sociocultural aspects of Saudi Arabia, including the state foundation, geography, and significance. The chapter also discusses the political, economic, and legal environment in Saudi Arabia. Finally, the chapter sets out the business and CSR aspects in Saudi Arabia.

Chapter Four, CSRD Literature Review. The purpose of Chapter 4 is to elucidate the theoretical explanations and review the prior empirical investigations of CSRD practices. The chapter, therefore, presents the theories that explain CSRD practices. Furthermore, the chapter reviews the empirical literature in the developed world, developing world, and Saudi Arabia. Finally, the chapter addresses the limitations of prior studies and the research gap that the current research study tries to fill.

Chapter Five, Conceptual Framework and Hypotheses Development. The purpose of Chapter 5 is to provide the research conceptual framework and develop the research hypotheses. The chapter introduces a conceptual model to understand CSRD practices in Saudi Arabia, which includes corporate governance and firm-specific factors. The chapter then discusses the theoretical argument for each variable supported by empirical evidence.

Chapter Six, Methodology and Study Design. The purpose of Chapter 6 is to discuss the research’s philosophical position and the research methods employed to address the research objective. The chapter, therefore, discusses the research philosophy and paradigms. The chapter also presents the research data source and sample. Furthermore, the chapter sets out the measurements of CSRD, its influencing factors, and firm performance. Finally, the chapter explains the data analysis techniques for the current research study.

Chapter Seven, Data Analysis: CSRD Practices in Saudi Arabia. The purpose of Chapter 7 is to answer the first and second research questions. The chapter, therefore, analyses the overall CSRD practices in Saudi Arabia. After that, the chapter also analyses the trend patterns of CSRD practices in Saudi Arabia. Finally, the chapter discusses the sample characteristics and analyses the associations between the variables.

Chapter Eight, Data Analysis: Factors and Effects of CSRD Practices in Saudi Arabia. The purpose of Chapter 8 is to answer the third and fourth questions. The chapter, therefore, analyses the regression results of the factors influencing CSRD practices in Saudi Arabia. The chapter also analyses the regression results of the effects of CSRD practices on firm performance.

Chapter Nine, Conclusion. The purpose of Chapter 9 is to conclude the current research study. The chapter, therefore, discusses the research main findings and their implications on Saudi society. The chapter also highlights the contribution of the current research study. Finally, the chapter discusses the limitation of the current research study and provides suggestions for further studies.

1.9 Summary

The current chapter sets up the grounds of the current research study by providing a general background for the research. The chapter also defined the scope of the current research study and outlined its main objective. The research aims and questions also were presented. The chapter also provided a summary of the methodology and methods used in the current research as well as the research main findings. Furthermore, the contribution of the current research study was highlighted. Finally, the chapter presented the structure and outlines of the current research study. The following chapter will discuss the nature of CSR concept.

2 The Nature of CSR Concept

2.1 Introduction

The previous chapter, Chapter 1, provided a general overview of this research and addressed the research aim, questions and scope of the research. The main research objective is to explore the factors and effects of CSRD practices in Saudi Arabia. The current chapter seeks to put the concept of Corporate Social Responsibility (CSR) into the context of this research by providing a general overview of the its nature.

To this end, the chapter proceeds with section 2.2 to consider the emergence and construction of CSR concept and its discourse among academic scholars and provides some insights into the rationalization of CSR construct. Section 2.3 presents the six core characteristics of CSR that have been gleaned from the previous discussion and defines CSR in light of the six core characteristics and within the context of this research. The next section, 2.4, proffers the case against CSR where the arguments of opponents scholars are presented, followed by a discussion of the underlying motivations behind engaging in CSR practices in section 2.5. Finally, the chapter would conclude by providing a summary in section 2.6.

2.2 The Emergence and Construction of CSR

2.2.1 Definition

The concept under investigation of the current research study is CSRD which concerns with the provision of social and environmental information. CSRD studies concerns with what firms disclose and what drive them to disclose social and environmental information specially because such business practice is considered to be voluntary[2] (Al-Tuwaijri, Christensen and Hughes II 2004). In this respect, the European Commission (2001, page 6) defined CSR as "*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 would serve the purpose of the current research study because it recognizes CSR as being an integral part of modern

[2] As will be discussed in the current chapter, voluntary is one of CSR characteristics. Accordingly, charitable giving is considered one activity of CSR (Crane, Matten and Spence 2014). However, charitable giving should be distinguished from the Islamic *Zakat* which is considered as an obligatory by Muslims (Abdullah and Chee 2013).

business function that interact with multiple stakeholders (Crane, Matten and Spence 2014) as will be addressed later in Section 2.3.

CSR goes beyond the legal requirements (Davis 1973) and as CSR evolves over time, new concepts (i.e. business ethics, sustainability and corporate citizenship) and definitions which are sometimes parallel or overlap with CSR have emerged (Waddock 2004) due to the different conceptualizations (Carroll 1999) and theories (Garriga and Melé 2004) of CSR available. Furthermore, CSR is considered to be a multidisciplinary (i.e. human resources management, marketing, organizational behaviour) and a multilevel (i.e. institutional, organizational and individual level) field of inquiry (Aguinis and Glavas 2012) that could be approached from different organizational contexts of modern economies namely: private, public and civil society sectors (Crane, Matten and Spence 2014). Given that, the following sections discuss the emergence and construction of CSR.

2.2.2 The Origin and Rise of CSR

In its simplest form, responsibility means "*the state or fact of being accountable or to blame for something*" (Oxford Dictionary 2015); or "*something that you should do because it is morally right, [or] legally required*" (Merriam-Webster Dictionary 2008). In this sense, the concept of bearing responsibility to others is not a new notion. Various religions, for instance, have promoted this practice in the ancient holy scripts (Ramasamy, Yeung and Au 2010). Brønn and Vrioni (2001) argued that Talmudic law has played a major role in regulating socially responsible behaviour to promote community wellbeing in Jewish culture. Others believe that Christian churches have played a critical role in promoting business ethos and social responsibility (MacLeod 2011; McGhee 2002). Yet, others provide evidence from the primary references of Islamic religion (the *Quran* and the *Sunna* of the Prophet Mohammad peace be upon him) for the moral and ethical principles[3] that serve

[3] In the literature of philosophy of human conduct, scholars refer to ethics and morals as principles related to the right and wrong conduct, and both are influenced by culture and society. However, the principles of the two concepts come from slightly different sources. Ethics stem from external standards and rules that are imposed upon individuals by institutions and groups they are part of. Morals stem from individuals' own principles and internal beliefs upheld by themselves (for more information see Quinton 1989; Frankena 1973; Kant 1997).

as social responsibility guidelines and framework of business conduct in Islamic societies (Dusuki and Abdullah 2007; Farook 2007; Dusuki 2008). Consequently, CSR is far from a new phenomenon as Eberstadt (1973) noted when analyzed Western society in ancient Greek times and found business was concerned for the community. In this regard, Carroll (2009) noted that philanthropic contribution is one of the earliest forms of CSR that played a central role in developing the concept.

However, it was not until the Industrial Revolution around the mid 1800s that social and environmental issues began to appear in societies and the nature of the modern corporation started to form (Carroll 1999; Spector 2008; Blowfield and Murray 2008; Okoye 2009; Cannon 2012; Crane, Matten and Spence 2014). This is because the Industrial Revolution marked a transition in social life, especially in America and Europe. Rural societies became urban and industrial. People started to move to cities seeking jobs in factories and engaging in manufacturing. This industrialization process, however, brought social problems to societies, such as female and child labour, factory injuries and fatalities, pollution, overcrowding and disease, to name but some. This caused civil unrest and people started to reject industrialization and criticize the factory system, demanding improvements in social and economic wellbeing.

Industrialization, therefore, has added a new dimension to the relationship between business and society; or rather, it has brought the impact of business on society and the environment to the surface. This was especially true during the corporate period around the 1930s and after the Great Depression and World War II when business grew and began to be seen as institutions that have impacted on societies (Eberstadt 1973; Frederick 2006). As a result, a number of voices has urged business leaders to pay their attention to business social responsibility (Carroll 1999; Frederick 2006; Spector 2008; Carroll and Shabana 2010).

2.2.3 The Construction and Conceptualization of CSR

However, academic discourse about CSR started around the 1950s when Howard Bowen wrote his book *Social Responsibilities of the Businessman* in 1953 in which he provided the first definition of CSR as:

> "*The obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society*" (Bowen 1953, page 6).

Bowen's definition is deemed by many scholars to mark the modern era of CSR (Carroll 1999; Valor 2005; Frederick 2006; Blowfield and Murray 2008; Crane, Matten and Spence 2014). His definition has brought forward much of the discourse among academics and practitioners.

Bowen (1953) held the view that business managers are seen as public trustees or social stewards of the public interest (Frederick 2006; 2009). They have social obligations toward society. This social obligation stems from the business managers' sense of responsibility and accountability of their decision making and activities as this might have implications for the society within which they operate (Bowen 1953; Carroll 1999; Frederick 2006).

This implies that business managers play a social role in the relationship between business and society. This social role is defined for business managers by the expectation and pattern of society (Carroll 2009). In this vein, Frederick (1960) maintained that business managers need to broaden their view in the decision making process by serving the wider societal needs in a way that enhances the total socio-economic welfare rather than merely focusing on economic interests. Frederick (1960) went on to emphasize that CSR:

> "*implies a public posture toward society's economic and human resources and a willingness to see that those resources are utilized for broad social ends and not simply for the narrowly circumscribed interests of private persons and firms*" (Frederick 1960, page 60).

Accordingly, Davis (1967) asserted that the core of CSR thinking is based on the ethical consequences of one's behaviour to others. Although this concept has always existed in religions and philosophies in social life as mentioned earlier, its application tends to be confined to individual conduct. CSR, however, "*moves one large step further by emphasizing institutional actions* *and their effect on the whole social system*" (Davis 1967, page 46). Davis (1967) shifted the focus onto the entire business organization as an economic unit and emphasized the role of institutional behaviour in terms of a whole social system.

To Davis (1960; 1967; 1973), CSR is a nebulous idea that is unclear and has no definite edges. He believes that compliance to legal requirements is what is expected of every member of society, and hence it does not count as being socially responsible. He argues that CSR "*begins where the law ends*" (Davis 1973, page 313), suggesting the voluntary nature of CSR. Davis further argued that CSR is a bi-faceted phenomenon that "refers *to both socio-economic and socio-human obligations to others*" (Davis 1960, page 71). First, as business organizations are economic units in society, they have an impact upon the economic developments which would affect the general public welfare, such as unemployment, inflation and the use of environmental resources. Second, business organizations are obliged to develop and enhance non-economic values pertaining to ethical behaviour and business conduct. This is because the business decision making process involves ethical and moral considerations along with technical and economic aspects (Davis 1960). Accordingly, Davis (1973) pointed out that CSR refers to:

> "*The firm's obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains which the firm seeks*" (Davis 1973, pages 312-313).

In essence, a business's function is to provide goods and services to society and make economic gain to owners. Subsequently, the standard of living and the level of wealth would increase in society. In the process, however, social problems may develop as direct or indirect consequences of economic development (Hay and Gray 1974). Taking into account these consequences is a key point underlying CSR thinking.

In this context, Hay and Gray (1974, page 140) argued that good business managers believe that "*what is good for society is good for our company*". Hay and Gray (1974, page 139) argued that a trusteeship manager realizes that it is for his enlightened self-interest to contribute to "*the interests of those people who contribute to his organization*". This is because business depends on society' resources for its survival, hence contributing back to the society, through philanthropy to support good social causes for instance, is desired (Carroll 1991). With this in mind, it is in the interest of business managers to demonstrate their sense of social responsibility by bolstering up the public interest (Hay and Gray 1974; Frederick 2006). This could be promoted through a mixture of enhancing employee and public relations, providing training and education, philanthropic contributions, and preserving the natural environment that subsequently would improve a firm's image and reputation, which ultimately benefits the business (Bowen 1953; Frederick 2006; Frederick 2009).

As can be gleaned from the aforementioned discourse, scholars implicitly hinted at the notion of balancing stakeholder interests. In this line of thoughts, Johnson (1971) identified a number of stakeholder groups that business organizations deal with. Johnson (1971) took the same stance as other scholars (i.e. Bowen 1953; Frederick 1960; Davis 1973) in that he agreed that CSR stems from the wider public expectations of business conduct. However, Johnson (1971) was more specific in referencing those stakeholder groups. To Johnson (1971) a responsible firm is the one that "*balances a multiplicity of interests*" and "*takes into account employees, suppliers, dealers, local communities, and the nation*" (Johnson 1971, page 50). This enlightened self-interest approach tries to include the notion of multiplicity of stakeholders' interests in the management decision making process and acknowledges that managers are accountable to the shareholders and responsible to stakeholders (Idowu and Caliyurt 2014). The approach has become prominent in CSR literature and empirical investigations as can be seen later in Chapter Four. Steiner (1971, page 164) asserted the crux of this conceptual aspect by stating that:

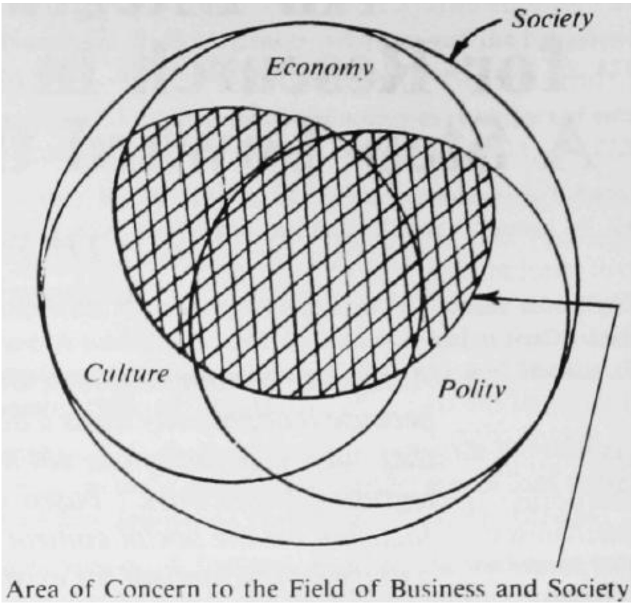
> "*the assumption on social responsibilities is more of an attitude, of the way a manager approaches his decision-making task, than a greater shift in the economics of decision making. It is a philosophy that looks at the social interest and enlightened self-interest of*

business over the long run as compared with the old, narrow, unrestrained short-run self-interest".

In this quest of conceptualising CSR, Jones (1980, page 59) shared the same view with Bowen (1953) in that CSR is "*the notion that corporations have an obligation to constituent groups in society other than stockholders*". Furthermore, Jones (1980, page 59) agrees with Davis (1973) that CSR goes "*beyond that prescribed by law and union contract*" and that *"the obligation must be voluntarily adopted*". To Jones (1980), however, this obligation is a broad one and echo with Johnson (1971) that it is "*extending beyond the traditional duty to shareholders to other societal groups such as customers, employees, suppliers, and neighboring communities*" (Jones 1980, page 60).

Jones (1983, page 560) went on and offered an integrating framework for CSR as a general macro level model for the interrelationships of business and society field. The integrating framework presented the field of CSR as interpenetrating systems[4] model as a product of the dynamic interactions that occur within society as shown in the following Figure (see Figure 2.1 below).

Figure 2.1: Jones's CSR Integrating Framework



Source: (Jones 1983, page 560)

[4] The root of systems thinking can be traced back to the work of the Austrian biologist Ludwig von Bertalanffy (1951; 1968) and the British economist Kenneth Boulding (1956). According to systems thinking, organizations' actions and behaviour are better understood by observing the contextual settings within which these actions and behaviour were occurred (Kühl 2013).

According to the integrating framework, any society consists of three major subsystems namely: economy, polity and culture which all interact with each other. The economic subsystem includes the private business sector, state owned firms, labour and labour unions as well as financial markets. It represents the basic social institutions that provides the economic exchange of products and services in the society. The political subsystem includes the main state authorities namely: legislative, executive and judicial as well as all the government regulatory and administrative branches. The cultural subsystem includes the members of society, the intellectual life, societal values and religion. According to this model then, CSR concerns with the interaction of the political and cultural subsystems with the economic system or more specifically the tensions that might arise from this interaction and how to cope with it (Jones 1983).

In this respect, business organizations are seen as complex open systems that are interconnected with and nested in the larger environment and open to the social, political, economic systems (Boulding 1956). Accordingly, business organizations take in resources and emit outputs to the larger environment (Wood 2010). In line with that, CSR broadly concerns with the harms and benefits of business operations (Wood 2010). CSR, therefore, focus on the interrelationships between business and society that result from their underlying interconnectedness and interactions (Benn and Bolton 2011).

Sethi (1975) recognized this dynamic relationship between business and society. However, he added to the subject from a different angle. Sethi (1975) argued that CSR is culture-bound and temporal. What is considered as a socially responsible practice in one particular society at a particular time, may not be a socially responsible practice in another society at another time. The society, then, is an interactive relationships and interests in the system, a process of constant and continuous change.

> "*A specific action is more or less socially responsible only within the framework of time, environment, and the nature of the parties involved. The same business activity may be considered socially responsible at one time, under one set of circumstances and*

in one culture, and socially irresponsible at another time, in another place and under different circumstances" (Sethi 1975, page 59).

Accordingly, he suggested a general and a flexible structural framework, to facilitate analysis of CSR. Sethi (1975) differentiated between three corporate behaviours: social obligation, social responsibility and social responsiveness. First, social obligation represents the economic and legal dimensions of CSR to cope with the market forces or legal constraints. It is prescriptive in nature in a way that any breach would jeopardize the business legitimacy. It might be considered to be as the minimum level of CSR. Second, social responsibility refers to adopting social values and norms as well as meeting the social expectations. It is prescriptive in nature and requires business to step ahead before any social expectation become a legal requirement. It brings up CSR one more level to social expectation. Third, social responsiveness refers to adapting social needs that are not only emanating from business activities. It is anticipatory and preventive in nature in a way that business plays a dynamic role in society and is expected to act to prospect of social changes beforehand. In a similar manner, Frederick (2006, page 41) explained that "[s]*ocial responsiveness means the ability to manage the company's relations with various social groups*".

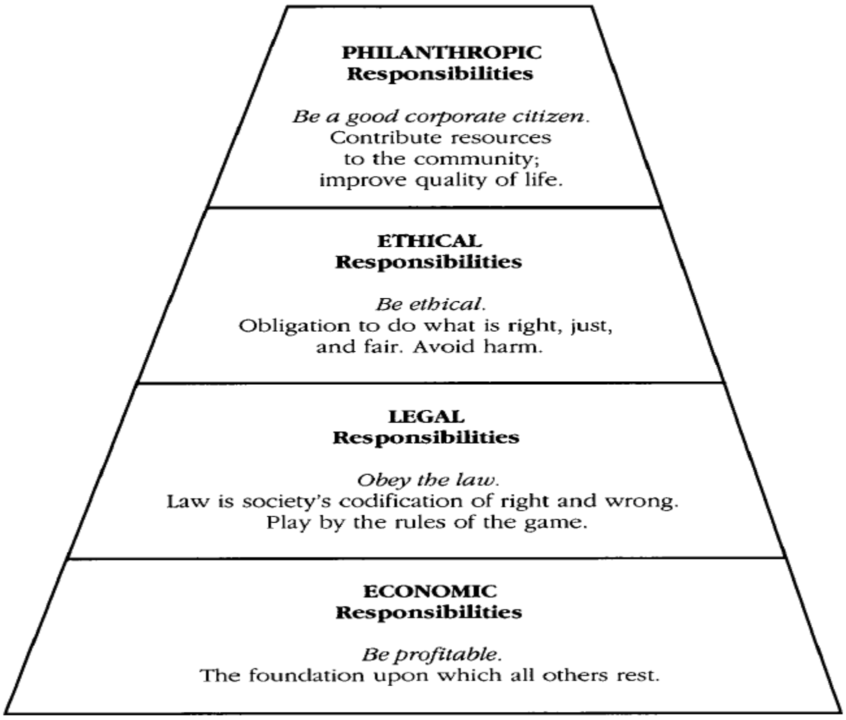
In the context of responding to social needs, the Committee for Economic Development (1971), hereafter CED[5], argued that the basic function of business is to serve the social needs as it operates by the public consent. The CED suggested that business organizations should become more involved in meeting social needs by developing an effective partnership with the government. To help appreciate the role of business in society, the CED proposed a concentric circles model of CSR. The model includes three nested circles as inner, intermediate and outer. The inner circle represents the fundamental responsibilities of conducting the core business functions efficiently, such as creating jobs, providing products, and enhance economic growth. The intermediate circle represents the responsibilities of conducting the business

[5] The Committee for Economic Development (CED), a non-profit American organization, needs not to be confused with the Organisation for Economic Co-operation and Development (OECD), an association of 35 member countries.

with full realization of social expectations, such as matters concerning environmental issues, fair and just dealings, and employee relations. The outer circle represents the responsibility to actively contribute to improving issues in the wider social environment, such as alleviating poverty and civil issues and rights (Committee for Economic Development 1971, page 15). The CED argument is that the public give permission to business to operate and thus business is required to satisfy society's needs and contribute more to quality of life and social welfare than only producing goods and/or providing services in order to secure its future operations (Carroll 2009).

In a similar vein, Carroll (1979; 1991) offered a four-part conceptual framework illustrated as a pyramid with an economic dimension at the base of the pyramid upon which all other dimensions rest (see Figure 2.2 below). The CSR pyramid "*encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time*" (Carroll 1979, page 500). To be socially responsible, then, business needs to articulate a basic definition of each CSR dimensions the business has, to identify the issues for which the business social responsibility exists and to specify a responsive strategy to those issues (Carroll 1979). Accordingly, the four dimensions of CSR are not mutually exclusive and must be met simultaneously (Carroll 1991).

Figure 2.2: Carroll's Pyramid of CSR



Source: (Carroll 1991, page 42)

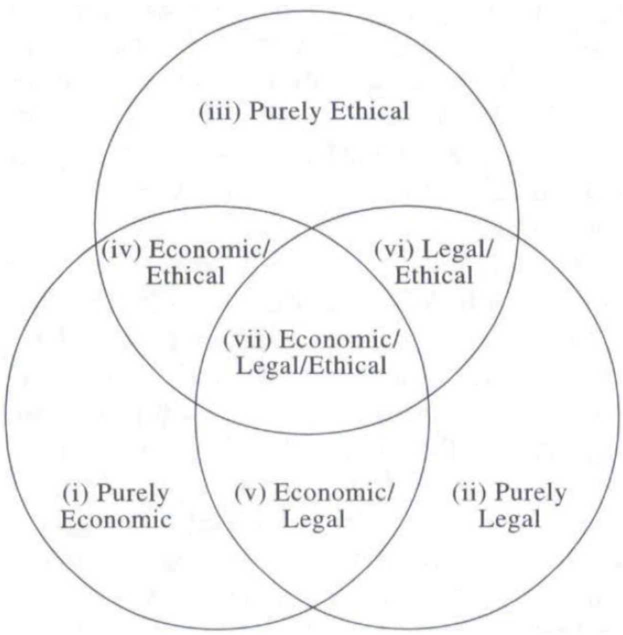
The economic responsibility indicates that business organizations are expected to produce goods and provide services in the society with the intention to selling them at a profit. Of course this should be done within the boundaries of law which is embodied as the legal responsibility in the CSR pyramid. The ethical responsibility represents the pattern of behaviour and norms that are not mandated by law however business organizations are demanded to adhere to them. The discretionary or philanthropy responsibility represents voluntary roles from business organizations that are undefined by society, however, are left for the individuals' judgment and choice (Carroll 1979; 1991).

Windsor (2001) explained that society requires the economic and legal responsibilities, expects the ethical responsibility, and desires the philanthropy responsibility. While the economic category in the CSR pyramid represents what a business organization does for itself, the other three categories represent what business does for others (Carroll 2009). The end result of the overall outcome from the CSR four dimensions constitutes the business total responsibility which Carroll (1991) summarized by stating that:

"*The total corporate social responsibility of business entails the simultaneous fulfillment of the firm's economic, legal, ethical, and philanthropic responsibilities. Stated in more pragmatic and managerial terms, the CSR firm should strive to make a profit, obey the law, be ethical, and be a good corporate citizen*" (Carroll 1991, page 43).

Later, Schwartz and Carroll (2003) re-represented the CSR pyramid model to overcome some of its limitations. For example, because the CSR pyramid depicted as a hierarchical structure, it might give the indication that one domain of CSR is more important than the other/s. Furthermore, hierarchical structure of the pyramid model failed to show the overlapping and interactions of CRS dimensions. Thus, Schwartz and Carroll (2003) reintroduced the pyramid model as a Venn-diagram containing the three dimensions of CSR namely: economic, legal, and ethical (see Figure 2.3 below).

Figure 2.3: Carroll's Three-domain Model of CSR



Source: (Schwartz and Carroll 2003, page 509)

Generally, these three overlapping responsibilities are consistently defined as Carroll's CSR pyramid of responsibilities. The exception is that philanthropic or discretionary responsibility could be subsumed under ethical responsibilities as it is difficult to distinguish ethical and philanthropic activities. Furthermore, it could also be possible to be subsumed under economic responsibilities if it is used to achieve strategic economic gains. Whether philanthropic or discretionary responsibilities subsumed under ethical or economic domain, it depends on the underlying motive for engaging this type of CSR activity. This clearly shows the interconnectedness, interactions and overlapping nature of the CSR domains.

It can be seen that Carroll’s Venn-diagram is similar to Jones's CSR Integrating Framework discussed above. Both depicted as intersecting circles model and acknowledges the interrelationships among CRS dimensions and refuting the hierarchal order of importance (Geva 2008). However, Jones’s model might operate in a higher macro level while Carroll’s model might operate in organizational level.

Despite of this, Carroll’s CSR pyramid enjoyed a wide popularity and acceptance in among academics and practitioners (Crane, Matten and Spence 2014; Blowfield and Murray 2008; Visser 2009; Frederick 2006). This might because the CSR pyramid provides a simple framework for business organizations to understand why it is important to promote their social responsibilities (Wood 2010; Carroll and Shabana 2010).

In this context, Jamali (2008) argued that while the different CSR conceptualizations are oriented to advance the research and theory of CSR field, the dynamic and complexity of modern business organizations require constant management of various relationships with stakeholders. This is particularly important in developing countries where there is a weak role for social pressure groups (Jamali et al. 2017; Belal and Cooper 2011) and hence promoting CSR doings in managing stakeholders might be essential for the business organizations’ economic viability (Jamali and Karam 2016; Jamali 2007). Furthermore, the CSR thinking in developing countries is in common with the mainstream literature of CSR in developed countries which “*furthering the social good beyond firm interests and legal compliance*” (Jamali and Karam 2016, page 13). However, it is irrational to study CSR in isolation of its context (Jamali 2014) because societies have their peculiarities that invoke attention to the antecedents that shape CSR thinking such as religious beliefs, economic development and the social systems generally (Jamali and Karam 2016; Jamali et al. 2017).

2.3 The Six Core CSR Characteristics and CSR Definition

From the discussion of the previous section, it can be seen that scholars provided numerous views to describe CSR. Davis (1973), for example, views CSR as a corporate attitude and reaction to social and environmental issues that exceed the economic and legal requirements while Carroll (1979) includes the economic and legal requirements as part of CSR. Yet, Johnson (1971) put managing and balancing the different interests at the basis of CSR thinking.

Nevertheless, the numerous scholars' views agree that the responsibility of business organizations encompasses more than making economic gains and obeying to laws. It is, therefore, insufficient to only consider the business organization commitment to laws laid down by legal and social institutions. Hence, it is essential to consider informal actions of the business organization which involves moral principles such as enhancing welfare of employees and other member of the society (Takala and Pallab 2000).

In this regard, Crane, Matten and Spence (2014) have identified six core characteristics of CSR concept (see Figure 2.4 below) which arguably represents the main thrust of CSR discourse. According to Crane, Matten and Spence (2014), the majority of CSR definitions from both academic and practitioner perspectives revolve around these six essential features of CSR. However, it is hard to find one single definition that includes all the six aspects.

Figure 2.4: The Six Core Characteristics of CSR

Source: (Crane, Matten and Spence 2014, page 9)

As indicated in the Figure 2:4 above, Crane et al. (2014) refer to voluntary as one of the core CSR characteristics. As Davis (1973, page 313) argued that CSR "*begins where the law ends*". In this context, all activities and initiatives that fall outside the legislative framework could be prescribed to be CSR practices. This characteristic acknowledges the discretionary power of management to engage in and promote voluntarily CSR activities and policies. Reinforcing this point, Jones (1980, page 60) stated that "*the obligation must be voluntarily adopted; behavior influenced by the coercive forces of law or union contract is not voluntary*".

The second characteristic according to Crane et al. (2014) is managing externalities which refers to the side effects or the impact of a business behaviour on the society such as pollution, human rights and gas emissions (Husted and Allen 2006). In this context, CSR is seen as a way by which businesses manage externalities or internalize the effects (Sethi 1975) by minimizing the negative impact and/or increasing the positive impact of corporate behaviour, for instance investing in clean technologies (Crane, Matten and Spence 2014).

The third characteristic is multiple stakeholder orientation that takes into account the different stakeholders interests including shareholders (Crane, Matten and Spence 2014). This is evident in Johnson's (1971) description of CSR firm as he stated that:

> "*A socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities, and the nation*" (Johnson 1971, page 50).

This characteristic might represent the neoclassical view of Friedman (1970) against CSR and Freeman (1984) argument for CSR. The argument revolves around whether businesses have responsibilities to other than shareholders (Smith 2003). While Friedman (1970) emphasised that maximizing shareholders' wealth is the solely responsibility of business organization, Freeman (1984) emphasised taking a holistic approach in managing stakeholders' relationships. In this context, CSR is deemed by many as a way of balancing the different stakeholders' interests including shareholders (Blowfield and Murray 2008). As indicated earlier, stakeholder approach has become a prominent in CSR literature and empirical investigations as can be seen later in Chapter Four.

The fourth characteristic is social and economic alignment as balancing the multiplicity of constituencies' interests should not be conflict with the business profitability (Crane, Matten and Spence 2014). The idea here is "*doing well by doing good*" which indicates that CSR firms that engage in doing good social practices are more likely to enhance their firms' performance at the same time (Mintzberg 1993; Falck and Heblich 2007). This characteristic is closely linked to the enlightened self-interest notion mentioned earlier by Steiner (1971) in that taking into account the social and environmental issues in the decision making process would best serve the long run objective of firms' performance.

The fifth characteristic is related to practices and values (Crane, Matten and Spence 2014). It might be true that CSR issues surface as a result of the industrial revolution and bad business conducts as discussed in the beginning of this chapter above. This necessitates the focus on business impacts and practices as well as their strategies to respond to the social and environmental issues. However, CSR has an underlying philosophy that underpins these practices. The underlying philosophy refers to the set of values, ethics and morals principles that shape the members of society thinking. This has been noted by Davis (1967) as he asserted that the core of CSR thinking is based on the ethical consequences of one's behaviour to others. This concept has always existed in religions and philosophies in social life as mentioned earlier.

The sixth characteristic is beyond philanthropy (Crane, Matten and Spence 2014). Although philanthropy and community giving could be part of CSR initiatives (Newell 2005), basically CSR is broader than this. CSR needs to be integrated, as a "*built-in*", in the core business functions rather than an extra "*bolted-on*" (Grayson and Hodges 2004). This necessitates that business management find genuine social and environmental causes to contribute to the society within which they operate.

With this in mind, the European Commission (2001, page 6) defined CSR as "*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 recognizes that CSR as being an integral part of modern business function that interact with multiple stakeholders who have conflicting social and economic interests and the management ability to balance and align those social and economic interests (Crane, Matten and Spence 2014). CSR, therefore, goes beyond the legal requirements (Davis 1973) to elect voluntarily to manage externalities and internalize the effects of business operations (Sethi 1975) by minimizing the negative impact and/or increasing the positive impact of business behaviour, for instance investing in clean technologies (Crane, Matten and Spence 2014).

2.4 The Case Against CSR

Concomitant with the previous academic discourse in favour of theorizing and conceptualizing CSR, some academic scholars tried to draw the attentions to the case against CSR (Smith 2003; Carroll 2009; Karnani 2010). To give a comprehensive picture about CSR concept, it is necessary to proffer the adversaries' arguments against CSR in this section. In the essence, the main concern of CSR critics from the very beginning has been revolving around refuting any business responsibility rather than making profits. The critics mainly came by advocates of the free market economies with the proliferation of academic discussion of CSR in 1950s (Karnani 2010).

In this regards, Levitt (1958) warned the business leaders of the danger that CSR might bring to the capital system as it distract business institutions' function of profit making. Levitt (1958) deemed that business and government institutions have two separate functions and powers. When the two functions coalesce with each other and into one single power, the society may face unopposed or unchallenged power that would diminish the pluralistic society and free capital system.

Levitt (1958) took the position that business organizations are established for economic, not societal, causes. Subsequently, they serve the society by focusing on this only role of theirs to provide products and services and make profits out of these activities. Furthermore, Levitt (1958) contended that social objectives and welfare policies are a state function. For the betterment of society, therefore, each function should be separated. He illustrated his argument by stating that:

> "*Welfare and society are not the corporation's business. Its business is making money ... This is the concept of pluralism. Government's job is not business, and business's job is not government*" Levitt (1958, page 47).

Echoing this argument, Milton Friedman (1970, page 1) considered CSR as a threat and clearly stated that "*the social responsibility of business is to increase its profits*". Friedman (1970) agreed with Levitt (1958) in that it is not the business organizations responsibility to take care of social and environmental issues, rather it is the government's responsibility through legislations. Friedman (1970) went on and emphasised 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*" Friedman (1970, page 4).

Davis (1973) also addressed another argument objecting CSR in that time. It was grounded on the basis that business people do not enjoy enough competency and the required social expertise to deal with social issues. Furthermore, using the business organization primary resources would leave the business in less ability to compete locally and globally (Carroll and Shabana 2010).

Basically, the scholars' argument refers to the existence of agency problem within the business organization. The agency problem idea itself is drawn from the agency theory[6] which in its basic assumption is to satisfy the shareholders' interests. The agency theory, as can be seen later in Chapter Four, suggests that management may have the potentials to misuse the business organization's resources or advance their personal interests in the name of CSR (McWilliams, Siegel and Wright 2006) which may result in diluting the business organization's resources and put the organizational recourses in unrelated objectives of business organizations' proper aim (Carroll and Shabana 2010).

Nonetheless, CSR has continued to grow and proliferate (Crane, Matten and Spence 2014). Evidence suggests that at least 90% of the largest firms in Europe provided social and environmental information (Crane et al. 2009) and it becomes a global trend among firms in different regions (KPMG 2013). This is partly because business organizations nowadays are aware of gaining the legitimacy of interests of societal groups beyond (but including) shareholders (Crane, Matten and Spence 2014) would serve their long term goals as enlightened self-interests approach suggests (Carroll and Shabana 2010). CSR, then, may provide opportunities for business organizations to increase their benefits such as reducing costs, enhancing revenues and mitigating business and reputational risks (Smith 2003; Deegan and Unerman 2011).

2.5 Motivations of CSR

Given that, it is necessary when analysing CSR to consider the motive behind the business organization to engage in CSR practices. A key point to understand the business organization's motivation to engage in CSR practices is

[6] The agency theory is fully discussed in Chapter Four.

to distinguish between altruistic[7] and egoistic motives (Takala and Pallab 2000). In the case of altruism, a business organization involvement in CSR practices stems from the business organization' moral principles of sincere will and desire to do the right thing (Takala and Pallab 2000). The motive here "*involves elements of normative constraint, altruistic incentive and moral imperative in the quest for corporate social nirvana"* (Jones 1980, page 59). This could be through alleviating social problems such as illiteracy and poverty in order to promote the social welfare and the quality of life (Lantos 2001; Jamali 2007).

In the case of egoism, on the other hand, a business organization may engage in CSR practices in order to gain something out of it (Takala and Pallab 2000). This gain could be enhancing the business organization image, improving the business organization reputation, strengthening the business organization competitive position, developing relationships and networking with various stakeholders, or enhancing the business organization financial performance (Takala and Pallab 2000; Carroll and Shabana 2010). The business organization here strives to identify CSR activities and practices that would have economic benefits to the business organization (Lantos 2001; Jamali 2007).

Having established that, CSR motivations, therefore, could be considered as a continuum where in one end CSR stemming from a desire to do good is driven by altruistic motive and represents the normative case for CSR while in the other end CSR is stemming from an enlightened self-interest behaviour which is driven by egoism motive and represents the business case for CSR. A business organization's motivations for engaging in CSR practices then might

[7] In the literature of ethical theories, scholars questioned whether human deeds should be judged solely by altruistic motive or the consequences of the human deeds (Takala and Pallab 2000). Consequently, at least three lines of thoughts appeared in the literature of ethical theories namely: deontological, consequentialism, and mixed-deontological perspectives. Deontological or duty-based perspective concerns with human deeds or what people do rather than the consequences of their actions. Consequentialism or result-based perspective concerns with the results of human deeds and the consequences of their actions. Finally, the mixed-deontological perspective tries to follow a middle path by combining the deontological and consequentialism, hence it judges human deeds based on the normative principles of both aforementioned perspectives (for more information see Quinton 1989; Frankena 1973; Kant 1997). For the purpose of this study, the deontological perspective of abstract altruism is considered as the aim is to explore CSR disclosure practices rather than evaluating the business organization' CSR performance (Takala and Pallab 2000; Lantos 2001).

reflect a mixture of economic and moral components on the CSR motivations continuum (Carroll 2009; Crane, Matten and Spence 2014).

Drawing upon the CSR motivations' continuum, the mainstreaming of CSR could arguably stem from three orientations namely the ethical orientation, economic orientation and a balanced orientation between the ethical and economic (Berger, Cunningham and Drumwright 2007). According to the ethical orientation, CSR is driven by purely ethical motivations of the societal values. CSR initiatives, therefore, are adopted for normative and non-economic causes. The economic orientation, on the other hand, is driven by purely economic motivations and CSR initiatives are only adopted if there is a clear link to the economic gains. In the balanced orientation, however, CSR initiatives are adopted for rational causes underpinned by strategic choices for the long run viability that are attuned to the external environment (Berger, Cunningham and Drumwright 2007; Carroll and Shabana 2010). It is, therefore, a broader orientation that takes into account the direct and indirect issues that are related to the business organizations' performance and thus has the advantage of appreciating the complexity of this relationship and recognizing the interdependence between business organizations and society (Carroll and Shabana 2010).

2.6 Summary

While the previous chapter, Chapter One, provided a general overview of this research, this chapter focused more closely on discussing the concept of Corporate Social Responsibility (CSR). To put the concept into the context of this research, the chapter started with presenting the historical evolvement of CSR and key contributions of academic scholars to conceptualize CSR. After that, the chapter highlighted the six core characteristics of CSR and adopt the European Commission definition of CSR as it seems appropriate for the purpose of this research. The chapter continued to provide a comprehensive picture of CSR by proffering the adversaries' opinions against CSR concept which mainly addressed by advocates of the free market economies. Although there was some scepticisms about CSR, business leaders increasingly adopt its practices and as suggested it becomes a global trend. The chapter, therefore, discussed the underlying motivations of CSR. As the aim of this research is to explore the factors and effects of CSRD practices in Saudi Arabia, it is necessary to provide an overview of the institutional settings of Saudi Arabia to understand the aspects of CSR in the research context. The next chapter, therefore, proffer the Saudi Arabia environment.

3 Saudi Arabian Context

3.1 Introduction

Chapter 1 provided a general overview of this research and addressed the research aim and questions alongside the motivation and scope of the research. Chapter 2, discussed the concept of Corporate Social Responsibility (CSR) and put it into the context of this research. The main research objective is to explore the factors and effects of CSRD practices in Saudi Arabia. This chapter, therefore, seeks to provide a detailed discussion of Saudi Arabia, the context of the current research study.

Accordingly, this chapter proceeds with a general and socio-cultural overview of Saudi Arabia, discussing the State foundation, geography and significance in Section 3.2, followed by Section 3.3 which presents the political context in Saudi Arabia. Section 3.4 examines the economic context of Saudi Arabia. Section 3.5 discusses the legal context and its structure. The chapter then sets out the current business regulations in Section 3.6. After this, Section 3.7 focuses on CSR aspects in Saudi Arabia. Finally, the chapter concludes with a summary in Section 3.8.

3.2 General and Socio-cultural Context in Saudi Arabia

Corporate business adopts accounting practices within a particular country based on the circumstances of its society at a particular time, to suit societal demands and requirements (Perera 1989). This is because accounting is a service function provided for the society and it must reflect the society's environmental conditions (Mueller 1968). The contextual environment, therefore, plays a crucial role in shaping firms' disclosure policies and activities.

Corporate disclosure in particular is a result of, and a component in, the development of the environmental settings from which it emanates. Understanding the contextual environment, therefore, is of a particular significance for corporate disclosure, especially in developing countries (Wallace 1988). Firstly, because of the differences in conducting and operating businesses within countries, and secondly because the judgement of corporate practices should be based on the cultural context within which a business operates (Radebaugh, Gray and Black 2006).

Nobes (1998) summarized a number of factors discussed in the literature that could explain accounting differences across countries (see Table 3.1).

Table 3.1: Factors influencing accounting practices across countries

1. Nature of business ownership and financing system
2. Colonial inheritance
3. Invasion
4. Taxation
5. Inflation
6. Level of education
7. Age and size of accountancy profession
8. Stage of economic development
9. Legal systems
10. Culture
11. History
12. Geography
13. Language
14. Influence of theory
15. Political systems, social climate
16. Religion
17. Accidents

Source: (Nobes 1998, page 163)

These factors are interrelated and include several institutional and cultural attributes (Deegan and Unerman 2011). Culture forms the basis of analysing the differences between social systems, as it is a broad concept that refers to "*the collective mental programming of the people in an environment*" (Hofstede 1980, page 43). In this context it encompasses the lifestyle, language, beliefs, values, customs and norms that are shared and accepted by inhabitants in a particular society that are derived from one's social environment (Hofstede, Hofstede and Minkov 2010).

Culture, therefore, mirrors the development and maintenance of the physical environment in the social system and its subsystems (Radebaugh and Gray, 2002) and therefore has institutional consequences for socio-cultural, political, economic and legal systems (Gray 1988), which is reflected in levels and methods of corporate disclosure to the public (Deegan and Rankin 1996).

As CSR is a socially constructed phenomena, it is better for it to be examined in its contextual settings (Dahlsrud 2008). Prior studies have documented a number of contextual factors that influence CSR in general and

CSRD in particular, including socio-cultural, political, economic and legal factors (Mathews 1993; Tsang 1998). Discussing the Saudi Arabian context, therefore, will help to better understand CSRD practices in Saudi Arabia. Furthermore, it would facilitate the analysis of the CSRD influential factors and effects in Saudi Arabia, as well as the interpretation of the findings.

With regard to the socio-cultural context, the foundation of the modern Saudi Arabia (the third Saudi State) can be traced back to the early 18th century. However, it officially became known as The Kingdom of Saudi Arabia on the 23rd of September 1932, when King Abdul Aziz A'l Sa'ud (the founder), announced the foundation of the state, after unremitting efforts to unify the tribes and clans under one flag in the region (MFA 2015).

The Kingdom of Saudi Arabia is a fully sovereign Arab Islamic State. It is a developing country located in the southwest corner of Asia (see Figure 3.1 below). As can be seen in Figure 3.1, Saudi Arabia is located at the heart of the Arabian Peninsula and between three continents, namely Asia, Africa and Europe; which gives Saudi Arabia geographical significance.

Figure 3.1: Location of Saudi Arabia

Source: (World Atlas 2015)

To its North lie Jordan, Iraq and Kuwait, while to the South are Yemen and Oman. The United Arab Emirates, Qatar and the Arabian Gulf are located to its East, while on the West is the Red Sea (see Figure 3.2 below) (MFA 2015).

Figure 3.2: Boundaries of Saudi Arabia

Source: (World Atlas 2015)

Saudi Arabia occupies today around 80% of the Arabian Peninsula, with an area of land around 2,149,640 square kilometres (829,980 square miles), the majority of which is desert. In comparison to the United States and European zone, Saudi Arabia size is approximately more than one-fifth of the United States' size, and equivalent to the size of the UK, Germany and France altogether. This makes Saudi Arabia the largest country in the Arabian Peninsula and the Middle East, the second largest country in the Arab World, and the 14th largest in the world (MFA 2015).

The Arabian Peninsula is known historically as a significant trading centre and the place where Islam was born (in the seventh century) (Zuhur 2011). The state, therefore, holds a spiritual position in all Muslim communities. Saudi Arabia is also the location of the two holiest cities in Islam: Makkah, which Muslims pray toward, and Medina, within which the home and grave of the Prophet Mohammad is located, peace be upon him (MFA 2015).

The Saudi King is known as *Wali Al'amr*, which refers to the legitimate ruler who takes care of the affairs of Muslims. The Saudi King is also known as the Custodian of the Two Holy Mosques which is an honorific title related to taking the responsibility to guard and maintain the two holy mosques in Makkah and Median (Alshamsi 2011). Furthermore, Arabic is the official language in Saudi Arabia and the language of the Quran, the book of *Allah* (God), according to Islamic belief.

The Saudi Arabian capital is Riyadh and the state territory includes thirteen regions, each of which is administered by a governor (usually a member of the royal family) chosen by *Wali Al'amr* (the King) (LoP 1992). The regions are occupied with groups of tribes who are traditionally associated with their regions and constitute the majority of the population (Shoult 2006).

Saudi Arabia is among the fastest growing nations with a growth rate of 3.2% of the total population between 2004 and 2010, which is high in comparison to world standards (Zuhur 2011). According to 2010 statistics, the total population of Saudi Arabia is about 29,195,895, 68% of whom are Saudis, while the population density is 14 people per a square kilometre (Central Department of Statistics and Information 2015).

The values of Saudi society stem from the adherence to *Shari'a* guidance. The family is the most important social institution and the nucleus of Saudi society (BLoG 1992). The family is raised according to Islamic principles and values that demand allegiance and obedience to *Allah*, who is the creator and owner of the universe and has the ultimate power over everything within it. Secondly, the allegiance and obedience to prophet Mohammad, peace be upon him, as the Messenger of *Allah*, and thirdly to *Wali Al'amr* (the King) (Opwis 2005). Furthermore, the tribal culture and Bedouin traditions are important forces that impact on Saudi society, which emphasize the family and clan bonding. These tribal and Bedouin traditions provide codes of loyalty and honour, hence value family and tribal relations (Robertson, Al-AlSheikh and Al-Kahtani 2012; Sidani and Showail 2013).

3.3 Political Context in Saudi Arabia

The system in Saudi Arabia is a hereditary monarchy regime, with rule passed down from the sons of the founder, King Abdul Aziz A'l Sa'ud, and the sons of the sons. The King (*Wali Al'amr*) is the central figure in the system of power, leading the authority of the state and serving as both the Chief of the State and the Prime Minister (The Head of Government) (BLoG 1992).

The nomination of the King is conducted through the Pledge of Allegiance Commission, composed of the sons of King Abdul Aziz A'l Sa'ud or their representatives (BLoG 1992). After receiving the pledge of allegiance and after consultation with members of the Pledge of Allegiance Commission, the King chooses one, two or three he deems fit to be the Crown Prince within 30 days commencing from the date of the pledge of allegiance (SCL 2006). Such a choice is brought before the Pledge of Allegiance Commission, which shall agree on nominating the Crown Prince. In the case of the Pledge of Allegiance Commission does not nominate any of them, it shall nominate whom it deems fit to be the Crown Prince. The one with the majority of votes shall become the Crown Prince (SCL 2006).

The king and the Crown Prince represent the highest authorities in Saudi Arabia. The other authorities of the State consist of judicial, executive and regulatory powers with the ultimate arbiter for these authorities being the king (Baamir 2013). The king rules the nation according to *Shari'a* (Islamic law) and supervises the implementation of *Shari'a* and the general policy of the state (BLoG 1992).

To manage state affairs, the king is assisted by an *Ashura* (consultative) Council, a Council of Ministers, the Supreme Council of Justice, the Council of Senior *Alo'lama* (Scholars) and the Supreme Economic Council (BLoG 1992), discussed further below.

3.3.1 *Ashura* (Consultative) Council

Ashura Council was established by Royal Decree No. A/91 in 1992. It represents the legislative body in Saudi Arabia. The *Ashura* Council exercises the responsibilities entrusted to it, according to *Ashura* Council Law and the Basic Law of Governance. It should consist of a chairperson and 150 members appointed by the king, based on their knowledge, expertise and specialists in various disciplines. Female representation on the *Ashura* Council should not be less than twenty per cent of the total members.

Ashura Council members cannot combine any other governmental or company management positions, unless the king deems it necessary. Membership of the council lasts for four years, during which time a member should not exploit his position to further his or her own interests. Any member who fails to perform their duties in the appropriate manner is sent to trial, based on the procedures and rules issued by Royal Order.

All laws, international agreements and treaties and concessions are issued and amended by Royal Decree, after being reviewed by *Ashura* Council. One duty of the council is to propose a draft of a new law or a change to an enacted law, then to submit a resolution of the new or amended law to the Prime Minister (the King). The *Ashura* is also expected to express its opinions on the country's general policies to the Prime Minister. Specifically, the council can act as follows:

i. Discussing and reviewing the national economic and social development plans, and giving their views.
ii. Reviewing and revising public laws, policies and regulations, international agreements, treaties, concessions, and proposing improvement changes whenever it deems appropriate.
iii. Analysing and interpreting regulations and laws.
iv. Discussing and examining governmental departments' annual reports and suggesting new proposals whenever it deems appropriate.

As stated earlier, the *Ashura* Council's resolutions are raised to the King who makes the decisions which resolutions to be referred to the Council of Ministers. If views of both the *Ashura* and the Council of Ministers are in agreement, then the resolutions should be considered, after the King's approval, by Royal Decree. If the views of both councils are not in agreement, the case is sent back to the council, in order that they can draw up and resend the new resolution to the King.

3.3.2 The Council of Ministers

The Council of Ministers was established by Royal Decree No. A/13 in 1993, becoming the executive body for Saudi Arabia. It is presided by over by the King, as Prime Minister. The Council of Ministers exercises their duties according to the Council of Ministers Law, which is subject to the provisions of the Basic Law of Governance and the *Ashura* Council Law. The ministerial council is composed of the President of the Council of Ministers (the Prime Minister), Deputies of the President of the Council of Ministers, Ministers with Portfolios, Ministers of the State (without portfolios) and the king's counsellors. The members are usually from the royal family and appointed by Royal Order to serve a four-year period.

The Council of Ministers members are not permitted to buy or release any of the properties of the State while in office. Directly, through a proxy, or by public auction, they may not trade any of their personal properties to the government, or engage in any commercial or financial activities with any company. The Council of Ministers draws up all the internal and external policies related to the economic, financial, educational and defence aspects, as well as the general affairs of the State and ensuring their implementation. Its duty is also to review the resolutions of the *Ashura* Council. Being the direct executive authority, the Council of Ministers is the final authority in financial and administrative affairs of all ministries, and other government departments have full power over them. The Council of Ministers executive powers are as follows:

i. Monitoring the process of implementing and executing of laws, resolutions and regulations.
ii. Monitoring and managing the establishment and setting the arrangements of organizing public institutions.
iii. Following up on the implementation and execution processes of the national development plans.
iv. Nominating committees in order to review of the conduct of business of governmental departments and ministries besides any specific cases deemed necessary.

Besides the executive authority, the Council of Ministers has legislative authority in Saudi Arabia. All laws, treaties, international agreements and concessions are reviewed by the Council of Ministers after the *Ashura*

Council's revision. Nevertheless, the king has the final decision, prior to dispensing any royal decree.

3.3.3 The Supreme Council of Justice

The Supreme Council of Justice was established by Royal Decree No. M/78 in 2007. It represents the judicial branch of Saudi Arabia, and is made up of a chairperson, appointed by Royal Order and ten members, namely the Chief Judge of the Supreme Court; four full-time judges of the rank of chief judge of the Court of Appeal, appointed by Royal Order; the Deputy Minister of Justice; the Chairman of the Bureau of Investigation and Public Prosecution; and three members satisfying the conditions required for an appeals judge appointed by Royal Order.

They serve a four-year period and have the following duties:

i. Attending to judges' personnel affairs.
ii. Issuing regulation concerning judges' personnel affairs on the approval of the king.
iii. Issuing judicial inspection regulations.
iv. Establishing, merging or annulling courts, depending on their location and subject jurisdiction, and constituting panels therein.
v. Supervising the work of courts and judges within the framework of this law.
vi. Naming chief judges acting for the courts of appeals and the persons acting as deputies and their assistants.
vii. Issuing jurisdiction rules and the boundaries of authority that chief judges of courts and their assistants could act within.
viii. Issuing rules and procedures for selecting judges, as well as the restrictions of their study leave.
ix. Regulating the work of trainee judges.
x. Determining equivalent judicial work required to fill judicial ranks.
xi. Making recommendations to improve the established jurisdiction.

xii. Preparing comprehensive annual reports stating the achievements and recommendations for enhancement, and bringing this before the King.

Judges are independent and no one is allowed to interfere with their work. In administering justice, they are subject to solely the authority of *Shari'a* and laws in force. The king and his deputies are in charge for enforcing judicial rulings.

3.3.4 The Council of Senior *Alo'lama* (Scholars)

The Council of Senior *Alo'lama* is the highest religious body in Saudi Arabia, established by Royal Decree No. A/137 in 1971 to represent the religious authority. The body consists of a number of senior specialists in *Shari'a* (Islamic Law) who are selected by the King according to their religious background and expertise. They serve a unique role in Saudi political governance by giving religious authenticity to Saudi govern, and are a powerful political constrain.

The Council of Senior *Alo'lama* has a primary duty to express *fatwa* (religious opinions) on matters referred to by the king, after an examination based on *Shari'a* teaching, in order to guide the king in making public policy decisions in ruling the state.

3.3.5 The Supreme Economic Council

The Supreme Economic Council was established by Royal Decree No. A/111 in 1999 in order to cope with rapid Saudi economic development. The Supreme Economic Council focuses on building an effective and productive national economy, as required by Saudi's public interests. The Supreme Economic Council is headed by the Crown Prince and his deputy, its members including the Ministers of Commerce and Industry, Economy and Planning, Water and Electricity, Labour, Petroleum and Minerals Resources and Finance and the National Economy.

The Supreme Economic Council has a major role in establishing committees for discussing specific issues such as privatizing public departments, international affairs and Saudi national security. It acts to achieve the goals of the economic policy of Saudi Arabia, which includes the following:

i. The security and prosperity of society, while preserving Islamic values, and the environment and natural resources, balancing present and the future needs and circumstances.
ii. The continued growth of the national economy at an appropriate level, in order to achieve a real increase in per capita income.
iii. Price stability.
iv. The provision of productive employment, and the employment of optimal human resources.
v. Adjusting public debt and maintaining it within safe and acceptable limits.
vi. Ensuring the equitable distribution of income and opportunities for investment and employment.
vii. Improving the economic base (economic diversification) and the sources of public revenue.
viii. Developing additional savings and investment channels.
ix. Increasing state income and linking it to national economic growth, so as to enable the state to perform its responsibilities towards national development and comprehensive care.
x. Increasing capital investment and domestic savings in the national economy in an effective manner, support the government's privatization programme and improve the economic balance programme.
xi. Increasing private sector participation and expand its effective contribution in the national economy development process, including participating in the government’s privatization programme.
xii. Enhancing the economy's ability to react flexibly and efficiently with international economic variables.

The Supreme Economic Council has the authority to coordinate, supervise and monitor Saudi economic activities, including the privatization programme, in coordination with competent government agencies, having the power to decide what is to be privatized, and to draft a strategy and timeframe to manage the process. Subject to regulatory requirements, the Supreme Economic Council has the following functions:

i. To formulate economic policy and appropriate alternatives.
ii. To coordinate government agencies directly related to the national economy to achieve coherence and integration between its work, and to take all actions necessary to do so.
iii. To follow up on the implementation of economic policy and what is required by the Council of Ministers' decisions in economic affairs and issues, and to take all necessary actions.
iv. To study the general framework of the development plan prepared by the Ministry of Planning and Economy, including draft plans, follow-up reports and economic reports.
v. To study fiscal policy, the foundations of the public budget and the priorities of public expenditure, as described by the Ministry of Finance and National Economy.
vi. To study the state budget and the budgets of other governmental bodies prepared by the Ministry of Finance and National Economy.
vii. To study trade policies at the local and international levels, and the rules governing labour and capital markets, and protecting consumer interests. In addition, to studying the rules that create the appropriate environment for competition and investment, and the industrial and agricultural policies prepared by the authorities concerned.
viii. To study matters with respect to economic issues, including those related to current price levels, fees, taxes and tariffs of all kinds, as well as the state investments, revenues, spending and expenditures, and public debt, loans and privileges.
ix. To study the rules and regulations relating to economic issues and projects of economic and trade agreements, and regulations that protect the environment, in cooperation with the competent authorities.

x. To study any other material that the king or the Council of Ministers refers to it.

3.4 Economic Context of Saudi Arabia

3.4.1 Prior to Oil Boom

Before Saudi Arabia enjoyed its economic power following the discovery of wells of oil in the 1930s, the Arabian Peninsula was mainly dependent on grazing, agriculture and commerce, with pilgrims coming to Makkah and Medina (Saudi Embassy 2015). This is attributed to the nature of nomadic life in the region. Saudi society was thus very poor and lacked the underlying infrastructure required to support the kind of the economic development and growth seen today (Ramady 2010).

In the space of a few years after Saudi Arabian unification, the discovery of oil dramatically changed the Saudi economy in a relatively short period of time. The rapid expansion of oil production has provided Saudi Arabia with both government revenues and foreign exchange to finance development and helped society to evolve from a basic agricultural society into a regional and global economic power with a modern infrastructure, especially after the oil prices boom in the 1970s (Ministry of Economy and Planning 2015).

3.4.2 Global Significance

Economic growth in Saudi Arabia has primarily been generated by the oil sector, which constitutes about 80% of Saudi public budget revenues. Saudi Arabia today has the largest capacity for crude oil production and possesses around 25% of the world's oil reserves, a matter that makes Saudi Arabia the largest oil exporter (Central Department of Statistics and Information 2015). It is the second largest permanent member of the Organization of Petroleum Exporting Countries (OPEC) and has a significant role in coordinating and unifying the petroleum policies and prices with the other 11 members of OPEC (Ministry of Economy and Planning 2015).

Playing a major role in the global economy, Saudi Arabia contributed on several occasions to keeping the global economy stable by increasing oil production during the Gulf War at the beginning of the 1990s and the Iraq War in 2003, thus preventing any major shocks in oil prices (Saudi Embassy 2015). Saudi Arabia's important position in the international community has allowed it to join the Group of Twenty (G20), which represents the 19 largest economies, along with the European Union. It thus takes part in its summits and discusses ways to reform international financial institutions, enhance the global economy, improve financial regulations and implement key monetary and economic changes required in each member economy. In December 2005, Saudi Arabia joined the World Trade Organization (WTO), a development that facilities the access of Saudi commodities to global markets, creates new jobs opportunities and attracts further foreign investment. Furthermore, Saudi Arabia has been selected for membership of the enlarged Global Financial Security Board. Thus Saudi Arabia has attained a powerful status, regionally and globally (SAGIA 2015).

Saudi Arabia enjoys the highest level of annual income per capita among MENA countries (Middle East and North Africa countries), and the most active stock market in the region. Furthermore, Saudi Arabia constitutes about 25% of the total Arab World gross domestic product (GDP) and is ranked as the world's 19th exporter and 20th importer, with a foreign trade of US $78 billion (Ministry of Economy and Planning 2015). It also comprises about 45% of the total Gulf Cooperation Council (GCC) countries GDP (see Table 3.2 below).

Table 3.2: Economic growth rates in Gulf Cooperation Council (GCC)

	UAE		Bahrain		Saudi Arabia		Oman		Qatar		Kuwait	
	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Nominal GDP	402.3	401.4	32.8	33.9	744.3	746.2	77.0	78.2	203.2	208.7	175.8	172.4
Real GDP Growth %	5.2	3.6	5.3	4.8	2.7	3.5	4.8	3.4	6.3	6.0	1.5	1.3
Inflation rate	1.1	2.3	3.3	2.5	3.5	2.7	1.2	1.0	3.1	2.9	2.7	3.1
Money Supply	22.5	16.9	8.2	10.5	10.9	11.9	8.5	9.5	19.6	11.1	9.7	4.4
Imports	312.5	346.7	15.2	14.7	229.9	173.8	41.5	43.0	59.0	63.1	47.5	50.7
Exports	395.9	400.9	23.9	23.2	376.0	342.3	59.3	58.3	148.1	139.5	121.5	112.8
Current account	64.7	49.1	2.6	2.2	135.5	76.9	4.7	2.2	62.6	47.9	69.6	60.9
Ratio of current account to GDP	16.1	12.2	7.8	6.6	18.2	10.3	6.1	2.9	30.8	23.0	39.6	35.3
Rational surplus, deficit in fiscal balance	8.6	6.0	-4.3	-5.4	8.7	-2.3	4.8	-1.4	14.4	9.2	34.7	21.9
Population (million)	9.0	9.3	1.2	1.2	30.0	30.8	4.1	3.6	2.0	2.2	3.9	4.0

Source: (SAMA 2015)

Table 3.2 illustrates the economic growth rates in real terms in GCC countries, declined during the year 2014, except Saudi Arabia, where it increased from 2.7% in year 2013 to 3.5% in year 2014. The growth rate in the United Arab Emirates, Qatar, Sultanate of Oman, Kuwait and Kingdom of Bahrain declined from 5.2%, 6.3%, 4.8%, 1.5%, and 5.3% in year 2013 to 3.6%, 6%, 3.4%, 1.3% and 4.8% in year 2014, respectively. The inflation rate decreased in Saudi Arabia from 3.5% in year 2013 to 2.7% in year 2014, and a similar pattern occurred in the Kingdom of Bahrain, Qatar and Sultanate of Oman. However, the inflation rate increased in Kuwait and the United Arab Emirates.

With regard to the balance of payments, the table shows that the aggregated level of exports declined by 4.2% from $1,124.7 billion in year 2013 to $1,077.0 billion in year 2014 in all GCC countries. Similarly, the aggregated level of imports declined by 1.9% from $705.6 billion to $692.0 billion between the years 2013 and 2014 in all GCC countries also. Finally, it can be observed that the current account surplus declined from $135.5 billion to $76.9 billion for all GCC countries in the years 2013 and 2014, respectively.

3.4.3 Domestic Development

Rapid economic growth and development meant that the Saudi government had to introduce a series of five-year development plan from 1970, to guide development towards consistent, comprehensive goals, while balancing economic growth with safeguarding existing values and heritage (Ministry of Economy and Planning 2015). This has led to the situation where further development of the economy over the coming decades needs diversification of the economic base to maintain growth.

Because Saudi Arabia was lacking the underlying infrastructure, the national development plans prior to the turn of this millennium mainly focused on improving the infrastructure, including building educational facilities, highways, seaports, providing electricity, enhancing health and social services, constructing industrial cities such as Jubayl and Yanbu, and enhancing defence systems. The regulators have also emphasised through the Saudi national development plans the collaboration between public and private sectors (i.e. private investment and joint ventures) and initiated governmental financing programmes to encourage such collaboration. Furthermore, the Saudi national development plans put more emphasis on education and training, *Saudization* (localization), and controlling government costs (Ministry of Economy and Planning 2015), especially given the high unemployment rate among Saudis, which reached about 12% in 2016 (The Saudi National Portal 2016).

From 2000, the Saudi national development plans have focused more on enhancing the economic growth in the private sector and increasing *Saudization* (localization) as well as diversifying the Saudi economic base to ease the reliance on oil production and establishing new educational institutions to encourage new technical development and specializations, advance women's interests in society and the economy, building tourism industry and promoting sectors privatization (Ministry of Economy and Planning 2015).

The most recent plan, The Ninth Economic Development Plan (2010–2014), which has been approved by the Supreme Economic Council, aimed to further the state's long term economic development and achieve specific national objectives by 2025. One objective is to establish six new economic cities in various regions in the country under a National Spatial Strategy (Ministry of Economy and Planning 2015), in order to improve the quality of life and social welfare, and to continue the emphasis on education development and training. The governmental spending has increased by 67% (up to a total of 1,444 billion Saudi Riyals) under this plan compared to the previous five-year plan (SAMA 2015; Ministry of Economy and Planning 2015).

The Saudi government, therefore, plays a major role in economic and industrial development. The Ministry of Economy and Planning formulates social and economic development plans that set long term economic objectives. Other economic sectors are overseen by individual ministries such as energy, finance, agriculture, communications and transportation.

The Saudi economy maintained its rate of growth during the year 2014 as a result of continuing government expenditure on structural changes, development projects and regulatory reforms that aimed t achieve sustainable economic growth through diversification. The economy of Saudi Arabia today is characterized by four main features: a manpower problem (unemployment of Saudi nationals), a commitment to a free economy, a reliance on oil; and rapid progress in all sectors over the last few decades. However, economic diversification has become a major challenge to the Saudi economy today, due to the oil prices drop since the second half of 2014 (Alsweilem 2015).

As shown in Table 3.3 below, Saudi GDP went up by 3.5% to 2,431.9 billion Saudi Riyals in year 2014 compared to a growth of 2.7% in year 2013. The GDP in oil sector increased by 1.5% to 1,037.6 billion Saudi Riyals, while the GDP in non-oil sector increased by 5% to 1,374.3 billion Saudi Riyals. Furthermore, it can be seen from the table that the GDP of the growth rate of the non-oil private sector increased by 5.6% to 959.6 billion Saudi Riyals, while the GDP of the growth rate of the non-oil government sector increased by 3.7% to 414.7 billion Saudi Riyals.

Table 3.3: Selected Economic Indicators

	2010	2011	2012	2013	2014
Estimated population (in millions)	27.56	28.37	29.20	29.99	30.77
GDP at current prices (billion Riyals)	1,975.5	2510.65	2752.33	2791.26	2798.43
GDP at constant prices (billion Riyals) (2010=100)	1,067.1	2172.29	2289.25	2350.37	2431.88
Non-oil GDP deflator	129.5	104.31	110.07	113.03	116.86
Inflation rate (consumer prices)	3.8	3.72	2.87	3.52	2.68
Aggregate money supply M3 (billion Riyals)	1,080.4	1223.56	1393.75	1545.15	1729.36
Daily Average for Saudi Oil Production (Million Barrel)	8.2	9.31	9.76	9.64	9.71
Average price of Arabian Light oil (US$)	77.82	107.82	110.22	106.53	97.18
Actual government revenues (billion Riyals)	741.6	1117.79	1247.40	1156.36	1044.37
Oil revenues (billion Riyals)	670.3	1034.36	1144.82	1035.05	913.35
Actual government expenditures (billion Riyals)	653.9	826.70	873.31	976.01	1109.90
Budget deficit / surplus (billion Riyals)	87.7	291.09	374.09	180.35	-65.54
Ratio of budget deficit / surplus to GDP	4.4	11.59	13.59	6.46	-2.34
Merchandise Exports (billion Riyals)	941.8	1367.62	1456.39	1409.52	1283.62
Import of goods (CIF) (billion Riyals)	400.7	493.45	583.47	630.58	651.88
Ratio of current account surplus to GDP	12.7	23.68	22.45	18.20	10.31
Current account (billion Riyals)	250.3	594.54	617.86	507.91	288.43
Share price index (1985=1000)	6,620.8	6417.73	6801.22	8535.60	8333.30
Debt to GDP	8.5	5.40	3.05	2.15	1.58

Source: (SAMA 2015)

The majority of other economic activities increased at varying levels in year 2014 as can be seen from Table 3.4. For instance, wholesale and retail trade as well as restaurants and hotels increased by 6%; community, social and personal services increased by 5.7%; construction and building went up by 6.7%; public utilities (electricity, gas and water) grew by 5.8%; manufacturing increased by 7.8%; and transport, storage and communications went up by 6.%;

Table 3.4: Gross Domestic Product by Economic Sectors at Constant Prices (2010=100)

	2012	2013	2014	% change in 2014
A. Industries and other producers				
(excluding government services' producers)				
1. Agriculture, forestry & fishing	8,694	49,62	50,502	1.8
2. Mining & quarrying	977,512	963,602	970,995	0.8
a. Crude oil & natural gas	968,739	954,551	961,677	0.7
b. Other mining & quarrying activities	8,774	9,051	9,318	2.9
3. Manufacturing industries	247,269	255,603	275,615	7.8
a. Oil refining	65,082	62,029	69,801	12.5
b. Other industries	182,187	193,574	205,813	6.3
4. Electricity, gas & water	29,357	29,836	31,557	5.8
5. Construction and building	104,499	112,617	120,211	6.7
6. Wholesale & retail trade, restaurants & hotels	199,616	212,697	225,420	6.0
7. Transport, storage & communication	120,858	128,620	136,602	6.2
8. Finance, insurance, real estate and business services	199,930	218,365	227,350	4.1
a. Houses ownership	101,159	115,307	121,040	5.0
b. Others	98,771	103,059	106,310	3.2
9. Community, social & personal services	42,589	45,340	47,908	5.7
10. Less calculated banking services	19,962	20,169	20,366	1.0
B. Government services' producers	**319,349**	**335,057**	**346,099**	**3.3**
Total (excluding import duties)	**2,269,712**	**2,331,192**	**2,411,892**	**3.5**
Import duties	19,540	19,181	19,986	4.2
GDP	**2,289,252**	**2,350,373**	**2,431,877**	**3.5**

Source: (SAMA 2015)

The private sector is taking on an increasing role in the Saudi economy, currently accounting for 48% of GDP. The private sector is expected to maintain its growth, especially as Saudi Arabia has opened its doors for further foreign investment (Ministry of Economy and Planning 2015). As mentioned in the previous section, Saudi Arabia joined WTO in December 2005, a development that facilities the access of Saudi commodities to global markets, creates new jobs opportunities and attracts further foreign investment. Recently, Foreign investors have been allowed to own 100% of retail and wholesale businesses. Furthermore, they are now allowed to invest in the Saudi Stock Exchange (Tadawul), since June 2015 (SAGIA 2015; CMA 2015).

3.4.4 The Saudi Stock Exchange (Tadawul)

Trading on the Saudi Stock Exchange (Tadawul) began in the mid of the 1930s by founding the "*Arab Automobile*" company as the first joint stock firm in Saudi Arabia. By 1975 about 14 firms were publicly listed on the Tadawul. The rapid Saudi economic development, alongside *Saudization* (localization) of parts of foreign bank capital in the 1970s, has drived to the foundation of a number of large joint stock banks and firms (Tadawul 2015). However, by the early 1980s Tadawul still remained informal, when the Saudi government began to set the Saudi market regulations. A Ministerial Committee composed members of a number of ministries was formed in 1984 to be responsible for developing and regulating the Saudi market including the Saudi Arabian Monetary Agency (SAMA), the Ministry of Commerce and the Ministry of Finance and National Economy (Ramady 2010).

The Ministry of Commerce had the responsibility for the primary market function such as new firms formation, converting firms to joint stock firms and Initial Public Offerings (IPOs). The Ministry of Finance had the responsibility of setting the general directive policies and objectives of the Saudi stock market. Finally, SAMA had the responsibility for the secondary market function such as controlling and managing the functional and operational processes of the Saudi stock market (Ramady 2010). The Saudi Stock Exchange has, however, become under one authority since 2003 when the Capital Market Authority (CMA) was formed by Royal Decree No. M/30 and based on under the Capital Market Law (CML) and become known as Tadawul. Since then the CMA became the only supervisory and regulatory body of the Saudi financial market that sets out regulating rules and laws, ensures efficiency of the market, and ensures fairness and protection of investments. It is a fully independent governmental body directly linked to the Prime Minister (CMA 2015). Among the main objectives of the CMA enhancing transparency and disclosure practices, boosting investors' confidence in the market, protecting investors, and generally creating a suitable investment environment and enhancing fair competitiveness (Ramady 2010).

However, until a serious crash on the Tadawal occurred in 2006, there were no corporate governance codes. This event dented Saudi investors' confidence in the effectiveness of monitoring mechanisms in the market (Al-

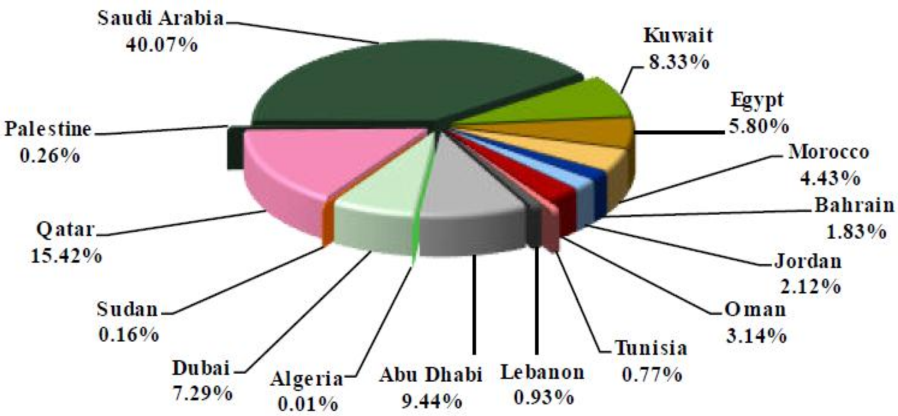
Matari et al. 2012). Consequently, the Saudi Corporate Governance Regulations (CGR) were released by the end of 2006, in order to reform the sector.

The ownership of firms is currently dominated by the Saudi government, which is a major investor on the Tadawul. Approximately 45% of listed firms are owned by government bodies, such as the Public Investment Fund, the Public Pension Agency and the General Organization for Social Insurance (Al Kahtani 2014).

According to SAMA (2015), Tadawul had the highest indicators among all selected Arab stock exchanges. Tadawul's market capitalization was $482.3 billion compared to $80.3 billion on average for other Arab stock exchanges. Tadawul's market capitalization accounted for 40.4% of the total market capitalization of other Arab countries at the end of year 2014 as can be observed from Figure 3.3 below.

The value of shares traded on Tadawul was $130.6 billion during the year 2014 which accounted for 70.3% of the total value of shares traded on the Arab markets. The total number of listed firms in Tadawul by the end of year 2014 was 169 firms while the number of listed firm in other Arab markets was 98 firms on average . The average market capitalization per individual firm was $2.9 billion in Tadawul while the average market capitalization per individual firm was $0.91 billion in the other Arab markets.

Figure 3.3: Shares of Arab Stock Markets at the End of 2014 by Market Capitalization



Source: (SAMA 2015)

3.5 Legal Context in Saudi Arabia

3.5.1 Pre-unification Period

Prior to the advent of Islam in the Arabian Peninsula, *Alo'rf* (tribal arbitration) governed the behaviour of society members as the primary means of settling disputes in the Arabian Peninsula (Zuhur 2011). *Alo'rf* refers to common practices in the society that developed overtime to constitute the local traditions and customs in the region (Baamir 2013). The recourse to *Alo'rf* arbitration and the enforcement of the final judgement were mainly voluntary. *Alo'rf* arbitration formed the basic building block of the popular culture in order to restore justice and limit the use of force and violence (Baamir 2013). *Alo'rf* arbitration also was a place for organizing social life (e.g. marital disputes) and conducting business (Zuhur 2011). Sometimes, however, tribal leaders encountered difficulties in settling disputes, due to the absence of agreed regulations (Baamir 2013).

With the advent of Islam, the primary reference for arbitration and judgment became the *Quran* and the *Sunna* of the Prophet Mohammad, peace be upon him, because these two sources summarize what came down from the revelation during the era of prophecy, according to Muslims' belief. Subsequently, *Shari'a* (Islamic law) provided a broad framework to regulate the arbitral process and the enforcement of the final judgment (Baamir 2013). *Shari'a*, therefore, "*refers to Islamic law of human conduct, which has formulated comprehensive rules and principles that regulate all aspects of life for Muslim individuals and societies*" (Vejzagic, page 2).

After the prophecy era, the divine revelation ended. This necessitated *Alo'lama* (Muslims' scholars) to develop *Alfiqh* (Islamic jurisprudence), as it became indispensable to regulate the new situations and circumstances facing Islamic civil life. *Alfiqh* literally means '*understanding'* and here it refers to understanding *Shari'a,* based on the Islamic primary sources *Quran* and *Sunna* (Baamir 2013). *Alfiqh*, therefore, provides secondary sources for *Alo'lama* to interpret and deduce arbitrations and judgements, based on known systematic methodologies for deriving rulings of social, political, economic and legal aspects of Islamic societies.

The main difference between *Shari'a* and *Alfiqh* is that *Shari'a* pertains to divine revelation whereas *Alfiqh* refers to the human activity of understanding the revelation. In this sense, *Shari'a* is a broader concept than *Alfiqh* that addresses the set of Islamic principles, such as creed, ethics and worship, which are not subject to change over time, while *Alfiqh* is the act of extracting the legal rulings from the evidence of the primary sources of the *Quran* and *Sunna*, along with the secondary sources of *Alfiqh,* for new issues facing Muslim' communities in areas such as economic and business that may require a degree of flexibility and be subject to change, according to societal needs.

The distinction between *Shari'a* and *Alfiqh* is an important factor for at least two reasons. Firstly, to clarify the confusion between the two concepts, as sometimes they are used interchangeably, especially by Western scholars. Secondly, to clarify the similarities and differences among Islamic countries as the extraction of the legal rulings are subject to human understandings of *Shari'a.*

Accordingly, legal systems vary widely among Islamic countries based on the influence of *Shari'a* on society and the level of social pressure on public policy. Consequently, Islamic countries can be classified into two main categories, according to their constitutions and legal systems. Yet, first category includes countries where the primary sources of *Shari'a,* namely the *Quran* and *Sunna*, are the only references for legislation. The second category includes countries where *Shari'a* is one of the sources for legislation. All Islamic counties fall within the second category, whereas Saudi Arabia is the only country which falls within the first category, as it is the only country in which the *Quran* and *Sunna* are the only sources of public policy, as indicated in the Basic Law of Governance.

3.5.2 Saudi Arabia Post-unification

The establishment of a meaningful legal system in the modern sense came to light after Saudi Arabia unification in 1932. Because Saudi Arabia is an Islamic state, its legal system is based on *Shari'a* (Islamic law), as stated earlier. The king (*Wali Al'amr*) is at the apex of the legal system. He has the authority to issue pardons and acts as the final court of appeal. However, the Saudi legal system was very simple and not well-constructed (Al-Sudairy

2010). Consequently, as part of the reforms to modernize the country's legal system according to the international practices, the Saudi government amended the Law of the Judiciary in 2007, in an attempt to establish a more dynamic judicial system for settling disputes in specialized commercial courts and appeal courts (Ramady 2010).

According to the 2007 amendments to the Law of Judiciary, settling disputes in Saudi Arabia can be achieved through judicial, independent and semi-judicial bodies which are monitored by the relevant ministry, depending on the subject matter of disputes. The judicial bodies are administered by the Ministry of Justice and include three main types of courts, namely the Supreme Court (highest judicial authority), the Court of Appeal and first instance courts, which consist of commercial courts, penal courts, general courts, family courts, and finally labour courts. The Supreme Court is the highest judicial authority in Saudi Arabia, which makes it the final court of appeal, with binding decisions for all other courts. *Diwan Almadalim* (the Board of Grievances) represents an independent judicial authority in Saudi Arabia that has the power to adjudicate cases where the government is a party (i.e. abuse of power, compensation claims and requests for enforcement of foreign judgements). *Diwan Almadalim* is not linked to the Ministry of Justice but has a direct connection with the king. This form of judicial system is part of the Islamic practice to protect society and resolve grievances. Besides the judicial bodies and *Diwan Almadalim*, there are several semi-judicial committees that work under the supervision of the competent ministry or authority, such as the Committee for the Resolution of Securities Disputes and the Settlement of Banking Disputes Committee, among others. These committees operate with limited jurisdiction, according to the laws issued by Saudi regulators, as their main purpose is to accelerate the resolution of disputes and ease the burden on the courts.

In this context, the Saudi Laws Compendium provides a comprehensive reference to all Saudi laws, reflecting their development in all fields. The legal laws in Saudi Arabia can be separated into 19 categories. The first contains the basic laws (five basic laws) that delineates the general political, social, economic and legal environment of Saudi Arabia. The basic laws are issued and amended by Royal Orders. All other laws are issued and amended according to a specific mechanism by Royal Decrees, after they have been studied and examined by the *Ashura* Council and the Council of Ministers, as stated earlier. These laws include the Saudi Company Law, Certified Public Accountants Law, Capital Market Law and the Corporate Governance Regulations, all of which are discussed in the following section.

3.6 Business Regulations in Saudi Arabia

3.6.1 Saudi Company Law (SCL)

Saudi Company Law (SCL) was issued by Royal Decree No. M/6 in 1965. It is the first law to regulate firms behaviour in Saudi Arabia, and has had subsequent amendments (Shoult 2006). The SCL might be subject to more amendments in the coming years, to cope with the expected expansion of the Saudi economy (Ramady 2010). The SCL deals generally with the organization of companies created by mutual agreement, where one or more partners agree to conduct business for profit, with a view to sharing profits and losses as agreed (Ramady 2010).

The SCL sets out the rules for several aspects of business, including types of business, establishment and registration requirements, minimum capital levels, audited accounts, a board of directors and the provision of information to shareholders (SCL 1965). In particular, Article 66 of the SCL stipulates that joint stock corporations should be under the management of a board of directors including at least 3 or more members who should be appointed by the ordinary general assembly (SCL 1965). Furthermore, the SCL states that the board of directors is responsible for the publication of the company's accounts at the end of each fiscal year, including a report of the company's activities, profit and loss account, the balance sheet and the financial position for the last fiscal year (SCL 1965).

While the SCL requires a minimum number of board members, it does not give a maximum. Nor does it specify the proportion of non-executive directors needed on the board. Hence, the SCL does not address important contemporary issues in corporate governance. Moreover, it does not specify the required accounting standards and procedures necessary for delivering financial statements.

3.6.2 Certified Public Accountants Law (CPAL)

The Certified Public Accountants Law (CPAL) was issued by Royal Decree No. M/12 in 1991. It is the first law to regulate the accounting and auditing profession in Saudi Arabia. The CPAL stipulates that Saudi Organization for Certified Public Accountants (SOCPA), as a professional body, is entrusted with promoting the auditing and accounting profession in Saudi Arabia through the following objectives:

i. Reviewing and developing national accounting standards.
ii. Reviewing and developing national auditing standards.
iii. Setting out the rules for the fellowship certification and examination.
iv. Arranging continuing professional development programmes.
v. Ensuring that national CPAs are in line with professional standards and requirements by establishing review programs.
vi. Conducting research studies on the related area of auditing and accounting.
vii. Issuing and publishing bulletins, books and periodicals on subjects related to the auditing and accounting profession.
viii. Participating in domestic and international symposiums and forums that are related to the area of auditing and accounting.

All profit-seeking firms are required to adhere to the accounting standards set by SOCPA, including those listed on the Tadawul (CMA 2015). The accounting rules are based on international accounting standards, with some adjustments to suit the local environment (SOCPA 2015).

3.6.3 Capital Market Law (CML)

The Capital Market Law (CML) was issued by Royal Decree No. M/30 in 2003. This law is meant to restructure the Saudi market under one authority, the Capital Market Authority (CML 2003). Article 5 stipulates that the CMA is in charge of issuing regulations, rules and instructions, and the application of this law. In this regards, the CMA shall:

i. Regulating and developing Tadawul, in order to improve accountancy methods of agencies and enhance trading in securities.
ii. Developing and setting out procedures to limit the risks of securities transactions.
iii. Regulating and monitoring the securities issuances and dealings.
iv. Regulating and monitoring the activities of entities under the control and supervision of the CMA.
v. Protecting investors in securities from manipulation and deception or unfair practices.
vi. Enhancing transparency, efficiency and fairness in securities transactions.
vii. Regulating and monitoring the full disclosure of information regarding the securities (i.e. the issuers and major shareholders); and defining the information which should be available in the public arena.

In this context, the Capital Market Authority (CMA) undertook a number of initiatives to improve the regulations and laws of the Saudi financial market (Ramady 2010). For instance, in supporting the legislative structure of the financial market, the CMA developed a glossary of defining terms for the regulations, enhanced the mergers and acquisition regulations and improved the listing rules. Furthermore, it also devised new procedures for listing and trading priority equities as securities for listed firms and draft rules for financial adequacy. The CMA carried out a number of financial awareness programmes and educational campaigns in order to raise investment awareness. These include anti-money laundering, commitment, compliance, and combating terrorist financing. The CMA also put emphasis on applying the best corporate governance practices by requesting firms to set out procedures for resolving conflicts of interests and establish policies for internal control as discussed in the following subsection.

3.6.4 Corporate Governance Regulations (CGR)

The Corporate Governance Regulations (CGR) were issued by the CMA in 2006, being mainly derived primarily from the SCL of 1965, the CML of 2003 and the regulations issued by the CMA (Al Kahtani 2014). It establishes the principles and guidelines for Saudi listed firms on Tadawul including the regulating standards and rules of managing the listed firms in order to enhance the compliance with the best corporate governance practices and ensure the protection of stakeholders' as well as shareholders' rights (CGR 2006). According to the CGR, a stakeholder is "*any person who has an interest in the company, such as shareholders, employees, creditors, customers, suppliers, community*" (CGR 2006, page 7).

Similar to the UK Cadbury report of 1992, the CGR follows a "*comply or explain*" approach (Al-Abbas 2009). In this regard, the CGR stipulates that a company must disclose those provisions that have been implemented and those which have not in the Board of Directors' report, as well as the reasons for not implementing the latter (CGR 2006).

The CGR sets recommendations for several aspects of best governance practices, including disclosure and transparency, boards of directors, the general assembly, and shareholders' rights (CGR 2006). In this context, shareholders are entitled to oversee the activities of the board of directors, file any responsibility claims against the board of directors; and to enquire about and have access to information, as well as nominating board members (Al Kahtani 2014). Among the main duties and responsibilities of the board of directors are the following:

i. Setting out the firms strategic plans and objectives and ensuring their implementation, as follows:
   a. Developing a comprehensive strategy, risk management policies, and revising and updating the policies on regular basis.
   b. Reviewing and approving the firm's annual budgets, appropriate capital structure, and financial strategies and objectives.

c. Monitoring the main capital expenses and supervising the acquisition and disposal of assets.
d. Setting out the performance objectives and be in charge of their implementation as well as the overall firm performance.
e. Reviewing the organizational and functional structures of the firm on a regular basis.

ii. Laying down the rules for internal control systems and ensuring their implementations by:
a. Drafting a written policy to regulate and remedy any conflicts of interests between shareholders, executive management and the board of directors.
b. Ensuring the integrity and reliability of the accounting and financial procedures (i.e. the preparation of financial reports).
c. Ensuring of adopting the appropriate procedures for managing and forecasting risks and disclosing related information with transparency.
d. Reviewing and assessing the effectiveness of internal control systems on regular basis.

iii. Drafting a written corporate governance code for the firm according to the provisions of CGR; and supervising and monitoring the effectiveness of the code in general.

iv. Outlining clear procedures, standards and policies for the board of directors membership and ensuring their implementation.

v. Drafting a written policy for regulating and managing stakeholders' relationships and enhancing the protection of their rights, such as the following:
a. Procedures for compensating stakeholders in the case of breaching their rights or contracts.
b. Procedures for disputes and complaints settlements between the firm and its stakeholders.

c. Procedures for maintaining and enhancing good relationships with suppliers and customers and ensuring confidentiality.
d. A code of conduct with suitable professional and ethical standards that regulate the firm's relationships with stakeholders.
e. Social contributions and community involvement.

vi. Determining procedures and policies to ensure the compliance with national regulations as well as obligation to disclose material information to creditors, suppliers, shareholders and other stakeholders.

Accordingly, for the board of directors to effectively discharge their responsibilities and duties, sufficient information about the firm must be made available for all board of directors members (Al Kahtani 2014). In terms of board formation, the CGR recommends that the board size should be between 3 and 11. The majority of the members should be non-executive members. The CGR also recommends the separating of the roles of the board chairperson and Chief Executive Officer (CEO) or any other executive position in the firm (i.e. managing director). In addition, multiple directorships are allowed, up to a maximum of five at any one time (CGR 2006). Finally, the CGR stipulates that the chairman of the board should convene ordinary meetings regularly, though without recommending a minimum number of meetings.

3.7 CSR Aspects in Saudi Arabia

It can be gleaned from the previous discussion one of the main influences in the Saudi Arabian context is Islamic teachings. Another major issue is the economic situation, where there is a demand for more diversifications, the protection of vital resources and a reduction in the unemployment rate. This section, therefore, addresses issues related to CSR in the Saudi Arabian context from these two perspectives.

3.7.1 CSR in Saudi Arabia from an Islamic Perspective

As illustrated in Chapter Two, the concept of bearing responsibility towards others is not a new notion the ancient holy scripts of various religions have promoted this practice. CSR, therefore, has always existed in religions and philosophies in social life (Ramasamy, Yeung and Au 2010). In this context, Brammer, Williams and Zinkin (2007) conducted a survey study of a large sample of 17,000 respondents drawn from 20 countries. The aim was to examine whether people of various religious denominations show different attitudes toward CSR than others with no denomination, as well as whether they conform to the religious teachings of their own faith. The study found that religious people tend to have broader conceptions about CSR compared to their non-religious counterparts. However, this was not true for all religious denominations. Islam in particular was found to explicitly encourage fair labour practices and to emphasise the protection of health and social life. It was also found to impose more restrictions on the trading of certain products and services, such as cigarettes, alcohol and gambling, which have been legalised in some countries, but still cause considerable harm.

Given that religions are likely to shape individuals' mindsets and preferences about CSR issues because faiths offer many spiritual teachings concerning the morals and ethics of business conduct (Dusuki and Abdullah 2007; Farook 2007), Islam arguably takes a holistic approach to CSR and gives spiritual motivation for Muslims to engage in good practices (Dusuki 2008). Islam values the stewardship of the planet, as the protection of *Allah's* creation, and this is seen as every Muslim's responsibility in society (Brammer, Williams and Zinkin 2007).

The previous sections in this chapter showed that Islamic teachings are enshrined in Saudi culture and consequently the Basic Law of Governance dictates that the country is ruled according to *Shari'a*. Islamic *Shari'a* supports the sense of responsibility to others and influences individuals and organizations' behaviour in Saudi society (Dusuki and Abdullah 2007). Key to CSR practices is the concept of *Almaslaha*, which involves the cause of good and benefits to society, and states that public interest takes precedence over private interest (Opwis 2005; Azhar 2010). In the event of a conflict between public and private interests, public interest takes the priority, taking into account the lesser impact on the private interest. Another concept of Islam, with significant implications for CSR practices, is *Alistikhlaf*, which implies that human beings are appointed by *Allah* as stewards on earth. With accountability to *Allah*, everyone is responsible for preserving the rights of others (Lewis 2001; Kamla, Gallhofer and Haslam 2006).

Shari'a, therefore, is about the rules that should be followed by Muslims and represents a lifestyle for believers in a way that organizes the members of society and individuals' behaviour and their dealings with each other. At its core is the application of ethical principles derived from divine law. After all, *Shari'a* is a system of duties that rest on basic principles, namely *Tawheed* and *brotherhood*, and redistribution of wealth. In essence, *Tawheed* is the oneness and unity of *Allah*. *Tawheed* and *brotherhood* bear on the way human beings deal with each other in the light of their relationship with *Allah*: in other words, on social justice, fairness and avoiding harms (Dusuki and Abdullah 2007). From an Islamic point of view, people are *Allah's* vicegerents on earth and are charged with the obligation to use His resources in a right manner and for good causes and the right of society to redistribute wealth (Visser 2013). *Allah* informed Muslims in the *Quran that* "*You cannot attain to righteousness unless you spend out of what you love. And what you spend, Allah surely knows it*"[8]. Obligatory alms giving, called *Zakat*, and charitable contributions, called *Sadaqa*, follow from such principles (Dusuki and Abdullah 2007; Visser 2013).

In this context, Islam takes an integrated view of individuals and society and sees CSR as a benefit rather than a cost, where the benefit is shared collectively by the *Umma* (the whole Muslim communities). Islamic ethical principles emphasise care for the community's needs and promoting charitable giving to respond to the *brotherhood*'s demands, as well as avoiding any harms (Abul Hassan and Abdul Latiff 2009). This is also based on the *Sunna* of the Prophet Mohammad, peace be upon him, as he instructed the *Umma* that "*there should be neither harm nor reciprocated harm*"[9].

This restriction of harm is applicable to the environment, in terms of avoid any adverse effects on the society by spoiling the natural resources. According to *Quranic* teachings "*Corruption has appeared in the land and the*

[8] *Quran* Chapter *Al-Emran*, verse number 92.
[9] *Hadith* number 32 compiled *by Imam Al-Nawai* in the *Imam Nawawi's Forthy Hadith*

sea on account of that which men's hands have wrought, that He may make them taste a part of that which they have done, so that they may return"[10]. This stresses maintaining and protecting the environment. In this sense, Islam acknowledges that people should responsibly use and conserve the natural resources that *Allah* has bestowed on humankind, and thus waste should be kept to minimum, while misuse of resources is prohibited in Islam (Dusuki 2008).

Accordingly, Islam has a significant impact on individual Muslims, as well as on organisational behaviour and practices. Saudi business leaders strive to show adherence to the rules and conduct, according to the principles of *Shari'a*. For example, one Saudi listed firm states under a section titled "*The Conformity of the Company's Transactions with the Islamic Law*" that, because the board of directors are interested in all transactions being in accordance with Islamic *Shari'a*, a legislative committee has been assigned with the task to review all the firm's activities and financial reports and express its views to the management. The report further states that all the committee's recommendations have been taken into account and all the banking transactions and various activities are in accordance with Islamic law. As a result, the firm has become one of the "*purified firms*"[11]. One aspect of these recommendations is that all transactions should be conducted in accordance with Islamic *Shari'a* including *Murabaha*[12] and *Tawarruq*[13] and the like. In addition, the firms indicated that it sold its shares in some banks and stopped dealing in transactions that were not consistent with the principles of "*our Islamic religion and the traditions of our society*"[14].

[10] *Quran* Chapter *Al-Room*, verse number 41.

[11] *Alo'lama* in Saudi Arabia classifies listed firms into three categories. Firstly, firms that originally deal with prohibited products and services and/or have prohibited transactions according to *Shari'a*. Clearly, these firms strictly prohibit Muslims from dealing with them. Secondly, firms that originally dealt with permissible products and services and all their transactions are in accordance with *Shari'a*, which are classified as pure from prohibitive dealings and thus they are known as Purified Firms. Finally, firms that originally dealt with permissible products and services but may have carried out prohibited transactions according to *Shari'a*. These firms might be classified as Prohibited Firms or Purified Firms depending on the nature of the breach they make and thus they are known as Mixed Firms (for more information see (Islam Quesion and Answer 2016)).

[12] *Murabaha* is a form of short term financing similar to mark up or cost plus financing. For more information see (Abdullah and Chee 2013) Or see (Visser 2013)

[13] *Tawarruq*, or the reverse of *Murabaha*, is another form of financing, where the borrower buys commodities at a different price in order to sell them in cash at a lower price. For more information, see the references above in footnote 2.

[14] Translated from the Arabic version of *Tihama Advertising and Public Relations Company* annual reports of 2010 page 7.

3.7.2 CSR from Saudi Arabian Economic Perspective

As mentioned previously in this chapter, Saudi Arabia faces some challenges on the economic landscape. While the discovery of oil has advanced the economic development in the country, the heavy dependence on oil created issues for the Saudi Arabian government to deal with which included the diversification of an economic base, protection of vital resources and the reduction in the unemployment rate (MEP 2015). The Saudi official leaders are aware that the economy is at a transitional point today, especially on the basis of the oil price drop since the second half of 2014 (Alsweilem 2015). In response to this, the Saudi government has tried to encourage private sector participation in the social and environmental challenges facing the economic development in the country, as the Saudi government recognizes the significance of CSR and the major role that the private sector can play in Saudi economic development (Tamkeen 2010).

As part of these efforts, the Saudi Arabian General Investment Authority (SAGIA) launched an ambitious programme in 2004 dubbed "*10 X 10*" programme (SAGIA 2015). The goal is to place Saudi Arabia in the top 10 most competitive economies in the world, in order to achieve a sustainable increase and prosperity in the standard of living through reducing the unemployment rate, increasing business development and attracting foreign investment (MEP 2015; SAGIA 2015). To achieve this goal, SAGIA with the collaboration of AccountAbility, an organization that helps set standards for corporate responsibility and sustainable development, established the Saudi Arabian Responsible Competitiveness Index (SARCI) to assess business organizations on the basis of stakeholder engagement, management performance, strategy, as well as social, environmental and economic performance (SAGIA 2010). In another words, SARCI provides a framework to recognize business organizations that engage well in corporate social responsibility (CSR). The Saudi government has the vision "*to achieve sustainable social development that encourage the national competitiveness agenda in Saudi Arabia*" and its mission "*to foster greater understanding of the importance of CSR to the economy and the sustainable development in Saudi Arabia*" (The National Competitiveness Center 2007, page 15). Although, the "*10 X 10*" programme goal was not achieved, the project resulted Saudi Arabia being ranked 11th in 2010, up from 38th in 2006, according to the Ease of Doing Business Report published by the World Bank and IFC (SAGIA 2010; Harvard Kennedy School CSR Initiative, Saudi Arabian General Investment Authority and King Khalid Foundation 2008; AccountAbility 2008).

Another recent initiative by the Saudi government has been the introduction of the National Transformation Program, as part of Saudi Arabia's Vision of 2030 (The Saudi National Portal 2016). Its aim is to accord Saudi Arabia a leading position in all fields to help enhance the level and quality of services provided and achieve a prosperous future and sustainable development with collaboration between public, private and non-profit sectors (Saudi Vision 2030 2016). The Saudi Arabia Vision of 2030 endeavours to open the country further for business and to boost productivity, so that Saudi Arabia becomes one of the largest economies in the world. It also seeks to deregulate the energy market to make it more competitive, create special zones, restructure the economic cities, and improve the business environment in general (MEP 2016; Saudi Vision 2030 2016).

In terms of protecting vital resources, the Saudi government took the initiatives to strategic food reserves, as well as promoting aquaculture. Furthermore, the Saudi government seeks to build strategic international partnerships with natural resource rich countries such as water reserves and fertile soil (MEP 2016). One of the Saudi development plans is to focus the use of water on agricultural areas and that are blessed by natural and renewable sources. The Saudi government also collaborates with food manufacturers, distributors and consumers to reduce any resource wastage (Saudi Vision 2030 2016).

In the context of unemployment elimination, Saudi official leaders are particularly focused on creating job opportunities for the large youth population (MoL 2015). The Saudi government aims to optimally invest in citizens of both genders to produce national personnel capable of leading the nation to ambitious growth, prosperity and sustainable social welfare in the future (MEP 2016). In this respect, various sectors work together to provide job opportunities for both genders in both private and public sectors, in addition to supporting individual businesses and productive families. Market reforms have been implemented as an attempt to increase the level of *Saudization* (localization) in the private sector (MoL 2015). The initial aim of *Saudization* is to reduce and control the Saudi unemployment rate while the ultimate aim of *Saudization* is to achieve a competitive advantage for the Saudi economy through the national human capital (Saudi Vision 2030 2016).

The national program for supporting job seekers (*Hafiz*) is the first package of incentives and regulations ordered by The Custodian of The Two Holy Mosques, the late King Abdullah bin Abdul Aziz, to support job seekers and enhance their placement chances to ensure they enjoy a decent life and contribute to the building of the nation (The Saudi National Portal 2016). Furthermore, the *Nitaqat* program is a project which encourages the private sector to *Saudize* jobs (MoL 2015). The program's fundamental idea is based on the classification of entities into four ranges (*Nitaqat*) according to their respective job localization (*Saudization*) proportion. The Saudi government provides benefits that vary according to the degree of localization (*Saudization*) (MoL 2015; The Saudi National Portal 2016).

In this context, the Human Resources Development Fund was established with the aim of qualifying the national workforce and employing them in the private sector through subsiding training and recruitment into the national workforce (MoL 2015). The fund also affords a proportion of the salary of those who are employed in the private sector facilities after they have achieved qualifications and been trained, while also making loans available for such courses, in order for these businesses to expand their activity or introduce modern methods (The Saudi National Portal 2016).

According to the Minister of Labour, the results of controlling the unemployment rate are promising. National statistics generally show that the aggregated Saudi unemployment rate slightly declined from 12% in year 2013 to 11.8% in year 2014. The *Saudization* rate in the private sector went up from 10.9% to 15.2% between the years 2011 and 2013. Saudi employment growth in the private sector averaged 26.7% between the years 2011 and 2013 (MoL 2015).

Consequently, it could be argued that, on the national level, these two general aspects of CSR (Islamic teachings and economic issues) in Saudi Arabia could be placed on the CSR motivation continuum discussed in Section 2.5, to drive the engagement in CSR practices in Saudi Arabia. As the main research objective is to explore the factors and effects of CSRD practices in Saudi Arabia at an organizational level, the following chapter presents the theoretical explanation for firms to engage in CSRD practices. Furthermore, the chapter discusses the previous empirical studies conducted in developed and developing countries in this field in order to identify any gaps in the CSRD literature.

3.8 Summary

The aim of the current chapter to present an overview of Saudi Arabia. The current chapter, therefore, commenced with a general and socio-cultural context overview of the country, discussing the state foundation, geography and significance. After this, the political context in Saudi Arabia was presented in terms of descriptions of the key governmental bodies. The chapter also examined the economic context of Saudi Arabia and explained that the discovery of oil was a key driver of economic development. The legal context and its structure were discussed and it was emphasized that *Shari'a* influences all aspects of life in Saudi Arabia. The chapter then extended the discussion into the domain of business regulations and laws. After this, it was necessary to focus the discussion on the CSR aspects in Saudi Arabia from two major perspectives namely: Islamic and economic. As the main research objective is to explore the factors and effects of CSRD practices in Saudi Arabia at the organizational level, the next chapter presents the theoretical justification for firms being required to engage in CSRD practices and related existing empirical studies conducted in developed and developing countries.

4 CSRD Literature Review

4.1 Introduction

Chapter 1 provided a general overview of the research and the research objectives. In Chapter 2, the nature of CSR was discussed and the definition as used in this study was provided. In Chapter 3, a general overview of the Saudi Arabian context was provided. The purpose of the current chapter is to provide a discussion of the theoretical perspectives underpinning the reporting of CSR information and to review the empirical literature on CSR disclosure.

To this end, the chapter is organized as follows. Section 4.2 discusses the theoretical framework for explaining the CSRD practices. Section 4.3 reviews the empirical literature. In particular, Section 4.3.1 reviews the CSRD empirical literature in developed countries while Section 4.3.2 reviews the CSRD empirical literature in developing countries. Afterwards, Section 4.3.3 reviews the empirical literature in the context of this research study, Saudi Arabia. Next, Section 4.3.4 presents the limitations of prior studies and the research gap, and then the chapter concludes by providing a summary in Section 4.4.

4.2 Theoretical Framework

This section considers several theoretical perspectives to explain why business management voluntarily engage in CSR activities and provide information to the public. It is not unusual for academic researchers to adopt different alternative perspectives to explain the same social phenomenon because a theory is an abstraction simplification of reality, and hence a single theory might not provide an adequate explanation for particular social behaviour (Deegan and Rankin 1997; Deegan and Unerman 2011). The empirical investigations of CSRD practices, therefore, have been viewed through a number of theoretical lenses, including agency theory, stewardship theory, stakeholder theory, resource dependency theory and institutional theory (Branco and Rodrigues 2008; Clarkson et al. 2008; Post, Rahman and Rubow 2011; Rao, Tilt and Lester 2012).

In such, the purpose of this section is to outline these theories and highlight the similarities and differences where applicable in order to establish the research theoretical framework. Specifically, agency theory is discussed in Section 4.2.1, followed by stewardship theory in Section 4.2.2. After that, stakeholder theory is considered in Section 4.2.3. Section 4.24 explains the resource dependence theory while section 4.2.5 discusses institutional theory.

4.2.1 Agency Theory

As mentioned in Chapter Two, the Industrial Revolution has brought about critical issues in societies, and initiated the formation of the modern corporation (Carroll 1999; Spector 2008; Blowfield and Murray 2008; Okoye 2009; Cannon 2012; Crane, Matten and Spence 2014). One of these critical issues is the problem resulting from the separation of ownership and control in modern corporations. This issue has been noted previously by the economist Adam Smith in 1776 as he argued that managers of joint stock firms would run the firms with less caution as they are not the real owners of the capital (Smith 2000).

> "*The directors of such companies, however, being the managers rather of other people's money than of their own, it cannot well be expected that they should watch over it with the same anxious vigilance with which the partners in a private co-partnership frequently watch over their own ... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company*" (Smith 2000, pages 330-331).

However, the issue of separation of ownership and control did not receive much attention until the work of Berle and Means (1932), where they argued that since the corporation is owned by a large number of individuals with a fraction of outstanding stock, the individual owners have less power to control the corporation's management. Consequently, agency theory developed in the economic literature to discuss this issue (Douma and Schreuder 2008).

In its simplest form, agency theory concerns the relationship between two rational parties, where one party delegates the other to make decisions on his/her behalf (Ross 1973; Douma and Schreuder 2008; Solomon 2013). In this situation, there is an agency relationship between the two parties that Jensen and Meckling (1976, page 308) described as "*a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent*".

Ideally, the rational agent/s would act and behave in the best interest of the principal/s. However, this might not be the case in practice due to the opportunistic self-interest behaviour (Fama 1980) of the agent/s who would seek to maximize their individual utility rather than the principal/s' utility, and hence, an agency problem would appear in this relationship (Jensen and Meckling 1976; Fama 1980; Watts and Zimmerman 1983).

This agency problem arises out of three interdependent fundamental problems. Firstly, there might be some conflict of interests between the two parties due to the different sought goals (Morris 1987; Hill and Jones 1992). Secondly, the two parties are assumed to have different attitude toward bearing risks (Eisenhardt 1989). Finally, there might be asymmetrical information (Akerlof 1970) between the two parties, as the agent is involved in the day-to-day work and he/she has superior information than the principal (Morris 1987; Healy and Palepu 2001). Agency theory is primarily concerned with resolving this agency problem (Jensen and Meckling 1976; Fama 1980)

The agency relationship suggests that a firm is a nexus of contracts between managers as agents and owners as principals (Jensen and Meckling 1976; Watts and Zimmerman 1983). Typically, the owners (the principals) of a firm enter into a contract with the managers (the agents) to manage and make the necessary decisions of the firm on behalf of the owners. Subsequently, the rational managers accept responsibility to the owners to maximize their wealth. However, the rational owners are aware that the role of the appointed managers provide opportunities for the managers, especially with the managers having superior information as insiders, to prioritize their personal gains in situations in which interests of management and owners conflict (Morris 1987). Consequently, the agency problem may occur, which necessitates finding a verification mechanism for the owners to ensure that the managers' actions are pouring into the interests of the owners (Jensen and Meckling 1976).

It is difficult, however, for the owners to verify the management behaviour (Eisenhardt 1989), and there will always be agency costs involved in the agency relationship because of the aforementioned agency problem (Jensen and Meckling 1976). However, the owners can limit management's opportunistic behaviour by incurring monitoring costs, while the managers can spend bonding costs to reassure that their actions serve the owners' interests. As there will always be some interest divergence in this agency relationship due to the different pursued goals and different attitude toward risk bearing (Eisenhardt 1989), any other managerial behaviour that results in the reduction of the owners' wealth will be the residual loss of the agency cost (Jensen and Meckling 1976).

One mechanism to limit the agency problem and minimize the agency cost is by reducing information asymmetry through corporate disclosure (Healy and Palepu 2001). For example, CSRD may be used by managers to demonstrate that the CSR activities are not an attempt to pursue personal interests (see McWilliams, Siegel and Wright 2006), but are part of their strategic agenda to enhance competitiveness and sustainable shareholder value. In this context, CSRD is motivated by managerial desire to reduce agency problem and cost.

4.2.2 Stewardship Theory

Stewardship theory is another perspective that may explain the principal/s and agent/s relationship. While agency theory has its theoretical basis in economics, stewardship theory basically has its theoretical basis in sociological and psychological theory (Donaldson and Davis 1991; Benn and Bolton 2011; Van Puyvelde et al. 2012). Stewardship theory may overcome the problems inherited in the agency theory assumption of opportunistic, self-serving individuals' behaviour, which oversimplifies the complexity of human nature (Davis, Schoorman and Donaldson 1997b; Benn and Bolton 2011). It argues that there is a wide range of motives for managers beyond personal interests, and hence, the agency problem may not be inherent in the separation of ownership and control. Specifically, stewardship theory discusses situations in which the economic assumption of the agency problem of opportunistic behaviour does not hold to explain the agency relationship. Hence, an additional, explanatory perspective is required based upon non-economic assumptions (Davis, Schoorman and Donaldson 1997b).

A major difference between agency theory and stewardship theory is that the former assumes interests divergence between the principal/s and agent/s relationship whereas the latter assumes interests convergence between the principal/s and (steward) agent/s relationship (Davis, Schoorman and Donaldson 1997a). Both theories, however, assume the rationality of the principal/s and the agent/s (Davis, Schoorman and Donaldson 1997a). Furthermore, both theories focus on the goal alignments between the two parties, though starting from a different assumption (Arthurs and Busenitz 2003; Van Puyvelde et al. 2012).

Unlike agency theory, stewardship theory suggests that managerial behaviour may stem from a sense of accountability rather than opportunistic and individualistic self-serving behaviour (Davis, Schoorman and Donaldson 1997b; Van Puyvelde et al. 2012). Stewardship theory argues that steward managers focus on the collective benefit on the organizational level, as they believe that their personal success is secondary to the organizational success. Because steward managers are rational, they perceive greater utility in cooperative behaviour rather than individualistic, self-serving behaviour, and subsequently, they seek to attain the objectives of the business organization (Davis, Schoorman and Donaldson 1997b), as illustrated by the following:

> "*... a steward whose behavior is ordered such that pro-organizational, collectivistic behaviors have higher utility than individualistic, self-serving behaviors. Given a choice between self-serving behavior and pro-organizational behavior, a steward's behavior will not depart from the interests of his or her organization*" (Davis, Schoorman and Donaldson 1997b, page 24).

Accordingly, managers are seen as stewards and trustworthy to do the right thing and act for the benefit of the principal/s (Donaldson and Davis 1991; McWilliams, Siegel and Wright 2006). By appointing professional managers, owners empower them to manage the complex modern corporation and maximize their welfare (Muth and Donaldson 1998). Owners trust managers to use their business experience and talent to manage the business resources effectively (Donaldson and Davis 1991). Because managers are stewards and are trustworthy, a mutual trust exists between managers and owners. Subsequently, managers have a moral imperative to take actions that benefit the owners (Donaldson and Davis 1991; McWilliams, Siegel and Wright 2006).

One of these beneficial actions to owners is the engagement in CSR activities, as it is preferable in societies and hence has long-term benefit on the financial performance (McWilliams, Siegel and Wright 2006). Steward managers, then, are driven by normative causes to align the economic needs of shareholders with societal values and ethos (Donaldson and Davis 1991). Such alignment would be considered by the public as good deeds, and consequently, may enhance the business organization's position based on the notion of "*doing well by doing good*" (McWilliams, Siegel and Wright 2006; Carroll and Shabana 2010; Wood 2010).

4.2.3 Stakeholder Theory

It is not sufficient, however, for managers to focus exclusively on increasing the wealth of the owners, and hence, they must satisfy a variety of constituents who have a stake in the business organization activity (McWilliams, Siegel and Wright 2006). Here is where stakeholder theory comes to play, as it invites managers to recognize a wider range of stakeholders to account for (Donaldson and Preston 1995; Deegan and Unerman 2011; Solomon 2013). It generally aims to explain the nature of the relationships between the business organizations and those individuals and groups with a stake in the operations and outcomes of the business organization activity (Benn and Bolton 2011).

Basically, the stakeholder theory conceptualizes business organizations as part of a wider system wherein their operations have impact upon other individuals and groups, and wherein their operations are impacted by other individuals and groups (Deegan 2002). The theory has developed gradually in management literature since the 1970s (Donaldson and Preston 1995; Benn and Bolton 2011), while the actual term "*stakeholder*" was first used at the Stanford Research Institute in 1963 as an attempt to attract the attention to other groups, besides the owners, to whom the management is responsible and hence needs to be responsive to (Freeman and Reed 1983; Freeman 1984).

There are basically two branches of stakeholder theory, namely the: moral (or ethical) branch and strategic (or managerial) branch. Each branch defines stakeholders differently (Deegan and Unerman 2011). One definition of stakeholder is "*any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives*" (Freeman and Reed 1983, page 91). In this sense, stakeholder theory takes a moral motive and argues that managers need to take account of all stakeholders, whether or not they have the power to influence the business organization's activity (Deegan and Unerman 2011). Accordingly, management is seen to have fiduciary relationships with all stakeholders, and gives them equal consideration and right in attaining optimal balance of interests (Donaldson and Preston 1995; Hasnas 1998). All stakeholders then have intrinsic rights, which should not be violated, and merit consideration, regardless of their level of influential power on the business organization (Deegan and Unerman 2011).

In this respect, all stakeholders have intrinsic "*rights to information*" through CSRD about how the business organization is affecting their environment, as the managers have "*the duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible*" (Gray, Owen and Adams 1996, page 38). By doing so, the business organization demonstrates its accountability to the stakeholders about the extent to which the business activity is responsibly fulfilled (Gray, Owen and Maunders 1987).

Another definition of stakeholder is "*any identifiable group or individual on which the organization is dependent for its continued survival*" (Freeman and Reed 1983, page 91). In this sense, stakeholder theory embraces a strategic motive by effectively responding to powerful stakeholders who have the ability to influence the business organization's operations and activities in order to further the interests of the business organization (Freeman et al. 2010). The management, therefore, recognizes the different level of impact each stakeholder group has on the business organization. Furthermore, this implies that the different stakeholder groups have not only diverse interests but also sometimes conflicting ones (Chen and Roberts 2010). Thus, gaining support and approval from powerful stakeholders rests upon the ability of management to balance these conflicting expectations (Ullmann 1985).

Accordingly, this necessitates that business management assess the significance of meeting the demands and expectations of powerful and influential stakeholders in order to achieve the strategic goals and objectives of the business organization (Freeman 1984). One of these demands and expectations is the provision of social and environmental information that relates to the business organization's activity (Ullmann 1985; Deegan and Unerman 2011). In this context, CSRD is a major tool at management's disposal that can be employed to manage or manipulate the powerful and influential stakeholders in order for management to get their support and approval, or maybe for distracting their opposition and disapproval (Gray, Owen and Adams 1996). Furthermore, because stakeholders do not have the same level of power, business organizations are more responsive to powerful stakeholders who control the critical resources for business organizations' survival (Mitchell, Agle and Wood 1997). In such, arguably, "*when stakeholders control resources critical to the organization, the company is likely to respond in a way that satisfies the demands of the stakeholders*" for information related to social and environmental issues concerning the society within which the business organization operates (Ullmann 1985, page 552).

4.2.4 Resource Dependence Theory

Managing various stakeholder relationships has implications for the business organization's reputation and its ability to compete for, and access, critical resources (Gray, Kouhy and Lavers 1995a). In such, resource dependence theory provides another complementary perspective that could explain organizational behaviour towards CSRD practices. The resource dependence theory originated in the 1970s and its basic idea is that access and control over resources is a key to organizational success (Pfeffer and Salancik 1978; Davis and Cobb 2010). Accordingly, the resource dependence theory argues that "*organizations are not self-contained or self-sufficient; they rely on their environment for existence*" (Chen and Roberts 2010, page 653).

Basically, resource dependence theory recognizes the interdependent relationship between business organizations and societies (Hillman, Withers and Collins 2009; Chen and Roberts 2010), and acknowledges that business organizations are “*embedded in networks of interdependencies and social relationships*”, and hence, they are dependent on the external environment that controls the source of their resources (Pfeffer and Salancik 2003, page xii). As a matter of fact, controlling the source of resources implies that the external environment has power over the business organization to impose some sort of constraints or restrictions on the business operations and outcomes (Pfeffer and Salancik 2003; Davis and Cobb 2010)

Thus, a business organization needs to negotiate its position within those constraints and restrictions through various strategic tactics and arrangements to reduce the power imbalance and manage its dependency (Chen and Roberts 2010; Drees and Heugens 2013). Given that, management is seen as an essential link between the business organization and its resources (Pfeffer and Salancik 2003). Implementing such strategic tactics and arrangements enables management to legitimate the business organization’s operations and gain access to the crucial resources it requires, consequently, maximizing management’s ability to exert control over the external environment (Deegan 2002; Drees and Heugens 2013; Dowling and Pfeffer 1975; Pfeffer and Salancik 2003).

Similar to the stakeholder theory (see the previous section), this interdependency implies that there is a reciprocal influence inherited in this relationship in that a business organization depends on the society within which it operates to access the required resources (Hillman, Withers and Collins 2009). Furthermore, the society, in turn, also depends on the business organization to responsibly convert these resources into beneficial outcomes for the society (Pfeffer and Salancik 2003).

The resource dependence and stakeholder theories, therefore, are complementary in that the business organization’s competitiveness requires effective management of both organizational resources and stakeholder relationships. Furthermore, the business organization is dependent on its stakeholder network for most of the resources it acquires (Pfeffer and Salancik 1978; Freeman et al. 2010). Notably, “*the more critical stakeholder resources* *are to the continued viability and success of the corporation, the greater the expectation that stakeholder demands will be addressed*" (Roberts 1992, page 599).

Consequently, the theory necessitates working on such interdependencies to reduce uncertainty and to ensure survival and growth of the business and society (Chen and Roberts 2010). One strategy available for business management to manage these interdependencies and to reduce the uncertainty is through CSRD and altering stakeholders' perceptions (Deegan 2002; Pfeffer and Salancik 2003). In this context, CSRD "*is motivated by a desire, by management, to legitimise various aspects of their respective organisations*" (Deegan 2002, page 1) and gain access to the required critical resources to maintain or enhance the level of organizational performance (Pfeffer and Salancik 2003). By demonstrating good social responsibility, the business organization is able to build a positive image and enhance its relations with various stakeholders, and attract talented employees, better suppliers, loyal customers or/and large institutional investors, which in turn, may improve the firm's performance (Branco and Rodrigues 2006; 2008). For example, the emergence of sustainable, responsible investment strategies by large institutional investors demonstrates the implications of CSRD on a firm's ability to raise cheap capital (see Dhaliwal et al. 2011). Accordingly, the business organization adopts CSRD practices to legitimate their operations and facilitate access to these resources for their survival and growth (Deegan 2002; Branco and Rodrigues 2006; 2008).

4.2.5 Institutional Theory

The business organization can also legitimate their activities by taking into account and incorporating established institutions, such as culture and social norms, according to institutional theory (Muthuri and Gilbert 2011). As a matter of fact, both institutional and resource dependence theories are a product of the 1970s and have grown somewhat closer together over time since then (Pfeffer and Salancik 2003). Furthermore, both theories emphasize the effect of external environment on the business organization, and hence, constraints and restrictions are imposed on the business organization (Deegan 2002).

However, institutional theory emphasizes social rules, expectations, norms and values as a source of pressure rather than dependency, as well as the power of controlling resources (Pfeffer and Salancik 2003). Moreover, while resource dependence theory argues that the business organization can alter their environment to maintain or gain legitimacy, the institutional theory argues that the business organization has to conform to their environment as a matter of legitimizing process (Meyer and Rowan 1977; DiMaggio and Powell 1983).

Generally speaking, institutional theory seeks to explain why the business organization adopts a particular structure or practice (Deegan and Unerman 2011). It argues that the business organization will take a structure (or implement activities) that conforms with the external expectations about what structures (or practices) are deemed acceptable within the business organization's institutional settings (Carpenter and Feroz 2001; Deegan 2002). The theory then mainly concerns the role of institutional pressures on determining the business organization's behaviour. According to Oliver (1997, page 699):

> "*From an institutional perspective, firms operate within a social framework of norms, values, and taken-for-granted assumptions about what constitutes appropriate or acceptable economic behavior. Economic choices are constrained not only by the technological, informational, and income limits that neoclassical models emphasize but by socially constructed limits that are distinctly human in origin, like norms, habits, and customs. The institutional view suggests that the motives of human behavior extend beyond economic optimization to social justification and social obligation*" Oliver (1997, page 699).

Purely economic justifications (i.e., financial performance and competitive advantage), therefore, are not sufficient to explain organizational practices and behaviour, especially in the social arena (Muthuri and Gilbert 2011). Accordingly, institutional theory examines the influence of institutions within a particular environment on the business organization, with an emphasis on organizational conformance to social norms and expectations (DiMaggio and Powell 1983; Baum and Oliver 1991). In this sense, the theory assumes that institutions are governance structures representing rules for social conduct. Business organizations conforming to these rules are accorded legitimacy and hence reward for their conformity. Additionally, past institutional structures constrain and channel new arrangements. Historical institutional structures and practices, therefore, influence the organizational behaviour (Scott 2005).

The theory examines the homogeneity of organizational structures and practices rather than the variations (DiMaggio and Powell 1983). Organizational homogenization refers to isomorphic processes through which business organizations adopt similar structures and practices (Carpenter and Feroz 2001). DiMaggio and Powell (1983, page 149) defined isomorphism as "*a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions*". More simply, Dillard, Rigsby and Goodman (2004, page 509) explained isomorphism as "*the adaptation of an institutional practice by an organization*".

The main source of institutional homogeneity comes from three isomorphic processes, namely: coercive, mimetic and normative (DiMaggio and Powell 1983). Through coercive isomorphism, business organizations are pressured by formal (i.e., laws and regulations) and informal (i.e., norms and values) constraints to change their institutional practices and behaviours (DiMaggio and Powell 1983; Davis and Greve 1997). Mimetic isomorphism refers to situations where business organizations are uncertain, in doubt about the external environment or having unclear or ambiguous goals. As a result, they mimic the institutional practices of (or model themselves on) other business organizations (DiMaggio and Powell 1983; Deegan and Unerman 2011). Lastly, normative isomorphism involves moral assessment and evaluation of what is expected to be appropriate in the environment (Davis and Greve 1997). It provides a common framework of reference to social norms and values, and what constitutes acceptable behaviour (Marquis, Glynn and Davis 2007; Muthuri and Gilbert 2011).

In practice, it would not be possible to differentiate between the three isomorphism[15] processes, as they chiefly operate simultaneously. Nevertheless, these powerful forces of isomorphism operate within the organizational environment, pushing towards conformity and homogenization of organizational structures and practices (DiMaggio and Powell 1983; Deegan and Unerman 2011). Deviating from such conformity and homogeneity in practices would attract criticism and potentially jeopardize the organizational legitimacy (Dillard, Rigsby and Goodman 2004).

That having been said, the business organization then achieves legitimacy by conforming to the institutionally entrenched social norms and cultural values (DiMaggio and Powell 1983; Scott 1995). In this context, it can be argued that CSRD is a response to institutional pressures to bring legitimacy to business organizations (Unerman and Bennett 2004). It can be used by business organizations as a mechanism to demonstrate that their practices are aligned with the institutionalized social norms and cultural values that are largely imposed upon them (Deegan 2002). Hence, their practices are within the bounds of acceptable and appropriate behaviour (Branco and Rodrigues 2008).

4.3 Prior Studies

Smith, Adhikari and Tondkar (2005) suggested that factors influencing CSRD practices are different from corporate financial reports, as CSRD concerns the social accountability of businesses and are addressed by wider stakeholder groups. Examining CSRD influencing factors, therefore, would improve firms' accountability, and consequently, lead to overall better organizational performance (Adams 2002). Furthermore, it would enhance our understanding of the extensiveness and comprehensiveness of CSRD, as well as the quality and quantity of disclosed or non-disclosed information. As Adams, Hill and Roberts (1998) stated:

[15] Besides isomorphism, decoupling is another dimension of institutional theory which posits that the perceived business organization practices may be different (or decoupled) from the actual practices (Dillard, Rigsby and Goodman 2004). While it is interesting to examine such decoupling effects, the current research focuses on the isomorphism dimension because the main aim of the current study is to explore the factors and effects of CSRD practices in annual reports of Saudi listed firms. It is not an objective of the current study to examine the differences between the perceived and actual business practices.

> "*In order to improve the quality and quantity of corporate social reporting, it is important to study not only the current extent and quality of disclosure to determine best practice, but also to study the factors influencing corporate social accountability and reporting*" (Adams, Hill and Roberts 1998, page 2).

In this respect, empirical research has used the aforementioned theories to understand CSRD practices, particularly the motivations for such practices. Prior investigations, in general, found CSRD practices vary across firms, industries and over time (Campbell 2004; Haniffa and Cooke 2005; Reverte 2009; de Villiers and van Staden 2010). The studies concerned with this variation have examined the factors influencing CSRD practices. Particularly, empirical investigations have examined corporate governance factors such as board of directors' characteristics and ownership structure (see Brammer and Pavelin 2008; Gamerschlag, Möller and Verbeeten 2011; Rao, Tilt and Lester 2012). Other studies have investigated the relationship between firm-specific factors such as firm size, age, profitability and gearing and CSRD practices (see Roberts 1992; Clarkson et al. 2008; Sotorrío and Sánchez 2010). Yet, a recent emerging stream of studies attempts to examine whether firms that engage in CSRD practices would benefit from such engagement (see Prado-Lorenzo et al. 2008; Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016).

The conduction of the literature review for the current study is guided by the research questions that are addressed in Chapter 1. Specifically, the current research study concerns with exploring the factors and effects of CSRD practices in Saudi Arabia and thus the literature review will focus mainly on prior empirical investigations of CSRD practices in both developed and developing countries.

Accordingly, the following sections review the extant of CSRD literature. Specifically, the following sections proceed to discuss prior studies in developed countries first, followed by discussion of empirical studies in developing countries. In each section, prior studies related to the factors influencing CSRD practices are first presented, followed by prior studies related to the benefit of engaging in CSRD practices. After that, the focus will be on the research context, Saudi Arabia, where the relevant studies of CSRD will be presented.

4.3.1 Prior Studies in Developed Countries

4.3.1.1 Factors Influencing CSRD

The literature suggests that corporate governance and CSRD are two strategic components that complement each other to enhance the various relationships between the firms and their stakeholders (Chan, Watson and Woodliff (2014). Generally speaking, corporate governance is defined as "*the system by which companies are directed and controlled*" (Cadbury Report 1992, page 14). This view of corporate governance emphasises the agency problem resulting from the separation of ownership and control, where the focus is on the relationship between the managers as agents and the owners as principals. The agency problem then can be mitigated by corporate governance mechanisms such as the board of directors and ownership structure (Mangena and Chamisa 2008; Mangena, Tauringana and Chamisa 2012).

Another perspective of corporate governance defines it as "*a set of relationships between a company's management, its board, its shareholders and other stakeholders*" (The Organisation for Economic Co-operation and Development 2004, page 11). This view of corporate governance emphasises taking into account the wider range of stakeholders, where multiplicity of relationships is acknowledged to exist between the firm and its constituents. Managing firms' stakeholders then might be a responsive strategy subject to the level of power these stakeholders hold against the firm's resources, i.e., the proportion of ownership they hold (Ghazali 2007; Brammer and Pavelin 2008; Rao, Tilt and Lester 2012).

Yet, corporate governance has been defined as "*the system of checks and balances, both internal and external to companies, which ensures that companies discharge their accountability to all their stakeholders and act in a socially responsible way in all areas of their business activity*" (Solomon 2013, page 7). This view emphasises the stewardship concept that takes a holistic approach by acknowledging the need for managing various stakeholder groups, as well as emphasising good business conduct in a socially desirable manner, i.e., board members acting as good stewards to protect shareholders' interests and stakeholders' rights (ACCA 2008).

In terms of the influence of board characteristics on CSRD practices, Jizi et al. (2013) conducted a longitudinal study covering the period of 2009 to 2011. In such, the authors examined whether board size, board independence, and CEO duality would have impact on the extent of CSRD practices. Using a sample of large United Stated commercial banks, the study found that board size, board independence and CEO duality had significant and positive associations with CSRD practices in United States commercial banks. They interpreted these findings as indicative of effective boards helping to reduce the agency problem between management and shareholders. It might be interesting, however, to note that the study expected an inverse relationship between CEO duality and CSRD practices on grounds that CEOs in United States banks are usually appointed as chairs of board of directors, and are usually reluctant to increase the level of disclosure generally to mitigate the risk of financial analysts criticism as well as press and public scrutiny. The study justifies the finding by suggesting that CEOs may use their power to promote social practices in United States commercial banks to ease external control or satisfy their moral concerns.

Giannarakis, Konteos and Sariannidis (2014) extended the study of Jizi et al. (2013) by examining whether CEO duality and the presence of women on the board would enhance the level of engagement in CSR activities. Using a sample of 100 of the largest listed firms over the period 2009 to 2012, the study findings suggested that both characteristics were not related to CSRD practices in the United States.

Post, Rahman and Rubow (2011) argued the diversification of boards of directors would improve the decision-making process, as board members are expected to bring in different perspectives and new ideas, enhance values and expand the knowledge domains of the board. Consequently, they questioned whether boards of directors would participate actively in promoting CSR policies. The authors, therefore, conducted a study to examine the relationship between board composition and demographic characteristics, and the decision to promote environmental policies and practices. They measured environmental CSR through: firstly, disclosure in different media (i.e., annual reports, environmental or CSR reports and corporate websites); and secondly, through the KLD rating database. The sample included 78 electronics and chemical United States firms drawn from the Fortune 1000 list. The general findings suggested that board composition and demographics are associated with environmental policies and practices in the United States. Specifically, they find that firms with a higher proportion of outside directors seem to favour environmental CSRD and ranked higher in KLD, and firms with at least three female directors received higher KLD rating. Finally, firms with a higher proportion of directors who received Western European education and boards with members of average age around 56 years old disclosed more information about environmental CSR. The authors attributed the later finding to the rise and emphasis of European education on environmental issues and argued that people usually develop moral reasoning over time.

Brammer and Pavelin (2006), focused on environmental disclosure in annual reports of 450 of the largest United Kingdom firms. The study examined whether ownership structure and board composition determine the provision of environmental information. From the agency's perspective, the authors argued that when the ownership of a firm is dispersed, there is likely limited direct monitoring power for shareholders over the firm a matter that may cause adverse reaction from investors. Accordingly, management carry an incentive to voluntarily disclose information. Such incentive is particularly important for environmental disclosure with the existence of investors who might be concerned with the firm's environmental impact. Furthermore, the presence of non-executive directors on board may enhance the environmental disclosure practices, given that non-executive directors are seen to be more aligned with shareholders and other stakeholders. The study findings revealed that firms with dispersed ownership had a significant and positive impact on environmental disclosure in the United Kingdom. However, non-executive directors were found to be not related to the provision of environmental disclosure. The authors did not provide any explanation for the later finding.

Rao, Tilt and Lester (2012) made the case that in the lack of mandated legislation and direct economic benefits, firms are unlikely to engage and disclose CSR information unless there are effective governance mechanisms to help promote fairness, ethics, transparency and accountability. Building upon this argument, the authors conducted a study to examine the effect of four corporate governance attributes on the environmental disclosure, namely: the proportion of independent directors on the board, institutional investors, board size and the proportion of female directors on the board. Their sample included 96 annual reports of the largest Australian firms in 2008. All the four examined mechanisms were found to have significant positive relationships with the environmental disclosure. The study, therefore, concluded that firms with effective corporate governance mechanisms tend to disclose more environmental information in the Australian context.

Chan, Watson and Woodliff (2014) argued that boards of directors are expected to safeguard the stockholders' interests. Besides that, boards of directors need to understand and evaluate the effects of the firm's operations on social and environmental matters, and ensure proper response to those stakeholders who are subject to the effect of such social and environmental matters. In their study, they examined the association between the overall corporate governance quality and CSRD practices. Analyzing the 2004 annual reports of 222 listed firms in the Australian Stock Exchange, the study found that CSRD practices and overall corporate governance quality have significant positive association. In particular, firms with higher provision of CSR information have higher corporate governance quality ratings.

Ullmann (1985) put forward a three-dimensional model to predict CSR disclosure and practices. The model is expected to explain the relationships among social disclosure, social performance and economic performance. The first dimension is related to the power of stakeholders, to whom firms are more responsive, as they control the essential or critical resources for the firms' operations and survival. The second dimension is related to the strategic posture of firms and whether it is an active posture where the management influences their stakeholders, or a passive posture where there is a lack of effective management of the stakeholders. The third dimension is related to the economic performance of firms where the past and current financial capabilities determine management's ability to engage in CSR initiatives.

Building upon Ullmann's (1985) three-dimensional model, Roberts (1992) examined the determinants of CSRD using a number of proxies for stakeholder power (i.e., stockholders, governmental, and creditor influences);

strategic posture (i.e., public affairs staff, and philanthropic foundation); and economic performance (i.e., return on equity and systematic risk). The findings suggested that CSRD is seen as a major corporate strategy to manage powerful stakeholders such as government stakeholders to whom firms are politically exposed, and creditor stakeholders to meet their social expectations. Furthermore, firms adopting strategic, active postures towards CSR through philanthropy and/or public affairs tend to have higher levels of disclosure. The findings also revealed that firms with healthy financial capabilities in the previous periods have greater propensity to engage and disseminate CSR activities.

Similarly, Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009) contended that the power of stakeholders is a function of the critical resources under their control. One critical resource that firms need is funding to invest in new projects. To this extent, the authors argued that institutional investors are interested not only in the firms' financial performance, but also in the social and environmental activities and strategies of the firms in which they invest. The study also examined the governmental and creditor influences similar to Roberts' (1992) study. Furthermore, the study used ISO 14001 and OHSAS 18001 certifications, as well as return on assets, to represent the strategic posture and economic performance of Ullmann's (1985) model, respectively. Based on a sample of 99 nonfinancial Spanish firms, the findings confirmed that stakeholders use their power to exert pressure on firms' management to adopt CSR activities and practices that serve societal expectations, particularly those related to governments and creditors. However, institutional investors are more likely to favour financial performance in the Spanish context. The study also revealed that dominant shareholders tend to promote CSRD practices and active posture towards CSR issues while no economic performance effects were documented.

In terms of firm-specific factors, Brammer and Pavelin (2004) examined the patterns of CSRD in annual reports and third-party indices made via responses to surveys. The authors argued that because of incidents of corporate irresponsibility that led to negative consequences on firm performance, fund providers are more likely to supply capital to corporations that demonstrate their social performance through disclosure. However, because social activities and disclosure are associated with costs, corporations usually have varying levels of disclosure depending on the external pressure and strategic choices of the firm. Subsequently, the study assumed positive relationship between CSRD and social performance, firm size, media exposure and the nature of firm activities. Drawing upon a sample of 134 of the largest United Kingdom firms, the findings support that CSRD is related to social performance, firm size and media exposure.

Branco and Rodrigues (2008) conducted a study in Portugal to compare CSRD in annual reports and corporate web pages. They further examined the firms' social visibility as a factor influencing the disclosure practices using a number of proxies, namely: international experiences, firm size, industry affiliation and media exposure. The study sample included 49 listed firms. Ten models were developed based on four themes of CSRD environment, human resources, products and customers and community involvement plus the total CSRD for both annual reports and corporate web pages. The findings revealed that Portuguese management engaged in CSRD to influence stakeholders' perceptions about the firm's social and environmental performance by demonstrating that they operate within the boundaries of social and ethical expectations. Furthermore, while human resources was the prominent theme in annual reports, community involvement was the central focus on corporate web pages. However, it appeared that Portuguese firms favour annual reports over corporate web pages as a means of communicating CSRD. Finally, the study found evidence that firms with higher visibility have more concerns to enhance their reputation and image through CSRD, both in annual reports and on corporate web pages.

Gamerschlag, Möller and Verbeeten (2011) examined the influential factors of CSRD in the German context. They argued that German firms deal with different stakeholders with varying levels of power. Consequently, the firms' management face different levels of societal and political costs depending on the firms' specific characteristics. From an economic perspective, they argued that firms disclose CSR information to enhance their benefits or to avoid or decrease potential costs. The study analysed 470 firm-year observations to investigate firm visibility and profitability. The findings showed that firms' visibility had a significant positive impact on the level of CSRD practices, while the profitability was more associated with environmental information. The study concluded that German firms appear to disclose CSR information to avoid or reduce potential costs arising from taxation and regulations.

Sotorrío and Sánchez (2010) argued that there is increasing pressures on multi-national corporations (MNCs) to demonstrate their accountability in recent years, especially because they deal with various stakeholders in different markets with varying systems of governance and regulations. Given that, they analysed CSRD information and the extent to which MNCs disclose the information in Spain. In addition, they examined whether MNCs' CSRD practices were different when addressing their local and global audiences (stakeholders), and what explains such differences. Based on a sample of 26 MNCs in Spain, the study found that there are no significant differences in the type of information disclosed by MNCs according to their country or region of origin, with most disclosed information being related to corporate policies, goals and actions. However, the study found that there were very significant variations in addressing CSRD information to both types of audiences (local and global), with the global stakeholders receiving greater attention as they form most of the MNCs' audiences in Spain. Finally, the study revealed that CSRD practices are significantly determined by MNCs' visibility, as measured by their sizes and reputations. Moreover, MNCs with higher profitability were able to engage in CSRD practices; however, profitability had a lower importance than the visibility factor according to the study.

Reverte (2009) argued that the majority of current CSR literature is conducted on Anglo-American and common-law, English-speaking countries, such as the United States, the United Kingdom, Australia and Canada, with relatively little known about Continental Europe. He, therefore, conducted a study to analyze whether the Spanish contextual settings encompassing the capital market and firms' capital structure would provide different results concerning the factors influencing CSRD practices than those provided in other institutional settings. In particular, the study examined numerous firm and industry characteristics. The study sample consisted of 46 observations of Spanish listed firms in the year 2005 and 2006. CSRD was measured according to the ratings assigned by the Observatory on Corporate Social Responsibility

(OCSR), an association of 14 organizations that are interested in CSR. The findings suggest that profitability, as measured by return on assets, and leverage, as measure by long-term debt-to-book-value of equity, do not determine CSRD practices in the Spanish context. However, media exposure, firm size and industry sensitivity are significant factors that determine CSRD practices. Firms with higher media exposure, that are large and operating in environmentally sensitive industries, were ranked higher in OCSR ratings, which indicates that they were more engaged in CSRD and practices. Furthermore, by comparing the results of the study to a number of studies conducted in other institutional settings, the findings indicated that CSRD influential factors were not significantly different between the two groups of the studies.

Holder-Webb et al. (2009) explored the disclosure patterns of CSR information and examined the effect of firm size and industry on CSRD practices. Specifically, the study questioned what type of CSR reporting United States firms provide, and what media of disclosure is used. Furthermore, the study investigated whether CSR content is generally positive about the firms' social and environmental performance. The study results indicated that 44 of 50 United States firms disseminated CSR information in 2004. Commonly disclosed information includes human resources and diversity, health and safety, and community relations, while environmental issues received less focus. In relation to the media of disclosure, corporate websites appeared to be the most favourable media to disseminate CSR information. In addition, the content of CSR was primarily full of praises and compliments, though with lower tone in audited documents. Finally, the effect of size and industry were evident in the extent and type of CSRD.

da Silva Monteiro and Aibar-Guzmán (2010) conducted a study to explore the practices and determine the influencing factors of environmental disclosure in Portugal. Drawing upon a sample of 109 large Portuguese firms over the period of 2002 to 2004, the results showed slight improvement in the extent of environmental disclosure; however, the level is relatively still low compared to other European countries. With regard to the factors influencing environmental disclosure, the findings indicated that firm size is statistically and positively related to the level of environmental disclosure.

Brammer and Pavelin (2008) conducted a study to analyse the factors influencing the quality of environmental disclosure by the largest 450 United Kingdom firms. The study examined what determines the quality of information on each of the five indicators of quality of corporate environmental disclosure namely: reporting the environmental policy, describing the environmental initiatives, stating the environmental improvements, identifying the environmental targets, and the existence of an environmental audit or assessment. The findings suggest that the firm size and nature of their activities are important determinants of the quality of the disclosed environmental information. In particular, large firms and firms operating in sectors sensitive to environmental concerns tend to disclose a higher quality of information. Furthermore, the study found that media visibility and environmental performance were associated with the quality of environmental disclosure. Additionally, this association varied more across industry sectors than across firms, and are correlated with the quality of information.

4.3.1.2 Firm Performance

As mentioned earlier, the second stream of studies attempts to build a business case for CSRD by examining whether firms that engage in CSR practices would benefit from such engagements. CSR firms arguably can "*do well by doing good*" (Blowfield and Murray 2008; Wood 2010; Crane, Matten and Spence 2014). Although moral causes are important aspects to motivate individuals generally, and managers within firms particularly, to engage in CSR practices and activities, it is difficult for business management to pursue CSR activities that do not have potential benefits for firms' performance even if the managers' personal values and CSR values are aligned (Branco and Rodrigues 2006). After all, shareholders expect a return on their investment, otherwise firms will not be able to survive without having benefiting shareholders and competing for resources (Tsoutsoura 2004). CSR, therefore, has a strategic link with firm performance. Engaging in CSR would reflect good management for firms' resources (Waddock and Graves 1997).

Given that, CSR is predicted to enhance firms' value and performance when attuned to the external environment (Carroll and Shabana 2010). Socially responsible firms can experience potential benefits in different forms, which may have direct and/or indirect influential consequences on firms' performance (Malik 2015). Accordingly, this line of emerging literature has investigated the relationship between CSRD and firm performance (Prado-Lorenzo et al. 2008; Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016). The argument suggests positive benefit to firms' performance because the public is more aware now that the role of business is not purely economic, but also social and environmental. It is, therefore, in firms' enlightened self-interest to be socially responsible (Steiner 1971; O'Dwyer 2002).

In this context, Prado-Lorenzo et al. (2008) examined Madrid Stock Exchange listed firms to understand their CSR disclosure practices in annual reports and corporate web sites based on a sample drawn from 117 non-financial firms operating in different sectors. They analyzed the effects of CSRD on the short-run performance of the firms as measured by productivity and growth of sales, as well as the long-run performance as measured by market-to-book ratio. Furthermore, they used a compound index based on GRI to measure CSRD that includes four categories, namely: environmental, human rights and labour, product responsibility and society. The study findings revealed that reduction in environmental impact was a significant feature in Spanish non-financial firms' disclosure. In addition, the firms stressed the provision of safe and comfortable workplaces, as well as promoting employees' rights. The results also indicated that CSRD was partly responsible for the short-run performance, as measured by growth of sales. However, productivity and the long-run performance as measured by the market value were not affected by CSRD. Finally, it was concluded that CSRD in the Spanish context was adopted to achieve competitiveness differentiation and enhancing corporate image.

Based on sample of 155 observations of non-financial listed firms on the Toronto Stock Exchange, Cormier et al. (2009) examined the effects of the extent of social disclosure on the stock market. The study employed social and human capital as proxy for the social disclosure, while share price volatility and Tobin's Q were used as proxy for information asymmetry. The study findings revealed that there was a positive association between social disclosure and firm market value in the Canadian context. Furthermore, the study documented reduction in share price volatility accompanied with higher social disclosure. The study concluded that investors tend to value reducing information asymmetry through social disclosure.

In the United States, Dhaliwal et al. (2011) examined whether firms which initiated CSRD experienced potential benefits. The authors argued that while CSP ratings are available by third parties such as the KLS STATS database in the United States, firms tend to disclose CSR information in standalone reports. Such practice, therefore, is expected to generate benefits for CSR firms. Accordingly, they conducted a study to analyse whether the cost of equity capital can explain the trend in CSRD practices. The study findings showed that prior higher cost of equity capital was associated with the initiating of standalone CSRD reports in the following year. Furthermore, firms that initiated CSRD reports experienced reduction in the cost of equity capital and attracted more institutional investors.

More recently, Qiu, Shaukat and Tharyan (2016) analysed the link between CSRD and financial performance. Their sample included 629 observations for the period from 2005 to 2009 of large firms listed in London Stock Exchange. The study found that prior profitability was associated with CSRD, as firms have the required financial resources to invest in and manage their stakeholders. On the other hand, profitability was not affected specifically by environmental disclosure when the study analysed the reverse causality; however, market value showed positive reaction to social disclosure, which indicates that investors favoured socially active firms. The positive effects of CSRD firms on market value was also documented by higher expected growth rate of the cash flows, which brought more benefits to CSRD firms.

It is worth mentioning that these types of studies that examine whether CSRD increases firm performance are limited in both developed (Prado-Lorenzo et al. 2008; Cormier et al. 2009; Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016) and developing countries (Aras, Aybars and Kutlu 2010; Cheng, Lin and Wong 2016). Other studies in this stream of literature examined the association between corporate social performance (CSP) and firm performance. For instance, Brammer, Brooks and Pavelin (2006) used disaggregate measures to analyse CSP and stock returns in the United Kingdom. Based on a cross-sectional sample including 451 firms, the results suggested that CSP was negatively associated with stock returns on the London Stock Exchange. The scholars attributed that to the costs involved in CSP activities, as such expenditures may undermine firms' value.

In the same vein, Al-Tuwaijri, Christensen and Hughes II (2004) conducted a cross-sectional study for a sample of 198 United States firms. The study aimed to analyse the relationships among environmental disclosure, and environmental and economic performance. The study findings revealed that firms performing better in the environmental aspect tend to disclose more environmental information. Furthermore, the study found that firms with good environmental performance were significantly associated with higher economic performance, as measured based on market value. Consequently, the study concluded that investors tend to favour investing in environmentally responsible firms in the United States.

Similarly, Tsoutsoura (2004) examined whether CSP and financial performance are associated in the United States. The study employed two measures for CSP namely KLD ratings and the Domini 400 Social Index; whereas the financial performance was measured by return on assets, return on equity and return on sales. Based on a sample of 422 firms for the period from 1996 to 2000, the study found that there was a positive association between CSP and financial performance. The finding indicated that firms with better financial performance tend to have more resources to invest in CSP. Furthermore, the study found that CSP firms experienced better financial performance and thus CSP firms benefit from adopting CSR activities.

Becchetti, Di Giacomo and Pinnacchio (2008) argued that the literature provided two views in relation to CSR. The first view represents Friedman's view of CSR, where the emphasis is on maximizing shareholders' wealth limited to the boundaries of regulations and laws. Otherwise, it would be a violation of firms' resources to engage beyond this objective, as CSR practises involve costs that negatively affect shareholders' wealth. The second view represents Freeman's view of CSR, where the emphasis is on the holistic approach to CSR in managing stakeholders' relationships. Proactive engagement in managing stakeholders' expectations about CSR are expected to positively affect firms' performance. Accordingly, the purpose of their study was to empirically examine the impact of CSP on firms' performance. Based on a sample of 1000 United States listed firms over a period of 13 years, the study documented tendency towards managing various stakeholders' interests rather than focusing solely on shareholders' interests. In particular, CSR firms that performed better in CSP, as measured by the Domini Social Index, recorded significant increase in total sales per employee and returns on equity. Furthermore, when large and R&D firms were excluded from the sample, the study documented lower returns on equity. However, the lower return on equity was alternatively rewarded by lower risk, as the study documented lower volatility shocks.

Nelling and Webb (2009) used 2800 firm-year observations for the period from 1993 to 2000 of a sample consisting of more than 600 United States firms to analyse the link between CSR and firms' financial performance. The study measured CSR using the KLD Index and to proxy for financial performance, returns on assets and common stock returns were used. The study results suggested significant relationship between CSP and financial performance. This was true for both directions. In particular, financial performance was found to significantly determine CSP and, on the other hand, CSP was found to significantly determine financial performance. However, when the study controlled for the fixed effects, the results documented no association between CSP and financial performance. To further analyse this reverse causality between CSP and financial performance, the study applied the Granger causality model, which confirmed that CSP and financial performance were not associated.

4.3.2 Prior Studies in Developing Countries

4.3.2.1 Factors Influencing CSRD

A stream of studies has emerged in developing countries examining corporate governance factors in terms of board characteristics and ownership structure (Haniffa and Cooke 2005; Esa and Ghazali 2012; Haji 2013; Khan, Muttakin and Siddiqui 2013; Ntim and Soobaroyen 2013); and firm-specific factors including firm size, industry type, firm age, profitability and leverage in relation to the extent and nature of CSRD (Naser et al. 2006; Amran and Haniffa 2011; Muttakin and Khan 2014; Liu and Anbumozhi 2009; Ghazali

2007; Gao, Heravi and Xiao 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Juhmani 2014). The results in developing countries are generally mixed and inconclusive, which suggests CSRD is still under development.

In the Malaysian context, Haniffa and Cooke (2005) contended that previous empirical studies focused mainly on firm-specific factors and hence examining cultural and corporate governance factors would enrich CSRD literature. In particular, the study examined CSRD practices in 1996 and 2002 to record any differences in the level of CSRD over the two periods. Furthermore, the study investigated the effects of cultural and corporate governance factors on the level of CSRD practices, as the authors argued that ethnicity background, the level of education and the firm type contribute to shape Malaysian managers' mindset. It is expected, therefore, to have an impact on boards with a majority of Malay directors and firms dominated by Malay ownership and/or those having Malay finance managers. Furthermore, the study explored whether boards with a majority of non-executive directors and/or multiple directorships, as well as dominated by foreign ownership, would disclose more CSRD information after controlling for firm size, industry, listing status, profitability and gearing. Drawing upon a sample of 139 annual reports for non-financial listed firms on the Kuala Lumpur Stock Exchange, the study findings revealed that there was significant difference between the two investigated periods (1996 and 2002) in terms of the CSRD extent and nature. Cultural factors appear to have significant impact on CSRD practices, as boards with a majority of Malay directors and firms dominated by Malay ownership disseminated more CSRD information. The study also documented a significant positive relationship between corporate governance factors and CSRD practices. Specifically, boards with a majority of non-executive directors and/or multiple directorships appear to favour legitimizing firms' activities through the provision of CSRD information. Furthermore, the CSRD firms appear to proactively engage in CSRD practices to attract foreign investments.

In the same context, Esa and Ghazali (2012) investigated whether the level of CSRD had been improved. Furthermore, they examined the impact of corporate governance factors, namely: board size and independent directors; and firm-specific factors, namely: firm size, profitability and leverage; on the level of CSRD. Their study focused on listed Malaysian firms for the year 2005 and 2007 that are linked to the government (firms with the major ownership and control by Malaysian government) due to the introduction of the "*Silver Book*" by the Malaysian government in 2006 to promote proactive engagement in CSR activities in the Malaysian private sector. The study's final sample was comprised of 27 firms for both years. Using a content analysis technique to score the presence and absence of CSRD items, the study findings revealed that the level of CSRD had improved, as the study results documented an increase between 2005 and 2007, according to the paired sample t test (statistically significant at a level of 1%). This indicates that the Malaysian government played a major role by introducing the "*Silver Book*" as a framework guiding private firms to proactively engage in CSR activities. In terms of the regression analysis, the study findings revealed that only board size is significantly associated with the level of CSRD in annual reports. This indicates that more members on Malaysian board holding varying experiences and backgrounds can broaden the board's discussion by bringing more CSR issues on table.

In line with Haniffa and Cooke (2005) and Esa and Ghazali (2012), Haji (2013) investigated the Malaysian context over two periods, namely 2006 and 2009. The study's purpose was to document any changes in the level of CSRD. However, Haji (2013) also examined the quality of CSRD by assigning higher weights to quantitative and monetary disclosure. Besides that, his study investigated the factors influencing CSRD practices in Malaysia. In particular, the study investigated the relationship between CSRD practices and corporate governance factors namely: independent non-executive directors, board size, board meetings, ownership concentration, director ownership and government ownership; and controlled for firm size, profitability and leverage. Based on a sample of 85 non-financial listed firms, the results showed that, although low on the average, both CSRD level and quality had increased over the two years of the study. In relation to the factors influencing CSRD practices, the study findings revealed that director and government ownership, as well as board and firm size, are significant determinant factors influencing both the level and quality of CSRD.

In another context, Bangladesh, Khan, Muttakin and Siddiqui (2013) made the case that previous empirical studies lack investigation of the relationship between CSRD and corporate governance factors in developing countries. Their study, therefore, focused on analyzing the association between CSRD practices and corporate governance factors in Bangladesh. Specifically, the study examined whether managerial ownership, public ownership, and foreign ownership, as well as board characteristics in terms of board independence, role duality and the presence of audit committees would have impact on the level of CSRD. The study sample included 119 manufacturing firms listed on the Dhaka Stock Exchange and operating in 10 sectors for the period of 2006 to 2009, which resulted in 580 firm-year observations. The study findings revealed that managerial ownership has a significant negative association with the level of CSRD. This was attributed to the dominance of family control over the firms and their presence on the boards of directors in the Bangladeshi context. However, when the study focused on export-oriented industries, it documented a significant positive relationship between CSRD level and managerial ownership. This was attributed to the international external pressure of stakeholder groups. Likewise, the study findings revealed that both public and foreign ownerships appear to positively impact the level of CSRD. In terms of board independence and the presence of audit committees, the results showed that they had significant positive influence on the level of CSRD. However, the study did not document any significant relationship between the role duality and the level of CSRD.

Ntim and Soobaroyen (2013) focused on one aspect of CSRD, namely the Black Economy Empowerment disclosure. Black Economy Empowerment policy is a form of CSR in South Africa that was introduced as an initiative to reform historical racism and address social inequalities based on race. This initiative aims to promote social fairness, racial equality and active black participation in South African society. The study examined whether there is a relationship between the level of Black Economy Empower disclosure and ownership structure factors namely: government, block and institutional ownership; and board characteristics factors namely: dual board leadership, board diversity (in terms of age, education ethnicity, gender, nationality and occupation), board size and non-executive directors. Based on a sample of 75 listed firms for the period from 2003 to 2009, the study findings revealed that the Black Economy Empowerment disclosure varies among the annual reports, with growing trend to provide more information in this aspect of CSR as measured by total word counts. Regarding the contributing factors to the level of Black Economy Empowerment disclosure, the study revealed that ownership structure and board characteristics have explanatory power on the level of Black Economy Empowerment disclosure. Specifically, government ownership found to have significant positive association with the level of Black Economy Empowerment disclosure. However, both block and institutional ownership were found to be negatively associated the level of Black Economy Empowerment disclosure. In relation to the board characteristics, board diversification (in terms of age, education, ethnicity, nationality and occupation), board size and non-executive directors have a positive relationship with the level of Black Economy Empowerment disclosure. However, both dual board leadership and gender did not show any significance.

Naser et al. (2006) conducted a study in Qatar to investigate the relationship between CSRD level and firm-specific factors namely:, firm size, growth in assets, dividends and leverage; and ownership structure in terms of share owned by government, institutional investors and majority shareholders. The study sample consisted of 21 listed firms on the Doha Stock Exchange. The study results documented CSRD variations in Qatari firms' annual reports. These variations were found to be explained by growth in assets and firm size, as measured by market capitalization, and leverage as a proxy for business risk. However, ownership structure seems to not have any impact on CSRD practices in the Qatari context.

Ghazali (2007) focused on the impact of ownership structure and firm-specific factors on CSRD practices in the Malaysian environment. In particular, the study examined whether CSRD extent is influenced by ownership concentration, director ownership, government ownership, firm size, profitability and industry. Based on a sample of 87 of largest Malaysian firms listed in the Bursa Malaysian Composite index for the year 2001, the study findings revealed that the extent of CSRD was low. Furthermore, the study results revealed that both director and government shareholdings are major determinants for the level of CSRD. However, ownership concentration, as measured by the ten top shareholders, does not appear to have any statistically significant influence of the level of CSRD. Finally, firm size was found to have significant positive relationship with the level of CSRD, while no other factors show any significance.

Similarly, Amran and Haniffa (2011) examined the impact of potential factors on CSRD practices in the Malaysian environment. The study first conducted an interview to identify possible factors that determine the CSRD from the perceptions of annual reports' preparers. The study later employed content analysis and multiple regression analysis to investigate the effects of the identified factors on the level of CSRD. Applying institutional perspective, the study argued that foreign investors are more likely to be concerned about social and environmental issues. Accordingly, Malaysian firms might be inclined to compete for financial funding and attract foreign investors. To put it more clearly, CSRD practices might be coercively institutionalized to satisfy foreign investors. Furthermore, Malaysian firms tend to rely on governmental funding due to privatization and expansion. Such firms are under coercive pressure from the government to adopt CSRD practices in line with the governmental objectives. Based on a sample of 201 firms and controlling for firm size, the study findings revealed that foreign ownership did not show any statistical significance in its association with the level of CSRD. This was also true for government ownership, however, firms that depend on government contracts tend to provide a significantly higher level of CSRD. Furthermore, setting prior goals and missions pertaining to CSR issues and endeavouring to gain awards in CSR development were found to drive the provision of CSRD among Malaysian firms. Finally, the study results showed that firm size had significant positive association with the level of CSRD.

Drawing upon a sample of 135 listed firms on the Dhaka Stock Exchange, Muttakin and Khan (2014) examined whether family ownership, firm size, export-oriented industry, and industry type would have implications on CSRD practices in the Bangladeshi context. The study consisted of 580 firm-year observations for the period of 2005 to 2009. Controlling for leverage, firm age and profitability, the study findings revealed that family-controlled firms may have less concerns about CSRD, as the study results showed that family ownership had a negative impact on the level of CSRD. Furthermore, large-size firms were found to be exposed to more pressure from society, as the study results documented a significant positive relationship between firm size and the level of CSRD. The study findings revealed that firms operating in export-oriented industries provide significantly more CSRD information, implying that international stakeholder groups play a major role in positively driving CSRD in Bangladesh. Finally, profitable and older firms tend to actively engage in CSRD practices.

In terms of the environmental aspect of CSRD, Liu and Anbumozhi (2009) examined the role of external stakeholders as determinant factors for environmental disclosure in China. Particularly, their study focused on the role of government, shareholders and creditors in placing pressure on 175 Chinese listed firms to engage in good environmental practices. The study measured the governmental pressure on environmentally sensitive industries, as they are expected to release more information to avoid governmental interventions and sanctions. In terms of shareholder and creditor pressures, the study proxy for the ownership concentration and the level of debt financing, respectively. Furthermore, the study controlled for a number of firm specific factors (i.e., firm size, firm age, profitability). The findings showed that the Chinese government plays a major role in placing pressure on Chinese firms to disseminate environmental information. However, the relationships between environmental disclosure, and shareholder and creditor pressure were weak. Finally, the study documented a significant positive association between firm size and environmental disclosure, while no link was identified for profitability as measured by returns on equity.

Other studies in developing countries focused only on firm-specific factors. Gao, Heravi and Xiao (2005) examined the patterns of CSRD practices and its determinant factors in Hong Kong. Specifically, the study employed content analysis to investigate the provision of CSR information by 33 listed firms for the period of 1993 to 1997, with the total of 154 firms' annual reports. The study documented an increase in the level of CSRD during the period of study, in general. However, environmental and health and safety aspects appear to receive limited attention according to the study data, while no firm disclosed information about energy consumption. Furthermore, the sectors seem not to vary significantly in providing information about community and fair business practices aspects, especially in terms of the location of disclosure. Finally, the study findings revealed that firm size and industry type are associated with the variation of the level and variety of CSRD practices.

Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) conducted a longitudinal study to examine the context of an African developing country, namely Mauritius. In particular, the study investigated whether the extent and nature of CSRD have improved after the introduction of The Code of Corporate Governance in 2004. Furthermore, the study investigated whether the extent and nature of CSRD are determined by firm size, profitability, leverage and industry. The study sample included 165 annual reports of listed firms during the 2004 to 2007 period. By employing content analysis to measure CSRD using word counts, the study results documented an increasing pattern of CSRD with the domination of social issues in the provided information. Firm size was found to have significant positive association with the overall CSRD and social disclosure in particular, while leverage explained the variations in environmental issues and health and safety disclosure. Finally, the study results did not document any significance on profitability and industry affiliations.

More recently, Juhmani (2014) investigated the factors determining the level of CSRD in Bahrain. In particular, the author argued that firm size, profitability, financial leverage, firm age and audit firm size are potential factors that determine the level of CSRD in the Bahraini environment. The study, therefore, employed context analysis to measure the level of CSRD by word counts provided on corporate web sites, and analysed the results statistically. The study sample was comprised of 33 listed firms on the Bahrain Bourse for the year 2012. The study findings revealed that the majority of the sampled firms (about 58%) tend to disclose CSR information on corporate web sites. The information was dominantly qualitative and varied among firms and industrial sectors. The study results indicated that the financial sector (commercial banks and insurance firms) tends to record the highest level of CSRD, while hotels and tourism sectors, as well as the industrial sector, were found to record the lowest level of CSRD. Nevertheless, the overall level of CSRD was found to be low. In terms of the factors influencing this variation, the study findings documented a highly significant positive association between financial leverage and the level of CSRD. Furthermore, audit firm size was found to have a highly significant positive association with the level of CSRD.

Finally, firm size, profitability and firm age did not hold any explanatory power in the Bahraini context.

4.3.2.2 Firm Performance

There is a dearth of studies in developing countries, as only two studies were identified that examined CSRD and firm performance (Aras, Aybars and Kutlu 2010; Cheng, Lin and Wong 2016). Aras, Aybars and Kutlu (2010) examined the link between CSRD and firm financial performance in Turkey. The study measured CSRD by employing content analysis to derive CSR data from firms' annual reports in 2006. The firm financial performance was based on three accounting measures, namely: returns on equity, returns on assets and returns on sales. The study sample included 40 firms, which were drawn from the Istanbul Stock Exchange. The findings did not document any association between CSRD and the measures of firm financial performance in both directions in the Turkish context.

In a similar vein in another developing country, Cheng, Lin and Wong (2016) analysed whether prior firm financial performance leads to the issuance of CSRD reports and whether the issuance of CSRD reports leads to better firm financial performance in the following year. Based on a sample of 805 firms in year 2008 and 813 firms in year 2009, the study findings showed that there was a tendency for better performing firms to issue CSRD standalone reports. Furthermore, firms that issued standalone CSRD reports experienced higher levels of return on assets and firm value, as measured by Tobin's Q ratio the following year.

4.3.3 Prior Studies in Saudi Arabia

The literature relating to CSRD is very limited in Saudi Arabia. For example, only one recent study (Alotaibi (2016)[16] has been identified that examined the relationship between CSRD and its influencing factors, as well as the potential effects of CSRD on firm performance in Saudi Arabia, while

[16] There are two published papers based on Alotaibi's (2016) PhD thesis, namely, "*Determinants of CSR Disclosure Quantity and Quality: Evidence from Non-financial Listed Firms in Saudi Arabia*"
(Alotaibi and Hussainey 2016a) and "*Quantity versus Quality: The Value Relevance of CSR Disclosure of Saudi Companies*" (Alotaibi and Hussainey 2016b). All the findings were highlighted in his PhD thesis and hence the focus is only on Alotaibi's (2016) PhD thesis.

Zubairu, Sakariyau and Dauda (2011) examined social disclosure practices of Islamic banks.

Alotaibi (2016) conducted a study to investigate CSRD practices in Saudi Arabia. Furthermore, the study examined what factors might influence the level of CSRD and whether CSRD practices have impact on firm value. The study sample included 171 year observations of non-financial listed firms on the Saudi Stock Exchange for two years: 2013 and 2014. Alotaibi (2016) measured CSRD in terms of the number of sentences based on a checklist of seven CSR categories of issues related to: employee, community, environmental, products and services, energy, customers and others. Based mainly on agency and stakeholder theories, the study findings documented high level of CSRD practices among Saudi listed firms, with varying levels across firms and industries. In respect of the factors explaining the variations in CSRD practices, the study results revealed that there was a significant and positive relationship between the level of CSRD practices, and board size and firm size. Furthermore, government ownership and gearing appeared to negatively affect the level of CSRD. However, independent directors, CEO duality, board meetings, directors' ownership and profitability were found to be not related to CSRD practices. In terms of the effect of CSRD practices on Saudi firms' performance, the study findings showed that market capitalisation was positively associated with the level CSRD practices. However, return on assets and Tobin's Q did not show any significance.

Zubairu, Sakariyau and Dauda (2011) examined the social reporting practices of four Islamic banks operating in Saudi Arabia. The authors argued that Islamic banks are supposed to have an ethical identity, due to the nature of their operation under *Shari'a* teachings, that is different from conventional banks for which profit is their ultimate objective. Accordingly, because of the religious nature of Islamic banks, their social goals are as important as wealth maximization. Thus, Islamic banks are supposed to be transparent and disclose a high level of information that concerns social responsibilities. The study, therefore, utilized the content analysis method to examine the annual reports for the selected sample (four Islamic banks) for the years 2008 and 2009 to determine whether Islamic banks fulfil the *Shari'a* requirements of full disclosure. The study findings revealed that there was no significant difference between Islamic and conventional banks in regards to social responsibility reporting. Furthermore, the study results documented poor disclosure practices for the four Islamic banks. The most disclosed information was about the banks' commitment to debtors, while the least disclosed information was about environmental issues.

4.3.4 Limitations of Prior Studies and Research Gap

The aim of this section is to highlight the limitations of CSRD extant literature and identify the gap that the current research study tries to fill. Accordingly, several points can be gleaned from the literature reviewed above which may address further avenues for empirical investigations in relation to CSRD practices in Saudi Arabia. Firstly, despite the increasing interests in CSRD practices globally, the extant CSRD literature is concentrated in the developed countries (see Holder-Webb et al. 2009; Brammer, Brooks and Pavelin 2006; Post, Rahman and Rubow 2011; Rao, Tilt and Lester 2012; Reverte 2009; Branco and Rodrigues 2008). Developing countries might stimulate and advance CSRD understanding because developing countries provide different challenges than those of developed countries for a number of reasons (Mangena and Tauringana 2007; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). For example, developing countries may have weak levels of economic development (Mangena and Tauringana 2007; Visser 2009). The legal systems may be insufficiently strong to enforce CSR activities (La Porta et al. 2002). There are differences in cultural norms, values and customs with implications for CSR activities (Violet 1983; Visser 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013). There is unlikely to be strong CSR pressure groups and/or activists to influence firm behaviour (Mangena and Tauringana 2007; Muttakin and Khan 2014). Finally, the prevalence of corruption in high offices might influence corporate behaviour (Mangena, Tauringana and Chamisa 2012).

Accordingly, CSRD practices and its influencing factors and effects may not be similar to those findings from developed countries, as they might not reflect the circumstances in developing countries (Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013; Khan, Muttakin and

Siddiqui 2013; Muttakin and Khan 2014). Exploring CSRD practices in developing countries, therefore, would expand the knowledge and understanding of disclosure practices in general, and CSRD practices in particular.

In this respect, the contextual environmental settings of a business entity could play a crucial role in shaping its policies and activities, including CSRD (Campbell 2004; Haniffa and Cooke 2005; Mangena and Tauringana 2007; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013). As Pedersen (2010) argues, countries have different factors that shape and influence managers' perceptions of the relationship between business and society; and such factors shape corporate behaviour and impact CSR activities. To this extent, Doh and Guay (2006) show that institutional differences between the United States and Europe influence corporate strategies related to CSR practices, and thus, CSRD practices and their influential factors and effects are likely to be distinct, depending on countries' institutional settings. Golob and Bartlett (2007), for example, found that CSRD is driven by market pressure in Australia and Slovenia due to the market participants' expectations. However, the reporting issues are different in both countries due to the influence of culture in shaping individuals' expectations, as Australia has Anglo-Saxon tradition while Slovenia has a European tradition. Further, Adams, Hill and Roberts (1998) found the reporting patterns are different across six European countries (France, Germany, The Netherlands, Sweden, Switzerland, and the United Kingdom) that are in a close geographical location and have similar environments. The variation in addressing CSR issues in these countries was found to be due to the differences in accounting, government and legal systems.

Very little is known about CSRD practices in the Saudi Arabian context, which has a unique institutional setting that might have implications for CSRD practices, as discussed in Chapter 3. For example, in Saudi Arabia, Islamic teaching is an important factor influencing the legal, economic and societal systems. Deegan and Unerman (2006) suggest that religion as a cultural factor is a logical argument that could potentially affect how people do business and make decisions. In this regard, Hamid, Craig and Clarke (1993) indicated that Islamic teaching is a particular case that influences the structuring and financing of business in a way that differs from other religions. In support of this, Ali and Al-Aali (2012) found that Saudi managers believe CSR is an obligation to them from an Islamic perspective. Given that, one would expect Saudi firms to have a greater engagement in CSRD practices; hence, exploring CSRD practices in this unique institutional setting would add to the extant literature of CSRD practices.

Secondly, there is a limited number of empirical studies that have examined the relationship between CSRD and corporate governance factors in developing countries (Haniffa and Cooke 2005; Esa and Ghazali 2012; Haji 2013; Khan, Muttakin and Siddiqui 2013; Ntim and Soobaroyen 2013). The literature suggests good corporate governance leads to good disclosure practices because corporate governance systems promote the responsibility and accountability of firms and consider wider stakeholder groups (Haniffa and Cooke 2005; Mangena and Tauringana 2007; Esa and Ghazali 2012; Khan, Muttakin and Siddiqui 2013; Mangena, Tauringana and Chamisa 2012). Prior empirical studies in Saudi Arabia provided limited insights about the role of corporate governance mechanisms in CSRD practices. Besides, the findings from previous empirical studies in relation to CSRD practices and its influencing factors are generally mixed and inconclusive. With the exception of Alotaibi (2016), no prior studies have been identified that examined the role of corporate governance in relation to CSRD practices in the Saudi Arabian context. In this respect, one of the aims of the new Saudi CGR that was released in 2006 is to promote the accountability and transparency of Saudi firms through enhancing the corporate governance systems in the private sector. It is expected, then, that providing empirical evidence on corporate governance factors that might determine CSRD practices in the Saudi Arabian context would enrich the CSRD literature. This is especially reinforced where *Shari'a* is expected to influence Saudi boards' members and government is being a major investor in the Saudi capital market of Tadawul.

Thirdly, the majority of prior empirical studies examined the factors influencing CSRD practices, whether in developed countries (see Branco and Rodrigues 2008; Reverte 2009; Holder-Webb et al. 2009) or in developing countries (see Liu and Anbumozhi 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013). There is, however, a dearth of empirical investigations of the relationship between CSRD practices and firm performance in both groups of countries, as there are a limited number of empirical studies found in developed countries (Prado-Lorenzo et al. 2008; Cormier et al. 2009; Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016), and only two empirical studies found in developing countries (Aras, Aybars and Kutlu 2010; Cheng, Lin and Wong 2016).

With the exception of Alotaibi (2016)[17], no studies have been identified in the Saudi Arabian context that examined the benefits of engaging in CSRD practices. Hence, the current research study is expected to generate new insights to fill the gap in the area of CSRD practices and firm performance. This is particularly important in Saudi Arabia, where the government makes efforts to diversify the economy and attract foreign investment. As discussed in Chapter 3, the Saudi Arabian government encourages the private sector to contribute more to the social and economic development through raising awareness about CSR importance, conducting CSR forums and introducing CSR initiatives and programmes. Understanding the benefits of CSR, then, could incentivize the Saudi private sector toward more CSR engagements.

Fourthly, a large number of studies focused on one aspect of CSRD. For example, Cormier et al. (2009) focused only on the disclosure of social and human capital in Canada, while Ntim and Soobaroyen (2013) focused only on the disclosure of Black Economy Empowerment in South Africa. Other studies focused on environmental disclosure: Clarkson et al. (2008) in the United States; Clarkson, Overell and Chapple (2011) and Rao, Tilt and Lester (2012) in Australia; da Silva Monteiro and Aibar-Guzmán (2010) in Portugal; Brammer and Pavelin (2006; 2008) in the United Kingdom; Liu and Anbumozhi (2009) in China; and finally, Al-Khuwiter (2005) in Saudi Arabia. This indicates that environmental disclosure, in particular, received more attention from academia. Studying the various aspects of CSR in terms of both social and environmental issues would arguably provide better understanding of CSR construct in the investigated context. Such issues include employees and public relations, health and safety, training and education, diversity and equal opportunities, local communities, public policy, anti-competitive behaviour,

[17] The differences of the current research study and the study conducted by Alotaibi (2016) will be discussed by the end of this section.

product and services, market communications, energy, water and emissions (Gamerschlag, Möller and Verbeeten 2011; Qiu, Shaukat and Tharyan 2016).

Fifthly, prior empirical studies generally focused on large firms, such as Brammer and Pavelin (2004; 2006; 2008), Ghazali (2007), Maghrabi (2008), da Silva Monteiro and Aibar-Guzmán (2010), Gamerschlag, Möller and Verbeeten (2011), Post, Rahman and Rubow (2011), Rao, Tilt and Lester (2012), Jizi et al. (2013), Giannarakis, Konteos and Sariannidis (2014), Alomar (2014), and Qiu, Shaukat and Tharyan (2016). This indicates that the findings from prior empirical studies might be biased and limited to large firms only, and cannot be generalized or extended to small- and medium-size firms (SMEs). It is arguable, then, that taking into account all firm sizes would enrich CSRD literature by producing more reliable results (Murillo and Lozano 2006; Jamali and Mirshak 2007).

Sixthly, a large number of prior studies in both groups of countries used either cross-section data such as Roberts (1992), Naser et al. (2006), Ghazali (2007), Brammer and Pavelin (2004; 2006; 2008), Branco and Rodrigues (2008), Holder-Webb et al. (2009), Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009), Liu and Anbumozhi (2009), Post, Rahman and Rubow (2011), Amran and Haniffa (2011), Rao, Tilt and Lester (2012), Chan, Watson and Woodliff (2014), and Juhmani (2014); or short observation windows, (less than 3 years) such as Haniffa and Cooke (2005), Reverte (2009), da Silva Monteiro and Aibar-Guzmán (2010), Esa and Ghazali (2012), Haji (2013) and Alotaibi (2016). This indicates the findings from prior empirical studies provided limited insights into how CSRD changes over time and might be biased on identifying the actual factors influencing CSRD practices and its effects on firm performance (Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). Examining longer periods of CSRD practices then contributes to the CSRD literature by taking a longitudinal approach to describe how CSRD in Saudi Arabia has evolved recently. Studying the variations over time on a yearly basis has the advantage of tracing the trend of CSRD practices, and their influential factors and effects. It provides more explanation of Saudi firms' involvement in CSRD practices in the study context. Furthermore, a longitudinal approach helps to find the cause or causes for the patterns and sequences in the social phenomenon because it contains both cross-sectional and time-series characteristics, consequently better uncovering dynamic relationships (Hsiao 2014). Moreover, with the longer window of analysis, CSRD and its influential factors would be better understood (Mahadeo, Oogarah-Hanuman and Soobaroyen 2011).

Seventhly, a large number of prior studies that took a longitudinal approach have employed the Pooled Ordinary Least Square (POLS) technique to estimate the econometrics model of panel data, such as Haniffa and Cooke (2005), Reverte (2009), da Silva Monteiro and Aibar-Guzmán (2010), Gamerschlag, Möller and Verbeeten (2011), Mahadeo, Oogarah-Hanuman and Soobaroyen (2011), Esa and Ghazali (2012), Haji (2013), Khan, Muttakin and Siddiqui (2013), Ntim and Soobaroyen (2013), Muttakin and Khan (2014) and Alotaibi (2016). POLS may be problematic and inefficient in the panel regression model (Mangena, Tauringana and Chamisa 2012) because it ignores the structure of the panel data (Hsiao 2014; Baltagi 2008). Given that, employing more sophisticated models of panel data, such as individual effects models, would produce reliable results (Cameron and Trivedi 2009; Kennedy 2008; Koop 2008) and advance the CSRD practices literature.

Finally, the current research study is similar to Alotaibi (2016) in exploring the factors and effects of CSRD practices in Saudi Arabia. However, there is a number of important differences between Alotaibi (2016) and the current study. Firstly, on a theoretical level, the current research employed a wider theoretical framework by including stewardship and institutional theories that have not been used by Alotaibi (2016). Given the distinct feature of Saudi Arabian society and the importance of Islamic *Shari'a* in its daily life, it is arguable that stewardship and institutional theories are important perspectives that might explain Saudi firms' behaviour and practices. Secondly, on the methodological level, Alotaibi (2016) used a short observation window of two years. This, as indicated earlier, could provide limited insights into how CSRD changes over time. By contrast, the current research study employs a longer observation window of five years. This longer timeline facilitates better understanding of the dynamics of the data in panel analysis (Kennedy 2008). Thirdly, Alotaibi (2016) used the OLS technique to estimate the econometric model, which is problematic in panel data models and inefficient. The current study employed the individual effects model to estimate and analyse the regression of panel data. Fourthly, on the analytical level, Alotaibi (2016) did not examine the trend of CSRD practices in Saudi Arabia. The current research analyses the trend of CSRD practices over a five-year period to better understand the patterns of Saudi listed firms' engagement in CSR activities. Finally, Alotaibi (2016) only examined the aggregated level of CSRD practices of Saudi listed firms. Besides examining the aggregated level of CSRD practices of Saudi listed firms, the current study examines the two main categories of CSRD, namely the environmental disclosure and social disclosure, as well as the *Saudization* subcategory for its importance to Saudi society and government, as discussed in Chapter 3.

To sum up, the aforementioned points highlighted the limitations of prior empirical studies in relation to CSRD practices literature and addressed the literature gap. The current research study attempts to contribute to the CSRD literature by overcoming these limitations and filling the literature gap.

4.4 Summary

The aim of the current chapter is to focus on discussing the different theoretical perspectives in the literature, as well as review the empirical literature of the provision of CSR information, as the main objective of this research is to explore the factors and effects of CSRD practices in Saudi Arabia. The chapter proceeded by providing the theoretical framework in which theories that explain the CSRD practices are discussed. In this respect, several theoretical perspectives were presented, including agency theory, stewardship theory, stakeholder theory, resource dependence theory and institutional theory. The chapter also reviewed the prior empirical literature in relation to CSRD practices in both developed countries and developing countries. The CSRD literature regarding the factors influencing CSRD practices in relation to corporate governance mechanisms, such as board characteristics and ownership structure; and firm-specific factors, such as firm size, industry type, age, profitability and gearing were presented for each group of countries. Furthermore, the literature concerning the benefits of engaging in CSRD practices was also presented for each group of countries. After that, the chapter went on to discuss the Saudi Arabian literature regarding CSRD practices, in particular, and voluntary disclosure, in general. The chapter then concluded by highlighting the limitations of prior studies and the literature gap that the current research study is trying to fill. This chapter and Chapter Three are meant to build the research conceptual framework discussed in the next chapter.

5 Conceptual Framework and Hypotheses Development

5.1 Introduction

The previous chapters provided the theoretical and empirical grounds for this research. Particularly, Chapter 2 provided a thorough discussion of CSR, the research concept under investigation. Chapter 3 discussed the Saudi Arabian environmental settings, which is the research context. Chapter 4 discussed the theoretical explanations and reviewed the prior empirical investigations of CSRD practices. Building upon the previous chapters, this chapter develops a conceptual framework for understanding CSRD practices in Saudi Arabia.

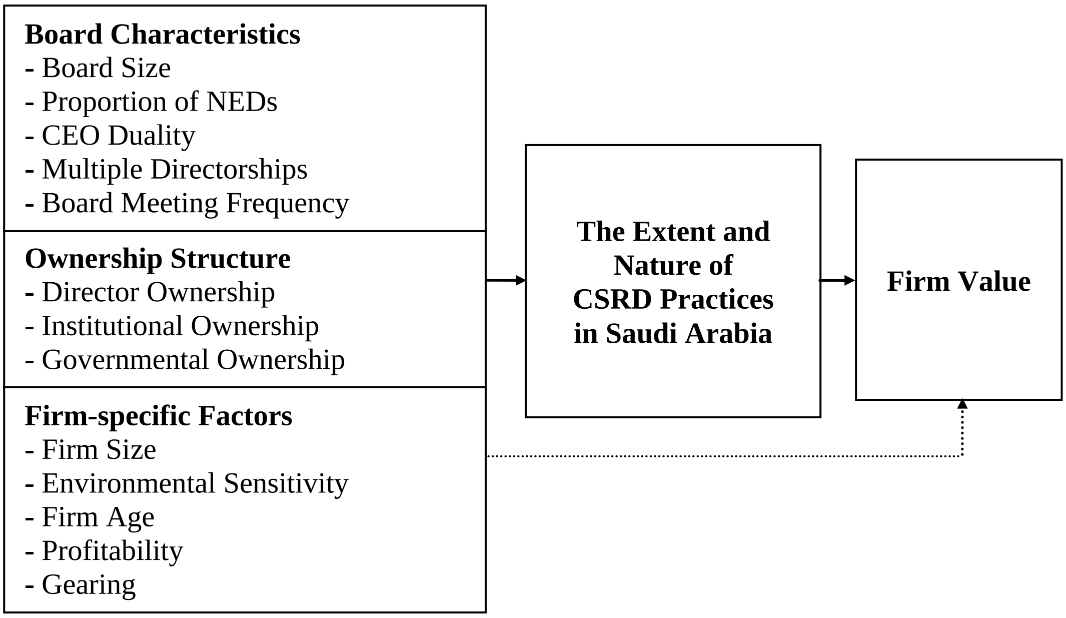
Section 5.2 provides a general overview of the adopted research conceptual framework for understanding CSRD practices in Saudi Arabia. Next, Section 5.3 develops research hypotheses by breaking down the research conceptual model to further explain the factors influencing CSRD practices and how CSRD practices effect firm value. Particularly, Section 5.3.1 discusses the impact of board characteristics on CSRD practices. Section 5.3.2 explains how ownership structure holds influential power on the extent and nature of CSRD, while Section 5.3.3 focuses on firm-specific characteristics as CSRD determinant factors. After that, CSRD's effect on firm value is the focus of Section 5.3.4. Finally, the chapter concludes with a summary in Section 5.4.

5.2 CSRD Conceptual Model in Saudi Arabia

A research conceptual framework "*explains, either graphically or in narrative form, the main things to be studied—the key factors, concepts, or variables—and the presumed relationships among them*" (Miles and Huberman 1994, page 18). It is the researcher's representative model that maps what is being investigated and describes the research problem through a simplified construction (Miles and Huberman 1994; Curwin and Slater 2007). The conceptual framework could be a collection of ideas or concepts that are logically and coherently integrated together based on theoretical-driven assumptions to guide the empirical investigation (Rudestam and Newton 2014).

It is, therefore, useful to provide a conceptual framework to clarify the research stand and direction. This helps to guide the current research with the following benefits. First, a conceptual framework helps define the boundaries of the research framework and thus specifies the focus of the empirical investigation (Miles and Huberman 1994). Second, it helps integrate the concepts and variables and establishes the research assumptions about the expected relationships between those concepts and variables (Rudestam and Newton 2014). Third, it helps identify the required data for the research and allocated the data into an appropriate analysis process (Miles and Huberman 1994). Finally, it selects the appropriate technique for analyzing the data and determining the empirical investigation outcomes in light of the research framework (Rudestam and Newton 2014).

Figure 5.1: Framework for understanding CSRD Practices in Saudi Arabia



The conceptual framework for the current research study was developed from the theoretical and empirical literature reviewed in Chapter 4, and is underpinned by the contextual setting discussed in Chapter 3. The model employed a multi-theoretical perspective framework including agency theory, stewardship theory, stakeholder theory, resource dependency theory and institutional theory as suggested in the CSRD literature (see Deegan and Unerman 2011; Post, Rahman and Rubow 2011; Rao, Tilt and Lester 2012; Ntim and Soobaroyen 2013). Generally, the literature review demonstrated that CSRD practices are affected by different antecedent factors. The model posits that CSRD practices in Saudi Arabia are motivated by corporate governance and firm-specific factors, which in turn are influenced by the wider Saudi Arabian environment. The corporate governance factors are divided into two categories, namely, board characteristics and ownership structure. Accordingly, the model provides three sets of variables: i) Board Characteristics, which includes six variables (Board Size, the Proportion of Non-Executive Directors (NEDs), Chief Executive Officer (CEO) Duality, Chairperson Holding Multiple Directorships, Directors Holding Multiple Directorships and Board Meetings Frequency); ii) Ownership Structure, which includes three variables (Director Ownership, Institutional Ownership and Governmental Ownership); and iii) Firm-specific Factors, which includes five variables (Firm Size, Environmental Sensitivity, Firm Age, Profitability and Gearing). In the model, these three sets of variables are expected to influence Saudi firms' CSRD practices, which in turn is expected to affect firm value. The corporate governance and firm-specific factors are also expected to directly affect firm performance. The following section explains how these affect CSRD practices as well as how CSRD practices influence firm value.

5.3 Hypotheses Development

As noted above in Figure 5.1, CSRD practices are influenced by corporate governance and firm-specific factors. In addition, CSRD in turn impacts firm performance. In this section, the hypotheses relating to CSRD, corporate governance factors and firm-specific factors are developed underpinned by the theoretical and empirical literature and the contextual setting. As in the figure above, the corporate governance factors are divided into board structure and ownership structure.

5.3.1 CSRD and Board Characteristics

The board of directors is a significant part of a firm's corporate governance system. This is because the board of directors is seen as the apex that oversees all the operations and strategies in conducting a firm's business (Fama and Jensen 1983; Jensen 1993). Among the main functions of an efficient and effective board of directors is to monitor and control the management behaviour, provide strategic direction, plan for the firm's success and growth, ensure the firm's compliance to governmental legislations and societal expectations and generally enhance the firm's governance system, including transparency and disclosure practices (Mallin 2013; Solomon 2013). Furthermore, a well-functioning board of directors depends on its formation and diligence.

In Saudi Arabia, the Saudi regulator recognizes the significance of the board of directors in driving CSRD practices in the private sector and as the first means for achieving good corporate practices (Ali and Al-Aali 2012; Al Kahtani 2014). In this context, the Saudi CGR has identified that the main functions of Saudi boards are to set strategic plans and main objectives, lay down rules for internal control systems and outline policies that regulate the relationship with stakeholders and protecting their respective rights (CGR 2006). Furthermore, it provides a number of recommendations for protecting shareholders' and other stakeholders' interests and criteria for good board formation. The current research examines six board variables in light of CSRD practices in the Saudi Arabian context, namely, board size, non-executive directors (NEDs), CEO duality, chairperson, chairperson holding multiple directorships, directors holding multiple directorships and meeting frequency. The following sections discuss each variable individually and its relationship with CSRD practices.

5.3.1.1 Board Size

Drawing from the agency perspective, board size can be seen as a major factor that may influence firms' transparency and performance (Fama and Jensen 1983; Jensen 1993). In this context, board members are an effective governance mechanism in monitoring and controlling the management and, thus, reducing agency problems (Rao, Tilt and Lester 2012; Ntim and Soobaroyen 2013). Board members are elected by shareholders to represent them and to protect their interests, and as such, shareholders expect board members to encourage strategic business activities, such as engagement in CSR initiatives, and to provide a high level of disclosure (Healy and Palepu 2001; McWilliams, Siegel and Wright 2006). However, the effectiveness of such mechanism may depend on the number of members on the board (Lipton and Lorsch 1992; Rao, Tilt and Lester 2012; Haji 2013).

When board size is small, the board members have the advantage of coordinating and communicating more effectively and efficiently (Jensen 1993; Beasley 1996; Bennedsen, Kongsted and Nielsen 2008). This is because fewer members on the board indicates that there are fewer conflicting thoughts expected to occur among members. In this situation, board members are likely to reach swift agreements, expediting the decision making process (Yermack 1996; Rao, Tilt and Lester 2012; Haji 2013). However, because of the limited number of members, they are likely to be under work pressure and may become overloaded with tasks and duties, which might affect the board’s function to monitor and control management (Jensen 1993; Haji 2013). This may result in the board’s failure to direct the firm management to strategically promote CSR engagement activities and to communicate their social performance through disclosure (Jizi et al. 2013).

On the other hand, large boards may offer an effective monitoring and controlling function due to the adequate number of members on the board (Jensen 1993). Thus, large boards may give the indication that shareholders’ interests are protected because it is unlikely for an individual to dominate a large board (Eisenberg, Sundgren and Wells 1998; Jizi et al. 2013). Furthermore, large boards tend to have diversified knowledge, background and expertise, which would widen the prospect of bringing in and exchanging new ideas (Dalton et al. 1999; Ntim and Soobaroyen 2013; Haji 2013). Such large boards may inspire the members to promote socially responsible activities and are likely better able to direct the firm management to act in a socially responsible manner and subsequently disseminate related information (Esa and Ghazali 2012; Jizi et al. 2013).

Prior empirical investigations suggested a positive relationship between board size and CSRD practices. Rao, Tilt and Lester (2012) found that the extent of environmental disclosure and board size were positively associated in Australia based on a sample of the largest 100 listed firms’ annual reports in 2008. In the US, Jizi et al. (2013) found the level of CSRD was positively related to board size, as indicated in the US listed banks’ annual reports for the period from 2009 to 2011. Ntim and Soobaroyen (2013) examined the black economic empowerment disclosure as one aspect of CSRD in South Africa and found it to be positively associated with board size based on a sample of 75 listed firms in the Johannesburg Stock Exchange for the period from 2003 to 2009. Esa and Ghazali (2012) examined the influence of board size on the extent of CSRD among government-linked firms in Malaysia for the years 2005 and 2007 and found it positively associated. By contrast, Haji (2013) examined the influence of board size on the extent of CSRD among Malaysian listed firms for the years 2006 and 2009 and found a significant positive relationship only in 2006, while 2009 results did not show any significance.

In the Saudi Arabian context, the Saudi CGR recommends that the board size should be between 3 and 11 members (CGR 2006). Accordingly, this range of recommended size gives Saudi firms the flexibility to determine the optimum board size subject to the firm's characteristics and the complexity of the business. Empirically, Alotaibi (2016) found the level and quality of CSRD were positively related to board size in Saudi Arabia. Al-Janadi, Rahman and Omar (2013) found a positive relationship between the quality of voluntary disclosure practices and board size in Saudi Arabia. Albassam (2014) found the voluntary provision of corporate governance disclosure had a positive association with board size in Saudi Arabia. Arguably, firms with a large board size in Saudi Arabia may promote social issues and communicate relevant performance. Accordingly, the current research study hypothesizes that:

H1: There is a positive relationship between CSRD practices and board size of Saudi listed firms.

5.3.1.2 Proportion of Non-Executive Directors (NEDs)

Agency theory suggests that the existence of non-executive directors (NEDs) on a board would increase the efficiency of the corporate governance system because they have the authority and power to monitor the management behaviour and take the necessary actions to limit suspicious opportunistic self-interest behaviour, thereby protecting shareholders' interests (Jensen and Meckling 1976; Fama 1980; Fama and Jensen 1983; Post, Rahman and Rubow 2011). NEDs are considered to be internal control mechanisms authorized by shareholders to make decisions on their behalf in monitoring firms' management (Fama 1980; Fama and Jensen 1983; Beasley 1996). In this context, NEDs have the capability to mitigate agency problems by ensuring that management pursues those CSR activities that are relevant to shareholders' interests and that they disclose such information. Such mitigation can demonstrate that engagement in CSR activities are not to pursue self-interests, but rather that they are part of the firm's strategic agenda to enhance its competitiveness position (McWilliams, Siegel and Wright 2006; Jizi et al. 2013). CSR activities require that firms spend their resources, and, thus, NEDs need to make decisions about in which CSR issues the firm should invest and create benefits for shareholders (McWilliams, Siegel and Wright 2006; Dhaliwal et al. 2011).

Furthermore, stewardship and stakeholder theories suggest that directors focus on the collective benefits rather than personal benefits and have a moral imperative towards shareholders and other stakeholders (Davis, Schoorman and Donaldson 1997b; Freeman 1984). Accordingly, the existence of NEDs on boards would ensure protections for not only the shareholders' interests, but also other stakeholders' interests by responding to social concerns and satisfying social obligations (Haniffa and Cooke 2005; Ntim and Soobaroyen 2013). In this context, NEDs have the capacity to put more pressure on corporate management to engage in CSRD practices as a way of managing corporate stakeholder relationships and dialogues. In essence, NEDs are expected to be more in alignment with external expectations than insider executives are (Brammer and Pavelin 2006; Brammer and Pavelin 2008), as they do not occupy official positions in firms. They are expected to be independent from the influence of the CEO and other insider executives, which means they are unlikely to collude with such management against shareholders' and other stakeholders' interests (Davis, Schoorman and Donaldson 1997b; Post, Rahman and Rubow 2011; Rao, Tilt and Lester 2012; Jizi et al. 2013). In this case, NEDs may encourage CSRD practices if they believe that attending social issues would benefit the long-term objectives of the firm rather than being more attentive to short-term economic benefits, like insider executives would be (Post, Rahman and Rubow 2011; Jizi et al. 2013).

Prior empirical investigation has suggested a positive relationship between NEDs and CSRD practices. In the US, Post, Rahman and Rubow (2011) found that firms with higher proportions of outside directors seemed to favour environmental CSRD and ranked higher in KLD. Similarly, Jizi et al. (2013) found that the level of CSRD was positively related to NEDs among the US listed banks. In Australia, Rao, Tilt and Lester (2012) found that NEDs on Australian firms' boards had a significant positive impact on environmental disclosure. Ntim and Soobaroyen (2013) also documented a positive significant relationship between the disclosure of black economic empowerment and NEDs among South African listed firms. Khan, Muttakin and Siddiqui (2013) found that NEDs were positively and significantly related to the extent of CSRD in Bangladesh based on 580 firm-year observations of manufacturing firms listed from 2005 to 2009 on the Dhaka Stock Exchange. In the Malaysian context, the relationship between NEDs and CSRD practices is not clear, however. While Haniffa and Cooke (2005) found a negative association between NEDs and the extent and variety of CSRD, Esa and Ghazali (2012) found a weak association at a 10% level of significance. Haji (2013), however, did not document any relationship between CSRD practices and NEDs in the same context.

In the Saudi Arabian context, the Saudi CGR defines a non-executive director as "[*a*] *member of the Board of Directors who does not have a full-time management position at the company, or who does not receive monthly or yearly salary*" (CGR 2006, page 6). The Saudi CGR also defines an independent director as "[*a*] *member of the Board of Directors who enjoys complete independence*" (CGR 2006, page 5). The Saudi CGR recommends that NEDs should constitute the majority of members on a board (CGR 2006). They do not, however, explain whether NEDs have a different role or how those non-executive independent directors can be distinguished from non-executive directors except from the provision of some examples that might constitute an infringement of the independency if found. Such examples include shareholding of 5% or more, being an executive in the firm during the preceding two years or being a first degree relative[18] of any board member or senior executive (CGR 2006).

Empirically, prior studies in Saudi Arabia produced mixed results. Alotaibi (2016) did not find any association between NEDs and the extent of CSRD in Saudi Arabia. However, he found that NEDs were negatively

[18] A first degree relative is father, mother, spouse and children (CGR 2006).

associated with the quality of CSRD. Al-Moataz and Hussainey (2013) also found a negative relationship between NEDs and the disclosure level of corporate governance information, while Albassam (2014) found that NEDs on Saudi board of directors negatively affected the voluntary provision of corporate governance disclosure. By contrast, Al-Janadi, Rahman and Omar (2013) found NEDs to play a major role in providing voluntary disclosure in Saudi Arabia. Given that the results are inconclusive and unclear in the Saudi Arabian context as well as taking into account that the majority of CSRD literature documented a positive impact of NEDs on CSRD practices, the current research study hypothesizes that:

H2: There is a positive relationship between CSRD practices and the proportion of non-executive directors on boards of Saudi listed firms.

5.3.1.3 CEO Duality

CEO duality refers to a situation where the roles of the board chairperson and CEO are combined together and assigned to one individual to perform. From an agency point of view, separating the roles of CEO and the board chairperson in a board of directors is preferable (Ntim and Soobaroyen 2013), since splitting the board chairperson and CEO roles could enhance board independence and subsequently improves the monitoring function of the board of directors (Jensen and Meckling 1976; Jensen 1993). The separation of the two roles would allow the independent chairperson to lead and chair the board objectively and oversee and monitor the CEO role (Al-Janadi, Rahman and Omar 2013; Jizi et al. 2013).

In this context, the CEO is expected to run and manage the firm in the shareholders' best interests. However, in situations where the roles are combined, that is, CEO duality where the CEO is also the board chairperson, there is an opportunity for the CEO to self-serve their own interests (Jensen and Meckling 1976; Jensen 1993). Generally speaking, the CEO is closer to and more aware of the firm's activities and has instant access to information. As a result, they have the advantage of exploiting this access and could even hide material information from other board members, especially NEDs (Jizi et al.

2013). Furthermore, such advantage gives greater power to the CEO to influence the other board members by limiting the firm's activities to only those that have direct economic performance, neglecting to take into account the firm's social performance and other non-financial stakeholders (Khan, Muttakin and Siddiqui 2013).

On the other side of the CEO duality argument, however, stewardship theory maintains that CEO duality might be more effective and could bring unity and harmony to the board of directors, thereby creating better value for shareholders' interests (Donaldson and Davis 1991; Davis, Schoorman and Donaldson 1997b). In this case, separating the board chairperson and CEO roles is not preferable because CEOs usually are elected to chair the board of directors based on their qualities, expertise, talent, reputation and history of success (Khan, Muttakin and Siddiqui 2013; Jizi et al. 2013). CEOs with successful track records tend to maintain their record of successes, protect their reputation and secure their future career prospects (Jizi et al. 2013). Consequently, they tend to be good stewards and are trustworthy to run and manage the firm's resources to achieve the purpose of its collective objective rather than behaving in individualistic, opportunistic, self-serving ways (Davis, Schoorman and Donaldson 1997b). Being good stewards and trustworthy, CEOs have a moral imperative to act in the shareholders' interests for firm performance and other nonfinancial interests. Thus, CEOs, when also the board chair, are likely to communicate more effectively with stakeholders and use their expertise, talents and power to promote CSR activities that would benefit the firm in the long run and that are favourable to other stakeholders (Donaldson and Davis 1991; McWilliams, Siegel and Wright 2006).

Prior empirical investigations are limited and inconclusive regarding the influence of CEO duality on CSRD practices. In this vein, Ntim and Soobaroyen (2013) examined whether adopting a dual leadership structure in South Africa would enhance disclosure practices and performance. The authors argued that it is required by Johannesburg listing rules to separate the CEO and board chairperson roles. Consequently, this method is expected to positively affect CSRD practices in South Africa. However, the study could not document any significant effects in terms of the disclosure of black economic empowerment. In a similar vein, Khan, Muttakin and Siddiqui (2013) examined whether CEO duality would negatively affect CSRD practices. The authors argued that family ownership is the dominant form in Bangladesh, and it is therefore not unusual that the roles of CEO and the chairperson are held by two individuals from the same family (i.e., the father is the chairperson and the son is the CEO). The study findings did not indicate any significant association in the Bangladeshi context. In the US, Jizi et al. (2013) argued that being both a CEO and the chairperson of the board of directors would enable the CEO to have superior power over other board members and influence their decisions. Consequently, the CEO may further self-serve their interests through CSR rather than shareholders' interests. Given that, they expected a negative relationship between CEO duality and CSRD practices in the US listed bank. However, the study findings documented a significant positive relationship between CEO duality and CSRD practices in the US, according to the study sample. By comparison, Giannarakis, Konteos and Sariannidis (2014) found that CEO duality had a significant positive impact on social disclosure based on large-sized United States firms.

In the Saudi Arabian context, the Saudi CGR recommends splitting the roles of CEO and chairperson in the board of directors. It stipulates that the board of directors chairperson should not be conjoined with any other executive position, including CEO, the managing director or the general manager (CGR 2006). However, the stewardship notion particularly might be more relevant to Saudi Arabia where Islamic teaching promotes a sense of responsibility in society. Specifically, the concepts of *Almaslaha*, which promotes benefiting others and gives superiority to public interests, and *Alistikhlaf*, which implies to be a steward and accountable, are expected to provide spiritual motive for any Saudi board director to do the right thing regardless of if the Saudi board of directors has combined or separated roles for the CEOs and board chairpersons.

Empirically, prior studies in Saudi Arabia are inconclusive. Alotaibi (2016) did not find any significant relationship between CEO duality and the extent or quality of CSRD practices in Saudi Arabia. Al-Janadi, Rahman and Omar (2013) found that the separation of CEO and the chairperson roles was significantly and positively related to voluntary disclosure. Albassam (2014) found that CEO duality had a positive effect on ROA, while it did not show any significant effect on market value as measured by Tobin's Q. Given that the results were inconclusive and unclear in prior literature generally and in the Saudi Arabian context particularly, the current research study hypothesizes that:

H3: There is no relationship between CSRD practices and CEO duality in boards of directors of Saudi listed firms.

5.3.1.4 Multiple Directorships

Multiple directorships is a concept where a director is a member of more than one board (Haniffa and Cooke 2002; Haniffa and Cooke 2005; Haniffa and Hudaib 2006). In such situations, directors are likely to be more exposed to new ideas, tactics and strategies that are subjects of other boards. Such experience would enable directors to put forward proposals in managing and negotiating access to critical resources for similar cases facing other firms (Haniffa and Cooke 2005; Haniffa and Hudaib 2006). In this context, directors could bring in new experience, knowledge and ideas and can communicate with other boards' members as a way to increase a firms' resources (Pfeffer and Salancik 2003). CSR issues could be one type of idea to exchange, as it has been an increasingly disclosed topic in firms' annual reports in recent years (KPMG 2013; Haniffa and Cooke 2005).

Likewise, directors with multiple directorships and board chairpersons with multiple directorships promote CSRD practices for the firm because the board chairperson has the role of setting the board's agenda, chairing and managing the board meetings, encouraging active engagement by all members, leading the discussion and helping to formulate strategic plans (Jizi et al. 2013). Such roles empower the chairperson to use their power and influence to discuss contemporary issues, such as CSR, a matter that may lead to increasing the firm's legitimacy and facilitating access to more resources (Deegan 2002; Pfeffer and Salancik 2003; Haniffa and Cooke 2005).

Prior empirical investigations are limited and inconclusive regarding the relationship between multiple directorships and CSRD practices. In this context, Haniffa and Cooke (2005) examined the influence of the chairperson with multiple directorships on CSRD practices in the Malaysian context. CSRD was measured using two approaches: by the presence and absence of information and by word count. The authors focused on non-financial listed firms for the years 1996 and 2002. The study findings revealed that there was a positive and significant association between the chairperson with multiple directorships and CSRD practices as measured by word count for both years; whereas, it was only confirmed in year 1996 when CSRD practices were measured by the presence and absence of information. Haniffa and Cooke (2002) did not document any significant relationship between both the chairperson and the other directors with multiple directorships and voluntary disclosure in the Malaysian context, while Haniffa and Hudaib (2006) found multiple directorships positively and significantly enhanced firm performance in Malaysia.

In the Saudi Arabian context, multiple directorships prevails among Saudi listed firms, though research on multiple directorships in the Saudi context has not been conducted yet. Arguably, multiple directorships would benefit the other board members by bringing social issues discussed on other boards to the table. Given the engagement in and disclosing of CSR issues that are contemporary issues among Saudi firms, one would expect that the Saudi board of directors would discuss and promote such issues for the betterment of a firms' success. Accordingly, the current research study hypothesizes that:

H4: There is a positive relationship between CSRD practices and the chairperson with multiple directorships in the board of directors of Saudi listed firms.

H5: There is a positive relationship between CSRD practices and the directors with multiple directorships in the board of directors of Saudi listed firms.

5.3.1.5 Board Meeting Frequency

Board meetings may be the primary way for the board of directors to function and may distinguish a good board of directors (Van den Berghe and Levrau 2004). The board of directors must maintain a certain level of activity through meetings, especially in situations where the firm may face threats such as management malpractice (Khanchel 2007; Al Kahtani 2014). The commitment and activeness of the board of directors may be judged by how frequently they meet to oversee and discuss firm performance and to address critical issues facing the firm, such as those concerning CSR (Khanchel 2007; Haji 2013). Board meetings then provide strong monitoring and controlling capabilities for the board of directors, thus reducing agency problems by ensuring that the management pursues those issues pertaining to the firm's welfare (Fama and Jensen 1983; Jensen 1993). By meeting more frequently, directors may demonstrate the effectiveness and efficiency of the board and have more chances to encourage open discussions and exchanges of information, and they may devote time to rectifying issues that may deter firm growth, consequently promoting CSRD practices (Vafeas 1999; Abdul Rahman and Haneem 2006; Haji 2013).

Prior empirical investigations are limited and inconclusive regarding the impact of board meetings on CSRD practices. In this context, Haji (2013) argued that active boards in the Malaysian context are more likely to strategically engage and promote CSR activities to enhance the corporate image and reputation. He conducted a study, therefore, to examine whether boards of directors that meet more frequently would positively impact CSRD practices. Based on a sample of 170 firm year observations for the years 2006 and 2009, the study failed to document any significant association between the extent and quality of CSRD and board meetings. In the US, Laksmana (2008) examined the effect of board meetings as a proxy for board governance quality on the board disclosure of compensation practices. The study found that boards of directors that meet more frequently tend to be more transparent about compensation practices. In Australia, O'Sullivan, Percy and Stewart (2008) found that board meeting frequency was positively related to the disclosure of forward-looking information in 2000 but not in 2002. Allegrini and Greco (2013) documented a positive influence of board meetings on the level of voluntary disclosure among 177 non-financial Italian listed firms in 2007.

In the Saudi Arabian context, the Saudi CGR encourages the board of directors to meet regularly and to be open to debate in order to support the monitoring and controlling functions of the board. While the Saudi CGR does not stipulate how frequently the board should meet during the fiscal year, Article 16, does list some recommendations for what might constitute an effective board meeting. Some recommendations include: meeting regularly upon request by the board chairperson, meeting upon the request of at least two members, preparing and sending the meeting agenda and other documentation to the members in a sufficient time prior to the meeting, endeavouring to attend the meetings, allowing sufficient time for the board members to prepare for the meetings and perform their duties and documenting and keeping records of the minutes of the meetings (CGR 2006).

Empirically, Alotaibi (2016) failed to document any significant relationship between Saudi board meetings and CSRD practices. Arguably, board meetings give an indication of the board's commitment and attentiveness, and consequently it is expected to enhance the board effectiveness and efficiency. Furthermore, frequent board meetings would facilitate sharing of information and open the chances to promote the discussion and engagement in CSRD practices. Accordingly, the current research study hypothesizes that:

H6: There is a positive relationship between CSRD practices and the frequency of the board meetings of Saudi listed firms.

5.3.2 CSRD and Ownership Structure

Ownership structure is an essential part of a firm's corporate governance system (Wang et al. 2015). The ownership concentration level plays a major role in influencing firms' policies and practices (Rao, Tilt and Lester 2012). In this sense, ownership concentration level refers to the extent to which a firm's stock shares are distributed to its owners (Brammer and Pavelin 2006; Brammer and Pavelin 2008). When a firm's stock shares are widely distributed or dispersed, the owners have little control or influence on the firm's management, and, thus, they need to increase their monitoring activities to mitigate potential conflicts of interest between the owners and the management (Gamerschlag, Möller and Verbeeten 2011). Alternatively, a firm's management may increase the firm's transparency and disclosure practices to meet the owners' needs (Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez 2009; Haji 2013). By contrast, when shares are closely held or concentrated, the problem of conflicts of interest between the owners and the managers is alleviated, since the management would be under direct control and monitoring by a few large owners (Ghazali 2007; Rao, Tilt and Lester 2012). These few large owners often have direct access to the firm's information and its board of directors, and consequently they may influence the transparency and disclosure practices according to their needs (Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez 2009; Gamerschlag, Möller and Verbeeten 2011).

In the Saudi Arabian context, the dominance of family, institutions and government ownership is a noticeable feature in the Saudi market (Hussainey and Al-Nodel 2008; Al Kahtani 2014). Accordingly, the level of pressure on Saudi firms to engage in CSRD practices can be determined by the firm's ownership structure. The current research uses three ownership variables to be examined in light of CSRD practices in Saudi Arabia: director ownership, institutional ownership and governmental ownership. The following sections discuss each variable individually and its relationship with CSRD practices.

5.3.2.1 Director Ownership

Agency theory assumes that there will always be some divergence of interests between the management and shareholders due to the different pursued goals and different attitude toward risk bearing (Eisenhardt 1989). Directors are likely to take the opportunity to pursue their own personal interests on account of the shareholders' interests because directors enjoy more access to information than do the shareholders (Healy and Palepu 2001). This requires the shareholders to find a verification mechanism to ensure that the directors' behaviour is aligned with the shareholders' interests. One mechanism available to bring convergence between the management and the shareholders is to offer the directors some equity shares (Jensen and Meckling 1976; Jensen 1993).

In essence, when director ownership is low, an agency problem is highly likely to occur because the directors do not have sufficient incentives to act in the best interests of the shareholders (Eng and Mak 2003). Consequently, to mitigate this problem shareholders need to verify the directors' decisions by increasing the monitoring function. However, this may incur expensive monitoring costs (Jensen and Meckling 1976; Fama and Jensen 1983).

Alternatively, the directors may increase the disclosure practices to reduce such agency costs (Jensen and Meckling 1976; Eng and Mak 2003; Mangena and Pike 2005; Ghazali and Weetman 2006).

By contrast, a high director ownership is expected to help align directors' and shareholders' interests and thus leads to alleviate the agency problem (Jensen and Meckling 1976; Haji 2013). Directors will bear similar consequences to outsider shareholders as a result of their decision making (Ghazali and Weetman 2006). In this scenario, shareholders verify that the directors' actions and performance will be in line with their interests because they will share the rewards of maximizing wealth; otherwise, the directors' financial stake will decrease with a decision destroy the wealth (Ghazali and Weetman 2006; Haji 2013). Thus, both the directors' and shareholders' interests would converge into maximizing the firm's value. Directors would be, therefore, less pressured to increase disclosure practices (Haji 2013) as an alternative mechanism to control the agency problem, since director ownership offers some sort of similar protection to both outside shareholders and director shareholders (Jensen and Meckling 1976; Eng and Mak 2003; Ghazali and Weetman 2006).

Accordingly, such firms with high director shareholders tend to be family-owned and controlled firms where the board of directors is likely to be dominated by family members, and are thus likely to be less motivated to disclose social and environmental information (Khan, Muttakin and Siddiqui 2013), since public demand is relatively weak in such firms. Thus, there is not sufficient pressure on the firms to be actively engaging in CSR concerns (Chau and Gray 2002). Directors, therefore, are more likely to save on CSR activity costs because they might not see any potential benefits – at least in the short term (Ghazali 2007). Furthermore, family members as director shareholders are likely to sit on the board of directors, which may further reduce the monitoring costs and mitigate the agency problem because they have access to the required information and do not have the incentive to disclose any information (Fama and Jensen 1983; Haniffa and Cooke 2002).

Prior empirical investigations suggest a negative relationship between director ownership and CSRD practices. Ghazali (2007) found that the provision of CSR information was significantly less in firms with higher levels of director ownership in the Malaysian context, based on a sample of the largest 87 listed firms in 2001. Similarly, Haji (2013) examined the annual reports of 85 listed firms for the years 2006 and 2009. The study found that director ownership had a significant negative impact on both CSRD extent and quality in Malaysia. In Bangladesh, Khan, Muttakin and Siddiqui (2013) conducted a study to investigate whether director ownership is a determinant factor for CSRD practices. Based on a sample of 580 firm years observations for the period from 2005 to 2009, the study findings documented a negative association between director ownership and the extent of CSRD. However, this association became significantly positive for export-oriented industries where firms are more exposed to external pressure to engage in CSRD practices. Eng and Mak (2003) found that firms with low director shareholdings listed in the Singapore Stock Exchange in 1995 tended to provide more information voluntarily, which indicates a negative association between director ownership and voluntary disclosure practices.

In the Saudi Arabian context, rich families are major shareholders in Tadawul (Al Kahtani 2014). The aftermath of the discovery of oil in Saudi Arabia and the surge of oil prices have created prosperity in the country and have increased the business prospects (Al-Rehaily 1992). This motivated a significant number of Saudi citizens to establish firms where some of them experienced successful growth and converted to listed firms; however, they are still dominated by the founding family after the conversion (Hussainey and Al-Nodel 2008; Al Kahtani 2014). These Saudi directors may become more interested in aligning firms' objectives with Saudi sustainable development plans when they hold ownership stakes in firms. They might be keen to gain more external resources and legitimacy to increase their firms' performance, and ultimately their benefits, through engaging in CSRD (Unerman and Bennett 2004). Furthermore, Saudi directors may demonstrate to their stakeholders, through CSRD, that aligning firms' objectives with Saudi national objectives is part of their strategic agenda to enhance competitiveness and generate sustainable shareholder value (Reverte 2009)

Empirically, the relationship between director ownership and CSRD practices is not clear. Alotaibi (2016) did not find any significant association between director ownership and the extent of CSRD. However, he did document a positive association between director ownership and the quality of CSRD. Albassam (2014) found that the voluntary provision of corporate governance disclosure was positively related to director ownership at the 10% significance level. Al-Janadi, Rahman and Omar (2013) failed to document any relationship between the family members on boards and the provision of voluntary information in Saudi Arabia. Arguably, a significant number of family firms in Saudi Arabia have become listed in Tadawul, and hence director shareholders is very common in Saudi Arabia. This type of firm is expected to be less engaged in CSR activities, since they are subject to less pressure from the public. Accordingly, because the majority of the prior findings indicated a negative relationship generally and an unclear relationship in Saudi Arabia in particular, the current research study hypothesizes that:

H7: There is a negative relationship between CSRD practices and director ownership among Saudi listed firms.

5.3.2.2 Institutional Ownership

Institutional ownership refers to large investors such as banks, insurance firms, credit unions and similar financial institutions who hold tremendous quantities of a firm's shares (Solomon 2013; Wang et al. 2014). Institutional investors may be a powerful governance mechanism to monitor and control a firm's management and consequently determine the firm's policies and disclosure practices because of their significant ownership concentration (Mangena and Pike 2005; Tauringana and Mangena 2006). Furthermore, because institutional investors invest in a large amount of capital that are critical resources for the firm's viability (Pfeffer and Salancik 2003), they are influential stakeholders whose needs, demands and expectations the management must meet to gain legitimacy and secure cheap financing (Freeman 1984; Dhaliwal et al. 2011). Such institutional ownership may influence disclosure practices in two ways: as a benefit of control directly from the firm, and as a benefit of market valuation from changes in share prices (Makhija and Patton 2004; Jiang and Habib 2009).

From an agency point of view, such powerful institutional shareholders usually have a member on the board of directors to represent them, which enhances monitoring and controlling the management (Mallin 2013; Solomon 2013). Furthermore, institutional investors are influential stakeholders who have the privilege of using their power to facilitate access to timely information (Lakhal 2005; Laidroo 2009). Because they are powerful stakeholders and have direct control of the firm, institutional investors may exert less pressure and demand to publish public information (Rao, Tilt and Lester 2012), especially when they do not need to attract more capital (Jiang and Habib 2009). Consequently, this may lead to a shift in the agency problem between the majority controlling shareholders (institutional investors in this case) and the minority outside shareholders (Ghazali 2007; Solomon 2013).

From another angle, however, a firm’s management is usually put under pressure and is required to disseminate more information because of the separation between ownership and control (Jensen and Meckling 1976). The existence of institutional investors as powerful stakeholders and responsible investors, therefore, may enhance mitigating the agency problem and improving the shareholders’ and other stakeholders’ protection by exerting more pressure on the management to disclose more information (Naser et al. 2006; Ntim and Soobaroyen 2013). Requiring that information be disclosed would likely reduce the monitoring and the controlling costs that institutional shareholders might incur (Jensen and Meckling 1976). Additionally, institutional investors hold a large ownership proportion, which most likely could be changed, especially when the exit strategy is costly (Chung and Zhang 2011). Consequently, they advocate socially responsible investments (Benn and Bolton 2011). Institutional investors, therefore, may be interested in firms where CSR is part of their agenda because they see CSR’s long-term benefits (Johnson and Greening 1999). Accordingly, this may require management to meet the demands and expectations of powerful and influential institutional stakeholders (Freeman 1984). In such cases, institutional investors may promote CSR engagement and demand for greater levels of CSR disclosure, especially when there is a need to attract more capital and cheap financing (Jiang and Habib 2009; Dhaliwal et al. 2011). Such CSRD practice, therefore, is expected to reduce the information asymmetry and may result in a favourable share price move and market valuation where the majority controlling shareholders and the minority outside shareholders would both benefit (Healy and Palepu 2001; Ntim et al. 2012).

Prior empirical investigations regarding the relationship between institutional ownership and disclosure practices are inconclusive. Naser et al. (2006) found that institutional ownership had a negative impact on CSRD practices based on a sample of 21 listed firms in the Doha Stock Exchange. However, the association was not significant. Rao, Tilt and Lester (2012) investigated whether ownership concentration, as measured by institutional shareholdings, influenced the environmental disclosure in the Australian context. The study findings revealed that intuitional investors had a significant positive impact on the level of environmental disclosure. However, Ntim and Soobaroyen (2013) found that black economic empowerment disclosure was significantly low in firms with a high level of institutional ownership in South Africa.

In the Saudi Arabian context, the Saudi CGR encourages large investors to promote socially responsible manners and to disclose their investment policies and how they deal with any material conflict of interest that may affect the practice of fundamental rights in relation to their investments (CGR 2006). Furthermore, the Saudi government has recently allowed foreign investors to directly invest in Tadawul as part of the government's efforts to encourage institutional investment and to promote higher standards of corporate governance in the Saudi market (SAGIA 2015; CMA 2015). Accordingly, Saudi firms with institutional ownership are likely to use CSRD to demonstrate to their investors that they are socially responsible firms (Johnson and Greening 1999).

Empirically, however, only Albassam (2014) investigated the influence of institutional investors in the Saudi Arabian context. He found that firms with a high level of institutional concentration had a positive impact on the voluntary provision of corporate governance disclosure. However, the association was documented at the 10% significant level. Given the significance of institutional investors as promoters of socially responsible investments and with the expectations that institutional investors would adhere to the Saudi government's social and economic objectives and national plans, the current research study hypothesizes that:

H7: There is a positive relationship between CSRD practices and the institutional ownership among Saudi listed firms.

5.3.2.3 Governmental Ownership

Governmental ownership refers to the shares owned by a government in firms operating in the private sector, which sometimes are known as governmental linked firms because they are usually under direct control of the government who owns substantial shareholdings in the firm (Eng and Mak 2003; Esa and Ghazali 2012). From an agency perspective, a conflict of interest may occur in these type of firms because the government and its institutions are socially oriented, whereas private sector firms are commercial and profit oriented firms (Jensen and Meckling 1976; Eng and Mak 2003). However, since the government is a powerful stakeholder and controls the viable resources required by the firm, it can intervene and influence the firm’s policies and disclosure practices (Pfeffer and Salancik 1978; Freeman et al. 2010; Ntim and Soobaroyen 2013).

In one case, the government used its power to closely monitor the firm’s management, appoint board members and senior executives, and was easily able to access information; hence, the disclosure level may not be extensive in that case (Ghazali and Weetman 2006; Esa and Ghazali 2012; Rao, Tilt and Lester 2012). Furthermore, these types of firms have access to immediate funding and support from the government and may have easier access to other financial sources (i.e., easier bank loans). Hence, they do not need to disclose more information to attract external funds (Eng and Mak 2003; Jiang and Habib 2009). Finally, the governmental investments are considered to be ongoing concerns, and consequently the returns are assured when investing in these firms. Hence, the firms are unlikely to disseminate more information (Eng and Mak 2003; Jiang and Habib 2009; Al Kahtani 2014).

In other cases, a high level of governmental ownership in a firm may indicate that the firm is publicly owned and therefore would be under more scrutiny from the public; hence, the government may demand more transparency and disclosure levels because it is accountable to the public at large (Ghazali 2007). This indicates that the government may demonstrate its accountability to the public by imposing coercive influence on the firm's policies and disclosure practices (Amran and Haniffa 2011). Accordingly, firms with high levels of governmental ownership are expected to be more engaged in CSR activities and disclosure practices because they are more socially sensitive and accountable in the public opinion. Hence, they are expected to show their social activism to society through CSRD (Naser et al. 2006; Ghazali 2007).

Prior empirical investigations regarding governmental ownership and CSRD practices suggest a positive relationship. Ghazali (2007) found that firms with substantial ownership in Malaysian firms tended to disclose significantly more CSRD information. Similarly, Haji (2013) found a positive and significant relationship between both the extent and quality of CSRD practices and governmental shareholdings in Malaysia. In South Africa, Ntim and Soobaroyen (2013) found the extent of black economic empowerment disclosure was positively and significantly associated with the level of governmental ownership. However, Naser et al. (2006) and Amran and Haniffa (2011) did not document any significance between governmental ownership and CSRD practices in Qatar and Malaysia, respectively.

In the Saudi Arabian context, the Saudi government has been a major investor in Tadawul, with approximately 45% of the market shareholdings. The government has formed many institutional funds that invest in several Saudi listed firms and holds these ownerships through its institutional funds. The main governmental institutional funds include the Public Pension Agency, the General Organization for Social Insurance and the Public Investment Fund. These governmental institutional funds have invested heavily on behalf of the Saudi government, especially in the largest listed firms that are considered by the government to be ongoing concerns.

Furthermore, the Saudi government is facing social and environmental challenges that require the government to develop different strategies and plans to overcome them. These include initiatives to reduce its heavy reliance on oil by diversifying the economic base, incorporating the private sector in the economic development, reducing the unemployment rate and protecting the natural and vital resources (MEP 2015). As mentioned in Chapter 3, in response to these challenges, part of the Saudi government efforts include the "*10 X 10*" programme and the establishment of the Saudi Arabian Responsible Competitiveness Index (SARCI) to enhance competitiveness, the introduction of the National Transformation Program to make Saudi Arabia one of the largest economies in the world and the *Saudization* (localization) programme to encourage employment in the private sector and reduce the unemployment rate (MoL 2015; MEP 2016; Saudi Vision 2030 2016).

Empirically, prior studies in Saudi Arabia have produced mixed results. Alotaibi (2016) found that governmental ownership was negatively related to the level of CSRD in Saudi Arabia, though no association was found with the quality of CSRD. Al-Janadi, Rahman and Omar (2013) found that governmental investing in Saudi listed firms had a significant negative impact on voluntary disclosure practices. Albassam (2014) documented a significant positive relationship between governmental shareholdings and the extent of voluntary provisioning of corporate governance disclosure. Given the Saudi government's efforts in promoting CSR in the public sector generally and the private sector in particular, it is expected that governmental institutional funds will promote engagement in such practices, according to the Saudi government's social and economic objectives and national plans. This is especially important because of the absence of labour unions and pressure groups in Saudi society. The Saudi government, therefore, is expected to emphasize its role in social accountability through governmental ownership as a powerful mechanism to promote and disclose more detailed CSR information. Accordingly, taking into account that the majority of the prior results were positive, the current research study hypothesizes that:

H9: There is a positive relationship between CSRD practices and the governmental ownership among Saudi listed firms.

5.3.3 CSRD and Firm-specific Factors

Each firm has its unique characteristics that might impact corporate policies and practices (Lang and Lundholm 1993; Wallace, Naser and Mora 1994; Camfferman and Cooke 2002), as firms are subject to varying levels of public exposure, abilities and resources (Adams 2002). In particular, evidence suggests that a firm's disclosure practices are systematically related to the business size, the nature of its activities, its collective knowledge and experience and its financial health. In this sense, CSRD practices may become more important for large firms and those operating in sensitive industries to demonstrate their public accountability (Rao, Tilt and Lester 2012). Furthermore, experienced firms and those with more flexibility in their resources (i.e., profitable and less geared) are more capable of managing a wider range of stakeholders, meeting disclosure costs and attracting more funding (Sotorrío and Sánchez 2010).

In the Saudi Arabian context, the discovery of oil in the 1930s created opportunities for existing firms to grow and others to be established with a wide range of business activities. Furthermore, a number of small firms seek financing by going public, while the Saudi government invests in large firms (Alsaeed 2006; Al Kahtani 2014). The current research examines five firm-specific variables in light of CSRD practices in Saudi Arabia: namely, firm size, industrial sensitivity, firm age, profitability and gearing. The following sections discuss each variable individually and its relationship to CSRD practices.

5.3.3.1 Firm Size

Agency theory posits that the level of disclosure would increase in order to reduce agency costs (Jensen and Meckling 1976; Healy and Palepu 2001). In this context, firm size is an important factor that might determine the firm's CSRD practices (Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Hahn and Kuhnen 2013; Fifka 2013) because large firms tend to have a diffused number of shareholders, which indicates that large firms are subject to higher agency costs than small firms. Consequently, large firms might want to enhance their transparency and disclosure practices to lower such agency costs (Alsaeed 2006; Al-Moataz and Hussainey 2013).

Furthermore, social and environmental issues have been receiving increased attention and are hot topics of discussion in the media and press, which suggests that the public has an increased awareness and consciousness concerning those issues (Brammer and Pavelin 2004; Brammer and Pavelin

2006; Brammer and Pavelin 2008). Therefore, large firms have the potential to exploit this situation for their benefit by managing their relationships with the various stakeholder groups as a source of legitimacy for the firms' survival and growth (da Silva Monteiro and Aibar-Guzmán 2010; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011).

In this regard, large firms are deemed to be exposed to more attention from the stakeholders in relation to their social and environmental performance. This is a result of large firms' higher visibility to external groups and the public than small firms', hence they are more likely to be vulnerable to scrutiny and pressure from civil society (Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Reverte 2009; Brammer and Pavelin 2008). Accordingly, large firms, due to their social visibility, are more likely to engage with stakeholders, including the public, by enhancing their social and environmental performance and communicating their CSRD practices (Branco and Rodrigues 2008; Gamerschlag, Möller and Verbeeten 2011).

Large firms can manage their legitimacy not only by responding to powerful stakeholders who control the critical resources that the firms' success is dependent on, but also by incorporating established institutions of culture including social rules, expectations, norms and values (Holder-Webb et al. 2009; Reverte 2009). Large firms may possess the required financial and human resources to enhance their competitiveness position. Consequently, they may pool their resources of knowledge, expertise and talent to enhance their image, reputation and competitive advantage through engagement in CSR activities and disclosure practices (Alsaeed 2006; Al-Moataz and Hussainey 2013).

Prior empirical investigations have suggested a positive relationship between firm size and CSRD practices. In the UK, Brammer and Pavelin (2004) found evidence that more visible firms, as measured by their size, had higher levels of social performance and disclosure. Similarly, Brammer and Pavelin (2008) found that large firms tend to provide high quality environmental disclosure based on a sample of 450 listed firms in the UK, while Brammer and Pavelin (2006) found that firm size had positively and significantly affected both the extent and quality of environmental disclosure in the UK. Reverte (2009) found that large Spanish firms disclosed significantly more social and environmental information and received higher CSR ratings from the Observatory on Corporate Social Responsibility, an organization that works towards promoting CSR. Branco and Rodrigues (2008) found evidence of the visibility effect on CSRD practices in both annual reports and the internet among Portuguese listed firms. Similarly, da Silva Monteiro and Aibar-Guzmán (2010) documented a significantly positive affect of firm size on environmental disclosure practices. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) found that firm size had a positive and significant association with CSRD practices in Mauritius. Furthermore, large firms favoured disclosing more information in social issues such as community initiatives, projects and education, while environment, ethics and health and safety issues received lower but considerable attention. In the Malaysian context, Haniffa and Cooke (2005), Ghazali (2007), Amran and Haniffa (2011) and Haji (2013) documented a significant positive relationship between firm size and CSRD practices, while Esa and Ghazali (2012) did not find any influence of firm size on CSRD practices. Muttakin and Khan (2014) found that large-size firms had significantly higher levels of CSRD in the Bangladeshi context. Juhmani (2014), in Bahrain, however, failed to document any effect of firm size on CSRD practices.

In the Saudi Arabian context, firms listed in Tadawul would vary in size and, consequently, the response to social and environmental issues also varied. In particular, large firms would be more willing to open a dialogue with various Saudi stakeholders and show their adherence to Islamic principles in Saudi society. Such principles are established institutions in Saudi society that legitimize processes and secure critical resources.

Empirically, Alotaibi (2016) documented a significantly positive relationship between firm size and both the level and quality of CSRD practices in Saudi Arabia. Similarly, Al-Janadi, Rahman and Omar (2013) found that large Saudi listed firms had significantly higher levels of voluntary disclosure. Alsaeed (2006) found that large-size firms tended to voluntarily provide more information than small-size firms. Al-Moataz and Hussainey (2013) found a positive but not statistically significant association between firm size and the disclosure level of corporate governance information. Albassam (2014), however, documented a negative and significant relationship between firm size and the voluntary provision of corporate governance disclosure. Accordingly, the current research study hypothesizes that:

H10: There is a positive relationship between CSRD practices and the size of Saudi listed firms.

5.3.3.2 Environmental Sensitivity

A firm’s industry type may determine its CSRD practices (Haniffa and Cooke 2005; Giannarakis, Konteos and Sariannidis 2014), as firms operate within different industries and are subject to different characteristics, regulations and rules depending on the degree of the industrial sensitivity to social and environmental issues (Muttakin and Khan 2014; Chan, Watson and Woodliff 2014). Accordingly, firms vary in how they cope with such issues, according to the nature of their operations and activities that are more sensitive to external pressure (Gao, Heravi and Xiao 2005; Brammer and Pavelin 2008; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). In essence, firms tend to provide information according to the peculiarities of their respective industries in terms of their social and environmental visibility, the intensity of industrial competition and the regulatory intervention risk (Roberts 1992; Haniffa and Cooke 2005; Amran and Haniffa 2011).

In this sense, the public and the governmental regulatory bodies are considered influential stakeholder groups that may exert pressure on firms to promote CSR activities and disclosure practices (Roberts 1992; Liu and Anbumozhi 2009; Amran and Haniffa 2011). The firm’s management then needs to strategically manage and meet these powerful groups’ expectations in order to get their support, approval or even to distract their opposition or disapproval for certain practices (Reverte 2009; Holder-Webb et al. 2009). Furthermore, every industry has its own peculiarities and characteristics that are considered to be a source of institutional pressure (Amran and Haniffa 2011; Deegan and Unerman 2011). The firm’s management needs to conform to industrial norms and cultures because institutional conformity is a primary source of the firm’s legitimacy (DiMaggio and Powell 1983; Baum and Oliver 1991).

Firms disseminate information to enhance their image, reputation and to improve their competitive positions (Branco and Rodrigues 2008; Holder-Webb et al. 2009). Firms operating in industries with high social visibility, such as financial, services and consumer-oriented industries, are likely to disclose more social information including community involvement, public relations and employee relations (Branco and Rodrigues 2008; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). In contrast, firms operating in industries with a large potential environmental impact, such as chemicals, oil and gas and mining industries, are likely to disclose more environmental information, like their pollution and emissions levels, water and energy details and effluents and waste (Branco and Rodrigues 2008; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; da Silva Monteiro and Aibar-Guzmán 2010).

Prior empirical investigations suggest a significant relationship between industry environmental sensitivity and CSRD practices. In the United Kingdom, Brammer and Pavelin (2006) and Brammer and Pavelin (2008) found that firms operating in environmentally sensitive industries tend to provide more information in environmental issues. Branco and Rodrigues (2008) found that Portuguese listed firms operating in highly visible industrial sectors disclosed high levels of information concerning their community involvement. Reverte (2009) found evidence that firms in environmentally sensitive industries tended to provide higher CSR disclosure and get higher CSR ratings in the Spanish context. Holder-Webb et al. (2009) documented the industry effects of CSRD practices in terms of the disclosed themes, intensity and the reporting medium in the United States. Gao, Heravi and Xiao (2005) examined 154 annual reports for 33 listed firms in Hong Kong from the years 1993 to 1997. The study found that industry type influenced CSRD practices. In the Malaysian context, Haniffa and Cooke (2005) found that industry type was significantly related to CSRD practices. Similarly, Amran and Haniffa (2011) found that CSRD practices were influenced positively and significantly according to firms' industrial memberships. Particularly, Malaysian firms operating in the plantations and mining industries provided higher levels of environmental information. Muttakin and Khan (2014) found that a firm's industrial affiliation was a significant influencing factor that determined CSRD practices in

Bangladesh. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011), however, did not document any industrial effects in Mauritius.

In the Saudi Arabian context, Saudi listed firms vary in terms of their operations and activities. A number of firms operate in the financial, services and consumer-oriented industries, such as the Saudi British Bank, Aljazira Takaful Taawuni Company and Kingdom Holding Company, while others operate in environmentally sensitive industries, such as the Saudi Basic Industries Corporation, Methanol Chemicals Company and Rabigh Refining and Petrochemical Company. Tadawul classifies Saudi listed firms into 15 industrial sectors according to the nature of their operations and activities (Tadawul 2015). Empirically, however, only Alsaeed (2006) examined whether industry sector has implications on voluntary disclosure. According to the study results, no association was documented. Given the wide range of business activities and industrial sectors in the Saudi Arabian context as well as the pressure of Saudi regulators and the Saudi public, CSRD information is expected to vary among Saudi listed firms as a result of the different levels of pressure exerted on the firms and their respective industries being subject to environmental sensitivity. Accordingly, the current research study hypothesizes that:

H11: There is a significant relationship between CSRD practices and the environmental sensitivity of Saudi listed firms.

5.3.3.3 Firm Age

A firm’s existence depends on its legitimacy as a resource for its survival and growth through the acceptance of its environment within which it operates (Dowling and Pfeffer 1975; Deegan 2002; Pfeffer and Salancik 2003). Accordingly, a firm’s management needs to negotiate their position within the social constraints and restrictions through various strategic tactics and arrangements to manage the firm’s dependency (Chen and Roberts 2010; Drees and Heugens 2013). In this context, older firms may gain more experience and knowledge over time than newer firms. Older firms are more likely to have the competence to build quick and affirmative relationships with various stakeholder groups, which has implications for the firms' reputation and ability to compete for and access critical resources (Gray, Kouhy and Lavers 1995a). Consequently, older firms tend to understand the expectations and requirements of society, and thus they are more likely to reflect that by active involvement in social and environmental concerns and communicate them through maintaining CSRD practices to maintain their legitimacy and enhance their public image (Roberts 1992).

Prior empirical investigations suggest a positive relationship between firm age and CSRD practices. Roberts (1992) found that firm age impacted CSRD practices positively and significantly in the US. In Bangladesh, Khan, Muttakin and Siddiqui (2013) documented a significant positive association between firm age and the extent of CSRD. Similarly, Muttakin and Khan (2014) found that older firms provided a significantly higher level of CSR information in the Bangladeshi context. Liu and Anbumozhi (2009), however, did not find that firm age was related to environmental disclosure among Chinese listed firms. Similarly, Juhmani (2014) failed to show any influence of firm age on CSRD practices in the Bahraini context.

In the Saudi Arabian context, the discovery of oil created an economic boom, and, consequently, Saudi citizens started to establish firms in the 1930s (Al-Rehaily 1992; Al Kahtani 2014). Furthermore, trading on Tadawul began in the same era when the "*Arab Automobile"* company was established as the first joint stock company. By 1975, about 14 firms were publicly listed on the Tadawul compared to 169 firms in 2014 (Tadawul 2015). This indicates that there is a wide range of ages among Saudi listed firms. Empirically, however, only Alsaeed (2006) examined whether firm age has implications on voluntary disclosure. According to the study results, no association was documented. Given the varying age years of Saudi listed firms and taking into account the majority of prior studies that documented a positive relationship between firm age and CSRD practices, the current research study hypothesizes that:

H12: There is a positive relationship between CSRD practices and the firm's age for Saudi listed firms.

5.3.3.4 Profitability

Stakeholder theory posits that a variety of constituents must be satisfied to enhance firms' performance and competitiveness advantage (McWilliams, Siegel and Wright 2006). This necessitates an assessment of the significance of meeting the demands and expectations of a wider range of stakeholder groups in society to achieve the firm's strategic goals and objectives (Freeman 1984). Accordingly, profitable firms are likely to have the required resources to network with wide social groups (Brammer and Pavelin 2006; Brammer and Pavelin 2008), improve their public image (Branco and Rodrigues 2008; Esa and Ghazali 2012), compete and raise cheap capital (Dhaliwal et al. 2011) by engaging and disseminating social and environmental information. Furthermore, profitable firms have an incentive to distinguish themselves by paying considerable attention to CSRD practices to demonstrate their contributions to society and to reassure that generated profits are not at the expense of society as an approach to legitimize a firm's existence (Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011).

Prior empirical investigations regarding the relationship between the profitability and CSRD practices are inconclusive. Roberts (1992) found that profitability had a significant positive impact on CSRD practices. Jizi et al. (2013) found that firms with higher profitability provide significantly higher levels of CSR disclosure in the US banking sector. Ntim and Soobaroyen (2013) documented a significantly positive association between profitability and black economic empowerment disclosure in South Africa. Khan, Muttakin and Siddiqui (2013) and Muttakin and Khan (2014) found that profitability was significantly and positively related to CSRD practices in Bangladesh. In the Malaysian context, Haniffa and Cooke (2005) found evidence of the profitability positive effect on CSRD practices, while Gamerschlag, Möller and Verbeeten (2011) found the relationship between the two variables was partially confirmed, as profitability had a positive effect on environmental disclosure but not on social disclosure in Germany. Rao, Tilt and Lester (2012), however, found profitability had influenced environmental disclosure negatively in Australia.

Furthermore, Brammer and Pavelin (2006) and Brammer and Pavelin (2008) did not document any significant association between profitability and environmental disclosure in terms of both quantity and quality. Branco and Rodrigues (2008) did not find profitability to be related to CSRD practices among Portuguese listed firms for both annual reports and corporate web pages. In Spain, Reverte (2009) found that profitability does not explain CSRD practices. Also, Chan, Watson and Woodliff (2014) did not document any significant effect in Australia. Similar results were found in China (Liu and Anbumozhi 2009), Mauritius (Mahadeo, Oogarah-Hanuman and Soobaroyen 2011) and Malaysia (Ghazali 2007; Esa and Ghazali 2012; Haji 2013).

In the Saudi Arabian context, Islamic principles emphasize care for the community's needs and promoting charitable giving to respond to the brotherhood's demands (Abul Hassan and Abdul Latiff 2009). Furthermore, the Saudi government encourages private sector participation in the social and environmental challenges facing the country (Tamkeen 2010). This may drive profitable firms in Saudi Arabia to distinguish themselves and improve their public image by participating in CSRD practices.

Empirically, prior studies in Saudi Arabia have been inconclusive. Alotaibi (2016) did not document any association in terms of profitability and CSRD practices. Al-Janadi, Rahman and Omar (2013), however, found a positive but weak association between profitability and the level of voluntary disclosure. Al-Moataz and Hussainey (2013) found that profitability was positively related to the disclosure level of corporate governance information, while Alsaeed (2006) did not find any significant association between the two variables in terms of the voluntary provision of information. Accordingly, the current research study hypothesizes that:

H13: There is a positive relationship between CSRD practices and the profitability of Saudi listed firms.

5.3.3.5 Gearing

From a stakeholder perspective, powerful stakeholders who control critical resources for a firm's performance and survival can influence the firm's policies and practices (Freeman 1984; Mitchell, Agle and Wood 1997). In this context, the level of creditors' power as a stakeholder depends on the extent to which a firm relies on external financing to fund its operations, since creditors control the financial resources that may be necessary for the firm's success (Roberts 1992; Branco and Rodrigues 2008). Creditor stakeholders are likely to be more concerned about the financial performance of a firm rather than the social performance of a firm, as they would like to be assured of having their financial claims paid back (Reverte 2009). Accordingly, firms with high gearing levels are expected to experience more constraints from creditor stakeholders on their involvement in social and environmental issues, making sure the firm can pay back the debts to those creditor stakeholders; consequently, CSRD practices may be limited. By contrast, firms with low gearing levels are expected to experience less pressure from creditor stakeholders; consequently, they have the discretion to raise cheap financing through active engagement in CSRD practices (Brammer and Pavelin 2006; Brammer and Pavelin 2008; Dhaliwal et al. 2011).

Prior empirical investigations regarding the relationship between gearing and CSRD practices are inconclusive. In the UK, Brammer and Pavelin (2006) found that gearing had a negative and statistically significant relationship between gearing and both the extent and quality of environmental disclosure. Similarly, Brammer and Pavelin (2008) found a negative but weak association between gearing and the quality of environmental disclosure. Branco and Rodrigues (2008) documented a negative and significant effect of gearing on CSRD practices on the internet for Portuguese listed firms. In the Bangladeshi context, both Khan, Muttakin and Siddiqui (2013) found that gearing was significantly negatively related to influence on CSRD practices, while Muttakin and Khan (2014) documented a negative but weak association between the two variables. Ntim and Soobaroyen (2013) found that black economic empowerment disclosure was significantly and negatively affected by gearing. In the US, Giannarakis, Konteos and Sariannidis (2014) documented a negative but not significant association between gearing and CSRD practices among large-size firms.

Furthermore, Roberts (1992) found that gearing had a significant positive impact on CSRD practices in the US. Similarly Chan, Watson and Woodliff (2014) found that firms with high gearing tended to provide significantly more CSR information. Esa and Ghazali (2012) documented a significant positive relationship between gearing and the level of CSRD in Malaysia. Juhmani (2014) found that Bahraini listed firms with high gearing disclosed significantly more social and environmental information. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) found that the relationship between gearing and CSRD practices in Mauritius was positive and significantly related to environmental, health and safety disclosures. Moreover, additional studies did not find gearing and CSRD practices to be related in Malaysia (Haniffa and Cooke 2005; Haji 2013), Qatar (Naser et al. 2006), Spain (Reverte 2009) and the US (Jizi et al. 2013).

In the Saudi Arabia context, the establishment of the Saudi Arabian Responsible Competitiveness Index (SARCI) to assess firms on the basis of strategy, management, stakeholder engagement and social, environmental and economic performance (SAGIA 2010) may drive firms to demonstrate their accountability of responsible business conduct to gain better competitiveness positions and cheap financing. Furthermore, from an Islamic perspective, firms are responsible for preserving the rights of others (Lewis 2001; Kamla, Gallhofer and Haslam 2006). This may imply that Saudi firms with high gearing levels are expected to meet their financial liabilities, whereas they may opt to enhance their competitive position when the gearing levels are low.

Empirically, prior studies in Saudi Arabia are inconclusive. Alotaibi (2016) documented a negative association between gearing and the level of CSRD practices, while the quality of CSRD practices showed a positive association in the Saudi Arabian context. Albassam (2014) found gearing to positively influence the voluntary provision of corporate governance disclosure. Similarly, Al-Moataz and Hussainey (2013) found gearing positively related to the disclosure level of corporate governance information, while Alsaeed (2006) did not find any significant association between the two variables in terms of the voluntary provision of information. Accordingly, the current research study hypothesizes that:

H14: There is a negative relationship between CSRD practices and the gearing of Saudi listed firms.

5.3.4 CSRD and Firm Performance

Agency theory posits that management should pursue these activities that contribute to maximizing firm performance (Ross 1973; Jensen and Meckling 1976; Jensen 2001). Furthermore, stakeholder theory posits that management needs to deal with various stakeholder groups to further the interests of the firm (Freeman 1984) by negotiating access to the critical resources required (Pfeffer and Salancik 2003). The central issue for the management then is to balance the different interests to enhance the firm's performance (Ullmann 1985; Deegan and Unerman 2011).

In this sense, firms are expected to "do well by doing good" when pursuing favourable activities in society (Carroll and Shabana 2010). Aligning social and economic goals arguably does not conflict with firm performance (Crane, Matten and Spence 2014); rather, doing good in social practices is more likely to enhance a firms' performance (Mintzberg 1993; Falck and Heblich 2007) when social practices are used as a strategic tool attuned to the external environment (Carroll and Shabana 2010; Malik 2015). Accordingly, good CSRD practices have a strategic link with firm performance that may reflect good management of firms' resources (Waddock and Graves 1997), which may result in enhancing the competitive advantage and reputation, gaining governmental facilities and resources and subsequently increasing the firms' performance (Malik 2015).

Prior empirical investigations suggested a positive relationship between CSRD practices and firm performance. Cormier et al. (2009) found that social and human capital disclosure was positively and significantly related to firm performance as measure by Tobin's Q in the Canadian context. In the US, Dhaliwal et al. (2011) found that firms that initiated CSRD reports experienced reduction in the cost of their equity capital and attracted more institutional investors. Qiu, Shaukat and Tharyan (2016) found that British firms' market value showed a positive reaction to social disclosure as documented by the increase in share price and higher expected growth rate in cash flows. Prado-Lorenzo et al. (2008) found that Spanish firms with higher levels of CSRD experienced enhanced short-run performance as measured by sales growth. However, productivity and long-run performance as measured by market value were not affected by CSRD practices.

In the US, Al-Tuwaijri, Christensen and Hughes II (2004) and Tsoutsoura (2004) found that firms with good CSP were significantly associated with higher economic performance. Similarly, Becchetti, Di Giacomo and Pinnacchio (2008) found that CSR firms that were performing better in CSP as measured by the Domini Social Index recorded significant increases in total sales per employee and returns on equity. Nelling and Webb (2009) found a significant positive relationship between CSP and financial performance. In the Turkish context, however, Aras, Aybars and Kutlu (2010) did not document any association between CSRD practices and the measures of firm financial performance. Cheng, Lin and Wong (2016) found that the issuance of CSRD standalone reports was associated with enhanced firm performance the following year in China.

In the Saudi Arabian context, the Saudi government initiatives and policies raised the level of awareness among Saudi corporate leaders and public about Saudi CSR concerns. Saudi firms, therefore, whose private objectives are strategically aligned with the public and government expectations, are expected to benefit from engaging in CSRD practices because they would be in the eye of the public and government socially responsible firms (Ali and Al-Aali 2012). Empirically, only Alotaibi (2016) examined the relationship between firm performance and CSRD practices in Saudi Arabia. In his study, Alotaibi (2016) used three measured of firm performance: return on assets, Tobin’s Q and market capitalization. The study findings revealed that CSRD practices, in terms of quantity and quality, had only a significant positive influence on market capitalization. Neither the returns on assets nor Tobin’s Q were significantly affected by CSRD practices in the Saudi Arabian context. Accordingly, the current research study hypothesizes that:

H15: There is a positive relationship between firm value and CSRD practices of Saudi listed firms.

Thus far, the previous sections developed the main hypotheses related to the current research study questions. The current research study focuses on the factors influencing CSRD practices and the effect of CSRD practices on firm performance in Saudi Arabia. However, as suggested in the conceptual model above (see Figure 5.1), prior empirical studies have also suggested that corporate governance and firm-specific factors influence firm performance. To this extent, the following discuss the empirical findings related to the direct relationship between firm performance and corporate governance and firm-specific factors.

In terms of board characteristics, Al-Matari et al. (2012) did not find board size to be related to firm performance in Saudi Arabia. Yermack (1996), however, documented a significant negative relationship between board size and firm performance in the United States, while Kiel and Nicholson (2003) found board size had a significantly positive impact on firm performance in Australia. Mura (2007) found evidence of the positive impact of non-executive directors on firm performance in the UK. Beiner et al. (2004) found non-executive directors inversely affected firm performance. In Malaysia, Haniffa and Hudaib (2006) found non-executive directors and firm performance were not related. Donaldson and Davis (1991) documented a significant positive relationship between CEO duality and firm performance in the US while Dahya, Lonie and Power (1996) found that separating the CEO and board chairperson roles significantly enhanced performance in the UK. Others failed to document any significance for CEO duality in Canada (Bozec (2005); Saudi Arabia Alotaibi (2016). Haniffa and Hudaib (2006) found that multiple directorships significantly influenced firm performance in Malaysia. Albassam (2014) found board meetings positively and significantly affect firm performance in Saudi Arabia while Alotaibi (2016) did not find any relationship between the same variables.

With regard to ownership structure, Omran, Bolbol and Fatheldin (2008) found that the level of ownership concentration was not related to firm performance in Oman, Egypt, Jordan and Tunisia. Xu and Wang (1999) found the level of ownership concentration positively and significantly enhanced firm performance in China. Leech and Leahy (1991), however, found that the level of ownership concentration negatively and significantly impacted the firm performance in the UK. Morck, Shleifer and Vishny (1988) documented a significant positive impact for directors’ ownership on firm performance in the United States. Haniffa and Hudaib (2006) found a significant negative relationship between directors’ ownership and firm performance in Malaysia.

Vafeas and Theodorou (1998) did not find any effect for directors' ownership on firm performance in the United Kingdom. Zeitun and Tian (2007) found governmental ownership had a significantly negative impact on firm performance in Jordan. Sulong and Nor (2010), however, found a significantly positive association between governmental ownership and firm performance in Malaysia. Alotaibi (2016) did not document any significance governmental ownership and firm performance in Saudi Arabia.

In terms of firm-specific factors, Haniffa and Hudaib (2006) found that firm size was negatively and significantly related to firm performance in Malaysia while Cheng, Lin and Wong (2016) documented a negative and significant relationship between firm size and performance in China. Reverte (2016) found that environmentally sensitive industries were significantly associated with firm performance than non-sensitive industries in Spain. Fallatah and Dickins (2012) found that profitability was not related to the firm performance in Saudi Arabia while gearing was negatively and significantly influenced the firm performance in Saudi Arabia. Haniffa and Hudaib (2006) found that the level of gearing had a significant impact on the firm performance in Malaysia while Cheng, Lin and Wong (2016) documented similar results in China.

5.4 Summary

The purpose of the current chapter was to introduce the research conceptual framework and develop the related hypotheses. The CSRD conceptual model in Saudi Arabia was discussed first. Corporate governance and firm-specific factors are expected to affect Saudi listed firms' CSRD practices, which in turn are expected to affect Saudi firm value. The model provides three sets of variables, namely, board characteristics, ownership structure, and firm-specific. The chapter then explained how each variable may affect CSRD practices as well as how CSRD practices influence firm value. The next chapter will discuss the research methodology and explain the data collection procedures and the analysis technique.

6 Research Methodology and Method

6.1 Introduction

The previous chapters helped to mould the research focus and provide the grounds for developing the research hypotheses of this study. The main research objective is to explore the factors and effects of corporate social responsibility disclosure (CSRD) practices in Saudi Arabia. As part of the research process, it is necessary to articulate the research's philosophical position and the research methods employed to address the research objectives. The purpose of the current chapter, therefore, is to describe this part of the research process pertaining to the research methodology and method.

In this regard, research methodology is a theory of how to conduct a scientific inquiry and articulate the philosophical assumptions underpinning the focus of the study and the selection of method (Saunders, Lewis and Thornhill 2009). It helps to identify the set of procedures or methods employed by a discipline to generate knowledge (Frankfort-Nachmias and Nachmias 1996). Hence, this dictates the knowledge acquisition process (Riahi-Belkaoui 2004). This is because a research study must be conducted under a scientific, systematic and logical approach *"of explicit rules and procedures upon which research is based and against which claims for knowledge are evaluated"* (Frankfort-Nachmias and Nachmias 1996, page 13).

Accordingly, the chapter begins with a discussion of the research philosophy in Section 6.2. Following this, Section 6.3 presents the research data source and sample. The measurement of CSRD, the primary concept of the research, discussed in Section 6.4, while Sections 6.5 and 6.6 discuss the measurement of CSRD influencing factors and firm performance, respectively. Section 6.7 explains how the data is analysed. Finally, in Section 6.8 the chapter concludes by providing summary and concluding remarks.

6.2 Research Philosophy and Paradigm

From a linguistic view, the etymology of the word "research" can be traced back to the sixteenth century, where it first appeared in the Middle French as *"recerche,"* which itself can be traced back to the Old French as *"recercher,"* meaning *"to find out about something"* (Pearson 2014). The term research is broadly defined in modern English as *"to search or investigate exhaustively"* (Merriam-Webster Dictionary 2008) and *"to investigate systematically"* (Oxford Dictionary 2015). Accordingly, the definitions of the term research indicate that it involves an inquiry into something that employs a logical, organized approach. Furthermore, the ultimate aim of research, from an academic point of view, *"is to produce a cumulative body of verifiable knowledge"* (Frankfort-Nachmias and Nachmias 1996, page 8). In light of this, and for the purpose of this study, research is defined as *"something that people undertake in order to find out things in a systematic way, thereby increasing their knowledge"* (Saunders, Lewis and Thornhill 2009, page 5).

In order to render the purpose of scientific inquiry researchable and achieve its ultimate aim, the research problem must be addressed, the research objective must be defined and the research questions must be formulated. Taken together, these steps help to clarify the research project's philosophical stand and knowledge acquisition process, consequently preparing the inquired phenomenon for investigation. The purpose of the current research study has been discussed in Chapter 1, along with the research problem, objective and questions. The study aims to explore the extent of CSRD practices in Saudi Arabia over time and to examine those factors influencing such practices. Specifically, the following research questions are addressed:

Q1 - What is the nature and extent of CSRD in annual reports of Saudi listed firms?

Q2 - To what extent has CSRD in annual reports of Saudi listed firms improved over the five-year period of the study?

Q3 - Do corporate governance and firm-specific factors influence CSRD practices in Saudi listed firms?

Q4- Does CSRD provided by Saudi listed firms influence their performance?

The expectations and outcomes of this research study are to answer these questions through potential strategies and methods of data collection and analysis. In this regard, it is argued that the selection of methods is dependent upon the underlying paradigm that guides the research process (Guba and Lincoln 1994). Saunders, Lewis and Thornhill (2009) defined a research paradigm as an approach to the comprehension of a social phenomenon. In this respect, Burrell and Morgan (1979) proposed that a research paradigm involves assumptions about the nature of society and the nature of social science. In terms of the nature of society dimension, they distinguished between regulation and radical change to study society. Regulation focuses on understanding and explaining the status quo. By contrast, radical change focuses on what should be, what is possible, or what are the alternatives. Furthermore, Burrell and Morgan identified two approaches to social science, namely: an objective approach in which the researcher is distanced from the phenomenon under investigation; and a subjective approach in which the researcher is immersed in the phenomenon under investigation. Both dimensions (the nature of society and the nature of social science) have implications for the research design based upon ontological, epistemological and methodological assumptions, as well as assumptions related to human nature.

Ontology is concerned with the nature of social reality, whether it is external reality or a product of social actors (Creswell 2012). Epistemology is concerned with the nature of knowledge, whether it is hard/real knowledge that should be acquired as natural science or is soft/spiritual knowledge that should be acquired through an understanding of personal experience (Creswell 2012). Methodology is concerned with the methods employed to acquire knowledge, whether it involves personal knowledge of a situation or focuses on the process of scientific testing of hypotheses. Human nature is concerned with the relationship between human beings and their environment, whether humans play a responsive or creative role in the environment. Each set of assumptions has implications for the other and provides a range of choices (paradigms) for the research (Burrell and Morgan 1979).

In this context, accounting research is characterized by three dominant paradigms: positivist, interpretivist and critical perspective (Smith 2011). The positivist approach assumes the social phenomenon to be objective and measurable by similar methods used in natural science. The positivist approach focuses on finding regularities and examining relationships (Sekaran and Bougie 2010). The interpretivist approach assumes the social phenomenon to be subjective, requiring research logic that differs from natural science, as the subject matter of the social phenomenon is people (Lee 1991). It seeks to understand the social phenomenon through the social actors' perceptions and experience (Creswell 2014). The critical approach also assumes the social phenomenon to be subjective and also requires research logic that differs from natural science (Bryman and Bell 2011). However, it aims to critique the status quo of the social phenomenon and seeks to change it (Gill and Johnson 2010).

Each paradigm follows a logic of reasoning for the acquired knowledge that is dependent upon the role of theory in the study (Collis and Hussey 2013). The two main processes of reasoning are deductive and inductive. Deductive reasoning follows logic similar to natural science in trying to find regularities and laws. The process involves presenting a theory/theories at the beginning of the inquiry, making predictions, and then verifying or falsifying the predictions. It moves from the general to the specific; hence, it is more closely related to a positivist approach (Collis and Hussey 2013). By contrast, inductive reasoning strives to identify specific issues rather than general law. The process, then, moves from the specific to the general. Thus, the theory is presented at the end of the process; hence, it is more closely related to a non-positivist approach (Sekaran and Bougie 2010; Creswell 2014).

Moreover, the adopted research stand will have implications for research strategy choice. Generally, two research strategies can be distinguished in social science, namely: quantitative and qualitative research (Blaikie 2009). In simple terms, quantitative research employs measurement, while qualitative research does not (Blaikie 2003). Quantitative research depends largely on quantifying the research data in both processes of collection and analysis, while qualitative research emphasizes words (Blaikie 2003; Bryman 2012).

A further distinction between the two research strategies is centred on how the nature of social reality is viewed. Quantitative research views social reality as external objective reality, which intimately reflects the positivist paradigm (Onwuegbuzie and Leech 2005). External objective reality necessitates separation of the researcher from the participants in order to keep subjectivity to a minimum. It entails a deductive reasoning approach as it is based on testing rather than generating a theory (Collis and Hussey 2013). This type of research strategy involves numbers, timings, measurements, correlations and statistical modelling and analysis, which allow for the use of a large number of samples, the identification of patterns and causal relationships, testing of hypotheses, and generalization (Blaikie 2009; Collis and Hussey 2013). It is *"a collection of techniques for organising, presenting, summarising, communicating and drawing conclusions from data, so that it becomes informative"* (Morris 2011, page 1). This type of research strategy is particularly suitable for gaining a wider understanding of the phenomenon being investigated and deducing explanations for the research by providing a framework for working with statistics. It also facilitates the testing of ideas and modelling of problems (Curwin, Slater and Eadson 2013).

By contrast, qualitative research views social reality as a product of social actors which necessitates understanding personal experience and perceptions that cannot be measured or quantified. For these reasons, it is more closely related to non-positivist paradigms (Collis and Hussey 2013). It aims to discover a certain phenomenon and generate a theory that entails an inductive reasoning approach. Qualitative research involves the study of social or cultural events. The researcher is usually immersed in the research, conducting interviews and observing and recording behaviours. It focuses on the gathering of primarily verbal data rather than measurements, which are then analysed in a non-statistical, subjective and interpretative manner (Blaikie 2009). This type of research strategy is particularly suitable for gaining an in-depth understanding of the underlying reasons for and motivations behind the phenomenon being investigated. It provides insights into the setting of a problem. At the same time, it frequently generates ideas and hypotheses for later quantitative research (Collis and Hussey 2013; Creswell 2014).

In light of the purpose and research questions identified in the current research study, a positivist paradigm is adopted for the following reasons. First, the study explores the current practices of CSRD in Saudi Arabia. It seeks to examine the status quo, not to critique and change practice. As a result, the study does not seek personal experience or insights. Rather, it attempts to determine the status of CSRD practices in the context of Saudi Arabia. Second, the study examines the extent of CSRD and trends over time. Hence, CSRD trends must be measured and quantified in order to find patterns and summarise and describe the collected data for listed firms. Finally, the study examines the relationship between CSRD and its influential factors, as well as the effects of CSRD on financial performance. This requires the establishment of statistical models for data analysis and entails a deductive logic approach and the collection of quantifiable data to test the statistical models and hypotheses. Accordingly, the following section describes the sample and data collection method.

6.3 Data Source and Sample

As discussed throughout the previous chapters, this research study is concerned with the Saudi Arabian context. Accordingly, the research data was obtained from the Saudi Stock Exchange (Tadawul) database, as listed firms are obliged to make any and all disclosures and publish their reports on the Tadawul website.

Table 6.1 reveals that the total number of listed firms on the Tadawul exchange as of year-end 2014 was 169. These firms operate in 15 industrial sectors, including the Banking and Financial Services (12 firms) and Insurance (35 firms) sectors. The sample used to explore the factors and effects of CSRD is selected from listed, non-financial Saudi Arabian firms due to the unique disclosure requirements of financial firms in Saudi Arabia. Prior studies have followed a similar approach (see Haniffa and Cooke 2005; Prado-Lorenzo et al. 2008; Cormier et al. 2009).

Table 6.1: Saudi Listed Firms in Tadawul

Total number of listed firms on Tadawul as of year-end 2014		169	100.00%
Less: Banking and Financial Services	-12		
Less: Insurance	-35		
Total number of excluded financial listed firms		-47	27.81%
Initial sample size of nonfinancial listed firms		122	72.19%
Less: delisted or suspended firms	-2		
Less: firms with no data available	-7		
		-09	5.33%
Number of listed firms included in the final sample		113	66.86%

The exclusion of the financial firms leaves an initial sample size of 122 nonfinancial firms (169 - 12 - 35 = 122 nonfinancial firms), which represents about 72% of the total Saudi listed firms in 2014, as can be seen in Table 6.1. An additional 9 firms were excluded from the final sample, as they were either delisted or suspended or data was unavailable. The final sample size included 113 Saudi non-financial listed firms (9 - 122 = 113 firms). As shown in Table 6.1, the final sample size represents about 67% of the total Saudi listed firms in 2014.

Table 6.2 provides insights into the final sampled firms according to their industrial affiliation. The table reveals that Saudi nonfinancial firms operate in 13 different industrial sectors. It can clearly be seen that there are variations in the number of firms operating in each industrial sector. For example, the Agriculture and Food Industries and Building and Construction sectors appear to be among the largest sectors (15 firms in each industrial sector) on the Tadawul, whereas Energy and Utilities, Media and Publishing, and Hotel and Tourism are among the smallest sectors (2, 3 and 3 firms, respectively). In addition, it appears that about 50% of the sampled Saudi firms operate in environmentally oriented industrial sectors, including Petrochemical Industries, Cement, Energy and Utilities, Industrial Investment, and Building and Construction, which are associated with high pollution risks and impacts on natural resources (Campbell 2004; Reverte 2009; Liu and Anbumozhi 2009), as can be seen in Table 6.2.

Table 6.2: Final Sampled Firms by Industrial Sector

Sector Number	Sector Name	No.	%
2	Petrochemical Industries	14	12.39%
3	Cement	13	11.50%
4	Retail	11	9.73%
5	Energy and Utilities	02	1.77%
6	Agriculture and Food Industries	15	13.27%
7	Telecommunication and Information Technology	04	3.54%
9	Multi-Investment	07	6.19%
10	Industrial Investment	14	12.39%
11	Building and Construction	15	13.27%
12	Real Estate Development	08	7.08%
13	Transport	04	3.54%
14	Media and Publishing	03	2.65%
15	Hotel and Tourism	03	2.65%
	Total number of sampled firms	113	100.00%

Furthermore, the required data for the sampled firms were collected over a five-year period, from 2010 to 2014. The rationale behind using this period is that it represents a period during which CSRD received heightened attention in Saudi Arabia among practitioners and academics as a result of government initiatives and CSR forums conducted in Riyadh (Ali and Al-Aali 2012), as previously described in Chapter 3. Second, the period is in accordance with the

Saudi National Ninth Development Plan period, whose objectives were similar to the concept of CSR and laid the foundation for sustainable development in the long-run. Such objectives include enhancing partnerships between different sectors in Saudi society, improving the standard of living and quality of life for citizens, and encouraging the development of environmental protection systems (MEP 2015). Additionally, Saudi listed firms' data is only available for five years on the Tadawul exchange (Tadawul 2015). As a result, data were only available during this period at the data collection phase in 2015. All data were available as portable document format (PDF) files in the Arabic language. However, some data were not found in the Tadawul database, and other files were corrupted.

Table 6.3: Total Observations by Industrial Sector and Year

Industrial Sector/Year	2010	2011	2012	2013	2014	All Years
Petrochemical Industries	14	14	14	14	14	70
Cement	10	10	13	13	13	59
Retail	09	09	11	11	11	51
Energy and Utilities	02	02	02	02	02	10
Agriculture and food Industries	14	14	15	15	15	73
Telecommunication and Information Technology	04	04	03	04	04	19
Multi-Investment	07	07	07	07	07	35
Industrial Investment	13	13	14	14	14	68
Building and Construction	15	15	14	14	14	72
Real Estate Development	08	08	08	08	08	40
Transport	04	04	04	04	04	20
Media and Publishing	03	03	03	03	03	15
Hotel and Tourism	02	02	03	03	03	13
total number of observations	105	105	111	112	112	545

Table 6.3 reveals the total number of observations on a yearly basis corresponding to industrial sector, produced from the collected data files. It appears that the number of observations varies across the years, with 105, 105, 111, 112 and 112 observations in 2010, 2011, 2012, 2013 and 2014, respectively. Moreover, the number of observations varies across industrial sector, ranging from 13 observations in the Hotel and Tourism sector to 73 observations in the Agriculture and Food Industries sector. In addition, some sectors, such as the Petrochemical Industries and Transport sectors, produced equal observations each year, while other sectors, such as the Retail and Real

Estate Development sectors, produced unequal observations each year. This suggests that some data for individual firms could not be collected in all time periods, producing an unbalanced panel of 545 individual-year pair observations, as shown in Table 6.3. These data were collected to measure the research study variables, as the following sections detail.

6.4 Measuring CSRD

The primary concept of this research study is CSRD. CSRD has been commonly measured using the content analysis method in previous studies (see Haniffa and Cooke 2005; Holder-Webb et al. 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013; Muttakin and Khan 2014). *"Content analysis is a research technique for making replicable and valid inferences texts (or other meaningful matter) to the contexts of their use"* (Krippendorff 2013, page 24). It is a technique that facilitates codifying and quantifying narratives under specific themes based on specific criteria (Weber 1990).

The content analysis method has frequently been used to extract unstructured data from a wide range of communication means (whether printed, audio or visual media) in order to understand and describe the patterns of the concept being investigated (Morris 1994; Bouten et al. 2011; Krippendorff 2013). The flexibility of content analysis allows for the effective management of large amount of data, a diversity of formats and a variety of different media (Bryman 2012; Krippendorff 2013; Neuendorf 2016). It is particularly useful in exploring constructs in content and can be used to analyse and track changes in longitudinal data and conduct hypothesis testing (Bryman 2012; Neuendorf 2016).

An important feature of the content analysis method when compared to other methods employed in social studies is that it is less subject to contaminated observations (Krippendorff 2013). This is because subjects in methods such as surveys, interviews and focus groups are aware of being observed or tested. Subsequently, they may react favourably or unfavourably to the phenomenon being assessed, and the results become vulnerable to contamination (Krippendorff 2013; Neuendorf 2016). In the content analysis method, data can be handled after the content is generated, and as a result, it is an unobtrusive or a nonreactive method that does not entail contact with participants (Weber 1990; Krippendorff 2013).

The data handling process demands quantifying the content being analysed into predetermined categories in a systematic and replicable manner (Bryman 2012). This process of data handling has attracted critics of the content analysis method, as it calls for judgements when coding the content, especially when there is insufficient information about how the content analysis has been conducted (Bouten et al. 2011). However, this limitation can be overcome by providing a detailed explication of the procedures (Bouten et al. 2011), as discussed below.

6.4.1 Content Analysis Procedures

The analytical procedures of content analysis are dependent upon the content analyst's objective. Generally, a content analyst's objective is different from other readers of the same body of content, including the originator (Krippendorff 2013). In order to effectively and efficiently employ the content analysis method, a research question must be identified so that the analyst reads the body of content for a specific purpose, not for the purpose the originator may lead the reader to consider. This requires identification of a checklist of themes or categories relevant to what is being measured to facilitate the analysis and to characterise the selected body of content (Krippendorff 2013; Neuendorf 2016). The identification of a checklist leads to the selection of the source of content (the sampling unit) to be analysed among the alternative channels of content mediums available at the analyst's disposal in order to capture or extract the data from and subsequently record it in the identified checklist (Unerman 2000; Campbell 2004; Krippendorff 2013). Data extraction from the source of content requires defining the unit of analysis (or recording unit) in order to quantify the qualitative data or narratives for further analysis (Unerman 2000; Campbell 2004). Such a process is expected to be reliable and yield valid results when assessed at different points in time and under different circumstances (Milne and Adler 1999; Unerman 2000; Krippendorff 2013; Neuendorf 2016).

Accordingly, the research questions have been identified above. In particular, measuring CSRD using content analysis helps to answer the first and second research questions[19]:

Q1 - What is the nature and extent of CSRD in annual reports of Saudi listed firms?

Q2 - To what extent has CSRD in annual reports of Saudi listed firms improved over the five-year period of the study?

In accordance with the previous discussion, the remaining procedures of the content analysis method used in this research study to measure CSRD involve four main elements, namely: CSRD checklist, the selection of content medium, the decision of unit of analysis, and, finally, the assessment of the validity and reliability of the CSRD measurement. Each element is discussed below.

6.4.1.1 CSRD Checklist

Prior CSRD literature measured CSRD based on different checklists of categories. Ernst and Ernst (1976) define approximately seven CSRD categories, namely: environment, energy, fair business practices, human resources, community involvement, products, and other social responsibilities disclosed. Gray, Kouhy and Lavers (1995a) employed four CSRD categories, namely: human resources, environment, community, and customer. Schleicher (1998) used a CSRD checklist relating to employees, environmental activities, community involvement, and product safety. Abu-Baker and Naser (2000) and Naser et al. (2006) employed six CSRD categories, namely: environment, energy, human resources, products, community involvement, and other. Branco and Rodrigues (2008) used four categories, namely: environment, human resources, products and customers, and community involvement. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) included environment, social, health and safety, and ethics to measure CSRD. Haniffa and Cooke (2005) and

[19] The third and fourth research questions will be discussed in the following sections.

Muttakin and Khan (2014) used a CSRD checklist of five categories, namely: community involvement, environment, employee information, product and service information, and value-added information.

From the above, it can be observed that there is no consensus regarding a precise definition of CSRD categories. To measure CSRD, however, the content analysis method requires a clear definition of what constitutes a CSRD checklist (Gray, Kouhy and Lavers 1995b). An appropriate checklist demands the identification of its components based on a reference framework of shared meanings designed to increase the reliability and replicability of the content analysis (Gray, Kouhy and Lavers 1995b; Beattie and Thomson 2007; Krippendorff 2013).

In this respect, various international organizations have begun to develop frameworks for reporting on CSRD (Reverte 2009). The most globally recognized frameworks are the Global Reporting Initiative (GRI), AccountAbility AA1000, and the United Nations' Global Compact, all of which incorporate guidelines for external reporting on environmental and social issues (Tschopp and Nastanski 2014). Among these frameworks, GRI is has become the accepted international standard among businesses and NGOs (KPMG 2013; Tschopp and Nastanski 2014). This is evident by a KPMG survey of CSRD in which it documented an increasing global trend toward reporting on CSR issues. About 78% of the reporting firms identified GRI as their framework (KPMG 2013). A noticeable feature of the GRI framework is that it is a rule-based standard, which increases consistency because there is less room for interpretation. This is contrary to the principle-based standards of AccountAbility AA1000 and the United Nations' Global Compact frameworks, which have been criticised for being open to interpretation (Tschopp and Nastanski 2014).

For this reason, this research study measured CSRD based on the GRI framework. A similar approach was employed in recent studies (Brammer and Pavelin 2006; Reverte 2009; Holder-Webb et al. 2009; Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez 2009; Sotorrío and Sánchez 2010; Bouten et al. 2011; Michelon and Parbonetti 2012). This should increase objectivity in defining what constitutes a CSRD checklist and its categories, allowing for independent judgement, facilitating comparability, and increasing replicability

(Gray, Kouhy and Lavers 1995b; Beattie and Thomson 2007; Krippendorff 2013; Neuendorf 2016).

The GRI framework, however, has been criticised for being too detailed and too costly, which minimises its usefulness (Tschopp and Nastanski 2014). To overcome this limitation, it was necessary to make some adjustments to be applicable to the current research study context. For instance, only environmental and social dimensions were included in the checklist, since Saudi listed firms are obliged to provide financial information (Gamerschlag, Möller and Verbeeten 2011). GRI defines the environmental category as the organizational "impact on living and non-living natural systems, including land, air, water and ecosystems" (GRI 2013, page 52), while it defines the social category as the organizational "impact on the social systems within which it operates" (GRI 2013, page 64). The social category is further divided into subcategories, namely: labour practices and decent work, society, and product responsibility.

Furthermore, while the GRI framework provides guidelines on the reporting of employee information, it was decided to separately capture information that is specific to *Saudization* because of its significance to the Saudi Arabian Context, as addressed in Chapter 3. The final CSRD checklist contains a total of 27 items under the two main categories of CSRD, Environmental Disclosure and Social Disclosure, which can be found in Appendix A along with the definitions of categories, subcategories and items.

6.4.1.2 The Selection of Content Medium (Sampling Unit)

Firms use different types of media to disclose social and environmental information, including annual reports, environmental reports, sustainability reports and websites (Fifka 2013). Guthrie and Parker (1989) examined CSRD in both annual and interim reports. Harte and Owen (1991) used annual and environmental reports in their study. Campbell (2004) focused on annual reports to examine environmental disclosure. Haniffa and Cooke (2005) analysed annual reports to examine CSRD. Branco and Rodrigues (2008) investigated annual reports and corporate web pages to examine CSRD. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) used annual reports for source content. Ntim and Soobaroyen (2013) analysed the content of both annual reports and sustainability reports to examine black economic empowerment disclosures. Juhmani (2014) examined corporate websites to investigate CSRD. A number of recent studies, however, have focused on analysing the content of annual reports to examine CSRD (Esa and Ghazali 2012; Jizi et al. 2013; Khan, Muttakin and Siddiqui 2013; Haji 2013; Chan, Watson and Woodliff 2014; Muttakin and Khan 2014).

The content analysis process requires the selection of a sampling unit for inclusion in the analysis that contains all relevant information pertaining to that which is being investigated (Krippendorff 2013). In this regard, annual reports in particular represent the dominant communication medium between businesses and stakeholders, and they are also widely distributed (Gray, Kouhy and Lavers 1995a; Bouten et al. 2011). Annual reports are deemed to be the most credible source of information because they are official documents and are subject to external audit (Gray, Kouhy and Lavers 1995b; Unerman 2000). In this regard, the listing rules of Capital Market Law (CML) mandate that Saudi listed firms must publish annual reports on Tadawul for the public (CML 2003). This mandatory requirement means that annual reports are reliable documents (Lang and Lundholm 1993). Furthermore, annual reports usually contain large amounts of information, including information about environmental and social issues, which facilitates an understanding of firms' attitudes regarding CSR (Deegan and Rankin 1996). In Saudi Arabia, stand-alone reports are rare, and websites have limited information (Tamkeen 2010). Accordingly, annual reports are selected as the source of content to be analysed in this research study.

6.4.1.3 The Unit of Analysis (Recording Unit)

The unit of analysis is *"distinguished for separate description, transcription, recording, or coding"* (Krippendorff 2013, page 100). Various units of analysis have been used in the literature to measure the extent to which CSRD is addressed in the content of annual reports. One of the simplest forms is to detect or record the presence or absence (disclosure or nondisclosure) of information (Unerman 2000; Gao, Heravi and Xiao 2005; Branco and

Rodrigues 2008). A number of studies have used this dichotomous approach as a unit of analysis (see Naser et al. 2006; Ghazali 2007; Branco and Rodrigues 2008; da Silva Monteiro and Aibar-Guzmán 2010; Esa and Ghazali 2012; Khan, Muttakin and Siddiqui 2013; Haji 2013; Muttakin and Khan 2014).

The dichotomous approach of detecting the presence or absence of information involves recording a value of 1 if a particular item on the CSRD checklist is disclosed, or 0 otherwise (Gao, Heravi and Xiao 2005; Branco and Rodrigues 2008). While this approach has the advantage of capturing the variety of disclosure, including non-textual formats (i.e. graphs), one major criticism is that it merely shows the presence or absence of a disclosed item and fails to capture the degree or extent of involvement of the disclosing firm in CSRD (Unerman 2000; Gao, Heravi and Xiao 2005). This is because it equalizes the disclosure of an individual item, regardless of the emphasis and the amount of disclosure each firm makes on the disclosed item (Haniffa and Cooke 2005; Beattie and Thomson 2007). Accordingly, this approach is more appropriate in examining the range of CSRD topics, or when comparing different disclosure mediums (Unerman 2000; Beattie and Thomson 2007; Branco and Rodrigues 2008). Another approach that has been employed in the literature to overcome this shortcoming of the dichotomous approach is based on recording the count of content segmentations to measure the extent of CSRD coverage (Unerman 2000; Beattie and Thomson 2007). Various units of analysis have been used in the literature as a basis for content segmentation, including counts of words (Deegan and Rankin 1996; Deegan and Gordon 1996; Campbell 2004; Haniffa and Cooke 2005; Gao, Heravi and Xiao 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Gamerschlag, Möller and Verbeeten 2011; Ntim and Soobaroyen 2013; Juhmani 2014); sentences (Deegan, Rankin and Tobin 2002; Amran and Haniffa 2011; Chan, Watson and Woodliff 2014); and pages (Patten 1991; Patten 1992).

Each recording unit has its strengths and weaknesses. Word count captures greater detail (Unerman 2000; Zeghal and Ahmed 1990). However, an individual word does not convey meaning (Beattie and Thomson 2007; Milne and Adler 1999). Sentence count allows for inferred meanings. However, it ignores differences in verbose writing styles and grammatical structure (Unerman 2000; Beattie and Thomson 2007). Page count is easier to identify.

However, it is affected by margins, font size and space (Haniffa and Cooke 2005; Beattie and Thomson 2007).

Word count is adopted in the current research study for the following reasons. First, measuring the extent of CSRD is the fundamental aim of this research study. Accordingly, the dichotomous approach is not appropriate for the purpose of this research study (Gao, Heravi and Xiao 2005; Beattie and Thomson 2007). Second, this research study does not intend to infer meaning from analysis of the content of annual reports. This is because the CSRD checklist is defined based on the GRI framework, as stated above. The GRI is a multi-stakeholder network of experts worldwide who contribute in preparing GRI guidelines and in further developing the GRI framework (Benn and Bolton 2011). Use of the GRI increases the objectivity of the current research study (Smith 2011). Third, word count is appropriate for capturing greater detail related to CSRD (Unerman 2000) as it is considered to be the smallest measurement unit of analysis (Zeghal and Ahmed 1990; Krippendorff 2013). As a result, it is more controllable (Gao, Heravi and Xiao 2005), and it also increases the reliability of CSRD (Ntim and Soobaroyen 2013). Fourth, because it is the smallest measurement unit of analysis possible, word count is expected to be robust to error in assessing the quantity of CSRD (Ntim and Soobaroyen 2013; Deegan and Gordon 1996; Campbell, Moore and Shrives 2006; Wilmshurst and Frost 2000; Zeghal and Ahmed 1990; Krippendorff 2013). Finally, prior CSRD studies suggest that the different analysis units are highly correlated and generally tend to document similar results. Accordingly, the outcome should not be greatly influenced by the choice of word count (Hackston and Milne 1996; Deegan 2002; Haniffa and Cooke 2005; Islam and Deegan 2008; Ntim and Soobaroyen 2013). Appendix B provides an illustration of the application of word count on an extracted Arabic text from an annual report.

6.4.1.4 Reliability and Validity

Any research study is subject to scientific evaluation and validation of evidence (Heale and Twycross 2015). It is, therefore, a methodological requirement to assess the soundness of measurements of the investigated research concept (Smith 2011). In this regard, *"[r]eliability and validity are tools of an essentially positivist epistemology"* (Winter 2000, page 10). Reliability refers to *"how consistently a measuring instrument measures whatever concept it is measuring"* (Smith 2011, page 132). Reliability, therefore, is concerned with the replicability and consistency of the results obtained from the checklist in repeated measurements, and it is a requirement for validity (Krippendorff 2013; Neuendorf 2016). Unreliability, on the other hand, jeopardizes validity (Krippendorff 2013). Validity refers to *"how well an instrument that is developed measures the particular concept it is intended to measure"* (Smith 2011, page 132). Validity determines whether the measurement does measure the concept under investigation, and it may require independent judgement (Krippendorff 2013).

Reliability is fundamentally an issue at the core of quantitative empirical research (Bryman 2012). In terms of the reliability criterion in content analysis, Krippendorff (2013) distinguished among three types of reliability, namely: stability, replicability and accuracy (see Table 6.4 below). Stability is evaluated under a test-retest design, where an individual analyst codes the same body of text at a different point in time. Inconsistency in measurement suggests that further improvements to the checklist are required. This form of reliability is considered the easiest to conduct and may serve as the first step in establishing the reliability of data. However, it is the weakest form among the types of reliability and cannot be accepted as the sole criterion of the reliability of data. Replicability is evaluated under a test-test design, where at least two analysts independently code the same body of text. Disagreement in performance suggests that the checklist definitions are not clear and require further enhancement. This form of reliability is also considered easy and provides a stronger form of reliability than stability. It is, therefore, the most important form of data reliability. Accuracy is evaluated under a test-standard design, where analysts must compare their performance to a correct standard as an agreed benchmark. Deviations from this standard suggest unreliability of the data. This form of reliability is the strongest form. However, it is difficult to establish due to the absence of an agreed-upon standard for CSRD (Milne and Adler 1999; Unerman 2000; Guthrie and Abeysekera 2006; Benn and Bolton

2011). Accordingly, both test-retest and test-test designs are used in the current research study to ensure the reliability of data, as discussed below.

Table 6.4: Types of Reliability

Reliability	Designs	Causes of Disagreements	Strength
Stability	test-retest	intraobserver inconsistencies	weakest
Replicability	test-test	intraobserver inconsistencies + interobserver disagreements	medium and easily measureable
Accuracy	test-standard	intraobserver inconsistencies + interobserver disagreements + deviations from a standard	strongest but difficult to get to

Source: (Krippendorff 2013, page 271)

Additionally, two reliability issues have been discussed in the content analysis domain. First, the content's checklist must be well-defined, and clear decision rules must be provided to facilitate the data extraction process. Second, the coded data must be reliable by demonstrating that the analyst has received sufficient training with at least 20 annual reports when the process involves one individual analyst, or that at least two analysts are involved in the process (Milne and Adler 1999; Beattie and Thomson 2007).

Accordingly, the following procedures have been implemented to ensure the reliability of the current research study:

- The CSRD checklist is based on the GRI framework (see Appendix A), which is developed by a board of experts, as stated earlier. This should increase the reliability and validity because it limits the researcher's subjectivity in developing the research checklist (Milne and Adler 1999).

- The decision rules for extracting the content data (see Gray, Kouhy and Lavers 1995b; Milne and Adler 1999; Aras, Aybars and Kutlu 2010) include (see Appendix B):
    - The disclosure must be specifically related to the firm under investigation and its operations.
    - The disclosure must be explicitly stated or emphasised and not implied.

- The disclosure must be categorised based on the most emphasised category or aspect if the disclosure may fit more than one possible category or aspect.
- The disclosure must be counted each time, regardless of how many times it is repeated in the report under investigation.
- The disclosure specific to *Saudization* must be captured under the *Saudization* subcategory.
- The disclosure of both types of data (quantitative and qualitative) must be counted.
- The disclosure of quantitative numbers (whether monetary or nonmonetary) must be counted as one word, regardless of how it is disclosed.
- The disclosure of the financial statements section must not be included in the measurement.

– To ensure extensive and adequate training, the main analyst (the researcher) pilot-tested a total of 150 annual reports. Milne and Adler (1999) recommended a minimum of 20 annual reports as stated earlier.)

– To ensure the stability form of reliability, the main analyst conducted a test-retest design for a total of 13 annual reports after 8 weeks' time. Krippendorff's alpha for reliability was calculated and was found to be 96.07% for the total CSRD, while the main categories of CSRD were 96.83% and 93.04% for social disclosure and environmental disclosure, respectively.

– To ensure the replicability form of reliability, another analyst was involved in conducting a test-test design for a total of 13 annual reports. Krippendorff's alpha for reliability was calculated and was found to be 93.44% for the total CSRD, while the main categories of CSRD were 93.66% and 90.72% for social disclosure and environmental disclosure, respectively.

The ultimate objective of incorporating such procedures is to ensure that any discrepancies are negligible and that the analyst is able to continue to analyse the main research data and answer the research questions. The minimum acceptable level of reliability is 80% (Krippendorff 2013; Neuendorf 2016). As discussed above, Krippendorff's alpha was 90.72%, which suggests that the CSRD measurement is reliable.

In terms of validity, as mentioned earlier, relying on the GRI framework as the increasingly accepted standard for CSRD increases the objectivity and subsequently the validity of the research, because the GRI framework is developed by independent experts (Milne and Adler 1999; Bouten et al. 2011; Gamerschlag, Möller and Verbeeten 2011). Second, validity may require independent judgment from available, established evidence, such as findings from other research efforts (Krippendorff 2013). In this regard, there is a consensus that firm size is a major factor that influences CSRD practices (Fifka 2013; Hahn and Kuhnen 2013). As can be seen later in Chapter 8, the current research results suggest that firm size is one of the more influential factors in the context of this research study. Accordingly, it can be argued that this research study is reliable and valid.

6.5 Measuring CSRD Influencing Factors

In order to answer the third research question, two groups of CSRD influencing factors were identified, as discussed in Chapter 5. Prior CSRD literature suggests that corporate governance has an impact on CSRD practices (see Haniffa and Cooke 2005; Esa and Ghazali 2012; Ntim and Soobaroyen 2013; Jizi et al. 2013; Haji 2013; Khan, Muttakin and Siddiqui 2013; Chan, Watson and Woodliff 2014). Corporate governance factors are divided into board characteristics and ownership structure. Board characteristics include six variables, namely: board size (BSIZE), the proportion of non-executive directors (NEDS), duality role (DUALITY), chairperson holding multiple directorships (CMLTPDIR), directors holding multiple directorships (DMLTPDIR) and board meetings frequency (MEETFREQ). The other set of variables is related to ownership structure and includes three variables, namely: director ownership (DIROWN), institutional ownership (INSTOWN) and governmental ownership (GOVOWN).

In addition to corporate governance factors, prior CSRD literature suggests that firm-specific factors also have an impact on CSRD practices (see Branco and Rodrigues 2008; Holder-Webb et al. 2009; Reverte 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Amran and Haniffa 2011; Muttakin and Khan 2014). Accordingly, the second group of factors includes five firm-specific variables, namely: firm size (FSIZE), environmental sensitivity (ENVSEN), firm age (FAGE), profitability (ROA) and gearing (GEARING). The current research study followed prior CSRD literature to define and measure these influencing factors according to Table 6.5, below.

Table 6.5: Measurement of CSRD Influencing Factors

VARIABLE NAME	VARIABLE ACRONYM	MEASUREMENT	Source of Data
Corporate Governance: Board Characteristics			
Board Size	BSIZE	Total number of members on board of directors	Annual Reports
Non-Executive Directors on Board	NEDS	Proportion of non-executive directors on board of directors, measured as the number of non-executive directors on board to the total number of members on board	Annual Reports
Duality Role	DUALITY	Dummy variable (1,0) where 1 is given when the chairperson is also the CEO, and 0 otherwise	Annual Reports
Chairperson Multiple Directorships	CMLTPDIR	Dummy variable (1,0) where 1 is given when the chairperson holds multiple directors, and 0 otherwise	Annual Reports
Directors Multiple Directorships	DMLTPDIR	Proportion of directors on board holding multiple directorships, measured as the total number of directors on board holding multiple directorships to the total number of members on board	Annual Reports
Board Meetings Frequency	MEETFREQ	Number of board meetings during the financial year	Annual Reports
Corporate Governance: Ownership Structure			
Director Ownership	DIROWN	Proportion of director ownership, measured as the total ownership by directors scaled by the total outstanding ordinary shares	Annual Reports
Institutional Ownership	INSTOWN	Proportion of institutional ownership, measured as the total ownership by institutional investors scaled by the total outstanding ordinary shares	Annual Reports
Governmental Ownership	GOVOWN	Proportion of governmental ownership, measured as the total ownership by Saudi government scaled by the total outstanding ordinary shares	Annual Reports
Firm-specific Factors			
Firm Size	FSIZE	Measured in term of total assets	Annual Reports
Environmental Sensitivity*	ENSEN	Dummy variable (1,0) where 1 is given when the sector belongs to environmental sensitive industry, and 0 otherwise	Tadawul Database
Firm Age	FAGE	Years since foundation, measured as the difference between the annual report date and the firm establishment date	Tadawul Database
Profitability	PROF	Firm profitability, measured as returns on assets (ROA) = net income/total assets	Annual Reports
Gearing	GEARING	Firm gearing ratio, measured as debt to equity = total debt/total equity	Annual Reports

* Environmentally sensitive industries are those with high risk of impact on the environment, such as pollution and waste of natural resources, when operating in industries such as chemicals, steel and metals, oil and gas, mining, building and construction, and utilities distribution (Branco and Rodrigues 2008, page 691). As a result, in this research study, environmentally sensitive industries include: Petrochemical Industries, Cement, Energy and Utilities, Multi-Investment, Industrial Investment, and Building and Construction.

6.6 Measuring Firm Performance

In order to answer the fourth research question, the current research study examines whether Saudi listed firms benefit from engaging in CSRD practices. Prior studies that have investigated the link between firm performance and CSR have generally used accounting-based measures, such as return on assets, return on equity and return on sales (see Tsoutsoura 2004; Aras, Aybars and Kutlu 2010) and market-based measures, such as Tobin's Q ratio (see Cormier et al. 2009; Alotaibi 2016). Both measures of firm performance have their advantages and disadvantages (Orlitzky, Schmidt and Rynes 2003; van Beurden and Gössling 2008).

Accounting measures reflect internal decision-making and management efficiencies in utilizing firm assets to create firm value (van Beurden and Gössling 2008; Malik 2015). However, this method has been criticized since it is based on historical performance and is subject to management manipulations and accounting policies (Orlitzky, Schmidt and Rynes 2003; Tsoutsoura 2004; Aras, Aybars and Kutlu 2010). Market measures, on the other hand, are forward-looking in nature and take into account past, current and future firm performance (Tsoutsoura 2004; Guenster et al. 2011). Hence, they are more closely related to the evaluation of firm value (Tsoutsoura 2004; van Beurden and Gössling 2008; Malik 2015). However, they are also subject to market volatility (Orlitzky, Schmidt and Rynes 2003; Peloza 2009).

To measure the potential benefits of CSRD, this research study employs the market value of a firm as a proxy for firm performance. In particular, the current research study measures firm performance using Tobin's Q ratio (TQRATIO) because first, it is more appropriate for measuring long-term impact than accounting indicators (Wang and Choi 2013). Second, it is more appropriate for measuring intangible assets (Jiao 2010). Third, it reflects firm performance from the stock market perspective (Guenster et al. 2011). Finally, unlike stock returns, it does not require a risk adjustment, thus making comparisons easier (Chung and Pruitt 1994).

Following prior studies (Haniffa and Hudaib 2006; Cormier et al. 2009; Mangena, Tauringana and Chamisa 2012), Tobin's Q ratio is defined in the current research study as the market value of a firm at year end, plus the book value of liabilities divided by the book value of total assets at year end. The related financial data was obtained from the Tadawul database and was extracted from the financial statements of annual reports. A higher Tobin's Q value indicates that the market believes that a firm's management has the competency to effectively use its resources to create value (Haniffa and Hudaib 2006; Cormier et al. 2009; Guenster et al. 2011).

In the current research study, the main explanatory variable is CSRD practices. Accordingly, a higher Tobin's Q reflects a firm's management ability to create value through CSRD (Malik 2015) practices (van Beurden and Gössling 2008). The measurement of CSRD was discussed earlier in this chapter. Furthermore, as discussed in Chapter 5, CSRD influencing factors are expected to affect firm performance. Following prior literature, therefore, the current research study controls for these factors. In particular, this research study controls for corporate governance factors, including board characteristics (board size, the proportion of non-executive directors, duality role, chairperson multiple directorships, directors multiple directorships and board meetings frequency) and ownership structure (director ownership, institutional ownership and governmental ownership). As the study also controls for firm-specific factors, including firm size, environmental sensitivity, firm age, profitability and gearing. The measurement of variables was discussed in the previous section.

6.7 Data Analysis

The previous sections explained the data collection stage of the current research study. This section is concerned with the analysis of the main data. In this regard, various methods of quantitative data analysis are available to describe the characteristics of the concepts under investigation, to understand their patterns, and to explain the relationships among them (Blaikie 2003). Therefore, the data analysis process in the current research study includes descriptive analysis, associational analysis and regression analysis, which are discussed below.

6.7.1 Descriptive Analysis

A necessary step before any regression analysis is to present and summarize the research data in order to gain an understanding of the data

(Cameron and Trivedi 2009). Descriptive analysis is used to investigate the characteristics of CSRD practices, as well as corporate governance factors, firm-specific factors and Tobin's Q ratio. Generally, this can be accomplished by categorizing the quantitative data into measures of location (i.e., mean and median) and measures of spread (standard deviation and range) to understand the data in a meaningful way (Morris 2011; Oakshott 2012). Descriptive analysis in particular is important in answering the first and second research questions regarding CSRD practices in Saudi Arabia by describing the disclosure in terms of word count and analysing its patterns and trends over time.

6.7.2 Associational Analysis

The basis for any attempt to establish connections or patterns in quantitative data are bivariate relationships (Blaikie 2003). Since the third and fourth research questions involve the investigation of relationships between different variables, associational analysis was conducted to initially explore the correlations of the variables. The correlation between two variables is described when the value of one variable concurrently changes with the value of another variable (Blaikie 2003). In other words, the technique of correlation assesses (i) the strength or magnitude of the associative pattern between two variables as reflected in the absolute value of the correlation coefficient; and (ii) the direction of the association between both variables as reflected by the negative and positive sign of the correlation coefficient value (Pallant 2016).

There are two groups of tests to measure associations, namely: parametric tests and non-parametric tests. The fundamental difference between both groups of tests is that parametric tests assume the data comes from normal distribution while non-parametric tests assume the data is distribution free (Field 2013). There are two widely used tests of correlation, namely: the parametric Pearson's product moment correlation coefficient and the non-parametric Spearman's rank order correlation coefficient. Both tests give the value of correlation between -1 and 1, with -1 indicating perfect negative correlation, 1 indicating perfect positive correlation, and 0 indicating no correlation (Oakshott 2012; Field 2013; Pallant 2016). The current research study employed both tests to assess the degree of association between CSRD, corporate governance factors, firm-specific factors and Tobin's Q ratio as a preliminary step to regression analysis.

6.7.3 Regression Analysis

The technique of regression analysis is a tool at the researcher's disposal that allows for the examination of influences between variables (Blaikie 2003). Regression analysis attempts to understand the effect of independent and dependent variables by means of an econometric model holding all other independent variables in the model constant (Koop 2008; Gujarati and Porter 2009). More specifically, regression analysis is *"an attempt to explain movements in a variable by reference to movements in one or more other variables"* (Brooks 2008, page 27). The third and fourth research questions involve the investigation of such movements and effects.

In particular, two main econometric models are used. The first econometric model (Model 1) attempts to answer the third research question by examining the influences of corporate governance and firm-specific factors on CSRD practices in the Saudi Arabian context. Three sub-models are derived from Model 1 to further investigate the influencing factors on the two main CSRD categories, namely: environmental disclosure (Model 1.1) and social disclosure (Model 1.2) as well as *Saudization* (Model 1.3) for its particular importance in the Saudi society. The second econometric model (Model 2) attempts to answer the fourth research question by examining the influence of CSRD practices on firm performance, controlling for corporate governance and firm-specific factors in the Saudi Arabia context. Another sub-model (Model 2.1) is derived from Model 2 to further investigate the influence of the two main CSRD categories on firm performance, namely: environmental disclosure and social disclosure as well as *Saudization*. All of the variables' measurements have been discussed in the previous sections. The econometric models are presented below.

Model 1:

$$\begin{aligned}\mathrm{CSRD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it} \qquad (1)\end{aligned}$$

Model 1.1:

$$\begin{aligned}\mathrm{ENVD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it} \qquad (1.1)\end{aligned}$$

Model 1.2:

$$\begin{aligned}\mathrm{SOLD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it} \qquad (1.2)\end{aligned}$$

Model 1.3

$$\begin{aligned}\mathrm{SAUD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it} \qquad (1.3)\end{aligned}$$

Model 2:

$$\begin{aligned}\mathrm{TQRATIO_{it}} = {} & \alpha_0 + \beta_1\mathrm{CSRD_{it}} + \beta_2\mathrm{BSIZE_{it}} + \beta_3\mathrm{NEDS_{it}} \\ & + \beta_4\mathrm{DUALITY_{it}} + \beta_5\mathrm{CMLTPDIR_{it}} + \beta_6\mathrm{DMLTPDIR_{it}} \\ & + \beta_7\mathrm{MEETFREQ_{it}} + \beta_8\mathrm{DIROWN_{it}} + \beta_9\mathrm{INSTOWN_{it}} \\ & + \beta_{10}\mathrm{GOVOWN_{it}} + \beta_{11}\mathrm{FSIZE_{it}} + \beta_{12}\mathrm{ENVSEN_{it}} \\ & + \beta_{13}\mathrm{FAGE_{it}} + \beta_{14}\mathrm{PROF_{it}} + \beta_{15}\mathrm{GEARING_{it}} + \varepsilon_{it} \qquad (2)\end{aligned}$$

Model 2.1:

$$
\begin{aligned}
\mathrm{TQRATIO_{it}} = {} & \alpha_0 + \beta_1\mathrm{ENVD_{it}} + \beta_2\mathrm{SOLD_{it}} + \beta_3\mathrm{SAUD_{it}} + \beta_4\mathrm{BSIZE_{it}} \\
& + \beta_5\mathrm{NEDS_{it}} + \beta_6\mathrm{DUALITY_{it}} + \beta_7\mathrm{CMLTPDIR_{it}} \\
& + \beta_8\mathrm{DMLTPDIR_{it}} + \beta_9\mathrm{MEETFREQ_{it}} + \beta_{10}\mathrm{DIROWN_{it}} \\
& + \beta_{11}\mathrm{INSTOWN_{it}} + \beta_{12}\mathrm{GOVOWN_{it}} + \beta_{13}\mathrm{FSIZE_{it}} \\
& + \beta_{14}\mathrm{ENVSEN_{it}} + \beta_{15}\mathrm{FAGE_{it}} + \beta_{16}\mathrm{PROF_{it}} \\
& + \beta_{17}\mathrm{GEARING_{it}} + \varepsilon_{it} \qquad (2.1)
\end{aligned}
$$

Where:

CSRD	=	The Total CSRD, measured by word count
SOLD	=	Social Disclosure, measured by word count
ENVD	=	Environmental Disclosure, measured by word count
SAUD	=	*Saudization*, measured by word count
TQRATIO	=	Tobin's Q ratio, measured as the market value of a firm at year end, plus the book value of liabilities divided by the book value of total assets at year end
BSIZE	=	board of directors size, measured as Total number of members on board of directors
NEDS	=	Proportion of non-executive directors on board of directors, measured as the number of non-executive directors on board to the total number of members on board
DUALITY	=	Role duality, measured as a dummy variable (1,0) where 1 is given when the chairperson is also the CEO, and 0 otherwise
CMLTPDIR	=	Chairperson holding multiple directorships, measured as a Dummy variable (1,0) where 1 is given when the chairperson holds multiple directors, and 0 otherwise
DMLTPDIR	=	Directors holding multiple directorships, measured as the proportion of directors on board holding multiple directorships, measured as the total number of directors on board holding multiple directorships to the total number of members on board
MEETFREQ	=	Meetings frequency, measured as the number of board meetings during the financial year
DIROWN	=	The proportion of directors ownership, measured as the total ownership by directors scaled by the total outstanding ordinary shares

INSOWN	=	The proportion of institutional ownership, measured as the total ownership by institutional investors scaled by the total outstanding ordinary shares
GOVOWN	=	The proportion of governmental ownership, measured as the total ownership by Saudi government scaled by the total outstanding ordinary shares
FSIZE	=	Firm size, measures in terms of total assets
ENVSEN	=	Environmental sensitivity, measured as a dummy variable (1,0) where 1 is given when the sector belongs to environmental sensitive industry, and 0 otherwise
FAGE	=	Firm age, measured as the difference between the annual report date and the firm establishment date
PROF	=	Profitability, measured as returns on assets (ROA) = net income/total assets
GEARING	=	Gearing, measured as debt to equity = total debt/total equity
i	=	Refers to an individual firm (1 ... 113 firms)
t	=	Refers to time in years (5 years from 2010 to 2014)
it	=	Refers to firm i at time t
α_0	=	The regression constant term
$\beta_{1,} \dots, \beta_{15}$	=	The regression coefficients to be estimated
ε	=	The regression error term

6.7.3.1 Regression Assumptions

In addition to identifying the econometric model for the regression analysis, the regression technique requires the testing of certain assumptions as standard benchmarks for regression analysis. These assumptions include testing for normality, multicollinearity, linearity, homoscedasticity, and autocorrelation, which are discussed below.

(i) Normality:

Many statistical procedures work best when applied to variables that follow normal distributions (Hamilton 2013). A normal distribution has a symmetrical, bell-shaped curve with equal mean and median values, zero skewness and a kurtosis value of 3 (Pallant 2016; Acock 2014; Field 2013; Hamilton 2013; Cameron and Trivedi 2009). Normality can be tested either numerically by using statistical tests or visually by using graphs (Tabachnick and Fidell 2013). In the current research study, both methods of testing normality were used.

Specifically, standard tests for skewness and kurtosis were used to statistically test the normality of the research data. Skewness is concerned with how symmetrical the distribution is, and kurtosis is concerned with the peakness of the distribution. The statistical tests of normality are quite powerful and sensitive and can capture even a small departure from normality (Acock 2014). In addition to statistical tests, therefore, visual inspection of normality is recommend. Thus, normality was also inspected by histograms and normal probability plots in this research study. The non-normality of the current research data is evident in the majority of variables. Accordingly, the standard approach of transforming the main variables was used as it is discussed later.

(ii) Multicollinearity

The problem of multicollinearity may occur when two or more independent variables have exact movements (Koop 2006). Perfect collinearity[20] arises when a linear relationship between two independent variables is deterministically identified in a regression model. However, in practice, perfect multicollinearity rarely exists. Rather, high collinearity is much more common where strong relationships between two independent variables exist (Koop 2008; Kennedy 2008). The problem of multicollinearity may augment standard errors and produce unreliable estimates (Gujarati and Porter 2009).

In order to detect whether multicollinearity exists in the current research study, four tests were used. Both the parametric Pearson’s product moment correlation coefficient and the non-parametric Spearman’s rank order correlation coefficient would suggest multicollinearity is problematic if two or more independent variable coefficients exceed 0.8 (Kennedy 2008; Koop 2008; Gujarati and Porter 2009). Furthermore, both the variance inflation factor (VIF) and its reciprocal (1/VIF), tolerance, were used. As a rule of thumb, values of less than 10 and near 0 for VIF and tolerance, respectively, indicate that multicollinearity is unproblematic (Gujarati and Porter 2009; Tabachnick and

[20] Collinearity and multicollinearity are often used interchangeably. Collinearity involves two independent variables that are perfectly or highly correlated, while multicollinearity involves more than two independent variables (Koop 2006; Kennedy 2008).

Fidell 2013). The multicollinearity (or collinearity) is confirmed to be not a problem in the current research data according to the tests conducted. The maximum values for VIF and tolerance are 2.21 and 0.86, respectively. Further discussion will be presented in the next chapter in the Associational Analysis section.

(iii) Linearity

The regression model must be linear in parameters where a straight line relationship is expected to be between the dependent and independent variables (Gujarati and Porter 2009). In other words, the dependent variable is expected to lie approximately on the regression line (Koop 2008). The Cook’s distance test was used to check for linearity in the model. Cook’s distance values of less than 1 indicate that the model is linear (Haniffa and Hudaib 2006; Ntim et al. 2012). Linearity can also be checked by plotting the regression residuals against the predicted values. If a curve shape is evident, then chances are the model is nonlinear (Field 2013; Tabachnick and Fidell 2013). In the current research study, Cook’s distance values range from 0.00 to 0.03 which suggests the linearity assumption is met. This is also confirmed by the visual inspection of the plot.

(iv) Homoscedasticity

Homoscedasticity of variance refers to the uniformity of the error term. That is, the variance of the error term is constant over various values of the independent variables. Heteroscedasticity, on the other hand, is the violation of homoscedasticity. Heteroscedasticity rises if the variance of the error term changes in response to one or more independent variable movements (Koop 2008; Gujarati and Porter 2009). If heteroscedasticity is exhibited, the estimated standard errors might be biased and unreliable (Kennedy 2008). Homoscedasticity can be checked using the Breusch-Pagan test, which tests the null hypothesis that the variance of the residuals is homogenous (Wooldridge 2010). Homoscedasticity can also be checked by plotting the regression residuals against the predicted values. If a funnel shape is evident, then chances are the model suffers from heteroscedasticity (Field 2013; Tabachnick and Fidell 2013). The visual inspection of the plot did not suggest the heterosicedasticity of variance in the current research study. However, the Breusch-Pagan test rejected the null hypothesis of homoscedasticity. Accordingly, robust standards option was used to correct for heteroscedasticity (Baltagi 2008; Cameron and Trivedi 2009; Wooldridge 2010).

(v) Autocorrelation

Autocorrelation or serial correlation is concerned with the relationship between the values of the error term (Kennedy 2008). It refers to situations in which errors of observation are unlikely to be independent and correlated (Koop 2008). To put it simply, when the value of the error in one period may be related to the value of the error in another period, then the model may suffer from serial correlation (Wooldridge 2010). Serial correlation in the error term can be detected with the Durbin-Watson test, by examining the observation error and its lag. The reference value for the Durbin-Watson test is around 2, which indicates serial correlation may pose a problem (Gujarati and Porter 2009; Wooldridge 2013). In the current research study autocorrelation is not a problematic as the values of Durbin-Watson range from 0.38 to 1.01.

Data Transformation

Data transformation is concerned with the replacement of a variable by a mathematical function of itself, with the purpose of changing the sample distribution shape (Hamilton 2013). There is a wide range of mathematical functions for transforming the data, including natural logarithms, square, square root, cube and reciprocal (Hamilton 2013; Acock 2014). Data transformation can correct for outlier, non-normality, nonlinearity, and heteroscedasticity (Tabachnick and Fidell 2013).

Arguably, it is not unusual to have non-normally distributed data in practice (Brooks 2008; Gujarati and Porter 2009). However, the threat of non-normality is mitigated with large samples of 100 or more (Tabachnick and Fidell 2013; Pallant 2016) on the basis of the central limit theorem assumption, which suggests that the sampling distribution approaches the normal distribution as it gets larger (Field 2013).

However, it is recommended that regression data be transformed to satisfy normality where applicable to reduce the impact of outliers. Furthermore, satisfying the normality assumption also implies that homoscedasticity is satisfied (Cooke 1998; Tabachnick and Fidell 2013). In the current research study, therefore, the main variables were transformed following Haniffa and Hudaib (2006). Particularly, CSRD was transformed using the logarithmic function whereas Tobin's Q ratio using normal scores (Mangena and Tauringana 2007; Cooke 1998; Haniffa and Cooke 2005) to mitigate any estimation problem when running the regression (Tabachnick and Fidell 2013). Furthermore, firm size as measured by total assets varies from SR. 53 million to SR. 34 billion, as will be discussed in the next chapter, which indicates that the current research sample includes small and large size firms. Therefore, to mitigate any problem of non-normality or outliers in total assets, the variable was transformed using the logarithmic function following prior literature (Naser et al. 2006; Alsaeed 2006).

As indicated earlier, the statistical tests of normality are quite powerful and sensitive and can capture even a small departure from normality especially for large samples above 200 observations (Tabachnick and Fidell 2013; Acock 2014; Pallant 2016). It is, therefore, recommend to inspect the normality using histograms (Tabachnick and Fidell 2013; Pallant 2016). Accordingly, the normality of the transformed variables were inspected visually using histograms and found to be acceptably normal. The histograms are provided in Appendix C, D and E.

6.7.3.2 Regression Estimating Model

As previously mentioned, the research data is an unbalanced panel of 545 individual-year pair observations for 113 firms over a five-year period. An attractive feature of panel data is that it can address both dimensions of data (cross-sectional and time series), which allows for the analysis of more complicated economic questions that might not be addressed using only one dimension of the data (Baltagi 2008; Cameron and Trivedi 2009; Hsiao 2014). The bulk of existing literature that examines the relationship between CSRD practices and influential factors using panel data employs pooled ordinary least squares (POLS) regression (see Haniffa and Cooke 2005; Jizi et al. 2013; Alotaibi 2016). A POLS model is one in which individuals are simply pooled together with no provision for individual or time differences (Adkins and Hill 2011), which is a major drawback that might lead to biased results because it ignores the panel structure of the data (Mangena, Tauringana and Chamisa 2012). This could occur as a result of ignoring the individual-level effects and relegating them to the error term, and consequently leading to heterogeneity[21] bias. Accordingly, richer results can be obtained by appropriately addressing individual-level heterogeneity (Baltagi 2008; Wooldridge 2010).

Individual-level heterogeneity can be addressed by allowing a different intercept for each individual (Kennedy 2008). A primary distinction for controlling individual-level effects in panel data lies between fixed effects and random effects (Cameron and Trivedi 2009; Adkins and Hill 2011). The fixed effects model allows for a limited form of endogeneity,[22] as it permits the intercept to be correlated with the explanatory variables by time demeaning the variables to remove any constant component overtime (Baltagi 2008; Kennedy 2008; Cameron and Trivedi 2009; Wooldridge 2010; Hsiao 2014). A major drawback of the fixed effects model is that the coefficient of time invariant[23] variables cannot be estimated in the model because the variables are time-demeaned (Kennedy 2008; Wooldridge 2010). The random effects model assumes that the intercept is uncorrelated with the explanatory variables and addresses it as part of a composite error term. This composite error term has two components: one to address random individual-level effects, and the second to address idiosyncratic (traditional) errors (Kennedy 2008; Cameron and Trivedi 2009).

Due to the fact that the research data includes time invariant variables, the random effects model is more appropriate for this research study. In this regard, random effects model provides more precise estimates for variables with little variation over time for each firms or those with no variation over time at all. Furthermore, random effects model has the feature in relaxing the assumptions

[21] Heterogeneity refers to the inconstant error variance across observations (Koop 2008; Gujarati and Porter 2009).
[22] Endogeneity refers to the existence of correlation between the error term and an independent variable variance across observations (Koop 2008; Gujarati and Porter 2009).
[23] This also refers to variables that change slowly over time (Wooldridge 2010; Wooldridge 2013).

of homoscedasticity and autocorrelation as it estimates the model using generalised least squares (GLS) method rather than ordinary least squares method (OLS). In this case, GLS is more efficient than OLS in correctly specifying the error in the model of panel data (Koop 2008; Cameron and Trivedi 2009).

To test the appropriateness of the random effects model, the Breusch-Pagan test was applied. The Breusch-Pagan test determines if random effects are present in the model under the null hypothesis that POLS is consistent (Cameron and Trivedi 2009; Gujarati and Porter 2009; Wooldridge 2010; Adkins and Hill 2011; Hsiao 2014). After applying the Breusch-Pagan test, it was determined that the research data has random effects. As a result, the Breusch-Pagan test confirmed that the random effects model is an appropriate model for this research.

6.8 Summary

The current chapter began with a discussion of the research philosophy and paradigm. It was decided that a positivist paradigm was appropriate to answer the research questions. Furthermore, the data source was identified. The research collected a total of 545 annual reports of Saudi listed firms on the Tadawul exchange. The chapter also detailed the process of content analysis and the measurement of the main concept of this research study, namely, CSRD.

Additionally, the measurement of CSRD influencing factors was discussed, including the measurement of corporate governance factors (board characteristics: board size, the proportion of non-executive directors, duality role, chairperson multiple directorships, directors multiple directorships and board meetings frequency; and ownership structure: director ownership, institutional ownership and governmental ownership). as the measurement firm-specific factors was also discussed (firm size, environmental sensitivity, firm age, profitability and gearing). It was been determined that Tobin's Q ratio is appropriate as a proxy for firm performance to investigate whether Saudi listed firms benefit from CSRD practices.

In terms of the econometric model, it was argued that the random effects model is suitable for the current research data. The chapter concluded by clarifying data analysis procedures to conduct the analysis and attempt to answer the research questions. The next chapter will present the descriptive analysis.

7 Data Analysis: CSRD Practices in Saudi Arabia

7.1 Introduction

The previous chapter detailed the research methodology and the data analysis process. The main research objective is to explore the factors and effects of CSRD practices in Saudi Arabia. The purpose of the current chapter is to descriptively analyse the collected data and explore the sample characteristics in order to answer the first two research questions. This helps to understand the CSR reporting practices of companies, the trend in reporting, and the structure of the dataset.

Accordingly, the rest of the chapter is structured as follows. Section 7.1 provides an overall analysis of the main concept of the current research study, CSRD and its main categories of Environmental and Social Disclosure. The next section 7.2 analyses the trend of CSRD and its categories. In Section 7.3, the sample characteristics are presented and discussed and in Section 7.4 presents the analysis of correlations among the continuous variables. The chapter then will conclude by providing a summary in Section 7.5.

7.2 CSRD Overall Analysis

In this section, the disclosure is analysed to provide a better understanding of CSRD practices in Saudi Arabia. Particularly, the current section is structured to answer the first research question:

Q1 - What is the nature and extent of CSRD in annual reports of Saudi listed firms?

Table 7.1 presents the picture of the nature and extent of CSRD. The table shows the overall CSRD by word count over a five-year period from 2010 to 2014. The total observations includes 545 annual reports for Saudi listed nonfinancial firms. As mentioned in Chapter 6, the CSRD was measured using a checklist based on the GRI framework definition of CSRD. As can be seen in the table, total CSRD is divided into the two main categories of Environmental Disclosure and Social Disclosure, and Social Disclosure is further subdivided into Labour and Decent Work, Society, and Product Responsibility.

Table 7.1: Overall CSRD Word Count

Variable	Obs.	Mean	Median	Std. Dev.	Min.	Max.
Total CSRD	545	573.23	457.00	419.07	0	2286
Environmental Disclosure	545	80.02	55.00	108.16	0	706
Social Disclosure	545	493.21	400.00	368.06	0	2112
- Labour and Decent Work	545	262.50	220.00	189.64	0	1297
(*Saudization*)	545	52.69	48.00	37.00	0	233
- Society	545	183.20	139.00	190.77	0	1075
- Product Responsibility	545	47.50	21.00	70.35	0	483

The results in Table 7.1 illustrate that the mean value of the Total CSRD is 573 words per annual report with a median value of 457 words. The Total CSRD reasonably varies across annual reports with a standard deviation of 419 words and a range from 0 to 2286 words. A value of 0 indicates that some firms did not disclose any CSR information in their annual reports. In the same context, Alotaibi (2016) found the mean value of CSRD in Saudi Arabia is 9 sentences with a range of 0 to 51 sentences based on a sample of 171 annual reports in 2013 and 2014.

The current research results are higher than the findings the case in Malaysia and Mauritius. Haniffa and Cooke (2005) found firms disclosed 268 words on average ranging from as low as 15 words to a maximum of 857 words in annual reports in 1996. Furthermore, the word count in 2002 was about 275 words with a minimum of 16 words and a maximum of 801 words. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) found that firms listed in the Mauritius Stock Exchange and studied over a 4-year period reported on average 94 words with a standard deviation of about 94 words and a range from 0 to 418 words. Furthermore, the current research results are higher than the case in Arab world. Particularly, Juhmani (2014) found that Bahraini listed firms in 2012 disclosed 102 words on average within 0 to 472 words range. However, the current research results are lower than the case in Hong Kong and South Africa. Gao, Heravi and Xiao (2005) over a 5-year period found that Hong Kong listed firms disclose about 1817 words with standard deviation of 1403 words. Ntim and Soobaroyen (2013) found that firms listed in the Johannesburg Stock Exchange over a 7-year period disclosed 2064 words on average with a median value of 1462 words and a standard deviation of 1998 words. Overall the results provide evidence of Saudi listed firms engagement in CSRD practices.

7.2.1 Environmental Disclosure

The main categories of CSRD in Table 7.1 show that the mean value of the Environmental Disclosure is about 80 words and a median value of 55 words. It can also be observed that Environmental Disclosure has a great variance as indicated by the standard deviation value of 108 words. Similar results have been reported in prior studies. For example, Haniffa and Cooke (2005) found mean values of about 14 and 18 words, and standard deviation values of 34 and 41 words in 1992 and 2002, respectively,. In Mauritius, Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) found that listed firms disseminated environmental information using about 9 words on average with a standard deviation value of 20 words. In contrast, firms operating in environmentally sensitive industries such as oil and gas, petrochemicals, mining and constructions might be considered more likely to endanger the environment by pollution and waste. Given that, they tend to publish more environmental information in order to mitigate the risk of governmental interference and to gain public acceptance (Brammer and Pavelin 2006; Branco and Rodrigues 2008; Liu and Anbumozhi 2009). Accordingly, the great variance in the Environmental Disclosure in Saudi Arabia may be explained by the fact that some Saudi listed firms are more environmentally sensitive than others.

In terms of the extent of the Environmental Disclosure, it can be seen that Saudi listed firms disclosed more environmental information in their annual reports than the cases in Malaysia and Mauritius (see Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). A number of Saudi listed firms pride themselves on gaining environmental international certifications such as ISO 14001 (see for instance: Saudi Kayan Petrochemical Company 2014; Alujain Corporation 2014) which might indicate that Saudi managers pay more attention to environmental issues than in other developing countries. For example, in the *Alujain Corporation* 2014 annual report, it was stated that *"... as a result, the company 's most important achievements during this year is the acquisition of environmental management systems certification ISO 14001*."[24]

[24] Translated from the Arabic version of *Alujain Corporation* annual reports of 2014 page 6.

The environmental disclosure practices could be linked to the nature of Saudi society where Islamic teachings urge attention to be given to the preservation of the environment as discussed in Chapter 3 (Visser 2013). In addition, the Saudi Arabian government's The National Ninth Development Plan, which aims to correct the course of the national economy, guides economic players to the optimal use of natural resources (Ministry of Economy and Planning 2015). In this respect, Ali and Al-Aali (2012) explored the nature of CSR by seeking the perceptions of executives, managers and employees' who were enrolled in academic graduate programmes in business faculties (non-traditional students) in Saudi Arabia. Their study revealed that the participants have a good understanding of CSR and environmental issues particularly in the Saudi Arabian context. In the same way, Nalband and Al-Amri (2013) sought managerial perceptions about CSR in Saudi Arabia and found that the environmental aspect received the highest rating by respondents suggesting that managers were aware of the challenges regarding natural resources facing the Saudi environment.

7.2.2 Social Disclosure

With regard to the second main category of CSRD, Table 7.1 shows that Social Disclosure has a mean value of 493 words and a median value of 400 words. The disclosure pattern seems to vary with the word count and a range of 0 to 2112 words gives a standard deviation value of 368. It appears that there is a wider social rather than environmental issues reported by Saudi listed firms. Furthermore, the extent of the Social Disclosure in the Saudi Arabian context tends to be higher than the case in Mauritius where Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) reported a mean value of 49 words with a standard deviation value of 42 words with a range of 0 to 201 words over a 5-year period.

The interest in social issues by Saudi listed firms may stem from the sense of responsibility in demonstrating the impact of the Islamic concept *Almaslaha* on the firm's behaviour. Firms might be attempting to demonstrate to their stakeholders that they are compliant with the principles of *Almaslaha*, which is concerned with the common good and the benefits to society as explained in Chapter 3. In this context, one of the firms contributed to CSR by supporting pilgrims to connect with their families during the Hajj season, distributing meals during the month of Ramadan and providing theoretical and practical training for the youth (Mobile Telecommunications Company Saudi Arabia 2012).

7.2.2.1 Labour and Decent Work

Within the Social Disclosure subcategories comparison, Table 7.1 shows that Labour and Decent Work received more attention from Saudi listed firms as it has a mean value of 263 words compared to the mean values of 183 and 48 words for Society, and Product Responsibility subcategories. This result is consistent with the Malaysian context where Haniffa and Cooke (2005) found the mean values of reported employee information were about 134 and 90 words in 1999 and 2002, respectively, while social community was about 25 words for both years.

The interest in Labour and Decent Work by Saudi listed firms is expected given government initiatives and programmes to stimulate *Saudization* and reduce the unemployment rate as discussed in Chapter 3. In the light of the drop in oil prices, which the Saudi economy is heavily dependent on, the government has restricted the employment of foreigners. It has specifically sought to boost private sector *Saudization* programs especially after the difficulties in providing jobs for Saudi citizens in the public sector (MoL 2015; MEP 2016).

In this regard, Table 7.1 shows that Saudi listed firms devoted about 20% (52.69/262.50) of Labour and Decent Work for *Saudization* related information. The mean value of *Saudization* is about 53 words per annual report with a median value of 48 words ranging from 0 to 233 words. The issue of *Saudization* over the past few years has been the focus of economic debate and has been one of the most important problems and concerns facing the Saudi Ministry of Labour and the private sector. As explained in Chapter 3, the development of multiple programs and solutions and the imposition of laws has been controversial. *Saudization* by imposition is considered as an essential solution to the problem of unemployment however it has become a serious and sensitive issue because unemployment is a major measure of the success of any economy. This measure may therefore lead Saudi listed firms to look to attract Saudi talent by disclosing the quality of the work environment within the firm and the benefits and services provided to its employees. For instance, one firm devoted a full part of the annual report to the disclosure of *Saudization* information, training programs and the national *Saudization* certification and awards they had won (see Saudi Public Transport Company 2010).

7.2.2.2 Society

The subcategory of Society appears to be the second highest subject to receive attention from Saudi listed firms. As can be seen from Table 7.1, the overall mean value is 183 words with a median value of 139 words. The disclosure in this subcategory varies from 0 to 1075 words with a standard deviation value of 191 words. The interest in Society as the second most disclosed theme by Saudi listed firms may stem from the stewardship notion, which suggests people are care for each other and trustworthy (Dusuki 2008), as this theme includes community involvement and philanthropic contributions that are subject to the management’s discretion. Carroll (1979; 1991) refers to this aspect of social concerns as the ethical and philanthropic dimensions in his CSR pyramid. According to Carroll, CSR goes beyond obeying the economic and legal dimensions to encompass ethical and philanthropy dimensions (Carroll 1979). In Saudi society, managers may be seen as stewards to Allah first and the public second, and therefore, they have responsibility to contribute to good causes in the society through *Zakat* and *Sadaqa* (obligatory alms giving and charitable contributions). Such community contributions through *Zakat* and *Sadaqa* include *Awqafs* (charitable trusts), Quran memorization centres and programs, *Soqya Haj* projects (providing drinking water to pilgrims), and building and providing maintenance to Mosques (Mobile Telecommunications Company Saudi Arabia 2012; Saudi Telecom Company 2010; Tihama Advertising and Public Relations Company 2010; The National Shipping Company of Saudi Arabia 2010).

7.2.2.3 Product Responsibility

The Product Responsibility subcategory received moderate attention from Saudi listed firms. Table 7.1 shows that the mean value of this subcategory is about 48 words with a median value of 21 words. It appears there is a wide variance in this subcategory as the standard deviation value is 70 words ranging from 0 to 483 words. Saudi listed firms reported a number of issues under this subcategory concerning health, safety and improvement of products and services as well as the customer relationships, communications and satisfaction as one group of stakeholders. A number of firms attributed their success to the quality of what they offer and their constant communication with their customers that enabled them to obtain national and international certificates in competitiveness and quality such as King Khalid Award for Responsible Competitiveness Investment, CSR Prize by Jeddah Social Responsibility Centre, ISO 9001 and OHSAS 18001 (see Zamil Industrial Investment Company 2013; Alujain Corporation 2014; Mobile Telecommunications Company Saudi Arabia 2012).

On the whole, the overall CSRD analysis revealed that Saudi listed firms were engaging in CSR issues and communicating that through CSRD in the annual reports. The most disclosed theme was Labour and Decent Work while Product Responsibility was the lowest disclosed. Both of these are subcategories of Social Disclosure. This is consistent with a study by Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) which found that the most disclosed information was about social issues.

7.3 CSRD Trend Analysis

This section analyses disclosure on a yearly basis to provide a better understanding of the trend of CSRD practices in Saudi Arabia. Particularly, the current section aims to answer the second research question:

Q2 - To what extent has CSRD in annual reports of Saudi listed firms improved over the five-year period of the study?

Table 7.2 below shows the trend in the Total CSRD practices by word count over a 5-year period from 2010 to 2014. The total observations of the sampled firms slightly varies with 105, 105, 111, 112 and 112 annual reports for Saudi listed nonfinancial firms corresponding to the years 2010, 2011, 2012, 2013 and 2014, respectively.

Table 7.2: Trend in the Total CSRD

Variable	Obs.	Mean	%Change	Median	Std. Dev.	Min.	Max.
2010	105	512.33	-----	401.00	392.73	0	1901
2011	105	541.84	5.76	429.00	408.95	0	2073
2012	111	567.64	4.76	447.00	417.23	51	2199
2013	112	605.40	6.65	483.00	430.70	59	2286
2014	112	633.11	4.58	505.50	438.59	65	2277

Table 7.2 shows that Total CSRD has a mean value of 512 words with a median value of 401 words and a range from 0 to 1901 words in 2010. By comparison, the mean value of Total CSRD is 542 words with a median value of 429 words ranging from 0 to 2073. There is an increase of around 30 words on average per annual report with a 5.76%[25] increase from year 2010 to 2011. Table 7.2 also shows that there is an increase in the Total CSRD word count in 2012 of about 26 words on average, which accounts for about 4.76% change from year 2011. The Total CSRD is 568 words with a median value of 447 ranging from 51 to 2199 words in 2012. Similar patterns are observed for 2013 and 2014 as the mean values in each year are 605 and 633 words, respectively.

The Total CSRD has noticeably increased by about 121 words through 2010 to 2014. The largest increase was documented between 2012 and 2013 by a change of 6.65% in CSRD word count. The table also shows that all of the sampled Saudi listed firms provided CSRD information in their annual reports for 2012, 2013 and 2014 as confirmed by the minimum disclosure word number of 51, 59 and 65 words for the three years respectively. This can be compared to the evidence from South Africa where word count increased from 2281 words in 2004 to 5172 words in 2007. The trend results indicate that there is a growing awareness among the management of Saudi listed firms about the importance of social and environmental issues in the Saudi society. This growing awareness could be attributed to the series of forums and summits that have taken place in the past years especially after the release of The Ninth Economic Development Plan in 2010 (Ministry of Economy and Planning 2015) in Saudi Arabia’s largest cities such Riyadh and Jeddah. For example, the CSR forum 2012 in Riyadh which aimed to shed light on CSR best practices (Ali and Al-Aali 2012). These efforts stressed the importance of promoting

[25] The percent change is calculated as the difference between the mean of current year minus the mean of the previous year divided by the previous year and multiplied by 100. In this case, the mean in 2011 (542) minus the mean in 2010 (512) divided by the mean in 2010 (512) and multiplied by 100.

CSR and enhancing the development of Saudi society to contribute to economic development in Saudi Arabia. Saudi listed firms are motivated to engage in CSRD as suggested with the current results.

7.3.1 Environmental Disclosure

In terms of the Environmental Disclosure, the results from Table 7.3 below present evidence of the increasing pattern in the Environmental Disclosure by word count over the five years period. The mean value of the Environmental Disclosure in 2010 was 71 words with a median value of 46 words ranging from 0 to 608 words while the mean value in 2011 was 75 words with a median value of 46 words and a range from 0 to 630 words. It seems there is a slight increase in word count by around 4 words on average which account for the 5.43% increase from 2010 to 2011.

A similar trend has been observed in 2012 with a mean value of 79 words, a median value of 57 words and a range from 0 to 639 words. The increase from 2011 to 2012 is also about 4 words and accounts for 5.41% of the change. However, the results show a surge in the extent of the Environmental Disclosure in 2013. The mean value documented in 2013 is 85 words with median value of 62 words ranging from 0 to 676 words while the increase is 8.31% and accounts for about 7 words on average.

The Environmental Disclosure in 2014 seems to retrieve the pattern prior to 2013 with a slight increase of about 5.30% and 5 words on average. The mean value in 2014 is 90 words with a median value of 69 words ranging from 0 to 676 words. Some Saudi listed firms did not provide any environmental information through the five years period as the minimum disclosed word is 0 in 2010 through to 2014. However, the overall results indicate that there is an increasing level of the Environmental Disclosure among Saudi listed firms.

Table 7.3: Trend in Environmental Disclosure

Variable	Obs.	Mean	%Change	Median	Std. Dev.	Min.	Max.
2010	105	70.82	-----	46.00	100.38	0	608
2011	105	74.67	5.43	46.00	104.82	0	630
2012	111	78.70	5.41	57.00	105.19	0	639
2013	112	85.24	8.31	62.00	112.68	0	676
2014	112	89.76	5.30	69.00	117.08	0	706

7.3.2 Social Disclosure

Table 7.4 below shows the trend in the Social Disclosure by word count over the five-year period. Saudi listed firms disclosed about 442 words on average in 2010. The minimum disclosed number of words is 0 and the maximum is 1762 words while the median value is 356 words. The mean value in 2011 is 467 words and median value is 374 words ranging from 0 to 1929 words. The word count increased by 25 words (5.81% increase). A similar trend is observed in 2012, however, with slight drop in the percentage change from year 2011. In 2012, the mean and median values are 489 and 393 words, respectively, ranging from 41 to 2049 words. The Social Disclosure word count increased by about 22 words which accounts for 4.66% change from 2011 to 2012.

The Social Disclosure trend appears to have the largest increase in 2013 where the disclosed word number increased by 31 words accounting for a 6.39% change. The mean value is 520 words per annual reports while the median value is 429 words with a range from 0 to 2103 words. The pattern increase continued in 2014 where the mean value of the Social Disclosure was 543 words with a median value of 445 words ranging from 0 to 2112 words documenting a 23 word increase (4.46% change).

Similar to the findings for Environmental Disclosure, all the sampled Saudi listed firms provided social information in their annual reports since 2012 as the minimum disclosed word is 41, 46 and 51 in 2012 and 2013 and 2014, respectively, while some Saudi listed firms did not report any social information in 2010 and 2011. However, the overall results indicate that there is an increasing level of the Social Disclosure among Saudi listed firms. The subcategory of Social Disclosure is discussed in the following section.

Table 7.4: Trend in Social Disclosure

Variable	Obs.	Mean	%Change	Median	Std. Dev.	Min.	Max.
2010	105	441.51	-----	356.00	345.95	0	1762
2011	105	467.17	5.81	374.00	360.42	0	1929
2012	111	488.94	4.66	393.00	367.90	41	2049
2013	112	520.16	6.39	428.50	377.12	46	2103
2014	112	543.35	4.46	444.50	383.78	51	2112

7.3.2.1 Labour and Decent Work

The results from analysing the Labour and Decent Work subcategory is presented in Table 7.5 below. In general, the results suggest an improvement in the extent of disclosure over the period of five years. As can be seen in Panel A of Table 7.5, the mean value of the Labour and Decent Work subcategory is 229 and 242 words for 2010 and 2011, respectively. The median values for both years are 189 and 199 with minimum values of 0 and maximum values of 1033 and 1185 respectively. It appears that Saudi listed firms increased their level of disclosing employee related information by 13 words on average accounting for 5.91% change from 2010 to 2011.

The largest increase took place between the years 2011 and 2012 as shown in Table 7.5. The mean value in 2012 is 266 words and the median value is 216 words ranging from 0 to 1259 words. The increase between 2011 and 2012 is 24 words that accounts for the 9.60% change. This trend in Labour and Decent Work continued for the years 2013 and 2014, however, at a slower rate. In 2013, the mean value of the extent of disclosure is 280 words with a median value of 235 words and a range from 0 to 1297 words. This indicates an increase of 14 words (5.49% change). A similar rate was observed in 2014, the mean value increased to 292 words with median value of 247 words ranging from 0 to 1294 words recording a 12 word increase or a 4.20% change.

As can be seen from Panel B in Table 7.5, The *Saudization* trend has also improved over time as the mean values are 45, 47, 55, 57, 59 words for the years 2010, 2011, 2012, 2013 and 2014, respectively. Saudi listed firms increased *Saudization* information by about 33% from 2010 to 2014. However, it is observed that the largest increase documented between 2011 and 2012 while the increase from 2012 and 2013 is about 4.43%. Interestingly, the Saudi official statistics reported that the overall Saudi unemployment rate declined by 0.2% in 2014 while the *Saudization* rate in the private sector increased by 4.3% in 2013 (MoL 2015) which might indicate Saudi listed firms succeeded to attract some Saudi talents.

Table 7.5: Trend in Labour and Decent Work

Variable	Obs.	Mean	%Change	Median	Std. Dev.	Min.	Max.
Panel A: Overall Labour and Decent Work							
2010	105	228.88	-----	189.00	176.22	0	1033
2011	105	242.40	5.91	199.00	185.99	0	1185
2012	111	265.67	9.60	216.00	189.37	0	1259
2013	112	280.24	5.49	234.50	194.50	0	1297
2014	112	292.00	4.20	247.00	196.78	0	1294
Panel B: *Saudization*							
2010	105	44.59	-----	39.00	35.92	0	211
2011	105	46.94	05.28	42.00	35.47	0	205
2012	111	54.74	16.61	48.00	37.48	0	227
2013	112	57.12	04.34	50.00	37.11	0	231
2014	112	59.20	03.64	53.00	37.33	0	233

7.3.2.2 Society

The trend for Society disclosure is presented in Table 7.6 below. The mean value is 170 and the median value is 122 words in 2010. The minimum disclosure made by Saudi listed firms is 0 while the maximum is 921 words. By contrast, the minimum disclosure in 2011 is 0 and the maximum is 967 words whereas the mean and median values are 179 and 122, respectively. The result indicates an increase of about 5.32%, approximately 9 words per annual report.

On the contrary, the results show that there is a slight drop in 2012 where the mean value is 178 words and the median value is 134 words ranging from 0 to 980 words. The percentage change between 2011 and 2012 is about -0.91% a drop of about a single word on average per annual reports. However, the largest increase happened in the following year (2013). The mean and median values in 2013 are 190 and 147 words, respectively, ranging from 0 to 1030 words. This change accounts for a 12 word (6.78% change) increase on average per annual report. Similarly, the results show a slight increase in the extent of disclosure in 2014 of about 8 words (4.36 change) on average. The minimum disclosure is 0 while the maximum is 1075 words with a mean value of 198 words and a median value of 153 words.

Generally, the results of the Society subcategory suggest an overall increase in the extent of disclosure. This indicates that Saudi listed firms are making greater effort over the years of study to contribute to the development of Saudi society. This is might indicate an approach by management to manage the stakeholders' perceptions by demonstrating their involvement in community issues through CSRD (Holder-Webb et al. 2009; Reverte 2009).

Table 7.6: Trend in Society

Variable	Obs.	Mean	%Change	Median	Std. Dev.	Min.	Max.
2010	105	170.25	-----	122.00	183.70	0	921
2011	105	179.30	5.32	136.00	189.31	0	967
2012	111	177.67	-0.91	134.00	190.12	0	980
2013	112	189.71	6.78	146.50	193.87	0	1030
2014	112	197.96	4.34	152.50	198.20	0	1075

7.3.2.3 Product Responsibility

With regard to the trend in the extent of Product Responsibility disclosure, Table 7.7 below shows that the mean values in 2010 is 42 words and the median value is 15 words ranging from 0 to 434 words. Also, the table shows that the mean and median values in 2011 are 45 and 17 words, respectively, with a range from 0 to 462 words. This indicates an increase in the extent of disclosure by of about 3 words on average accounting for a 7.26% change between both years. The pattern of increase almost disappears in the next year in 2012 where the percentage change is only 0.30%. In 2012, the mean and median values are 46 and 21 words, respectively, ranging from 0 to 468 words.

However, 2013 experienced a surge in the disclosure level in the annual reports of Saudi listed firms and this accounts for about a 10% increase (about 5 words on average) from 2012 to 2013. The results document about 50 words on average per annual report in 2013 with a median value of 22 words and a range from 0 to 483 words. It has been also observed that there is an increase in 2014 as the mean and median values are 53 and 26 words with a range from 0 to 483 words. This indicates an increase of about 3 words on average and a 6.35% change from the previous year.

The results suggest that Product Responsibility generally improved over the five years period in Saudi Arabia. This increase might be an indication of opening a channel of communication with customers as a group of stakeholders through the provision of Production Responsibility information.

Table 7.7: Trend in Product Responsibility

Variable	Obs.	Mean	%Change	Median	Std. Dev.	Min.	Max.
2010	105	42.39	-----	15.00	65.18	0	434
2011	105	45.47	7.26	17.00	69.47	0	462
2012	111	45.60	0.30	21.00	67.91	0	468
2013	112	50.21	10.09	22.00	73.13	0	483
2014	112	53.39	6.35	25.50	75.90	0	483

Overall, the CSRD trend analysis revealed that the extent of CSRD practices in the annual reports of Saudi listed firms has improved over the five years period but at varying levels. This is consistent with prior literature. For example Gao, Heravi and Xiao (2005) found the CSRD word count increased between 1993 and 1997 in Hong Kong whereas Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) documented an overall increase in word count over 4 years period from 2004 to 2007 in Mauritius. Furthermore, they found that all CSRD themes (ethics, social, environmental, and health and safety) in experienced some improvements while the most extensive disclosure was about social information.

In Malaysia, Haniffa and Cooke (2005) found that CSRD improved between 1996 and 2002. Esa and Ghazali (2012) examined the annual reports of government-linked firms in Malaysia and documented an increase in the extent of CSRD between 2005 and 2007. In a similar context, Haji (2013) documented an increase in the annual reports of Malaysian listed firms between 2006 and 2009. Ntim and Soobaroyen (2013) found the extent of black empowerment economy disclosure steadily improved over a period of 5 years from 2003 to 2007.

7.4 Sample Characteristics

This section provides a description of the variables used to answer the third and fourth research questions. As explained in the previous chapter, the third research question concerns examining the factors influencing CSRD practices in Saudi Arabia. In addition, the fourth research question examines the effects of CSRD on Tobin’s Q ratio (TQRATIO) as a proxy for firm performance. Variables are presented in Table 7.8 below.

Table 7.8: Sample Characteristics

Variable	Obs.	Mean	Median	Std. Dev.	Min.	Max.
BSIZE	545	8.29	8.00	1.56	4.00	12.00
NEDS	545	0.87	0.89	0.11	0.50	1.00
DUALITY	545	0.12	0.00	0.32	0.00	1.00
CMLTPDIR	545	0.69	1.00	0.46	0.00	1.00
DMLTPDIR	545	0.46	0.45	0.18	0.00	1.00
MEETFREQ	545	5.44	5.00	2.32	2.00	17.00
DIROWN	545	0.02	0.00	0.06	0.00	0.46
INSOWN	545	0.12	0.00	0.20	0.00	0.73
GOVOWN	545	0.08	0.00	0.17	0.00	0.75
FSIZE	545	12,411	2,110	41,472	53	340,041
ENSEN	545	0.65	1.00	0.48	0.00	1.00
FAGE	545	24.65	23.00	13.66	0.00	59.00
PROF	545	0.06	0.05	0.10	-0.78	0.44
GEARING	545	1.07	0.55	2.42	0.00	45.10
TQRATIO	545	1.78	1.35	1.17	0.59	9.00

Note: board size (BSIZE); non-executive directors (NEDS); role duality (DUALITY); chairperson holding multiple directorship (CMLTPDIR); directors holding multiple directorship (DMLTPDIR); meeting frequency (MEETFREQ); directors ownership (DIROWN); institutional ownership (INSOWN); governmental ownership (GOVOWN); firm size (FSIZE); environmental sensitivity (ENSEN); firm age (FAGE); profitability (PROF); gearing (GEARING); Tobin's Q ratio (TQRATIO).

7.4.1 Corporate Governance Variables

Concerning corporate governance variables, table 7.8 shows that the mean and median values for the board size as measured by the number of directors on board is 8. Based on the research sample the number of directors on the board ranges from 4 to 12. This indicates that Saudi listed firms follow the Saudi CGR recommendations for the board size to be in the range of 3 to 11 members (CGR 2006). Prior studies reported similar results in Saudi Arabia. Al-Janadi, Rahman and Omar (2013); Albassam (2014) and Almulhim (2014) found the mean board size was 8 members ranging from 4 to 13 directors while Alotaibi (2016) found that the mean board size was 8 members ranging from 4 to 12 directors per board. Prior studies vary in terms of members on boards. In the Malaysian context, for example, Esa and Ghazali (2012) found that the average board size was 8 members ranging from 6 to 12 members. Ntim and Soobaroyen (2013) found that the board size in South Africa varies from 4 to 21 members with an average of 11 members.

The mean value of the proportion of non-executive directors is 87% while the median value is 89% ranging from 50% to 100%. This indicates that the majority, or at least half, of board directors are non-executive directors.

Furthermore, this is consistent with the Saudi CGR recommendations that non-executive directors should constitute the majority of members on boards (CGR 2006). In the Saudi Arabian context, Al-Abbas (2009) found that the mean value of non-executive directors on board was 81% while Albassam (2014) reported a mean value of 67%. This implies that there is a slight variance in the proportion of non-executive directors due the differences in sample size and study period. In South Africa, Ntim and Soobaroyen (2013) found that non-executive directors comprised about 65.66% of the board of directors on average with a range from 26.67% to 92.31%. Esa and Ghazali (2012) found that Malaysian boards have about 43.62% non-executive directors on average ranging from 28.60% to 62.50% while Khan, Muttakin and Siddiqui (2013) documented a low proportion of non-executive directors of about 7% in Bangladesh.

Table 7.8 shows that the mean value of duality role is 12%. This implies that only around 12% of the boards assign the role of the CEO and chairperson to one individual. This result indicates that the majority of Saudi listed firms follow the Saudi CGR recommendations for separating the roles of CEOs and the chairpersons on boards (CGR 2006) and best international practice (e.g., UK Governance Code, 2016). This result is inconsistent with prior studies in the Saudi Arabia. For example, Al-Abbas (2009) found that the mean value of duality role on boards was 33% while Albassam (2014) reported a mean value of 31%. However, Albassam (2014) documented the trend of this duality role in Saudi Arabia and found that it has a decreasing pattern as the mean value documented in 2004 was 49% while it was only 10% in 2010 which slightly lower than the current research finding. Findings from other studies vary. For example, Khan, Muttakin and Siddiqui (2013) found that about 25% of boards assign both roles of the chairperson and CEO to one individual in Bangladeshi. By comparison, Ntim and Soobaroyen (2013) reported that about 83.62% of boards separate the same roles in South Africa.

The percentage of chairpersons holding multiple directorships is 69%. This result implies that the majority of chairpersons on Saudi listed firms are members of other boards. In addition, the mean value of directors holding multiple directorships is 46% ranging from 0 to 100%. The result implies that about half of the members of a board of directors are also member of other boards in the Saudi listed firms. By comparison, in the Malaysian context, Haniffa and Hudaib (2006) found that 5% of board directors on average are members of others boards in 1999 while in 2000 this value was 11%. It is worth mentioning that no study has yet examined chairperson and directors holding multiple directorships in the Saudi Arabian context. The high percentage of multiple directorships might indicate that Saudi directors are actively engaging and networking with others boards. On other hand, this might be indication of lack of qualified talents to participate on Saudi board of directors.

The mean value of meeting frequency is 5 ranging from 2 to 17. This implies that Saudi board directors set meetings 5 times on average. The result is consistent with prior findings in the Saudi Arabian context. For example, Albassam (2014) found that Saudi boards meet 5 times on average a year with some boards meeting as a minimum of 1 time and a maximum of 14 times a year. Similarly, Alotaibi (2016) found that Saudi boards meet 5 times on average a year with some boards not meeting at all during the year while others meeting up to 16 times a year. By comparison, Allegrini and Greco (2013) found that boards meet about 9 times on average in Italy with some boards meeting at frequencies as low as 2 times a year and as high as 25 times a year.

In terms of the ownership structure variables, Table 7.8 shows that the mean value of director ownership is 2% ranging from 1% to 46%. The result is consistent with Alotaibi (2016) who found that directors account for ownership of about 5% of Saudi listed firms. Albassam (2014), on the other hand, found higher director ownership of about 15% due to the inclusion of financial firms in his study sample. In terms of the findings of other contexts, Eng and Mak (2003) found that director ownership is about 14% on average ranging from 0% to 87% in Singapore. Ghazali (2007) found the director ownership comprises about 21.4% on average ranging from 0% to 71.7% in the Malaysian context while in Bangladesh, Khan, Muttakin and Siddiqui (2013) found the directors hold about 27.4% ownership on average.

The mean value of institutional ownership is 12% ranging from 0% to 73%. This is inconsistent with the findings of Albassam (2014) reporting that the institutional shareholdings comprise about 6% of Saudi listed firms' ownership with a range from 0% to 40%. However, Albassam (2014) included both financial and nonfinancial Saudi listed firms in the study sample. Other studies reported higher institutional ownership. In Qatar, for example, Naser et al. (2006) found that institutional ownership constitutes about 16% of Qataris firms ranging from 0% to 43% while Ntim and Soobaroyen (2013) reported that institutional investors hold about 77.57% ownership in South Africa with a minimum shareholdings of 5.94% and maximum of 98.99%.

The mean value of governmental ownership is 8% ranging from 0% to 75%. The result is consistent with Almulhim (2014) who found that the Saudi government holds about 8% of ownership ranging from 0% to 83%. Also, Al-Janadi, Rahman and Omar (2013) found that the Saudi government holds about 11% of ownership ranging from 0% to 81%. Albassam (2014), on the other hand, found that Saudi government owns about 42% of shares with a minimum of 0% and a maximum of 84% while Alotaibi (2016) documented 32% governmental ownership ranging from 0% to 74%. These differences are attributed to the sample size, study period and the inclusion or exclusion of financial firms. With regards to other contexts, Naser et al. (2006) found that governmental ownership in Qatar comprises about 14.42% on average with a range from 0% to 50% . Ntim and Soobaroyen (2013) documented governmental shareholdings in South Africa of around 7.80% ranging from 0% to 71.56% while in the Malaysian context Ghazali (2007) reported that the Malaysian government is a major shareholder in about 64% of Malaysian listed firms.

7.4.2 Firm-Specific Variables

With regards to firm-specific factors, Table 7.8 shows that the mean and median values of firm size as measured by total assets are SR. 12.41 and SR. 2.11 billion, respectively. Firm size varies from SR. 53 million to SR. 34 billion with a standard deviation value of SR. 41.47 billion. This indicates that the sampled Saudi listed firms contains small and large size firms. Similar result were found by Alotaibi (2016) who document a mean value of SR. 14 billion for total assets.

The mean value of environmental sensitive industries is 65% indicating that the majority of the sampled Saudi listed firms operate in one of the sensitive industrial sectors. Environmentally sensitive industries are those with high risk of impact on the environment, such as pollution and waste of natural resources, when operating in industries such as chemicals, steel and metals, oil and gas, mining, building and construction, and utilities distribution (Branco and Rodrigues 2008, page 691). As a result, in this research study, environmentally sensitive industries include: Petrochemical Industries, Cement, Energy and Utilities, Multi-Investment, Industrial Investment, and Building and Construction.

In addition, the mean firm age was 24 years and a median value of 23 years ranging from 0 to 59 years. The result indicates that the research study sample includes new as well as old firms. By contrast, Alsaeed (2006) found that the age of Saudi listed firms is 22 years on average.

The mean value of profitability as measured by return on assets (ROA) is 6% and a median value of 5%. ROA varies among Saudi listed firms from as low as -78% to as high as 44% with a standard deviation value of 10%. This indicates significant variations in firms' returns. Almulhim (2014) documented a similar result in the Saudi Arabian context with a mean of 6% and a range from -68% to 44%. Alotaibi (2016) found ROA ranging between -15.41% and 36.53% with an average of 8.98% while Albassam (2014) found the mean, minimum and maximum values are 6.7%, -3% and 23%, respectively.

The mean value for gearing is 1.07 and a median value of 0.55 ranging from 0 to 45.10. This indicates Saudi listed firms are highly geared on average. One reason might be attributed to the research sample as about 65% of firms belong to environmentally sensitive industries who usually really on debt financing for their operations (Al Kahtani 2014). Furthermore, as indicated earlier the research sample includes new firms which might also depend on debt financing at their earlier stage of life (Al Kahtani 2014). Prior studies in the Saudi Arabian context documented varying levels of gearing. Both Alsaeed (2006) and Albassam (2014) found the mean value of gearing was 25% and 21% respectively while Alotaibi (2016) reported 58%. The high gearing level in the current study might be attributed to the oil prices drop in the recent years and its implications on Saudi economy generally and the private sector particularly (Alsweilem 2015). The current research study follows CSRD prior literature to measure gearing as total debt to total equity (see Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011).

Finally, in terms of the firm performance as measured by Tobin's Q ratio Table 7.8 shows that the mean value is 1.78 with a median value of 1.35 and a range from 0.59 to 9 with a standard deviation value of 1.17. In line with this, Almulhim (2014) reported an average Tobin's Q ratio of 1.71 ranging from 0.53 to 6.6. Albassam (2014) found the mean value was 2.63 and within the range from 0.94 to 6.49 while Alotaibi (2016) documented a mean value of 0.66 and a minimum and maximum values of 0.04 and 2.19, respectively.

7.5 Associational Analysis

The previous section discussed the descriptive statistics of the variables employed in the current research study. This section draws an initial picture of the relationships among these variables. In particular, this includes the parametric Pearson's product moment correlation coefficient (at top) and the non-parametric Spearman's rank order correlation coefficient (at bottom) as shown in Table 7.9 below. The rational of using both tests is to provide robust results before running the regression models in the next chapter. This is particularly important to investigate whether collinearity or multicollinearity exists among the variables (Tabachnick and Fidell 2013; Pallant 2016). A similar approach has been adopted in prior studies (Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013). As discussed in the previous chapter the correlation matrix does not pose any problem of collinearity or multicollinearity when the correlation coefficient values of the explanatory variables are below the threshold of 0.80 (Gujarati and Porter 2009; Tabachnick and Fidell 2013). The maximum values of Pearson's and Spearman's correlation coefficient are 0.605 and 0.471, respectively. Furthermore, the magnitude and direction for both Pearson and Spearman tests are generally similar which provides further evidence that normality is not a serious problem in the research data (Ntim and Soobaroyen 2013).

7.5.1 CSRD Associational Analysis

The overall analysis of the Total CSRD (TCSRD) suggests that it is significantly related to corporate governance, firm-specific and firm performance variables in the Saudi Arabian context as can be seen from Table 7.9. In terms of corporate governance variables, Tables 7.9 shows that the Total CSRD (TCSRD) has a positive and significant association with all board characteristics variables (board size (BSIZE), non-executive directors on board (NEDS), directors holding multiple directorship (DMLTPDIR), and meeting frequency (MEETFREQ)) at 0.01 significance level or better according to Pearson’s test. This is also confirmed by Spearman’s test, however, the meeting frequency (MEETFREQ) shows significance at 0.05 level or better. With regards to the ownership structure variables, the results show that institutional ownership (INSOWN) and governmental ownership (GOVOWN) are positively and significantly related to the Total CSRD (TCSRD) at 0.01 significance level or better according to both Pearson’s and Spearman’s tests. However, it seems that director ownership (DIROWN) has a weaker association with the Total CSRD (TCSRD) as Pearson’s test show a negative significant association between the variables while Spearman’s test show negative but insignificant association between the variables.

In terms of firm-specific variables, Table 7.9 shows that the Total CSRD (TCSRD) has a positive and significant association with firm size (FSIZE) and profitability (PROF) according to both Pearson’s and Spearman’s tests at 0.01 and 0.1 significance levels, respectively. Firm age (FAGE) appears to be negatively related to the Total CSRD (TCSRD) at the 0.05 significance level according to Pearson’s test, however, Spearman’s test shows no significance association. Furthermore, both Pearson’s and Spearman’s tests show a positive and significant association between gearing (GEARING) and the Total CSRD (TCSRD) at 0.05 and 0.01 significance levels.

With regards to the firm performance variable, Table 7.9 shows that the association between Total CSRD (TCSRD) and Tobin’s Q ratio is significantly negative at 0.05 and 0.01 levels according to Pearson’s and Spearman’s tests, respectively.

7.5.1.1 Environmental Disclosure Associational Analysis

The overall analysis of the Environmental Disclosure (ENVD) suggests a relationship with corporate governance and firm-specific variables, however, not to the firm performance variable in the Saudi Arabian context as can be seen from Table 7.9. In terms of the corporate governance variables, Table 7.9 shows that Environmental Disclosure (ENVD) has a positive and significant association with board characteristics namely board size (BSIZE), non-executive directors on board (NEDS), and directors holding multiple directorship (DMLTPDIR) at 0.01 significance level or better according to both Pearson's and Spearman's tests. Pearson's test also shows that Environmental Disclosure (ENVD) is related positively and significantly to meeting frequency (MEETFREQ), however, Spearman's test did not show any significance. With regards to ownership structure variables, director ownership (DIROWN) seems to be associated negatively with the Environmental Disclosure (ENVD) according to both tests. However, based on Person's test the association is significant at 0.05 level while Spearman's did not show any significance. Both tests did not find any significant association between the Environmental Disclosure (ENVD) and institutional ownership (INSOWN) while governmental ownership (GOVOWN) is positively and significantly related to the Environmental Disclosure (ENVD) at 0.01 level.

In terms of the firm-specific variables, Table 7.9 shows that the Environmental Disclosure (ENVD) is positively and significantly associated with firm size (FSIZE) at 0.01 level or better according to both tests. Firm age (FAGE) has a positive relationship with the Environmental Disclosure (ENVD) and significant at 0.1 level according to Pearson's test but not Spearman's. Similarly, profitability (PROF) is positively related to the Environmental Disclosure (ENVD) and significant at 0.01 level according to Pearson's test but not Spearman's. Spearman's test also shows that the Environmental Disclosure (ENVD) has a significantly positive association with gearing (GEARING) at 0.01 level while Pearson's test shows positive but not significant association.

With regards to the firm performance variable, Table 7.9 shows no association between Total CSRD (TCSRD) and Tobin's Q ratio according to both Pearson's and Spearman's tests.

7.5.1.2 Social Disclosure Associational Analysis

The overall analysis of the Social Disclosure (SOLD) suggests that it is significantly related to corporate governance, firm-specific, firm performance variables in the Saudi Arabian context as can be seen from Table 7.9. In terms of corporate governance variables, Tables 7.9 shows that the Social Disclosure (SOLD) has a positive and significant association with all board characteristics variables (board size (BSIZE), non-executive directors on board (NEDS), directors holding multiple directorship (DMLTPDIR), and meeting frequency (MEETFREQ)) at 0.01 significance level or better according to both Person's Spearman's tests. With regards the ownership structure variables, both tests also show that director ownership (DIROWN) is not related to the Social Disclosure (SOLD) while both institutional ownership (INSOWN) and governmental ownership (GOVOWN) are positively and significantly related to the Social Disclosure (SOLD) at 0.01 significance level or better according to both Pearson's and Spearman's tests.

In terms of firm-specific variables, Table 7.9 shows that the Social Disclosure (SOLD) has a positive and significant association with firm size (FSIZE) according to both Pearson's and Spearman's tests at 0.01 significance levels. Firm age (FAGE) appears to be negatively related to the Social Disclosure (SOLD) at 0.01 significance level according to Pearson's test, however, Spearman's test shows no significance association. Profitability (PROF) appears to be positively related to the Social Disclosure (SOLD) and significant at 0.1 level based on Spearman's test but not Pearson's test. Furthermore, both Pearson's and Spearman's tests show a positive and significant association between gearing (GEARING) and the Social Disclosure (SOLD) at 0.05 and 0.01 significance levels.

With regards to the firm performance variable, Table 7.9 shows that the association between the Social Disclosure (SOLD) and Tobin's Q ratio is significantly negative at 0.05 and 0.01 levels according to Pearson's and Spearman's tests, respectively.

Generally, the results are in agreement with prior CSRD literature. In Malysia, Haniffa and Cooke (2005) found that proportion of Malay directors, non-executive directors, firm size and profitability were significantly associated with CSRD practices while gearing was not associated. Esa and Ghazali (2012) found that CSRD had a significant relationship with board size and firm size while profitability and leverage did not show any significant association. In South Africa, Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) found that

CSRD relates to firm size and gearing in Mauritius. Ntim and Soobaroyen (2013) found that black economic empowerment disclosure is significantly associated with non-executive directors, block and governmental ownership, and firm size. In Bangladesh, Khan, Muttakin and Siddiqui (2013) found that director ownership, public ownership leverage, firm age, firm size and ROA are significantly related to CSRD practices.

Table 7.9: Correlation Matrix (Pearson at top and Spearman at bottom)

VARIABLES		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
TCSRD	1	1.000	0.432 ***	0.982 ***	0.391 ***	0.296 ***	0.361 ***	0.102 **	-0.058	0.251 ***	0.428 ***	0.604 ***	-0.056	0.096 **	0.860 **	-0.125 **
ENVD	2	0.517 ***	1.000	0.289 ***	0.261 ***	0.227 ***	0.279 ***	0.002	-0.131 **	0.000	0.377 ***	0.390 ***	0.023	0.066	0.048	-0.061
SOLD	3	0.979 ***	0.351 ***	1.000	0.372 ***	0.274 ***	0.340 ***	0.106 **	-0.044	0.280 ***	0.388 ***	0.580 ***	-0.072 *	0.084 *	0.920 **	-0.123 ***
BSIZE	4	0.478 ***	0.274 ***	0.450 ***	1.000	0.143 ***	0.463 ***	-0.016	0.092 **	0.199 ***	0.136 ***	0.094 **	-0.116 ***	0.068	0.070	-0.185 ***
NEDS	5	0.293 ***	0.244 ***	0.262 ***	0.209 ***	1.000	0.359 ***	0.022	-0.237 ***	0.071 *	0.208 ***	0.084 *	-0.075 *	-0.029	-0.039	-0.115 *
DMLTPDIR	6	0.438 ***	0.294 ***	0.405 ***	0.457 ***	0.325 ***	1.000	0.053	0.003	0.190 ***	0.206 ***	0.151 ***	-0.101 **	0.066	0.077 *	-0.152 ***
MEETFREQ	7	0.103 **	-0.031	0.119 ***	0.008	0.026	0.086 **	1.000	-0.141 ***	-0.144 ***	0.299 ***	0.154 ***	0.160 ***	-0.051	-0.039	0.041
DIROWN	8	-0.024	-0.061	-0.029	0.146 ***	-0.180 ***	-0.012	-0.144 ***	1.000	-0.091 **	-0.105 **	-0.089 **	0.096 **	0.201 ***	-0.051	-0.017
INSOWN	9	0.314 ***	0.007	0.352 ***	0.215 ***	0.069	0.216 ***	-0.120 ***	-0.048	1.000	-0.121 ***	-0.052	-0.273 ***	-0.020	0.115 ***	-0.038
GOVOWN	10	0.532 ***	0.459 ***	0.472 ***	0.293 ***	0.249 ***	0.261 ***	0.234 ***	-0.008	-0.019	1.000	0.605 ***	0.022	0.111 ***	0.011	-0.023
FSIZE	11	0.638 ***	0.421 ***	0.603 ***	0.471 ***	0.175 ***	0.426 ***	0.041	0.056	0.134 ***	0.458 ***	1.000	-0.089 **	-0.042	0.105 **	-0.364 ***
FAGE	12	-0.035	0.027	-0.046	-0.133 ***	-0.114 ***	-0.125 ***	0.150 ***	0.083 *	-0.235 ***	0.043	-0.171 ***	1.000	0.213 ***	-0.132 ***	0.099 **
PROF	13	0.083 *	0.038	0.074 *	0.063	-0.057	-0.004	-0.019	0.155 ***	0.013	0.085 **	-0.023	0.292 ***	1.000	-0.306 ***	0.236 ***
GEARING	14	0.192 ***	0.140 ***	0.195 ***	0.096 **	-0.004	0.177 ***	-0.065	0.003	0.178 ***	0.010	0.450 ***	-0.160 ***	-0.245 ***	1.000	-0.091 **
TQRATIO	15	-0.136 ***	-0.062	-0.143 ***	-0.165 ***	-0.109 **	-0.142 ***	0.095 **	-0.080 *	-0.084 **	-0.091 **	-0.376 ***	0.124 ***	0.307 ***	-0.233 ***	1.000

Note: ***, **, and * denote that correlation is significant at 0.01, 0.05, and 0.1 level (2-tailed) respectively.

Note: The red rectangle represents the correlation coefficient values among the explanatory variables only. The yellow rectangles represent the maximum correlation coefficient values.

Note: The Total CSRD (TCSRD), Environmental Disclosure (ENVD), Social Disclosure (SOLD), board size (BSIZE); non-executive directors (NEDS); role duality (DUALITY); chairperson holding multiple directorship (CMLTPDIR); directors holding multiple directorship (DMLTPDIR); meeting frequency (MEETFREQ); directors ownership (DIROWN); institutional ownership (INSOWN); governmental ownership (GOVOWN); firm size (FSIZE); environmental sensitivity (ENSEN); firm age (FAGE); profitability (PROF); gearing (GEARING); Tobin's Q ratio (TQRATIO).

7.6 Summary

The current chapter provided a descriptive analysis for CSRD practices in the Saudi Arabian context. The overall finding is that Saudi listed firms are heavily engaged in CSRD practices. The extent of CSRD practices tend to be higher than other developing countries. Furthermore, improvement of CSRD practices was seen over the five years period of the study in terms of the Total Disclosure and its main categories namely Environmental and Social Disclosure. The largest increase in disclosure word count was observed in the Labour and Decent Work subcategory while the smallest was in Product Responsibilities.

In addition, the chapter described the sample characteristics in terms of the mean, median, standard deviation, minimum and maximum statistics. The majority of variables were within acceptable ranges. Moreover, the last section provided associational analysis and documented significant association among a number of variables. The related variables will be examined in the next chapter through the research regression models.

8 Data Analysis: Factors and Effects of CSRD Practices in Saudi Arabia

8.1 Introduction

The previous chapter explored CSRD practices in Saudi Arabia and provided a descriptive analysis for the current research data. It helped to answer the first and second research questions pertaining to the extent and trend patterns of CSRD practices in Saudi Arabia. The main research objective is to explore the factors and effects of CSRD practices in Saudi Arabia. The purpose of the current chapter, therefore, is to extend the previous chapter by answering the third and fourth research questions pertaining to examining the factors and effects of CSRD practices in Saudi Arabia. Particularly, it presents the results of the regression econometrics models developed in Chapter 6 using the GLS random effects estimator to control for individual-level effects in the research models (Cameron and Trivedi 2009; Adkins and Hill 2011).

Accordingly, the current chapter is structured as follows. Section 8.2 proceeds with analysing the factors influencing CSRD practices in Saudi Arabia. In Section 8.2.1, CSRD and corporate governance factors are discussed followed by a discussion for CSRD and firm-specific factors in Section 8.2.2. Section 8.3 provides analysis for the effects of CSRD practices in Saudi Arabia on firm performance. Finally, the chapter concludes by providing a summary in Section 8.4.

8.2 Factors Influencing CSRD Practices in Saudi Arabia

This section attempts to the answer the third research question: *Q3 - Do corporate governance and firm-specific factors influence CSRD practices in Saudi listed firms?*. In particular, this section analyses the first model (Model 1) and its sub-models (Model 1.1, Model 1.2 and Model 1.3) as discussed in Chapter 6.

Model 1:

$$\begin{aligned}\mathrm{CSRD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it}\end{aligned}$$

Model 1.1:

$$\begin{aligned}\mathrm{ENVD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it}\end{aligned}$$

Model 1.2:

$$\begin{aligned}\mathrm{SOLD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it}\end{aligned}$$

Model 1.3

$$\begin{aligned}\mathrm{SAUD_{it}} = {} & \alpha_0 + \beta_1\mathrm{BSIZE_{it}} + \beta_2\mathrm{NEDS_{it}} + \beta_3\mathrm{DUALITY_{it}} + \beta_4\mathrm{CMLTPDIR_{it}} \\ & + \beta_5\mathrm{DMLTPDIR_{it}} + \beta_6\mathrm{MEETFREQ_{it}} + \beta_7\mathrm{DIROWN_{it}} \\ & + \beta_8\mathrm{INSTOWN_{it}} + \beta_9\mathrm{GOVOWN_{it}} + \beta_{10}\mathrm{FSIZE_{it}} \\ & + \beta_{11}\mathrm{ENVSEN_{it}} + \beta_{12}\mathrm{FAGE_{it}} + \beta_{13}\mathrm{PROF_{it}} \\ & + \beta_{14}\mathrm{GEARING_{it}} + \varepsilon_{it}\end{aligned}$$

Where:

CSRD	=	The Total CSRD, measured by word count
SOLD	=	Social Disclosure, measured by word count
ENVD	=	Environmental Disclosure, measured by word count
SAUD	=	*Saudization*, measured by word count
BSIZE	=	board of directors size, measured as Total number of members on board of directors
NEDS	=	Proportion of non-executive directors on board of directors, measured as the number of non-executive directors on board

		to the total number of members on board
DUALITY	=	Role duality, measured as a dummy variable (1,0) where 1 is given when the chairperson is also the CEO, and 0 otherwise
CMLTPDIR	=	Chairperson holding multiple directorships, measured as a Dummy variable (1,0) where 1 is given when the chairperson holds multiple directors, and 0 otherwise
DMLTPDIR	=	Directors holding multiple directorships, measured as the proportion of directors on board holding multiple directorships, measured as the total number of directors on board holding multiple directorships to the total number of members on board
MEETFREQ	=	Meetings frequency, measured as the number of board meetings during the financial year
DIROWN	=	The proportion of directors ownership, measured as the total ownership by directors scaled by the total outstanding ordinary shares
INSOWN	=	The proportion of institutional ownership, measured as the total ownership by institutional investors scaled by the total outstanding ordinary shares
GOVOWN	=	The proportion of governmental ownership, measured as the total ownership by Saudi government scaled by the total outstanding ordinary shares
FSIZE	=	Firm size, measures in terms of total assets
ENVSEN	=	Environmental sensitivity, measured as a dummy variable (1,0) where 1 is given when the sector belongs to environmental sensitive industry, and 0 otherwise
FAGE	=	Firm age, measured as the difference between the annual report date and the firm establishment date
PROF	=	Profitability, measured as returns on assets (ROA) = net income/total assets
GEARING	=	Gearing, measured as debt to equity = total debt/total equity
i	=	Refers to an individual firm (1 ... 113 firms)
t	=	Refers to time in years (5 years from 2010 to 2014)
it	=	Refers to firm i at time t
α_0	=	The regression constant term
$\beta_{1,} \dots, \beta_{15}$	=	The regression coefficients to be estimated
ε	=	The regression error term

The main dependent variable in Model 1 is the Total CSRD while the dependent variables in the sub-models Model 1.1, Model 1.2 and Model 1.3 are Environmental Disclosure, Social Disclosure and *Saudization*. The models examines what corporate governance and firm-specific factors provide explanation for CSRD practices in the Saudi Arabian context.

Table 8.1: Factors Influencing CSRD Practices in Saudi Arabia

Statistics	Total CSRD			Environmental			Social			*Saudization*		
	Model 1			Model 1.1			Model 1.2			Model 1.3		
Panel A: Overall Models' Statistics												
Number of obs	545			545			545			545		
Number of firms	113			113			113			113		
Obs per firm: min	2			2			2			2		
Obs per firm: max	5			5			5			5		
Wald Chi-squared	205.330			72.510			194.360			59.100		
Prob > Chi-squared	0.000			0.000			0.000			0.000		
R-squared	0.455			0.234			0.427			0.155		
rho	0.702			0.979			0.718			0.834		
Panel B: Models' Statistics												
Factors	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z
BSIZE	0.032	0.021	0.135	0.006	0.018	0.759	0.027	0.022	0.205	0.040	0.043	0.352
NEDS	0.322	0.300	0.284	0.427	0.379	0.260	0.292	0.295	0.323	-0.335	0.802	0.676
DUALITY	-0.063	0.101	0.530	0.010	0.051	0.844	-0.073	0.097	0.455	0.039	0.130	0.763
CMLTPDIR	0.188	0.134	0.162	-0.088	0.063	0.163	0.191	0.136	0.160	-0.024	0.127	0.847
MLTPDIR	0.194	0.272	0.476	-0.174	0.488	0.721	0.177	0.272	0.516	-0.021	0.584	0.972
MEETFREQ	-0.007	0.011	0.517	-0.001	0.008	0.935	-0.006	0.011	0.566	-0.040	0.028	0.155

Table 8.1: Factors Influencing CSRD Practices in Saudi Arabia (continued)

Factors	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z
DIROWN	-0.390	0.739	0.597	-0.520	0.391	0.183	-0.354	0.728	0.627	-1.836	1.136	0.106
INSOWN	0.648	0.185	0.000***	-0.205	0.157	0.192	0.714	0.193	0.000***	1.591	0.561	0.005***
GOVOWN	0.992	0.253	0.000***	2.138	0.957	0.025**	0.854	0.252	0.001***	0.844	0.480	0.079*
FSIZE	0.250	0.039	0.000***	0.224	0.061	0.000***	0.247	0.039	0.000***	0.309	0.078	0.000***
ENVSEN	-0.171	0.119	0.151	1.214	0.401	0.002***	-0.278	0.123	0.024**	-0.489	0.241	0.042**
FAGE	0.014	0.005	0.004***	0.029	0.011	0.011**	0.015	0.005	0.003***	0.029	0.013	0.020**
PROF	-0.674	0.500	0.178	0.189	0.216	0.381	-0.682	0.517	0.187	-0.481	0.618	0.437
GEARING	0.029	0.037	0.426	-0.001	0.002	0.632	0.030	0.037	0.423	0.015	0.030	0.614
_cons	3.038	0.471	0.000	-0.682	0.599	0.255	3.028	0.468	0.000	0.635	1.022	0.534

Note: ***, **, and * denote significance levels at 1%, 5%, and 10%, respectively.

Note: board size (BSIZE); non-executive directors (NEDS); role duality (DUALITY); chairperson holding multiple directorships (CMLTPDIR); directors holding multiple directorships (DMLTPDIR); meeting frequency (MEETFREQ); directors' ownership (DIROWN); institutional ownership (INSOWN); governmental ownership (GOVOWN); firm size (FSIZE); environmental sensitivity (ENSEN); firm age (FAGE); profitability (PROF); gearing (GEARING).

Accordingly, Table 8.1 presents the empirical results of the econometrics models. In particular, Panel A in Table 8.1 shows the overall models' statistics. It can be seen that the number of observations for all models is 545 annual reports for 113 individual Saudi listed firms. The minimum number of annual reports analysed for each firm is 2 while the maximum is 5 annual reports. The Wald Chi-squared values are 205.33, 72.51, 194.36, and 59.1 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively, and indicate that all the models are statistically significant in explaining the variations at 0.01 level or better. The R-squared suggests that the models explain about 45.5%, 23.4%, 42.7%, and 15.5% for the total variation in the Total CSRD, the Environmental Disclosure, the Social Disclosure, and the *Saudization*, respectively. For Model 1, rho suggests that 70.2% of the variance is due to differences across Saudi listed firms, while the rho values for the sub-models are 97.9%,71.8%, and 83.4%, which similarly imply high variation is captured by the differences across Saudi listed firms. This suggests it was essential to control for individual specific effects in the panel regression models in the current research study rather than using POLS, as explained in Chapter 6 (Kennedy 2008; Koop 2008; Cameron and Trivedi 2009).

In terms of the factors influencing CSRD practices in Saudi Arabia, the results from Panel B of Table 8.1 generally shows that board characteristics are not related to CSRD practices in Saudi Arabia, while ownership structure and firm-specific factors contribute to nontrivial explanation for the variation in CSRD practices in Saudi Arabia. In particular, five factors are found to be related to CSRD practices in Saudi Arabia: institutional ownership, governmental ownership, firm size, environmental sensitivity, and firm age. The following section provides detailed discussion of each of the variables.

8.2.1 CSRD and Corporate Governance Factors

8.2.1.1 Board Characteristics

8.2.1.1.1 Board Size

With regard to board characteristic variables, the first research hypothesis predicted that board size would influence CSRD practices in Saudi Arabia positively. Panel B in Table 8.1 shows that board size coefficient values are

0.032, 0.006, 0.027, and 0.040 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that board size is positively related to CSRD practices across the four models. However, this relationship is not significant in explaining the variations of CSRD practices in Saudi Arabia, as can be seen from the *p*-value statistics ($p > 0.10$) for the four models. Accordingly, the first hypothesis is rejected based on the current research study data suggesting that board size is not a determinant factor of CSRD practices in Saudi Arabia.

While the current research finding suggests that positive direction between board size and CSRD practices are consistent with the majority of the previous literature, this relationship is not significant in the context of Saudi Arabia. Al-Moataz and Lakhal (2008) found that board size is not related to voluntary corporate governance disclosure in Saudi Arabia. Furthermore, Said, Zainuddin and Haron (2009) found that board size had no influence on the level of CSRD in Malaysia. Lakhal (2005) found no relationship between board size and corporate disclosure in France. In the United States, Post, Rahman and Rubow (2011) found that board size had no influence on the extent of environmental disclosure. Other studies, however, found board size had a positive and significant influence on corporate practices including Esa and Ghazali (2012), and Haji (2013) in Malaysia; Ntim and Soobaroyen (2013) in South Africa; Rao, Tilt and Lester (2012) in Australia; and Jizi et al. (2013) in the United States. In Saudi Arabia, particularly, Alotaibi (2016) found a significant positive relationship between the extent of CSRD and board size while Al-Janadi, Rahman and Omar (2013) found board size positively influenced the general voluntary disclosure. However, both studies used short observation window of only 2 years and did not control for individual level effects. Besides that, they documented weak relationship at 10% level of significance.

The current research findings may suggest that board members in Saudi listed firms are not communicating enough to set strategic goals to enhance firms' performance through CSRD practices (Healy and Palepu 2001; McWilliams, Siegel and Wright 2006). This may also indicate weak monitoring function from the Saudi board of directors.(Al Kahtani 2014)

8.2.1.1.2 Non-executive Directors

The second research hypothesis predicted that non-executive directors would influence CSRD practices positively in Saudi Arabia. Panel B in Table 8.1 shows that non-executive directors' coefficient values are 0.322, 0.427, 0.292, and -0.355 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The relationship is not significant in explaining the variations of CSRD practices in Saudi Arabia, as can be seen from the *p*-value statistics for the four models ($p > 0.10$). The results indicate that non-executive directors are not related to CSRD practices in Saudi Arabia. Accordingly, the second hypothesis is rejected based on the current research study data suggesting that non-executive directors have no influence on the extent and nature of CSRD practices in Saudi Arabia.

The results are consistent with Alotaibi (2016) who found that non-executive directors had no influence on CSRD practices in Saudi Arabia. Haji (2013) found non-executive directors and the extent of CSRD are not related in Malaysia. Non-executive directors, according to Brammer and Pavelin (2006) and Brammer and Pavelin (2008), did not have an impact on the environmental disclosure in the United Kingdom, while Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009) did not document any significance for non-executive directors and CSRD practices in Spain. Other empirical studies found non-executive directors had a significant relationship with corporate disclosure practices. In Malaysia, Haniffa and Cooke (2005) found non-executive directors significantly and negatively had an impact on the extent of CSRD in 1996, but no such influence was found in 2002, while Esa and Ghazali (2012) reported a significant negative relationship in 2007. Ntim and Soobaroyen (2013) found non-executive directors significantly and positively had an impact on the black economic empowerment disclosure in South Africa. Khan, Muttakin and Siddiqui (2013) documented a positive and significant relationship between non-executive directors and CSRD practices in Bangladesh. Rao, Tilt and Lester (2012) found non-executive directors were a positive and significant factor that determines environmental disclosure in Australia, while Jizi et al. (2013) documented positive and significant relationship between non-executive directors and CSRD practices in the US banking sector. Al-Moataz and Hussainey (2013) documented a negative significant relationship between non-executive directors and corporate governance disclosure, while Al-Janadi, Rahman and Omar (2013) documented a positive significant relationship between non-executive directors and general voluntary disclosure.

It can be argued that the insignificant relationship between the proportion of non-executive directors on boards and CSRD practices in Saudi Arabia is attributed to the nature of Saudi society. As explained in Chapter 3, Islamic teachings is one significant feature of the Saudi culture (Hussainey and Al-Nodel 2008; Robertson, Al-AlSheikh and Al-Kahtani 2012). Accordingly, from a stewardship perspective, both groups of directors may have a similar sense of accountability rather than opportunistic and individualistic self-serving behaviour toward social and environmental issues in Saudi Arabia (Davis, Schoorman and Donaldson 1997b; Van Puyvelde et al. 2012). Both groups of directors may be seen as stewards and rational; hence, they perceive greater utility in CSRD practices and, subsequently, have relatively similar influences on the extent and nature of CSRD practices (Davis, Schoorman and Donaldson 1997b), which may result in insignificant influence of one group of directors over the others on CSRD practices.

8.2.1.1.3 CEO Duality

The third research hypothesis predicted that CEO duality would have no influence on CSRD practices in the Saudi Arabia. Panel B in Table 8.1 shows that CEO duality coefficient values are -0.063, 0.010, -0.073, and 0.039 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. Furthermore, the relationship is not significant in explaining the variations of CSRD practices in Saudi Arabia, as can be seen from the *p*-value statistics for the four models ($p > 0.10$). The results indicate that a CEO has no influence on CSRD practices in Saudi Arabia. Accordingly, the third hypothesis is accepted based on the current research study data suggesting that CEO duality has no influence on the extent and nature of CSRD practices in Saudi Arabia.

The results are in line with Alotaibi (2016) who found that separation of the CEO and chairperson roles on Saudi boards had no influence on the level of CSRD practices. Ntim and Soobaroyen (2013) did not document any significant relationship between CEO duality and black economic empowerment disclosure in South Africa. Khan, Muttakin and Siddiqui (2013) found CEO duality was not related to CSRD practices in Bangladesh. Post, Rahman and Rubow (2011) found environmental disclosure was not influenced by the separation of CEO and board chairperson roles in the United States, while Jizi et al. (2013) documented a positive and significant relationship between CEO duality and CSRD practices in the US banking sector. Giannarakis, Konteos and Sariannidis (2014) found that CEO duality had no impact on the total CSR and environmental disclosure, whereas social disclosure was negatively and significantly influenced in the US context. Al-Janadi, Rahman and Omar (2013) found that separating both roles of CEO and board chairperson had a significantly and negatively impacted the level of general voluntary disclosure in Saudi Arabia.

As has been seen from the descriptive analysis in Chapter 7 that the mean value of CEO duality role is 12% which implies that only around 12% of the Saudi boards assign the role of the CEO and chairperson to one individual. In the context, Ntim and Soobaroyen (2013) argued that agency theory is limited in explaining the insignificant effect of CEO duality. Accordingly, the current research study results are supported by the stewardship theory (Davis, Schoorman and Donaldson 1997a; Davis, Schoorman and Donaldson 1997b). The source of argument regarding separating CEO and board chairperson roles is founded on the assumption of agency theory where managers are assumed to pursue their own self-interests (Jensen and Meckling 1976; Jensen 1993). Stewardship theory, however, posits that managerial behaviour stems from a sense of accountability; thus, directors focus on the collective benefit rather than focusing on the individual self-interests (Davis, Schoorman and Donaldson 1997b). Accountability is an integral part of religious societies (Jayasinghe and Soobaroyen 2009). This assumption is relevant to Saudi society due to the entrenched Islamic principles in the day to day life of Saudi citizens (Hussainey and Al-Nodel 2008; Robertson, Al-AlSheikh and Al-Kahtani 2012). As explained in Chapters 3 and 5, the concepts of *Almaslaha*, which promote benefiting others and gives superiority to public interests, and *Alistikhlaf*, which implies to the steward and accountability (Lewis 2001; Kamla, Gallhofer and Haslam 2006), provides spiritual motive for Saudi directors to pursue balanced benefits for shareholders and stakeholders. Accordingly, the current research study postulates that, whether the two roles are separated, it is not related to

CSRD practices in Saudi Arabia on the grounds that Saudi executives and non-executive directors are influenced by the socio-cultural environment they live within, which is confirmed by the results.

8.2.1.1.4 Multiple Directorships

The fourth and fifth research hypothesis predicated that chairpersons and the proportion of directors holding multiple directorships would influence CSRD practices in the Saudi Arabia. Panel B in Table 8.1 shows that chairpersons with multiple directorships coefficient values are 0.188, -0.088, 0.191, and -0.024; while the proportion of directors with multiple directorships coefficient values are 0.194, -0.174, 0.177, and -0.021 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. Furthermore, the relationship is not significant in explaining the variations of CSRD practices in Saudi Arabia, as can be seen from the *p*-value statistics for the four models ($p > 0.10$). The results indicate that chairperson and the proportion of directors holding multiple directorships have no influence on CSRD practices in Saudi Arabia. Accordingly, the fourth and fifth hypothesis are rejected based on the current research study data suggesting that chairpersons and the proportion of directors holding multiple directorships have no influence on the extent and nature of CSRD practices in Saudi Arabia. The results are consistent with those of Haniffa and Cooke (2002) who did not document any significant relationship between chairpersons and other directors with multiple directorships and voluntary disclosure in the Malaysian context. However, Haniffa and Cooke (2005) found a significant and positive relationship between multiple directorships and the extent and variety of CSRD practices in Malaysia.

8.2.1.1.5 Board Meeting Frequency

The sixth research hypothesis predicted that the number of board meetings would positively influence CSRD practices in Saudi Arabia. Panel B in Table 8.1 shows that board meeting frequency coefficient values are -0.007, -0.001, -0.006, and -0.040 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that board meeting frequency is negatively related to CSRD practices across the four models. However, this relationship is not significant in explaining the variations of CSRD practices in Saudi Arabia, as can be seen from the *p*-value statistics ($p > 0.10$). Accordingly, the sixth hypothesis is rejected based on the current research study data suggesting that board meeting frequency is not a determinant factor of CSRD practices in Saudi Arabia.

The current research study findings are consistent with Alotaibi (2016) who found that board meetings are not related to the extent of CSRD practices in Saudi Arabia. Similarly, Haji (2013) found the number of board meetings had no impact on the level of CSRD practices in 2006 and 2009 in Malaysia. Ntim, Soobaroyen and Broad (2017) found board meetings were not related to the extent of voluntary disclosure in the UK higher education institutions, while Jizi et al. (2013) documented a positive and significant relationship between board meeting frequency and CSRD practices in the US banking sector. It is worth noting that the inverse relationship between the number of board meetings and CSRD practices might be attributed to the potential conflicts of discussions on board, the limited time of the directors, and the expense and arrangement of travel (Jensen 1993; Vafeas 1999; Ntim, Soobaroyen and Broad 2017).

8.2.1.2 Ownership Structure

8.2.1.2.1 Director Ownership

In terms of ownership structure variables, the seventh research hypothesis predicted that directors' ownership would negatively influence CSRD practices in Saudi Arabia. Panel B in Table 8.1 shows that directors' ownership coefficient values are -0.390, -0.520, -0.354, and -1.836 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that directors' ownership is negatively related to CSRD practices across the four models. However, this relationship is not significant in explaining the variations of CSRD practices in Saudi Arabia as can be seen from the *p*-value statistics ($p > 0.10$). Accordingly, the seventh hypothesis is rejected based on the current research study data suggesting that directors' ownership is not a determinant factor of CSRD practices in Saudi Arabia.

The current research results are consistent with those of Alotaibi (2016) who found a negative but not significant relationship between the directors' ownership and the extent of CSRD practices in Saudi Arabia. Haniffa and

Cooke (2005) found that directors' ownership was not related to CSRD level for the years 1996 and 2002 in Malaysia, whereas Haji (2013) found that directors' ownership negatively and significantly influenced the level of CSRD in Malaysia for the year 2006 but not 2009. Ghazali (2007) also found directors' ownership negatively and significantly had an impact on CSRD practices in Malaysia. Similarly, Khan, Muttakin and Siddiqui (2013) documented a significant negative relationship between directors' ownership and the extent of CSRD practices in Bangladesh while Albassam (2014) found corporate governance disclosure was positively and significantly influenced by directors' ownership.

8.2.1.2.2 Institutional Ownership

The eighth research hypothesis predicted that the institutional ownership would influence CSRD practices in Saudi Arabia positively. Panel B in Table 8.1 shows that institutional ownership coefficient values are 0.648, -0.205, 0.714, and 1.591 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that institutional ownership is positively and significantly related to CSRD practices across Model 1, Model 1.2, and Model 1.3 at the 1% level. For Model 1.1, however, this relationship is negative and not significant ($p > 0.10$) in explaining the variations of CSRD practices in Saudi Arabia. Accordingly, the eighth hypothesis is accepted based on the current research study data suggesting that institutional ownership is a significant determinant factor of CSRD practices in Saudi Arabia.

The results suggest evidence of a strong link between institutional investors and CSRD practices in Saudi Arabia. Saudi listed firms with higher levels of institutional ownership tend to disclose higher levels of CSRD. This is also true for the Social Disclosure category and *Saudization* in particular. As a powerful stakeholder controlling critical resources for firms' operations (Freeman 1984; Pfeffer and Salancik 2003), institutional investors seem to promote CSR activities and engagement in the Saudi market. The influence of institutional ownership in Saudi Arabia is expected given that the Saudi CGR encourages promoting socially responsible investment and disclosing investment policies (CGR 2006; SAGIA 2015; CMA 2015). Accordingly, Saudi listed firms with high institutional ownership are likely to disseminate more information to demonstrate that they are socially responsible firms to their investors (Johnson and Greening 1999).

The current research study results are in line with Albassam (2014) who found that institutional ownership was positively and significantly related to voluntary disclosure of a corporate governance provision in Saudi Arabia, while Rao, Tilt and Lester (2012) revealed that institutional investors promoted the level of environmental disclosure in Australia. However, Ntim and Soobaroyen (2013) found that black economic empowerment disclosure was inversely related to the institutional ownership in South Africa, while Naser et al. (2006) and Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez (2009) did not document any relationship between the two variables in Qatar and Spain, respectively.

8.2.1.2.3 Governmental Ownership

The ninth research hypothesis predicted that the governmental ownership would positively influence CSRD practices in Saudi Arabia. Panel B in Table 8.1 shows that governmental ownership coefficient values are 0.992, 2.138, 0.854, and 0.844 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that governmental ownership is positively and significantly related to CSRD practices across Model 1, Model 1.1, Model 1.2, and Model 1.3 at 1%, 5%, 1%, and 10% levels, respectively, in explaining the variations of CSRD practices in Saudi Arabia. Accordingly, the ninth hypothesis is accepted based on the current research study data suggesting that governmental ownership is a significant determinant factor of CSRD practices in Saudi Arabia.

The results suggest that Saudi governmental ownership is a powerful mechanism in which to drive CSRD practices in the Saudi market. Saudi listed firms with higher levels of governmental ownership tend to disclose higher levels of CSRD. This is also true for the main CSRD categories, namely, Environmental and Social disclosure as well as *Saudization*. The Saudi government seems to be a powerful stakeholder (Freeman 1984) that pressures Saudi listed firms to adopt CSRD practices. As previously mentioned, the Saudi government views the private sector as a key partner in resolving its social and environmental problems and promoting the national economy, including reducing the unemployment rate through *Saudization* and through protecting natural and vital resources (MoL 2015; MEP 2016; Saudi Vision 2030 2016). Accordingly, the Saudi government has a coercive influence on Saudi listed firms' management to align firms' objectives with Saudi national objectives and demonstrate this alignment through CSRD to the public (DiMaggio and Powell 1983; Deegan and Unerman 2011).

The current research study results are consistent with those of Ntim and Soobaroyen (2013) who found that firms with higher governmental ownership in South African tend to provide more information in relation to black economic empowerment disclosure. Albassam (2014) documented a positive and significant relationship between governmental ownership and corporate governance disclosure in Saudi Arabia. Similarly, Haji (2013) documented a positive and significant relationship between CSRD practices and governmental shareholdings in Malaysia. Other studies, however, found a significant negative relationship (Al-Janadi, Rahman and Omar 2013; Alotaibi 2016) or no relationship (Naser et al. 2006; Amran and Haniffa 2011).

8.2.2 CSRD and Firm-Specific Factors

8.2.2.1 Firm Size

In terms of the firm-specific factors, the tenth research hypothesis predicted that the firm size would positively influence CSRD practices in Saudi Arabia (Fama and Jensen 1983; Jensen 1993; Freeman 1984; DiMaggio and Powell 1983). Panel B in Table 8.1 shows that firm size coefficient values are 0.250, 0.224, 0.247, and 0.309 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that firm size is positively and significantly related to CSRD practices across Model 1, Model 1.1, Model 1.2, and Model 1.3 at a 1% level across the four models in explaining the variations of CSRD practices in Saudi Arabia. Accordingly, the tenth hypothesis is accepted based on the current research study data suggesting that firm size is a significant determinant factor of CSRD practices in Saudi Arabia.

The results suggest that Saudi listed firms with higher total assets as a proxy for firm size tend to provide higher levels of CSRD information. This is also true for the main CSRD categories, namely, environmental and social disclosure as well as *Saudization*. Nowadays, social and environmental issues are subject to public and press discourse (Brammer and Pavelin 2004; Brammer and Pavelin 2006; Brammer and Pavelin 2008) especially with issues that have been addressed in the Saudi Ninth Economic Development Plan (2010–2014) in terms of protecting vital resources, diversification of the economic base, boost productivity, reduce the unemployment rate, and improve the quality of life and social welfare (Ministry of Economy and Planning 2015).

In this context, large Saudi listed firms are exposed to Saudi society scrutiny and are therefore inclined to manage their relationships with various stakeholder groups to legitimize their existence and secure the required resources for their survival and growth (Pfeffer and Salancik 2003; Freeman 1984) by enhancing their images, reputations, and consequently improving their competitive advantages through the engagement in CSR activities and disclosure practices (Holder-Webb et al. 2009; Reverte 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011).

The current research results are in line with prior empirical evidence regarding the influence of firm size on disclosure practices. Alotaibi (2016) found firm size was a major determinant factor for CSRD practice in Saudi Arabia. Al-Janadi, Rahman and Omar (2013) documented a significant and positive relationship between firm size and corporate governance disclosure in Saudi Arabia. Similarly, (Alsaeed 2006) found that voluntary disclosure was higher for large Saudi listed firms, while Al-Moataz and Hussainey (2013) found that corporate governance voluntary disclosure was positively and significantly related to firm size in Saudi Arabia. In South Africa, both Ntim and Soobaroyen (2013) and Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) documented higher levels of disclosure among large firms, while Haniffa and Cooke (2005) and Haji (2013) found similar results in Malaysia and Khan, Muttakin and Siddiqui (2013) in Bangladesh.

8.2.2.2 Environmental Sensitivity

The eleventh research hypothesis predicted that the environmentally sensitive industries would significantly influence CSRD practices in Saudi Arabia. Panel B in Table 8.1 shows that firm size coefficient values are -0.171, 1.214, -0.278, and -0.489 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that environmentally sensitive industries in Model 1 are not related to CSRD practices in Saudi Arabia. However, environmentally sensitive industries are positively and significantly related to CSRD practices for Model 1.1 at 1% in explaining the variations of CSRD practices in Saudi Arabia while Model 1.2, and Model 1.3 are negatively and significantly related to CSRD practices at a 5% level in explaining the variations of CSRD practices in Saudi Arabia. Accordingly, the eleventh hypothesis is accepted based on the current research study data suggesting that environmentally sensitive industries is a significant determinant factor of CSRD practices in Saudi Arabia.

The results suggest that Saudi listed firms operating in environmentally sensitive industries are inclined to disseminate more environmental information to strategically manage and meet powerful groups' expectations in order to get their support, approval or maybe for distracting their opposition or disapproval (Reverte 2009; Holder-Webb et al. 2009). As previously mentioned, protecting the environment is typically on the agenda of Saudi government; thus, Saudi listed firms tend to provide information through CSRD practices according to the peculiarities of their respective industries in terms of social and environmental visibility, the intensity of industrial competition, and the regulatory intervention risk (Roberts 1992; Haniffa and Cooke 2005; Amran and Haniffa 2011).

The current research results are consistent with prior empirical studies, which documented industrial effects on the level of CSRD practices. Hussainey and Al-Nodel (2008) noted the level of corporate governance disclosure varied according to the nature of firms' operations in Saudi Arabia. Al-Janadi, Rahman and Omar (2013) found that the financial sector provided a higher level of corporate governance voluntary disclosure. Haniffa and Cooke (2005) documented that construction and property industry disseminated higher level CSRD information. Liu and Anbumozhi (2009) found a positive and significant relationship between environmental sensitivity and the extent of environmental disclosure in China. (Khan, Muttakin and Siddiqui 2013) found that environmental information was higher in the textile and pharmaceutical industry in Bangladesh. Muttakin and Khan (2014) found environmental sensitivity was significantly related to CSRD practices in Bangladesh.

8.2.2.3 Firm Age

The twelfth research hypothesis predicted that firm age would positively influence CSRD practices in Saudi Arabia. Panel B in Table 8.1 shows that firm age coefficient values are 0.014, 0.029, 0.015, and 0.029 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that firm age is positively and significantly related to CSRD practices in Saudi Arabia at 1%, 5%, 1%, and 5% levels in explaining the variations of CSRD practices in Saudi Arabia for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. Accordingly, the twelfth hypothesis is accepted based on the current research study data suggesting that firm age is a significant determinant factor of CSRD practices in Saudi Arabia.

The results suggest that the older Saudi listed firms tend to be more engaged in CSRD practices and provide related information in Saudi Arabia. Older firms arguably gain more experience and knowledge over time, which is a matter that gives them a competitive advantage toward understanding and responding to the societal needs more quickly than younger firms (Roberts 1992; Muttakin and Khan 2014). Accordingly, older firms are likely to reflect their competence and ability by active involvement in social and environmental concerns and communicate these concerns through maintain CSRD practices to maintain their legitimacy and enhance their public image (Gray, Kouhy and Lavers 1995a; Roberts 1992).

The current research results are consistent with those of Khan, Muttakin and Siddiqui (2013) who found that firm age had a positive and significant relationship with the extent of CSRD practices in Bangladesh. Similarly, Muttakin and Khan (2014) found that older firms tend to provide relatively higher levels of CSRD information in Bangladesh. Alsaeed (2006) and Juhmani (2014) found firm age was positively related to corporate disclosure practices in Saudi Arabia and Bahrain, respectively; however, the relationship did not show any explanatory power. Liu and Anbumozhi (2009) documented a negative and insignificant relationship between firm age and environmental disclosure in China.

8.2.2.4 Profitability

The thirteenth research hypothesis predicted that the firm’s profitability, as measured by return on total assets (ROA), would positively influence CSRD practices in Saudi Arabia, as suggested by stakeholder and resource dependence theories (Freeman 1984; Pfeffer and Salancik 2003). Panel B in Table 8.1 shows that profitability coefficient values are -0.674, 0.189, -0.682, and -0.481 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results indicate that profitability is not significantly related to CSRD practices in Saudi Arabia, as can be seen from the *p*-value statistics ($p > 0.10$) across the four models. Accordingly, the thirteenth research hypothesis is rejected based on the current research study data suggesting that firms' profitability is not a significant determinant factor of CSRD practices in Saudi Arabia.

The current research results are in line with those of Alotaibi (2016) who did not find any significant relationship between profitability and CSRD practices in Saudi Arabia. Similarly, Alsaeed (2006) found no relationship between Saudi listed firms' profitability and voluntary disclosure practices in Saudi Arabia, while Al-Janadi, Rahman and Omar (2013) did not document any significance between firms' profitability and corporate governance disclosure in Saudi Arabia. Ghazali (2007), Haji (2013), and Esa and Ghazali (2012) found profitability was not related to the extent of CSRD practices among Malaysian listed firms. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) found that profitability did not explain the variation in CSRD practices and its categories in South Africa. Similar results were found in Bahrain (Juhmani 2014), China (Liu and Anbumozhi 2009), Portugal (Branco and Rodrigues 2008; da Silva Monteiro and Aibar-Guzmán 2010), Spain (Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez 2009), Australia (Chan, Watson and Woodliff 2014), and in the United Kingdom (Brammer and Pavelin 2006; Brammer and Pavelin 2008). However, other studies documented a significant and positive relationship between corporate disclosure and profitability, including Al-Moataz and Hussainey (2013) in Saudi Arabia, Haniffa and Cooke (2005) in Malaysia, Ntim and Soobaroyen (2013) in South Africa, Khan, Muttakin and Siddiqui (2013), and Muttakin and Khan (2014) in Bangladesh.

8.2.2.5 Gearing

The fourteenth research hypothesis predicted that the firm's gearing would negatively influence CSRD practices in Saudi Arabia, as suggested by stakeholder and resource dependence theories (Freeman 1984; Pfeffer and

Salancik 2003). Panel B in Table 8.1 shows that gearing coefficient values are -0.674, 0.189, -0.682, and -0.481 for Model 1, Model 1.1, Model 1.2, and Model 1.3, respectively. The results generally indicate that gearing is negatively related to CSRD practices in Saudi Arabia; however, this relationship is not significant, as can be seen from the *p*-value statistics ($p > 0.10$) across the four models. Accordingly, the fourteenth research hypothesis is rejected based on the current research study data suggesting that firms' gearing is not a significant determinant factor of CSRD practices in Saudi Arabia.

The current research results are consistent with Alsaeed (2006) who found that gearing was not related to voluntary disclosure practices in Saudi Arabia. Mahadeo, Oogarah-Hanuman and Soobaroyen (2011) did not find gearing as a significant factor determining the level of CSRD practices in South Africa. Haniffa and Cooke (2005) and Haji (2013) did not document any significant relationship between gearing and CSRD level in Malaysia. Khan, Muttakin and Siddiqui (2013) and (Muttakin and Khan 2014) found that the extent of CSRD practices was not determined by gearing in Bangladesh. Liu and Anbumozhi (2009) found that gearing was not related to environmental disclosure in China. Similar results were found in Spain (Prado-Lorenzo, Gallego-Alvarez and Garcia-Sanchez 2009), the United States (Jizi et al. 2013; Giannarakis, Konteos and Sariannidis 2014), and the United Kingdom (Brammer and Pavelin 2008). Other studies, however, documented a significant relationship between corporate disclosure practices and the level of firms' gearing, including Alotaibi (2016) and Al-Moataz and Hussainey (2013) in Saudi Arabia, Naser et al. (2006) in Qatar, Esa and Ghazali (2012) in Malaysia, Juhmani (2014) in Bahrain, Branco and Rodrigues (2008) in Portugal, Brammer and Pavelin (2006) in the United Kingdom, and Chan, Watson and Woodliff (2014) in Australia.

In general, the overall findings suggest that board characteristics are not significant in driving CSRD practices. It seems that board members may be inactive or have limited influence in the case of Saudi Arabia. Accordingly, it might be essential for the regulator in Saudi Arabia to review the rules and responsibilities for board members. Besides that, the Saudi government may need to review the effectiveness of the CSR initiatives and programs and to what extent they achieve their objectives. In terms of ownership structure variables, however, institutional and governmental ownership as a form of concentration ownership are the main drivers of CSRD practices in Saudi Arabia. This may indicate that Saudi listed firms are motivated by external forces rather than internal, as both institutional and governmental ownership are a form of external pressure on the Saudi listed firms. Finally, it seems that Saudi listed firms are subject to the public as well as government scrutiny according to their social visibility and exposure, given that large size firms and those that operate in environmentally sensitive industries are more inclined to engage in CSRD practices. This type of active engagement in CSRD practices in Saudi Arabia also is evident in older experienced firms. Whether these firms benefit from such engagement in CSRD practices in Saudi Arabia or not is the subject of the following section.

8.3 Effects of CSRD Practices in Saudi Arabia

8.3.1 CSRD and Firm Performance

This section attempts to the answer the fourth research question: *Q4 - Does CSRD provided by Saudi listed firms influence their performance?*. In particular, this section analyses the second model (Model 2) and its sub-model (Model 2.1) discussed in Chapter 6.

Model 2:

$$\begin{aligned}\mathrm{TQRATIO_{it}} = {} & \alpha_0 + \beta_1\mathrm{CSRD_{it}} + \beta_2\mathrm{BSIZE_{it}} + \beta_3\mathrm{NEDS_{it}} \\ & + \beta_4\mathrm{DUALITY_{it}} + \beta_5\mathrm{CMLTPDIR_{it}} + \beta_6\mathrm{DMLTPDIR_{it}} \\ & + \beta_7\mathrm{MEETFREQ_{it}} + \beta_8\mathrm{DIROWN_{it}} + \beta_9\mathrm{INSTOWN_{it}} \\ & + \beta_{10}\mathrm{GOVOWN_{it}} + \beta_{11}\mathrm{FSIZE_{it}} + \beta_{12}\mathrm{ENVSEN_{it}} \\ & + \beta_{13}\mathrm{FAGE_{it}} + \beta_{14}\mathrm{PROF_{it}} + \beta_{15}\mathrm{GEARING_{it}} + \varepsilon_{it}\end{aligned}$$

Model 2.1:

$$\begin{aligned}\mathrm{TQRATIO_{it}} = {} & \alpha_0 + \beta_1\mathrm{ENVD_{it}} + \beta_2\mathrm{SOLD_{it}} + \beta_3\mathrm{SAUD_{it}} + \beta_4\mathrm{BSIZE_{it}} \\ & + \beta_5\mathrm{NEDS_{it}} + \beta_6\mathrm{DUALITY_{it}} + \beta_7\mathrm{CMLTPDIR_{it}} \\ & + \beta_8\mathrm{DMLTPDIR_{it}} + \beta_9\mathrm{MEETFREQ_{it}} + \beta_{10}\mathrm{DIROWN_{it}} \\ & + \beta_{11}\mathrm{INSTOWN_{it}} + \beta_{12}\mathrm{GOVOWN_{it}} + \beta_{13}\mathrm{FSIZE_{it}} \\ & + \beta_{14}\mathrm{ENVSEN_{it}} + \beta_{15}\mathrm{FAGE_{it}} + \beta_{16}\mathrm{PROF_{it}} \\ & + \beta_{17}\mathrm{GEARING_{it}} + \varepsilon_{it}\end{aligned}$$

Where:

TQRATIO	=	Tobin's Q ratio, measured as the market value of a firm at year end, plus the book value of liabilities divided by the book value of total assets at year end
CSRD	=	The Total CSRD, measured by word count
SOLD	=	Social Disclosure, measured by word count
ENVD	=	Environmental Disclosure, measured by word count
SAUD	=	*Saudization*, measured by word count
BSIZE	=	board of directors size, measured as Total number of members on board of directors
NEDS	=	Proportion of non-executive directors on board of directors, measured as the number of non-executive directors on board to the total number of members on board
DUALITY	=	Role duality, measured as a dummy variable (1,0) where 1 is given when the chairperson is also the CEO, and 0 otherwise
CMLTPDIR	=	Chairperson holding multiple directorships, measured as a Dummy variable (1,0) where 1 is given when the chairperson holds multiple directors, and 0 otherwise
DMLTPDIR	=	Directors holding multiple directorships, measured as the proportion of directors on board holding multiple directorships, measured as the total number of directors on board holding multiple directorships to the total number of members on board
MEETFREQ	=	Meetings frequency, measured as the number of board meetings during the financial year
DIROWN	=	The proportion of directors ownership, measured as the total ownership by directors scaled by the total outstanding ordinary shares
INSOWN	=	The proportion of institutional ownership, measured as the total ownership by institutional investors scaled by the total outstanding ordinary shares
GOVOWN	=	The proportion of governmental ownership, measured as the total ownership by Saudi government scaled by the total outstanding ordinary shares
FSIZE	=	Firm size, measures in terms of total assets
ENVSEN	=	Environmental sensitivity, measured as a dummy variable

		(1,0) where 1 is given when the sector belongs to environmental sensitive industry, and 0 otherwise
FAGE	=	Firm age, measured as the difference between the annual report date and the firm establishment date
PROF	=	Profitability, measured as returns on assets (ROA) = net income/total assets
GEARING	=	Gearing, measured as debt to equity = total debt/total equity
i	=	Refers to an individual firm (1 ... 113 firms)
t	=	Refers to time in years (5 years from 2010 to 2014)
it	=	Refers to firm i at time t
α_0	=	The regression constant term
$\beta_{1,} \dots, \beta_{15}$	=	The regression coefficients to be estimated
ε	=	The regression error term

The main dependent variable in Model 2 and Model 2.1 is Tobin's Q ratio as a proxy for firm performance. The model examines whether Saudi listed firms benefit from engaging in CSRD practices. Accordingly, the main explanatory variables are the Total CSRD in Model 2 and Environmental Disclosure, Social Disclosure and *Saudization* in Model 2.1. Furthermore, the models control for corporate governance and firm-specific factors employed in the previous model, Model 1.

Table 8.2: Effects of CSRD Practices on Firm Performance (Tobin's Q Ratio) in Saudi Arabia

Statistics	Total CSRD			CSRD Categories		
	Model 2			Model 2.1		
Panel A: Overall Models' Statistics						
Number of obs	545			545		
Number of firms	113			113		
Min obs per firm	2			2		
Max obs per firm	5			5		
Wald Chi-squared	54.260			57.950		
Prob > Chi-squared	0.000			0.000		
R-squared	0.080			0.081		
rho	0.675			0.673		
VARIALBES	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z
Panel B: Models' Statistics						
Total CSRD	0.200	0.072	0.005***	---	---	---
Environmental Disclosure	---	---	---	0.016	0.039	0.683
Social Disclosure	---	---	---	0.176	0.072	0.015**
Saudization	---	---	---	0.049	0.038	0.201

Table 8.2: Effects of CSRD Practices on Firm Performance (Tobin's Q Ratio) in Saudi Arabia (continued)

VARIALBES	Coef.	Robust Std. Err.	P>z	Coef.	Robust Std. Err.	P>z
BSIZE	0.031	0.052	0.551	0.028	0.053	0.595
NEDS	-0.125	0.488	0.797	-0.126	0.49	0.797
DUALITY	0.026	0.180	0.884	0.019	0.179	0.914
CMLTPDIR	0.215	0.127	0.090*	0.215	0.127	0.089*
MLTPDIR	-0.147	0.390	0.707	-0.148	0.386	0.702
MEETFREQ	0.027	0.023	0.240	0.029	0.024	0.226
DIROWN	-1.651	1.675	0.324	-1.533	1.66	0.356
INSOWN	0.503	0.399	0.207	0.423	0.409	0.301
GOVOWN	0.123	0.541	0.821	0.061	0.546	0.911
FSIZE	-0.176	0.065	0.007***	-0.187	0.066	0.005***
ENVSEN	0.075	0.185	0.685	0.095	0.187	0.613
FAGE	0.020	0.006	0.002***	0.019	0.006	0.002
PROF	0.778	0.616	0.207	0.779	0.619	0.208
GEARING	-0.021	0.011	0.051*	-0.021	0.011	0.047**
_cons	-0.801	0.910	0.379	-0.694	0.896	0.439

Note: ***, **, and * denote significance levels at 1%, 5% and 10% respectively.

Note: board size (BSIZE); non-executive directors (NEDS); role duality (DUALITY); chairperson holding multiple directorships (CMLTPDIR); directors holding multiple directorships (DMLTPDIR); meeting frequency (MEETFREQ); directors' ownership (DIROWN); institutional ownership (INSOWN); governmental ownership (GOVOWN); firm size (FSIZE); environmental sensitivity (ENSEN); firm age (FAGE); profitability (PROF); gearing (GEARING).

Accordingly, Table 8.2 presents the empirical results of the econometrics models. In particular, Panel A in Table 8.2 shows the overall models' statistics. It can be seen that the number of observations for all the models is 545 annual reports for 113 individual Saudi listed firms. The minimum number of annual reports analysed for each firm is 2, while the maximum number is 5 annual reports. The Wald Chi-squared values are 54.260 and 57.950 for Model 2 and Model 2.1, respectively, and indicate that all the models are statistically significant in explaining the variations at 0.01 level or better. The R-squared suggests that the models explain about 8% and 8.1% for the total variations in Tobin's Q ratio in both models. The individual specific effects dominate the error component as given by the interclass correlation of the error (rho), which measures the fraction of the variance in the error component due to the individual specific effects (Cameron and Trivedi 2009). For Model 2, rho suggests that 67.5% of the variance is due to differences across Saudi listed firms, while the rho values for Model 2.1 is 67.3, which similarly imply high variation is captured by the differences across Saudi listed firms. This suggests it was essential to control for individual specific effects in the panel regression models in the current research study rather than using POLS, as explained in Chapter 6 (Kennedy 2008; Koop 2008; Cameron and Trivedi 2009).

In terms of the effects of CSRD practices in Saudi Arabia on firm performance, the fifteenth research hypothesis predicted that CSRD practices would have a positive effect on the firm performance of Saudi listed firms. The results from Panel B of Table 8.2 show that the Total CSRD coefficient value with Tobin's Q ration is 0.200, and it is statistically significant at a 1% level. The result generally implies that firm performance for Saudi listed firms that engaged in CSRD practices is positively perceived in the Saudi market. The result provides evidence that good CSRD practices leads to increase firm value (Malik 2015). However, when the effects of CSRD practices examined for the main CSRD categories, Environmental and Social disclosure, as well as *Saudization*, the positive effect disappears, except for the social disclosure. The results from Panel B of Table 8.2 show that the coefficient values for the environmental disclosure and *Saudization* are 0.016 and 0.049, respectively, indicating that both types of disclosure are positively related to Tobin's Q ratio. However, this relationship is not significant, as can be seen from the *p*-value statistics (p > 0.10) for both variables. Interestingly, the Social Disclosure coefficient value is 0.176, indicating that it is positively related to Tobin's Q ratio, and this relationship is statistically significant at 5% level. The result suggests that the social disclosure contributes to the majority of the positive effect on Saudi firms' performance. Accordingly, the fifteenth research hypothesis is accepted based on the current research study data suggesting that CSRD practices have a significant positive effect on firm performance in Saudi Arabia.

The current research results suggest that Saudi listed firms experience benefits from engaging in CSRD practices overall. This supports the business case for CSRD where CSR firms are expected to "*do well by doing good*" (Blowfield and Murray 2008; Wood 2010; Crane, Matten and Spence 2014). Agency theory posits that managers should act in shareholders' interest (Jensen and Meckling 1976) and thus enhance their wealth by strategically pursuing those objectives that enhance firms' value. This is likely the case in Saudi Arabia, as the results show that CSRD practices enhance firm performance (Malik 2015). In this case, Saudi listed firms are required to manage their relationships with the stakeholders (Freeman 1984) and negotiate their access to the required resources (Pfeffer and Salancik 2003) to enhance their reputation, image, and competiveness position through CSRD practices.

The current research results are consistent with Cormier et al. (2009) who found that social and human capital disclosure was positively and significantly related to firm performance, as measured by Tobin's Q in the Canadian context. Dhaliwal et al. (2011) found that firms initiated CSRD reports experienced reduction in the cost of equity capital and attracted more institutional investors in the United States. Similarly, Al-Tuwaijri, Christensen and Hughes II (2004) and Tsoutsoura (2004) found that firms with good CSP were significantly associated with higher economic performance in the United States. Qiu, Shaukat and Tharyan (2016) found that British firms making social disclosure experienced an increase in share price and higher expected growth rate of the cash flows. Nelling and Webb (2009) found a significant positive relationship between CSP and financial performance. Alotaibi (2016) found that CSRD practices were positively and significantly related to market capitalization in Saudi Arabia. However, the returns on assets and Tobin's Q were not influenced by CSRD practices. Aras, Aybars and Kutlu (2010) did not document any association between CSRD practices and the measures of firms' financial performance. Cheng, Lin and Wong (2016) found that the issuance of CSRD standalone reports was associated with enhanced firm performance the following year in China.

8.3.2 Control Variables

This section discusses the results of the control variables in the firm performance models. In terms of corporate governance variables, board characteristic seems to have limited influence on Tobin's Q ratio in Saudi Arabia. The results from Panel B of Table 8.2 show that the board size coefficient values are 0.031 and 0.028 for Model 2 and Model 2.1, respectively. This indicates that board size is positively related to firm performance; however, it is not significant (p > 0.10) in explaining the variability in firm performance for both models. The coefficient values of the proportion of non-executive directors on board are -0.125 and -0.126 for Model 2 and Model 2.1, respectively. The result implies that non-executive directors are inversely related to firm performance in Saudi Arabia; however, it is not significant (p > 0.10) in explaining the variability in firm performance for both models. CEO duality seems to be positively but insignificantly (p > 0.10) related to firm performance, as can be seen from the coefficient values of 0.026 and 0.019 for both models. Chairperson holding multiple directorships coefficient values are 0.215 for both models and significantly related to Tobin's Q ratio at the 10% level. This suggests that the chairperson has an important role to set the board's agenda and lead the board meetings to enhance the firm's performance (Jizi et al. 2013; Malik 2015). Directors holding multiple directorships do not appear to derive firm performance. The coefficients values documented are -0.147 and -0.148 for Model 2 and Model 2.1, respectively. However, it does not appear to hold any significant explanatory power for firm performance. Similarly, the coefficient values of board meeting frequency are 0.027 and 0.029 for Model 2 and Model 2.1, respectively. The coefficient values are not statistically significant, as can be seen from the p-value statistics (p > 0.10).

With regards to ownership structure variables. The results from Panel B of Table 8.2 show that directors' ownership coefficient values are -1.651 and -

1.533 for Model 2 and Model 2.1, respectively, and are statistically insignificant. Institutional ownership confident values are 0.503 and 0.423 for both models, indicating positive but insignificant relationship with firm performance. Similarly, governmental ownership appears to have a positive and not significant relationship with firm performance in Saudi Arabia. The coefficient values are 0.123 and 0.061 for Model 2 and Model 2.1, respectively.

In terms of firm-specific variables, the results from Panel B of Table 8.2 show that firm size, as measured by total assets, has a significant negative relationship with Tobin's Q ratio in Saudi Arabia. The coefficient values are -0.176 and -0.187 for Model 2 and Model 2.1, respectively, and are statistically significant at the 1% level. The results imply that firm performance is inversely affected by firm size. Environmental sensitivity does not appear to influence firm performance in Saudi Arabia. The coefficient values for Model 2 and Model 2.1 are 0.075 and 0.095, respectively, and not significantly related to firm performance, as can be seen from the *p*-value statistics ($p > 0.10$). The results of firm age are mixed. For Model 2, the coefficient value of firm age is 0.020 and statistically significant at the 1% level. The results suggest that the Saudi market tends to favour more older firms. For Model 2.1, however, firm age does not seem to have any significant influence on firm performance. The coefficient values for profitability as measured by return on assets (ROA) are 0.778 and 0.779 for Model 2 and Model 2.1, respectively, and are not statistically significant. Finally, gearing seems to have a significant impact on firm performance in Saudi Arabia. The coefficient values for gearing are -0.021 for both models. The results indicate that gearing is inversely related to Tobin's Q ratio. This relationship appears to be significant at 10% and 5% levels for Model 2 and Model 2.1, respectively.

The current research results are in line with prior empirical. In terms of board characteristics, In Saudi Arabia, Almulhim (2014) found that board size and non-executive directors were not related to firm performance. Similarly, Al-Matari et al. (2012) and found that board size, non-executive directors and CEO duality had no effects on firm performance in Saudi Arabia while Alotaibi (2016) did not document any significance between board size, non-executive directors, CEO duality, board meetings; and firm performance in Saudi Arabia. Haniffa and Hudaib (2006) found that non-executive directors and CEO duality were insignificantly related to firm performance while multiple directorships were significantly related to firm performance in Malaysia. With regards to ownership structure variables, Almulhim (2014) found that directors' ownership was not related to firm performance in Saudi Arabia. Haniffa and Hudaib (2006) found that firm performance was not influenced by directors' ownership in Malaysia. Alotaibi (2016) did not document any significance governmental ownership and firm performance in Saudi Arabia.

In terms of firm-specific variables, Fallatah and Dickins (2012) and Almulhim (2014) found that firm size was negatively and significantly related to the firm performance in Saudi Arabia. Haniffa and Hudaib (2006) found that firm size was negatively and significantly related to firm performance in Malaysia while Cheng, Lin and Wong (2016) documented a negative and significant relationship between firm size and performance in China. Furthermore, Haniffa and Hudaib (2006) noted that firms operate in less environmentally sensitive industries (i.e. trading sector) outperformed those operate in environmentally sensitive industries (i.e. mining sector) in Malaysia. Almulhim (2014) noted a negative and significant relationship between firm performance and manufacturing and food industries in Saudi Arabia. Reverte (2016) found that environmentally sensitive industries were significantly associated with firm performance than non-sensitive industries in Spain. However, the current research study did not document such significance. This could be attributed to the current research sample which included about 65% of Saudi listed firms that operate in environmentally sensitive industries as discussed previously in Chapter 7. With regards to the effects of profitability and gearing on firm performance, Fallatah and Dickins (2012) found that profitability was not related to the firm performance in Saudi Arabia while gearing was negatively and significantly influenced the firm performance in Saudi Arabia. Haniffa and Hudaib (2006) found that the level of gearing had a significant impact on the firm performance in Malaysia while Cheng, Lin and Wong (2016) documented similar results in China.

8.4 Summary

The current chapter discussed the results of the regression analysis of the econometrics models for the factors that influence CSRD practices and the effects of CSRD practices in the Saudi Arabian context. Table 8.3 below presents a summary of the research hypotheses and findings discussed in this chapter. In general, the findings suggest that board characteristics are not related to CSRD practices in Saudi Arabia. Ownership structure, however, is a major driver for CSRD practices in Saudi Arabia. In particular, institutional and governmental ownership positively and significantly has an impact on the extent and nature of CSRD practices in Saudi Arabia. Furthermore, firm-specific factors also seem to have influence on CSRD practices in Saudi Arabia. In particular, firm size, environmental sensitivity, and firm age have a significant positive influence on CSRD practices, whereas profitability and gearing did not show any significant influence. Finally, the current research results documented a positive and significant effect on firm performance. In particular, Tobin's Q ratio as a proxy for firm performance is higher for Saudi listed firms that engaged in the Total CSRD model, while it appears to be only significant for the Social Disclosure category. Given that the four research questions have been answered, the following chapter will conclude the current research study.

Table 8.3: Summary of the Research Hypotheses and Findings

Hypothesis No.	Hypothesis	Finding
CSRD and Board Characteristics		
1	There is a positive relationship between CSRD practices and board size of Saudi listed firms	Rejected
2	There is a positive relationship between CSRD practices and the proportion of non-executive directors on boards of Saudi listed firms.	Rejected
3	There is no relationship between CSRD practices and CEO duality in board of directors of Saudi listed firms.	Rejected
4	There is a positive relationship between CSRD practices and the chairperson with multiple directorships in board of directors of Saudi listed firms.	Rejected
5	There is a positive relationship between CSRD practices and directors with multiple directorships in board of directors of Saudi listed firms.	Rejected
6	There is a positive relationship between CSRD practices and the	Rejected

	frequency of the board meetings of Saudi listed firms.	
CSRD and Ownership Structure		
7	There is a negative relationship between CSRD practices and the director ownership among Saudi listed firms.	Rejected
8	There is a positive relationship between CSRD practices and the institutional ownership among Saudi listed firms.	Accepted
9	There is a positive relationship between CSRD practices and the governmental ownership among Saudi listed firms.	Accepted
CSRD and Firm-Specific Factors		
10	There is a positive relationship between CSRD practices and the size of Saudi listed firms.	Accepted
11	There is a significant relationship between CSRD practices and the environmental sensitivity of Saudi listed firms.	Accepted
12	There is a positive relationship between CSRD practices and the firm's age of Saudi listed firms.	Accepted
13	There is a positive relationship between CSRD practices and the profitability of Saudi listed firms.	Rejected
14	There is a negative relationship between CSRD practices and the gearing of Saudi listed firms.	Rejected
CSRD and Firm Performance		
15	There is a positive relationship between firm performance and CSRD practices of Saudi listed firms.	Accepted

9 Conclusion

9.1 Introduction

The previous chapter reviewed the findings regarding the last two research questions. The purpose of this chapter is to conclude the research study by providing a summary and discussion of the main findings of the current research study. To this end, the chapter proceeds by providing an overview of the current research study in Section 9.2. Section 9.3 presents the research objective and questions. Subsequently, Section 9.4 summarizes the research main findings in the light of the research objective and questions. This is followed by outlining the research implications and contributions in Section 9.5. Section 9.6 highlights the limitations of the current research study and provides suggestions for further studies. Finally, the chapter concludes with an overall summary of the study in Section 9.7.

9.2 Overview

CSR has attracted widespread attention in recent years (Aguinis and Glavas 2012) for various reasons, such as economic crises (e.g., global financial crisis), irresponsible business practices (e.g., the Enron scandal; oil spills; child labour), and their effects on the society (Mostovicz, Kakabadse and Kakabadse 2009). A number of international organizations, including the World Council on Sustainable Development, Business for Social Responsibility and Ethical Corporate, took the initiatives to raise the awareness of social and environmental concerns as well as the good business conduct practices (Carroll and Shabana 2010). This led corporate leaders to respond to such initiatives and integrate CSR issues into corporate policies and strategies as well as communicate these through disclosures.

Accordingly, the current research study is concerned with the provision of social and environmental information, CSRD. In this respect, Gray, Owen and Maunders (1987, page ix) defined CSRD 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*". Furthermore, Mathews (1993, page 64) emphasised the voluntary nature of CSRD by defining it as "*voluntary disclosures of information, both qualitative and* *quantitative made by organizations to inform or influence a range of audiences. The quantitative disclosures may be in financial or non-financial terms*". CSRD is considered a part of social accounting, and it extends the accountability of business organizations to provide more social and environmental accounts alongside with the traditional financial accounts (Gray, Owen and Maunders 1987; Mathews 1993). CSRD, therefore, is a means by which business organizations may discharge their accountability to a large circle of stakeholders (Unerman 2000; Gray, Owen and Adams 1996). Although CSRD is unregulated, unlike the highly regulated traditional financial disclosure, business organizations have increasingly adopted this reporting practice (Gray, Kouhy and Lavers 1995a).

Prior CSRD empirical studies showed that corporate governance and firm-specific factors influence CSRD practices (see Brammer and Pavelin 2008; Rao, Tilt and Lester 2012; Clarkson et al. 2008; Sotorrío and Sánchez 2010). Furthermore, prior CSRD literature examined whether firms that engage in CSRD practices would benefit from such engagement (see Prado-Lorenzo et al. 2008; Dhaliwal et al. 2011; Qiu, Shaukat and Tharyan 2016).

Besides that, the CSRD literature suggests that different factors shape and influence managers' perceptions of the business and society relationship in different countries, and such factors shape corporate behaviour and affect CSR activities (Pedersen 2010). In support of this, Golob and Bartlett (2007), found that CSRD is driven by market pressure in Australia and Slovenia based on the expectations of market participants. However, the reporting issues are different in both countries due to the influence of culture in shaping individuals' expectations, as Australia has Anglo-Saxon tradition while Slovenia has a European tradition. Further, Adams, Hill and Roberts (1998) found different reporting patterns across six European countries (France, Germany, The Netherlands, Sweden, Switzerland, and the United Kingdom) that are in a close geographical location and have similar environment. The variation in addressing CSR issues in these countries can be explained by the differences in accounting, government, and legal systems.

In this respect, very little is known about CSRD practices in the Saudi Arabian context, which has unique institutional settings that might have implications for CSRD practices, as discussed in Chapter 3. Therefore, the current research study focused on Saudi Arabia.

9.3 Research Objective and Questions

Accordingly, the main objective of the current research study was to explore the nature and extent of CSRD practices in Saudi Arabia. Particularly, the current research study aims to explore the nature and extent of CSRD practices among Saudi listed firms. In particular, the following research questions are addressed in the light of the objective of the current research study:

Q1 - What is the nature and extent of CSRD in annual reports of Saudi listed firms?

Q2 - To what extent has CSRD in annual reports of Saudi listed firms improved over the five-year period of the study?

Q3 - Do corporate governance and firm-specific factors influence CSRD practices in Saudi listed firms?

Q4 - Does CSRD provided by Saudi listed firms influence their performance?

To answer the first and second research questions, CSRD was measured by word count using the content analysis technique, a method has frequently been used to extract unstructured data from a wide range of communication means (Weber 1990; Krippendorff 2013; Neuendorf 2016), and it has been commonly used in previous studies (see Haniffa and Cooke 2005; Holder-Webb et al. 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013; Muttakin and Khan 2014). Furthermore, the CSRD checklist used in the content analysis was developed based on the GRI framework.

To answer the third research question, two groups of factors that influence CSRD have been identified, as suggested in the CSRD literature, namely, corporate governance and firm-specific factors (see Haniffa and Cooke

2005; Ntim and Soobaroyen 2013; Chan, Watson and Woodliff 2014; Qiu, Shaukat and Tharyan 2016). Corporate governance factors were divided into board characteristics and ownership structure. Board characteristics included six variables, namely, board size, the proportion of non-executive directors, duality role, chairperson holding multiple directorships, directors holding multiple directorships, and board meetings frequency. The ownership structure included three variables, namely, director ownership, institutional ownership, and governmental ownership. The second group of factors included five firm-specific variables, namely, firm size, environmental sensitivity, firm age, profitability, and gearing.

To answer the fourth research question, the current research study measured firm performance using Tobin's Q ratio, a market value measure. Furthermore, two main econometrics regression models were developed to investigate the factors and effects of CSRD practices in Saudi Arabia. The first model examined the relationships between CSRD and its influential factors to answer the third research question. The second model examined the relationship between CSRD and firm performance, as measured by Tobin's Q ratio, to answer the fourth question. The following section summarises the main research findings.

9.4 Summary of Main Findings

Based on a sample of unbalanced panel of 545 annual reports collected over a five-year period, the current research study found evidence of CSR engagement among Saudi listed firms. First, the CSRD overall analysis findings revealed that Saudi listed firms disclosed 573 words on average for the Total CSRD in the annual reports. In terms of the main CSRD categories, the findings revealed that Saudi listed firms disclosed about 80 and 493 words on average for Environmental Disclosure and Social Disclosure, respectively, in the annual reports. In terms of the Social Disclosure subcategories, the findings revealed that Saudi listed firms disclosed about 263, 183, and 48 words on average for Labour and Decent work, Society, and Product Responsibility, respectively, in the annual reports. Last, in terms of *Saudization*, the findings revealed that Saudi listed firms disclosed about 53 words on average in the annual reports.

Second, the trend analysis findings suggested that CSRD practices improved over the five-year period of the current research study. The largest increase documented for the Total CSRD was between the years 2012 and 2013 by 37 words, accounting for a 6.65% change. In terms of the CSRD main categories, the findings suggested that the Environmental Disclosure also improved over time. The largest increase documented for Environmental Disclosure was between the years 2012 and 2013 by seven words, accounting for a 8.31% change. The findings also suggested that Social Disclosure improved over time. The largest increase documented for Social Disclosure was between the years 2012 and 2013 by 31 words, accounting for a 6.39% change. In terms of the Social Disclosure, the findings suggested that the disclosure practices improved across the three subcategories. The largest increase documented for labour and Decent Work was between 2011 and 2012 by 24 words, accounting for a 9.60% change. The largest increase documented for Society was between the years 2012 and 2013 by 12 words, accounting for a 6.78% change. The largest increase documented for Product Responsibility was between the year 2012 and 2013 by five words, accounting for a 10.09%. Last, the findings also suggested that *Saudization* improved over time. The largest increase documented for *Saudization* was between the years 2011 and 2012 by eight words, accounting for a 16.61%

Third, the analysis of CSRD influencing factor findings suggested that corporate governance and firm-specific factors determine the CSRD practices in Saudi Arabia. In particular, the findings revealed that institutional ownership had a positive and significant impact on CSRD practices in Saudi listed firms across the Total CSRD, Social Disclosure, and *Saudization*. Environmental Disclosure, however, was found not to be related to CSRD practices in Saudi Arabia. The findings also revealed that governmental ownership, firm size, and firm age had positive and significant influences on CSRD practices in Saudi Arabia for the Total CSRD and across all CSRD categories. Furthermore, the findings revealed that environmental sensitivity had a significant impact on CSRD practices across CSRD categories but not on the Total CSRD. Lastly, all board characteristics (board size, non-executive directors, CEO duality, multiple directorships and board meeting frequency), as well as director ownership, profitability and gearing found not to be related to CSRD practices in Saudi Arabia.

Finally, the analysis of the CSRD effects on firm performance findings suggested that CSRD practices benefit Saudi listed firms. In particular, the findings revealed that the Total CSRD had a positive and significant impact on firm performance as measured by Tobin's Q ratio. In terms of CSRD categories, the findings revealed that *Saudization* also had a positive and significant influence on firm performance as measured by Tobin's Q ratio. Environmental Disclosure and Social Disclosure, however, did not influence the firm performance in Saudi Arabia.

On the overall, the evidence of the current research study strengthens the idea that corporate governance and firm-specific characteristics are important factors that determine CSRD practices in Saudi Arabia. The research findings were explained by a multi-theoretical perspective framework which suggests that Saudi listed firms are inclined to engage in CSRD practices to reduce agency costs, maximise the collective benefits, manage stakeholders' relationships, access critical resources and; incorporate and conform to established institutions. A key strength of the current research study is the evidence that Saudi listed firms "*do well by doing good*". Saudi corporate leaders were able to demonstrate their concern and awareness of CSR issues, that the Saudi public society is facing, through CSRD, especially in terms of *Saudization*, and hence benefit their firms.

Furthermore, the current research study has raised an important issue in terms of the effectiveness of Saudi boards of directors as the research results did not document any significance of board characteristics in influencing CSRD practices in Saudi Arabia. This may suggest boards of directors have a limited or weak function that might bring adverse implications on firms' activities and the society. Accordingly, Saudi policy makers, practitioners and the academics are required to pay a further consideration to this vital governance mechanism in Saudi Arabia.

9.5 Research Implication and Contribution

The study contributes to literature in several ways. First, Saudi Arabia is currently seeking to promote sustainable development, restructure the Saudi economy, enhance business environment, and attract foreign investors. This is evident in the national development plan (see Chapter 3). For example, the Saudi national development plans emphasize education and training as a long term solution to reduce unemployment rate through *Saudization* (Ministry of Economy and Planning 2015). Besides that, very little is known about CSRD practices generally and *Saudization* particularly in Saudi Arabia. The current research study provided evidence of CSRD generally and *Saudization* particularly in Saudi Arabia, which would enrich the Saudi government's understanding of the ways in which firms adopt CSR issues and, hence, improve policy formulation.

Second, despite the increasing interests in CSRD practices globally, the extant CSRD research has been conducted mainly in the developed countries (see Holder-Webb et al. 2009; Brammer, Brooks and Pavelin 2006; Post, Rahman and Rubow 2011; Rao, Tilt and Lester 2012; Reverte 2009; Branco and Rodrigues 2008). Accordingly, this study would add to the limited research on CSR in developing countries in general (see Esa and Ghazali 2012; Muttakin and Khan 2014) and Saudi Arabia in particular, which has a unique institutional setting that might have implications for CSR (see Chapter 3). For example, in Saudi Arabia, Islamic teaching is an important factor influencing the legal, economic, and societal systems. Deegan and Unerman (2006) suggested that religion, as a cultural factor, offers a logical argument that could potentially affect how people do business and make decisions. In this regard, Hamid, Craig and Clarke (1993) indicated that Islamic teaching is a particular case that influences the structuring and financing of business in a way that differs from other religions. In support of this, Ali and Al-Aali (2012) found that Saudi managers believe that CSR is their obligation from Islamic perspective.

Third, a limited number of empirical studies have examined the relationship between CSRD and corporate governance factors in developing countries (Haniffa and Cooke 2005; Esa and Ghazali 2012; Haji 2013; Khan, Muttakin and Siddiqui 2013; Ntim and Soobaroyen 2013). The literature suggests that good corporate governance leads to good disclosure practices because corporate governance systems promote the responsibility and accountability of firms and consider wider stakeholder groups (Haniffa and Cooke 2005; Mangena and Tauringana 2007; Esa and Ghazali 2012; Khan, Muttakin and Siddiqui 2013; Mangena, Tauringana and Chamisa 2012). Very little is known about the relationship between CSRD practices and corporate governance in Saudi Arabia. The current research study provided evidence of the influence of ownership structure on CSRD practices in Saudi Arabia.

Fourth, the majority of prior empirical studies examined the factors influencing CSRD practices in the developed countries (see Branco and Rodrigues 2008; Reverte 2009; Holder-Webb et al. 2009) or in developing countries (see Liu and Anbumozhi 2009; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011; Ntim and Soobaroyen 2013). However, only a limited number of empirical investigations have been conducted on the relationship between CSRD practices and firm performance in these countries. This current research study contributes to the literature by examining the benefits of CSRD practices through the investigation of whether Saudi CSR firms experience increase in market value, as measured by Tobin’s q. The current research study provides evidence that Saudi listed firms benefit from engaging in CSRD practices in Saudi society.

Fifth, a large number of prior studies in both the developed and developing countries used either cross-sectional data (see Roberts 1992; Naser et al. 2006; Ghazali 2007) or short observation timeframe (less than 3 years) (see Haniffa and Cooke 2005; Reverte 2009; Alotaibi 2016). This suggests that the findings from prior empirical studies provided limited insights into how CSRD changes over time and might be biased on identifying the actual factors influencing CSRD practices and their effects on firm performance (Haniffa and Cooke 2005; Mahadeo, Oogarah-Hanuman and Soobaroyen 2011). The current research study contributes to the literature by examining CSRD practices over a longer period to describe the evolution of CSRD in Saudi Arabia.

Six, many prior studies that took a longitudinal approach have employed Pooled Ordinary Least Square (POLS) technique to estimate the econometrics model of panel data (see Haniffa and Cooke 2005; Reverte 2009; Ntim and Soobaroyen 2013; Alotaibi 2016). POLS may be problematic and inefficient in the panel regression model (Mangena, Tauringana and Chamisa 2012) because it ignores the structure of the panel data (Hsiao 2014; Baltagi 2008). The current research study contributed to the literature by employing more sophisticated models of panel data, while controlling for individual effects, to produce reliable results (Cameron and Trivedi 2009; Kennedy 2008; Koop 2008) and advance the CSRD practices literature.

Finally, the current research study contributes to the literature by extending Alotaibi (2016) study. At the theoretical level, the current research study employed a wider theoretical framework, including stewardship and institutional theories. At the methodological level, the current research study used longer observation period of 5 year and controlled for the individual effects. At the analytical level, the current research study examined the aggregated level of CSRD practices of Saudi listed firms as well as the Environmental, Social, and *Saudization* categories.

9.6 Research Limitations and Suggestions for Further Studies

The current research study is subject to some limitations that might open new opportunities for further research. First, the current research study was limited to non-financial listed firms in Saudi Arabia. Arguably, financial listed firms might provide fruitful avenues for further studies in terms of CSRD practices. The CSRD literature has focused largely on non-financial firms (Haniffa and Cooke 2005; Naser et al. 2006; Ntim and Soobaroyen 2013); thus, a gap in CSRD literature calls for further investigations.

Second, the current research is limited to annual reports. Arguably, a number of different media of communications are available at firms’ disposal to disseminate social and environmental information, including CSR standalone reports, environmental reports, sustainability reports, and websites (Gray, Kouhy and Lavers 1995a; Unerman 2000; Fifka 2013). Hence, examining different media of communication would contribute to the CSRD literature.

Third, the current research study was limited to Saudi Arabia. Arguably, examining other developing countries would provide a better understanding of firms’ behaviour in developing countries. Particularly, very little is known about the Arab world. Only two studies have been conducted in the Arab world, namely, (Naser et al. 2006) in Qatar and Juhmani (2014) in Bahrain. Furthermore, it would informative to conduct cross-cultural or comparatives studies in developing countries, as they would enrich our knowledge about CSRD.

Finally, the current research study utilize only quantitative methods. Arguably, using mixed methods design could enhance the research study and provide a more in-depth understating of CSRD practices (Bryman 2012; Creswell 2014).

9.7 Summary

The current research study suggests that CSRD practices are evident among Saudi listed firms, and they improved over the period of the study. Furthermore, the study found that ownership structure and firm-specific factors are significant determinants of CSRD practices in Saudi Arabia. The chapter concludes by highlighting the study contribution and providing recommendations for further research studies.

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11 Appendix A

CSRD checklist categories, subcategories and items based on GRI framework		
ENVIRONMENTAL		**The environmental category includes 10 aspects that are related to the organizational "impact on living and non-living natural systems, including land, air, water and ecosystems"**
Materials	EN01	reporting the renewable/nonrenewable and recycled materials used in production and packaging
Energy	EN02	reporting the energy consumption, intensity and reduction used by the organization
Water	EN03	reporting the water source, consumption and recycled used by the organization
Biodiversity	EN04	reporting the protected and unprotected biodiversity areas surrounding the organization sites and premises and the possible impact on the ecosystem (i.e contamination or pollution)
Emissions	EN05	reporting the air emissions (such as greenhouse gases and ozone-depleting substances) or any substance send to air (such as dust), intensity and reduction techniques used by the organization
Effluents and Waste	EN06	reporting liquids discharges and spills; and the disposal of the hazardous and non-hazardous liquids
Products and Services	EN07	reporting the extent of impact mitigation of environmental impacts of products and services
Compliance	EN08	reporting the compliance and/or non-compliance with environmental standards; certifications, monetary and non-monetary sanctions on the organization
Transport	EN09	reporting environmental impacts of transporting products and other goods and materials for the organization’s operations, and transporting members of the workforce

Overall	EN10	reporting total activities engagement in environmental protection expenditures, investments and sponsorships

Social		**The social category includes 3 subcategories that are related to the organizational impact "on the social systems within which it operates"**
Labor Practices and Decent Work		**The Labour Practices and Decent Work subcategory covers issues related to the organization staff such as health and safety, training, income and retention**
Employment	LA01	reporting new employee hires, employee turnover, benefits (i.e life insurance, health care, parental leave), retention rate, awards and risks
Labor/Management Relations	LA02	reporting activities that enhance the work environment and improve the employee relations and facilitate the communication process
Occupational Health and Safety	LA03	reporting the participation and representation of workforce in health and safety committees; injury types and rates; occupational diseases and fatalities; and certifications
Training and Education	LA04	reporting the average training hours for employees, programs for enhancing employees' skills and career development
Diversity and Equal Opportunity	LA05	reporting the composition of the organization's governance bodies and the diversity categories (i.e. gender and age group); justice and fairness to all level of employees
Equal Remuneration for Women and Men	LA06	reporting the ratio of basic salary and remuneration of women to men
Saudization	LA07	reporting *Saudization* issues, on job training and employment according to the government’s Saudization programmes
Society		**The Society subcategory concerns impacts that an organization has on society and local communities**

Local Communities	SO01	Reporting the engagement and development programs; and the actual and potential negative impacts on the local community; as well as reporting the philanthropic contribution to alleviate poverty by donating to charities and supporting civil organizations and sponsorships
Anti-corruption	SO02	reporting training on anti-corruption policies and procedures; assessment procedures in identifying corruption; and incidents of corruption and taken action
Public Policy	SO03	reporting total value of political contributions made directly or indirectly; governmental legislative environment, state objective and governmental support
Anti-competitive Behavior	SO04	reporting on means of enhancing positive competitiveness and limit anti-competitive behaviour, anti-trust, monopoly practices and competitive risks
Compliance	SO05	reporting the compliance with laws and regulations; ethics and values, monetary and non-monetary sanctions on the organization
Product Responsibility		**The Product Responsibility subcategory concerns the products and services that directly affect stakeholders, and customers in particular**
Customer Health and Safety	PR01	reporting number of incidents of non-compliance with regulations and codes concerning the health and safety of products and services; and procedures for improving products, services and communications
Product and Service Labeling	PR02	reporting number of incidents of non-compliance with regulations and codes concerning the products and services information and labelling; and type of products and services information and labelling requirements, quality and customer satisfaction
Marketing Communications	PR03	reporting the sale of banned or disputed product; and number of incidents of non-compliance with regulations and codes concerning marketing communications including advertising, promotion, sponsorship and public relations
Customer Privacy	PR04	reporting number of substantiated complaints regarding breaches of customer privacy and losses of customer data

Compliance	PR05	reporting the compliance with laws and regulations concerning the provision and use of products and services; and monetary and non-monetary sanctions on the organization

12 Appendix B

An illustration of the application of word count on an extracted Arabic text from an annual report :

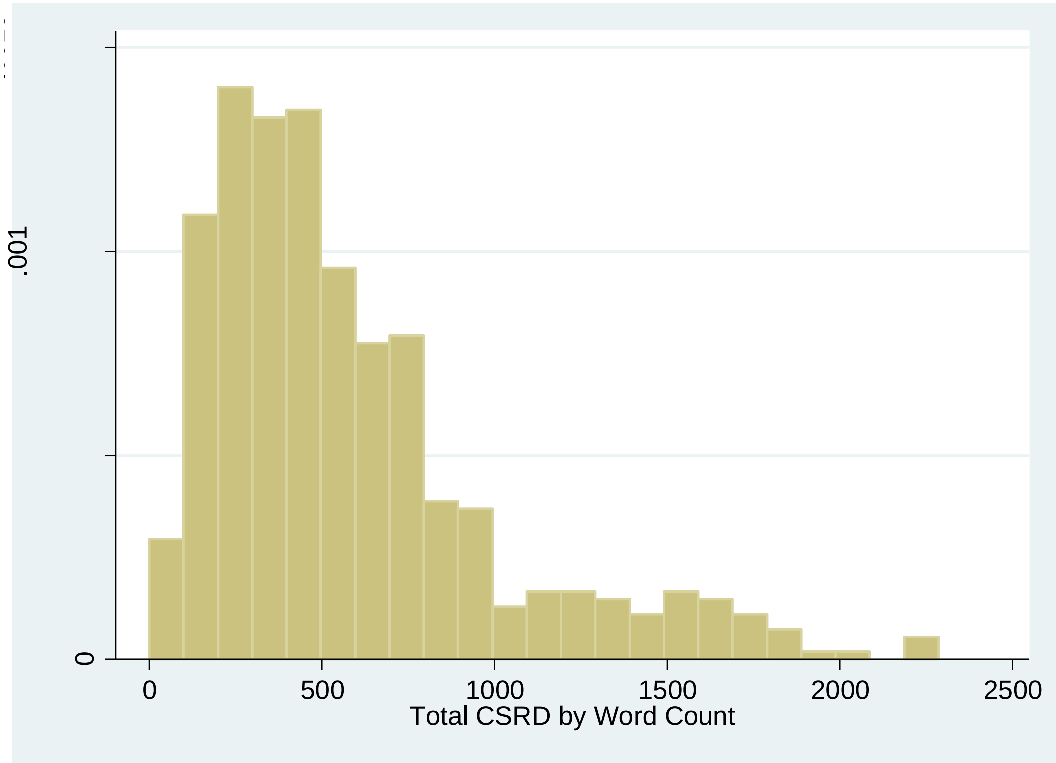
إستمرت[1] المجموعة[2] في[3] المحافظة[4] على[5] سياسة[6] السعودة[7] و[8] على[9] إلتزامها[10] بتشجيع[11] التوظيف[12] المحلي،[13] و[14] بنهاية[15] عام[16] 2014م[17] شكلت[18] العمالة[19] المحلية[20] السعودية[21] ما[22] نسبته[23] 57%[24] من[25] مجموع[26] القوى[27] العاملة[28] في[29] المجموعة[30] و[31] البالغة[32] 1759[33] عاملاً[34] بالمقارنة[35] مع[36] ما[37] نسبته[38] 53%[39] من[40] مجموع[41] 1901[42] عاملاً[43] بنهاية[44] عام[45] 2013م.[46]

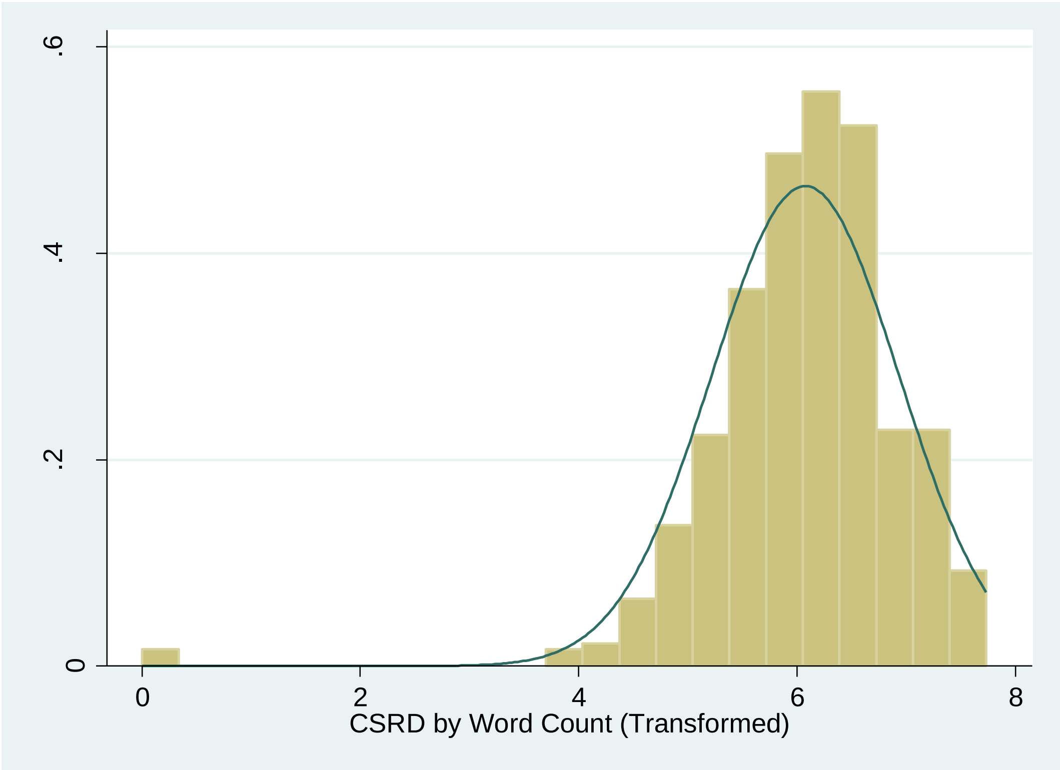
Note: *the superscript numbers above represent the word count.*

The group continued to maintain its *Saudization* policy and its commitment to encourage local employment. By the end of 2014, Saudi domestic labour constituted 57% of the total workforce of 1759 workers compared to 53% of 1901 workers by the end of 2013.

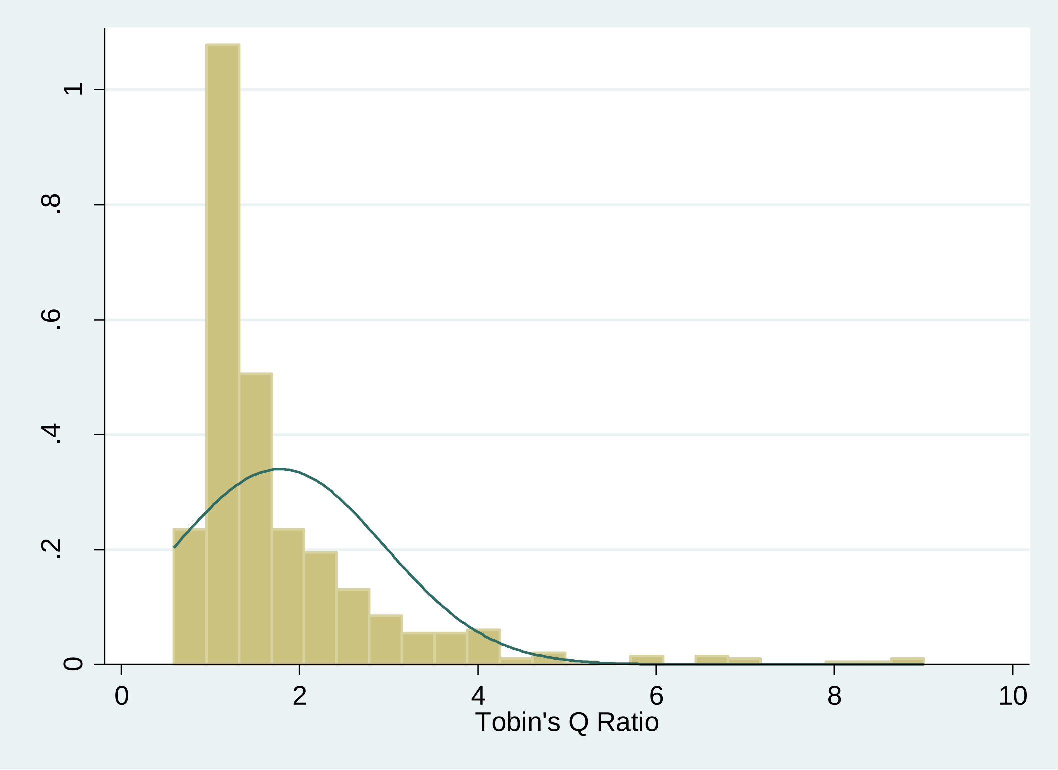
Note: *the above is translated from the original Arabic extract for the non-Arabic readers. It differs in word count due to the different structure for the English and Arabic languages. However, the word count was conducted in Arabic language as mentioned in Chapter 6.*

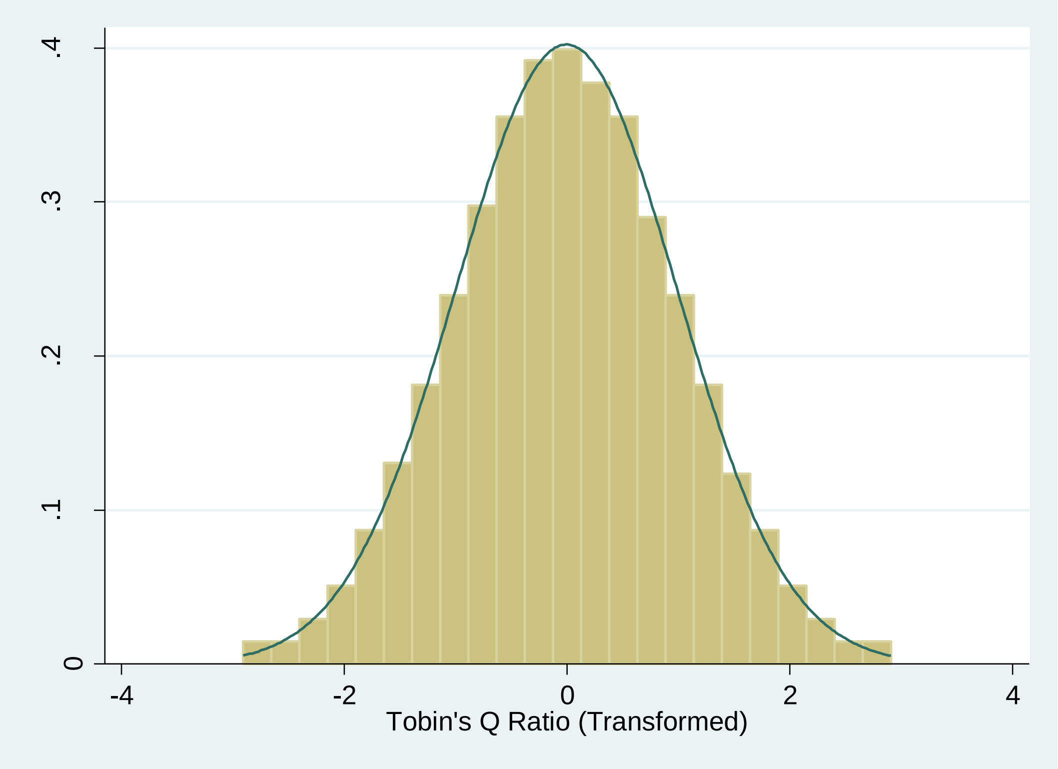
13 Appendix C





14 Appendix D





15 Appendix E