



Corporate social responsibility

Perception, practices and performance of listed companies of Kingdom of Saudi Arabia

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Abstract

Purpose – The world is becoming global, digital, health conscious and spiritual. In this new and evolving international environment with a large private sector and global integration of world capital markets, Corporate social responsibility (CSR) has become the prominent topic of institutional reform. This issue of CSR is of great importance as the Saudi economy is opening up and the government is trying to diversify its investments and reduce its reliance on the petroleum sector. The proposed research study is aimed at identifying perceptions of managers, company practices and performance of companies concerning CSR practices of 21 listed companies in Saudi Arabia.

Design/methodology/approach – From each company, ten managers were chosen randomly totaling two hundred and ten respondents. Primary and secondary data was collected for the study. Primary data were collected by conducting interviews and discussions with management respondents through questionnaires structured for the purpose.

Findings – The empirical findings in the KSA study support the applicability of Carroll's Pyramid of CSR constructs and Lawrence *et al.*'s charity and stewardship principles.

Research limitations/implications – There is excellent scope for future research on the current topic and in improving the instruments, measures and constituent concepts of CSR constructs in order to provide better guidance to policy makers and managers, as well as academic interest.

Originality/value – Saudi Arabia is known for its charity and stewardship principles, but not much empirical work based on CSR constructs has been done. Hence, this study attempts to measure perception and construct validity.

Keywords Corporate social responsibility, Perception, Practices, Performance, Saudi Arabia, Listed companies

Paper type Research paper

Introduction

The world is becoming global, digital, health conscious and spiritual. If the nineteenth century was about entrepreneurs laying the foundations of modern corporations and the twentieth century was about management and management techniques, then the twenty-first century is about legitimacy. As the focus swings to the issues of legitimacy and the use and abuse of power by countries and corporations, stakeholders will increasingly look for evidence of good stewardship by the directors of enterprises.

In this new and evolving international environment with a large private sector and global integration of world capital markets, CSR has become the prominent topic of institutional reform. For governments, encouraging better corporate governance and ethical practices in policy making enables firms to raise more domestic as well as foreign capital. For firms, an efficient market will differentiate between the firms that embrace best corporate ethics and governance practices.



The practice of corporate social responsibility (CSR) is also quickly gaining ground among Saudi Arabian businesses. However, CSR is a novelty mostly in terminology. “Nobody in Saudi Arabia, I think still to this very day, can clearly tell the difference between charity or philanthropy and CSR,” says Dr Nadia Baeshen, General Manager of the CSR division of the Dallah Albaraka Group, “although they practice both.” Companies indeed tend to have long traditions of investing in socially responsible activities, but have only started labeling and planning these as CSR activities in recent years. Indeed, charitable giving, or zakat, is an integral part of the Muslim belief system. Zakat is the idea that those who are able should give to those in need, either in money or in kind. So firmly is this rooted in society that Saudi Arabia has institutionalized zakat, by levying a tax on individuals and businesses, corresponding to 2.5 percent of one’s annual income. In addition, Saudi Arabia also embraces the concept of sadaqa, or voluntary giving. The Kingdom’s wealth supports a widely shared sentiment of responsibility toward those less fortunate. Individual contributions can be sizeable, such as the \$130 million donation made by a Saudi national last year in support of cyclone-hit areas in Bangladesh. The donor, however, chose to remain anonymous. And this is not unusual; many Saudi Arabian individuals and businesses would find it immodest to advertise the extent of their philanthropic commitment (Foreign Affairs, 2009).

Increasingly, companies are finding that corporate values, economic success and greater communal good go hand in hand.

In the world of globalization, environment pollution and shortage of resources, corporations are experiencing massive pressures to accomplish business in a more socially responsible manner. CSR is internal to a corporation; it dictates the way in which it has to plan the courses of action it has to carry out with respect to the civil society. According to a famous definition, the social responsibility of business includes the economic, legal, ethical and discretionary expectations that society has of organizations at a given point in time (Carroll, 1979, p. 500). This term basically deals with an organization’s set of operations that it carries out for the benefit of the society, while existing within itself. It helps humanity in more than one way; to train and educate them and to consider issues which can really change the fate of a future civil society.

CSR definitions describe a phenomenon, but fail to present any guidance on how to manage the challenges within this phenomenon. Therefore, the challenge for businesses is not so much to define CSR, as it is to understand how CSR is socially constructed in a specific context and how to take this into account when business strategies are developed.

In examining the background of Saudi Arabian businesses, the authors made an attempt to find whether there is an awareness among employees of corporate CSR practices, how CSR practices are presented and to find out if there is any distinct method of CSR evaluation in respondents’ companies. The KSA is known for its charity and stewardship principles, but there is not much empirical work based on CSR constructs. Hence, this study attempts to measure perception and construct validity of the charity and stewardship principles.

Objectives of the research study

- (1) To study the respondent’s perception about CSR.
- (2) To study the respondent companies practices of CSR.

- (3) To study the method of evaluation of CSR in respondents' companies.
- (4) To examine the relationships between CSR perceptions of managers about the performance of the respondent companies.

Scope of study

Advanced western economies are giving more attention in recent years to CSR. Correspondingly, most studies on CSR and corporate social performance (CSP) concentrate on Western countries, while very little is known of the practice of CSR/CSP in developing countries (Gao, 2009). Also, Belal (2001) reveals that most of the CSR/CSP studies are conducted from the perspective of developed countries such as in Western Europe, the USA, Australia and certain developing countries.

Saudi Arabia has a completely different culture and political economy from the West. CSR/CSP in Saudi Arabia may be quite different from its Western counterparts. This study will be a valuable contribution to the topic of CSR/CSP in Saudi Arabia, as there is not much literature available regarding the issue in a local context. Regulations are still in the developmental phase and the environment for implementing these regulations is still young. The study covers perceptions, practices and performance of CSR in listed companies in Riyadh, Saudi Arabia, including conceptual clarification about CSR and implementation/practices of CSR. The information collected relating to these areas is used to supplement information about the primary areas of CSR.

Significance of the research study

The proposed research study is aimed at identifying whether there is a significant relationship between CSR, perceptions of managers, company practices and performance of companies. In the past few years, CSR has become an important aspect of Saudi Arabia's corporate field. The government is also playing a role in finding out better ways in which it can benefit society. This issue is of great importance in Saudi Arabia as the Saudi economy is opening up and the government is trying to diversify its investments and reduce its reliance on the petroleum sector. The country has invested in various sectors like food, telecommunications and financial institutions to change the situation from being a major importer to becoming self sufficient or even an exporter of many products. Moreover, Saudi companies are expanding their activities and businesses around the region and across the globe.

The honorable King Abdullah has urged an ongoing partnership between public and private sectors to boost social responsibility in Saudi Arabia. This message came from the King, at the opening of a three day CSR conference. During the conference, he also emphasized that the time had come to make social responsibility a reality "not just rhetoric by the (business) elite." A new forum is to be created which will look at practical steps for developing the practice of social responsibility and to act as a platform for studying some of society's most imperative issues. The government has said that standards would be set through which it could evaluate progress made by businesses in this field.

Extensive research in other countries has found that corporate responsibility is becoming an essential part of any company's day-to-day undertakings. Thus, the responsibility played by the government and corporations, as well as the citizens in this regard, should be on-going and effective. Moreover, CSR can play a significant role in attracting foreign direct investment and mobilizing greater savings through capital.

Literature review

A review of the literature indicates that most studies have focused on various aspects of CSR in different countries, both developed and under developed, through surveys.

There are a few studies on perception including perception of managers on CSR (Quazi, 2003), applying consumer perceptual measures of CSR (Rugimbana *et al.*, 2008), Chinese consumers' perception of CSR (Ramasamy and Yeung, 2009; Beckmann, 2007), Public perception of CSR relating to mining industries (Hutchins *et al.*, 2005), CSR of large Mexican firms – perceptions of outsiders of Mexico's economy (Logsdon *et al.*, 2006), perceptions of young urban managerial groups in India (Balasubramanian *et al.*, 2005), perceptions of CSR activities on trust toward the company (Swaen, 2008), alternative stakeholder perspectives leading to differing perceptions of the process and content of responsible reporting (Reynolds and Yuthas, 2008), differing media interpretations, perceptions and perspectives of CSR in the UK (Tench *et al.*, 2007), perceptions surrounding CSR in SMEs (Murillo and Lozano, 2006), exploring managerial perceptions of motives for CSR initiatives, methods of stakeholder engagement, organizational integration of CSR and its impact on managerial work (Murillo and Lozano, 2009), the role of NGOs in CSR perceptions of stake holders (Arenas *et al.*, 2009) and how Chinese executives and managers perceive and interpret CSR (Zu and Song, 2009).

There are also studies on practices of CSR concerning CSR practices in Turkey (Ararat, 2008), CSR practices in MNCs' subsidiaries (Yang and Rivers, 2009), communication of practice of CSR (Birth and Illia, 2008), CSR in Latvia (Petersons, 2009), environmentally responsible behavior and impact on their performance on the case of the united nations global compact (Cetindamar and Husoy, 2007), congruence between actual practices of CSR and further development of CSR in US organizations (Lindgreen *et al.*, 2009), CSR policy orientations in the European Union (EU) focusing on the specific case of the French legislation on compulsory sustainability reporting for publicly-listed companies (Delbard, 2008), CSR disclosure practices of Spanish listed firms (Reverte, 2008) and perceptions and practices of CSR in Pakistan (Ahmad, 2006).

On performance of CSR, there are also studies on CSP in China (Gao, 2009), CSR performance driven by TQM implementation (Robson and Mitchell, 2007), CSR performance in Mexico's auto industry (Muller and Kolk, 2008), relationships between corporate value orientations and various performance indexes in Japan's electric companies (Wang, 2009), raising from CSR to CSP (Rundle, 2008) and strategies for managing CSR performance (Bansal *et al.*, 2008).

Though research has been done on CSR perception, practices and performance, considerable study has yet to be done on the historical background of CSR in the KSA. As such, the CSR concept is young; the literature on CSR is mainly in the form of books, annual reports, and web-based reports. Management and other journals also publish articles on the subject, but a great amount of research work has to be carried out in the country. There is one sole paper on the perceived social role of MNCs in the USA and Saudi Arabia by Maghrabi (2008).

The analyses of the above literature on CSR reveal that the scope of almost all the papers is narrow and limited to a particular aspect of CSR or a company or an industry. There is obviously a need for the study of CSR perceptions, practices and performance in the Kingdom of Saudi Arabia.

Research methodology

Primary and secondary data were collected for the study. The primary data was collected by conducting interviews and discussions, with management respondents through schedules/questionnaires structured for the purpose. Various appropriate statistical techniques were employed for analyzing the data. The statistical analysis and data were supplemented by information collected through interviews and personal observations, so as to derive effective and meaningful conclusions.

The secondary data was collected from various sources. Factual data were collected from the annual reports of sample companies, corporate offices, in-house magazines and other records of the companies. Companies' web sites and other related web sites were browsed.

Opinions of respondents were solicited on a five point scale with scale values 5, 4, 3, 2 and 1; opinions which fell under scale 3 were not considered as the respondents wanted to be silent on those issues for presentation and calculation purposes.

Sampling and data collection

Data for this study was collected based on the "stratified convenient sampling" technique. Total companies were segregated into different sectors listed in the KSA Stock Exchange. 21 companies were selected from listed companies. The total size of the sample was 21 companies.

For manager's opinions of each company, ten respondents were chosen. The total number of employee samples was 210. Hence, the total size of samples undertaken for this study was 210, which is not unwieldy.

In this study, the unit of analysis was the individual. Companies were represented by individuals such as managers.

Tools for analysis

To analyze the data, the following statistical tools were used. ANNOVA, factor analysis and averages were used according to necessity and compatibility. Table bar diagrams were used to represent the data. Scaling techniques were used to analyze the opinions of managers.

Limitation of the study

As companies were chosen based on sector, the study was limited to listed companies in the city of Riyadh only, because Riyadh, being the capital of the KSA, has become the hub of business activities; almost all the companies' corporate offices are situated there and thousands of professionals work in Riyadh. Findings cannot be generalized to all companies. Further the study was limited to Riyadh only, despite the presence of respondent companies across the globe. Because data was collected through sampling, there may be deviations in generalizing the opinions of professionals.

Background of concept

The pyramid model of corporate responsibility by Carroll (1979, 1991) identifies a range of obligations that companies have toward society. It serves as a framework which places primary emphasis on economic results but argues for legal, ethical and philanthropic behavior.

In a recent conceptualization, he terms this as “the four faces of corporate citizenship” (Carroll, 1998). Economic responsibilities pertain to the necessity for corporations to be profitable. Legal responsibilities require business to operate within the boundaries of laws and national policies. Ethical responsibilities demand that firms operate morally, fairly and justly. Philanthropic responsibilities oblige companies to contribute financial and other resources for the welfare and betterment of society and the community.

The another conceptualization of CSR is that of Principles of Charity and Stewardship which are developed by Lawrence *et al.* (2005). Under the charity principle, companies make voluntary contributions to less fortunate members of society. It is a fact in the KSA that royalty has provided for poor citizens. There are also wealthy individuals in KSA who have contributed immeasurably to the social and economic development of KSA and across the globe, besides the zakat (religious obligation) money distribution among the poor.

The KSA is known for its charity and stewardship principles, but there is not much empirical work based on these CSR constructs. Hence, this study attempts to measure perception and construct validity of the charity and stewardship principles.

This research also examines the extent to which demographic factors influence CSR perceptions in the KSA. The demographic factors include age, gender, education level and length of working experience.

Analysis

Table I presents the mean, standard deviation, inter-correlations and alpha coefficients on Carroll’s pyramid of CSR, charity principle, stewardship principle, environmental friendliness and the perceptions of managers of the respondent companies and the evaluations of CSR in the respective respondents’ companies.

Respondents have rated environmental friendliness (mean = 1.17) highest, which suggests high importance caring for the natural environment.

Among the four social responsibilities in Carroll’s pyramid framework, respondents rated legal responsibility (mean = 1.1071) highest, followed by economical responsibility (mean = 1.0647), philanthropic responsibility (0.9310) and ethical responsibility (mean = 0.6635). Despite an obvious focus on social responsibilities, the respondents were in agreement with Carroll’s CSR model that organizations must also fulfill economic and legal responsibilities.

The perception of respondents in the KSA is that they are more likely to subscribe to the charity as well stewardship principle.

	Mean	SD
Economic	1.0647	0.54192
Legal	1.1071	0.47843
Ethical	0.6635	0.65133
Philanthropy	0.9310	0.57144
Charity	1.0929	0.67310
Steward	1.0798	0.68555
Environment	1.1738	0.71687
Performance	1.0190	0.73505
Valid N (listwise)		

Table I.
Perceptions of
respondents on Carroll’s
pyramid of CSR

As per the above Table II, it can be concluded that although the correlations among the variables are significant, their correlations are not high (lower than 0.70). This suggests that the questionnaire items in the variables are not measuring the same construct. In support of the above result, Table III presents the adequacy of the sample and Table IV presents the reliability test which gives us a fair enough opinion of non construct of variables.

An attempt is made to prove the contention that length of working experience, educational backgrounds and age of the respondents influence the perceptions of respondents about CSR. ANNOVA test results which are presented in Table V shows that respondents who have less than five to ten years experience place the highest importance on all responsibilities except ethics, philanthropy and stewardship.

Table II.
Inter-item correlation matrix

	Economic	Legal	Ethical	Philtoro	Chirty	Steward	Environment	Perform
Economic	1.000	0.167	0.071	0.118	0.039	0.180	0.079	0.026
Legal	0.167	1.000	0.381	0.295	0.301	0.308	0.235	0.368
Ethical	0.071	0.381	1.000	0.356	0.308	0.317	0.181	0.400
Philanthropic	0.118	0.295	0.356	1.000	0.509	0.513	0.380	0.472
Charity	0.039	0.301	0.308	0.509	1.000	0.602	0.379	0.499
Steward	0.180	0.308	0.317	0.513	0.602	1.000	0.447	0.488
Environment	0.079	0.235	0.181	0.380	0.379	0.447	1.000	0.470
Performance	0.026	0.368	0.400	0.472	0.499	0.488	0.470	1.000

Table III.
KMO and Bartlett's test

Kaiser-Meyer-Olkin measure of sampling adequacy	0.821
Bartlett's test of sphericity	Approx. χ^2
	df
	Sig.
	1.764 $\times 10^3$
	351
	0.000

Table IV.
Reliability statistics

Cronbach's α	Cronbach's α based on standardized items	Number of items
0.793	0.788	8

Table V.
Perceptions according to experience

	Mean							
Experience	Economic	Legal	Ethical	Philanthropy	Charity	Steward	Environment	Performance
<5	1.1563	1.1797	0.8542	0.9297	1.2227	1.2422	1.1562	1.2109
6 to 10	1.1019	1.0278	0.6420	0.8704	1.0648	0.9583	1.0926	0.9630
11 to 15	0.8952	1.0887	0.5376	0.7823	0.9597	0.9597	1.0645	0.8871
16 to 20	0.8674	0.9659	0.5758	1.1477	1.1364	1.2841	1.3409	1.2273
21 to 25	1.2794	1.2206	0.3922	0.9853	0.9706	1.0441	1.2353	0.5882
26 to 30	0.9773	1.1705	0.6364	1.0341	1.0227	0.8977	1.3636	0.9091
F	2.326	1.260	2.069	1.360	0.914	2.005	0.860	2.878

Respondents who have 11 to 15 years experience place the highest importance on legal and environmental responsibility. And those with 16-20 years of experience place the highest importance on philanthropy, charity, stewardship and environmental friendliness. Surprisingly, those with 21-25 years of experience did not consider philanthropy, charity and ethics, and the group with 26-30 years experience put highest importance on environment, legal, philanthropy and charity. When the researchers interacted with some of the respondents, they opined that ethical and charity responsibilities are built into the KSA, so there was no need to answer affirmatively. Corporations do not need to look at these aspects as, according to the religious tenant, individuals have to take care of these.

Table VI presents the perceptions of the respondents according to education. It is clear that the secondary school qualified place high importance on all the factors except ethics; high diploma respondents place high importance on all except ethics and philanthropy; and post graduates who are young establish that corporations should consider all or most of all the responsibilities except ethics. Here we can draw a conclusion that ethics are considered part of the KSA's individuals' walk of life.

Table VII and the bar diagram (Figure 1) D1 shows different CSR practices in the KSA.

Conclusion

The empirical findings in the KSA study support the applicability of Carroll's Pyramid of CSR constructs, and Lawrence *et al.*'s charity and stewardship principles. For example, environmental friendliness, legal responsibility and ethical responsibility are scored highly.

Managers of respondent companies might be aware that even though CSR primarily suggests social and ethical concerns, many also place importance on legal responsibility.

To be philanthropic is easy because it involves donations. This is not so with the case of the stewardship function, which is sometimes viewed as a narrower aspect of CSR.

It should be recognized that the stewardship duty has a broader agenda as it compels business to be "trustees," an obligation to function in the general interest of the public. In fact, this fits neatly with the contemporary emphasis of stakeholder management which goes beyond the shareholder to include employees, consumers, the public, the government and activists.

Based on two separate questions, it is found that respondents in the KSA are in agreement with the fact that good CSR practices pave the way for the positive performance of the company and there should a system of CSR evaluation.

Though there are many CSR practices in listed companies in the KSA, the government of the KSA and corporations started taking an interest in creating awareness.

Education	Mean							
	Economic	Legal	Ethical	Philanthropy	Charity	Steward	Environment	Performance
Secondary	1.3534	1.2414	0.8046	1.0517	1.3362	1.2241	1.2586	1.2414
Bachelor	1.0318	1.1038	0.6497	0.8877	0.9809	1.0254	1.1398	0.9110
Intermediate	1.0000	1.0500	0.6952	0.9357	1.2929	1.1143	1.1714	1.1286
Post graduate	0.9846	1.0278	0.5062	0.9444	1.0278	1.0833	1.2037	1.0741
F	3.347	1.182	1.023	0.662	3.607	0.703	0.235	2.080

Table VI.
Perceptions according
to education

Table VII.
CSR practices

Practices	Frequency	Percent	Valid percent	Cumulative percent
<i>Valid</i>				
Environment	9	4.3	4.3	4.3
Child care	1	0.5	0.5	4.8
Education	8	3.8	3.8	8.6
Financing small project	1	0.5	0.5	9.0
Others	147	70.0	70.0	79.0
1 to 8 and others	44	21.0	21.0	100.0
Total	210	100.0	100.0	
		D1		

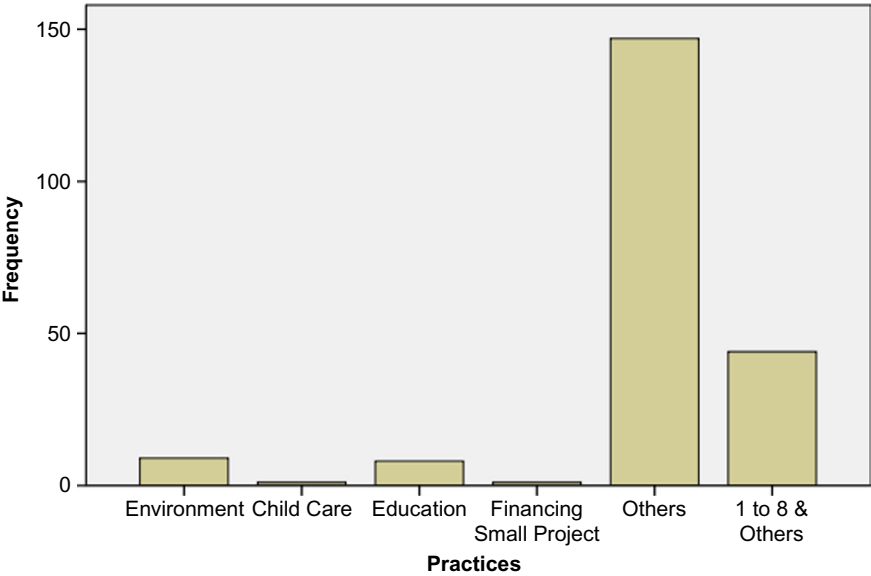


Figure 1.

The need to be more socially responsible in a professional corporate way is a recent one. The findings here are consistent with idea that the CSR philosophy is not new. The practices of CSR are different from one company to another and the reporting system of CSR practices to the government would be appreciated in the future. The data collected for this study was from 210 managers of listed companies in Riyadh, hence the opinions cannot be generalized. There is an excellent scope for future researchers on the current topic and in improving the instruments, measures and constituent concepts of CSR constructs in order to provide better guidance to policy makers and managers, as well as for the academic interest.

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Further reading

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S. no.	Statement
1	The primary goal of companies is to make as much profit as possible
2	Socially responsible companies strive to lower their operational costs
3	Companies should strive for the highest returns to their shareholders
4	Companies should not be distracted from their economic functions by solving social problems
5	Well run companies strive to comply with all the state laws and regulations
6	It is sometime expedient for companies to violate some laws and regulations
7	Companies have to adhere to all state rules and regulations even though it may be costly for them
8	Performance of the company will improve by practicing CSR
9	Socially responsible companies always do what is right, fair and just
10	Companies should avoid doing harm at all cost
11	It is sometime expedient for companies to engage in questionable practices for economic gains
12	Companies should contribute resources to the community
13	Socially responsible companies strive to provide for community betterment
14	Companies should actively promote volunteerism
15	Companies have to commit resources to support culture and arts
16	Business has an obligation to needy persons in the society
17	Business should be charitable toward the less fortunate in the society
18	Companies should take voluntary actions to promote social good
19	Socially responsible companies contribute to charitable organizations
20	Business has an obligation to see that everyone in the society benefits from its actions
21	Business should consider the interests of all who are affected by its decisions and actions
22	Business should balance the interests and needs of different groups in the society
23	Business and society are interdependent
24	Companies should contribute to the upkeep of the natural environment
25	Companies should have waste minimization and recycling programs
26	Performance of the company will improve by practicing CSR
27	CSR evaluation system should be present in the company

Table AI.

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