

# Corporate Social Responsibility and Private Sector Companies

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**Abstract:** In today's world, an increasing recognition to corporate social responsibility can be found within the developed economies across the globe. CSR cannot be regarded as an option extra i.e., firms can't take it as an indicator of bringing change in society or luxury. Integration of SCR in corporate strategies and policies is highly significant for companies to contribute to the society; therefore, an attempt has been made in this study to investigate the challenges being faced by Saudi Arabia in this regard. In this study, non-traditional students and managers' perceptions were explored. It was found out that how CSR and its dimensions are understood by the private sector companies. For CSR's incorporation into affairs related to society and business, the kingdom has sought to explore different avenues and it also has invited non-governmental organizations (NGO's) and businesses to play role in constructing thorough economic foundations while environmental challenges are eased. The study conducted surveys and found out that the participants had a broad understanding CSR. Participants as well as their corporations seemed to be committed to meet the rules and regulations of the government. In addition to this, the study revealed greater dependency of CSR's concept on social and political developments.

**Keywords:** Saudi Arabia; CSR; Employees; Companies

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### 1. Introduction:

In the industrial world, strategic significance has been recently assumed by CSR (Corporate Social Responsibility) for governments and companies alike. CSR has taken on an added value in countries which are emerging and seek to construct important economies. There is an understanding that CSR and national development are characteristically intertwined. Developing nations will not be able to move forward and progress without corporations' commitment towards affairs of society and also their active part in capacity building (Aboukorin and Al-Shihri, 2015). The primary cause is that national standing and competitive position of a country and its citizens' wellbeing are inseparably connected to competency, technological and environmental challenges ((Visser, 2014). Via corporate initiatives, these increasing challenges can be managed which are done in partnership with the government. It has been reported by the United Nations Industrial Development Organization that an important role is played in developing advanced resolutions to developmental challenges when corporations collaborate with governments (Darrag and E-Bassiouny, 2013). Moreover, in the research "CSR and Developing Countries," the division of UN for sustainable development has claimed that CSR has been promoted across the globe by governments so that national competitiveness can be enhanced and also to aid deliver priorities and public-policy goals. In recent decades, certain views of CSR are adopted by governments in the Arab. Emphasis on conservation of water, healthy living and water durability has been increased. Major challenges that are faced by the Arab countries are underscored by AFED (the Arab Forum for Environment and Development). In a report of 2011, it is decided that, given rising challenges, "transitioning to the Green Economy is not only an option for the Arab region; rather it is an obligation to secure a proper path to sustainable development." (Gustafson, 2002). Saudi Arabia has been recognized as one of the innovative nations on problems related to organic farming, water conservation and urban planning, between others ((Visser, 2014).

#### 1.1 Problem Statement :

Broader business society in the kingdom has still not embraced the CSR's broad perspective which is a fact acknowledged by business leaders. An interview was conducted with Alriyadh newspaper recently in which Advanced Electronics Company's CEO said that in kingdom, comprehensive and sound understanding of CSR lacks. It isn't predictable that in short run, whether solid progress can be extracted by the espoused broad perspective. If its execution is done carefully then it can result in a traditional corporation between the government and the private sector and it may have influence on regional development.

#### 1.2 Significance of the Study:

Following are the reasons due to which this study is significant. First one is that gaps in the literature are filled by it on Saudi Arabia's CSR so we find clear scarcity in this area of research. Secondly, character of the private sector economically and socially in this country is assessed by the study. Thirdly, 25% of the GDP of the Arab world is accounted by Saudi Arabia and in the world; it is one of the greatest exporters.

#### 1.3 Objectives of the Study:

Aim of the study is to evaluate the CSR's nature and to know how this concept is taking origin in Saudi Arabia which is an emerging oil-rich country. Non-traditional students and managers' perceptions are explored this study. The findings will reveal how CSR and its dimensions are understood by the private sector companies. Analysis and the results will be helpful in enabling researchers and policy makers in facing the issues which are important for growth and expansion while the role played by private sector in the country (economically and socially) will be clarified.

## 2. Literature Review:

Determinants of CSR disclosure are examined by this study; thus studies which focus on examining these determinants are reviewed in this section while great emphasis is placed on countries which are emerging. Related studies conducted on Saudi Arabia are also discussed. Saudi Arabia is one of the fast growing economic powers of the world. The Kingdom seeks to meet the economic priorities and revenues that use raw materials (natural), and maintains strong political and military ties with the West, while maintaining traditional social and political systems (Aboukorin and Al-Shihri, 2015). Comprehensive economic plans have been adopted by the government since the early 1970s which aim at attaining technological and economic growth for its inhabitants while in global market, its economy is integrated. Growth's rate in its GDP has sought to be increased by the previous plans (Aguinis and Glavas, 2012). They have also diversified the economy and developed human resources. Focus of the most recent plans is on: promotion of scientific activities, enhancement of participation of private sector in the process of development, encouragement of development, research and technological assimilation, expansion of basic services which are offered to the citizens, empowering role of Saudi Arabia in global economy emerging and preserving water resources among other things and protection of the natural resources, environment and wildlife (Al-Ghamdi, 2014). These recent plans give importance to strengthening the kingdom's competitive position, not only to constructing capacity (improving citizens' abilities and making them able to take hold of monetary chances and involve in creative happenings) which allows to gain flexibility which is required for facing an altering global monetary setting (Aboukorin and Al-Shihri, 2015). According to Alharthey (2016), CSR and these goals are in line and it also has harmony with the rising role of national corporations in the global economy and domestic economy. In the kingdom, economic planners make the key decision in both cases: only through business/partnership with corporations, state will be able to deliver the public policy goals in an efficient manner. Darrag and E-Bassiouny (2013) advocated the same idea by saying that CSR is a broadly useful device for nurturing partnership between business and government. Furthermore, they argued that CSR's essence is that corporations and business activity possess an ethical field in which contribution towards health of the society and its welfare can be done. CSR is defined by the United Nations as "overall contribution of business to sustainable development." The objectives are to boost benefits of business activities to development and societal welfare, support the society's firms, and widen the cooperation's scope among civic firms, business and government. Government has directly and indirectly promoted these goals. CSR had no official pronunciation in the kingdom. Emphasis was by both religious authorities and the government on preserving the environment and doing well (Dabbas and Al-Rawashdeh, 2014).

A recent study was conducted by Commins (2015) on the Arab's banking industry and they investigated fifty-three Islamic Banks from 5 of the 6 GCC (Gulf Cooperation Council) countries in 2008. It has been found by the analysis that 83.3 sentences are the average CSR disclosure score. Between CSR disclosure level and governance structure variables (CEO duality, board composition and board size), there is insignificant correlation as indicated by the outcomes. A noteworthy positive connection was found amongst CSR disclosure level and bank size. 132 Saudi recorded companies in 2008 were examined by Bondy et al (2012). CSR disclosure's low level (16%) was found and also that industry type, firm probability and firm size are key causes of CSR. Online-CSR disclosure was evaluated by Lu et al., (2013) in GCC (Gulf Cooperation Council) countries comprising forty-four Saudi firms which represent total sample's 26.99%. In Saudi Arabia, the average CSR disclosure is 21.68%; which after Qatar is second highest (22.50%). It is indicated by results that main determinants of CSR could be firm risk, firm profitability, firm type and firm size. Reports of eighty-seven organizations which were registered on the Saudi stock market during 2006-07 were investigated by Merchant and Van der Stede (2012). They said that the 14.61% is average value of CSR disclosure which is reported as low by authors. Between ownership of government, size of board, non-executive directors, audit quality and CEO's quality and levels of voluntary disclosure including environmental disclosure and social disclosure, a positive association has been found.

3. Research Methodology:

The survey has two sections: one is demographic/ organizational sector and the second one are attitudes towards CSR. Komaran and Tan adopted the latter one. They also designed the instrument based on Weber, Lawrence post and pyramid of CSR given by Carroll. CSR was grouped by them in 7 categories with twenty-eight items. Only 6 kinds of responsibilities were used in this study: environmental, legal, philanthropic, economic, ethical and charitable. To rate each statement, a 5-point Likert scale was used in which if someone marks 1 that means he/she strongly disagreed and marking on 5 means strongly agreed. Questionnaires were translated into Arabic language from English and panel of experts also verified them.

3.1 Data Collection and Sample Size

Data was collected from two sources and research is based upon that data: managers and executives working in firms which are registered in Saudi Stock Exchange and non-traditional pupils who were registered in a major college of business's graduate program in the kingdom. All companies which were listed in Tadawul were used for the sample of managers, at the time of survey only 135 of which were listed. For participation in the study, from each company, two managers were selected randomly. So, total of 270 questionnaires were distributed. For collection of the complete survey, applicants were educated about the programmed date. Questionnaires collected were 242. 5 answers were removed after checking the information and its verification. 237 was the executives' sample size and the response rate was found to be 87.7%. At the time of study, the non-traditional students were registered in programs of graduate business and working at various firms. Some students (271) already graduated in other fields. For participation in the study, all of them were contacted. Questionnaires collected were 219. Six questionnaires were deemed as not usable after verification and checking the questionnaires' completeness. On 213 responses, the analysis was conducted with 78.6% response rate (See table 1). Among the participants, 84% were men from which 56% had graduate degrees.

Table 1 (Data Frequency)

Variable	Frequency	percentage
<b>Gender</b>		
Male	376	83.6
Female	74	16.4
<b>Types of Students</b>		
Executives	237	52.7
Non-traditional Students	218	47.3
<b>Highest Education Level</b>		
Undergraduate	196	22.7
Graduate	254	77.3
<b>Sector</b>		
Manufacturing	102	22.7
Non-Manufacturing	248	77.3
<b>Average Age (Years)</b>		
	35.97	8.845*
<b>Average Experience (Years)</b>		
	11.89	8.172*
<b>Standard Deviation*</b>		

4. Results and Analysis

For testing the survey instrument's reliability, Cronbach's alpha coefficients were computed by the author. For this instrument, overall reliability is 0.775, which can be called a high reliability factor. This study

also carried out other tests for measuring sampling adequacy. The study found that in the instruments 3 statements have a negative correlation with the rest of the scale (see Table 2). The focus of these statements has been purely on business conduct's economic aspects by maximizing profit (variable 1) as well as gaining the highest financial returns (variable 13), and whether or not one should be distracted from economic functions while getting involved in various social issues (variable 19).

Table 2 (Correlation)

Variable	Means	Std. Dev	Item-Total Correlation
01. The companies' main goal is to enhance profit.	4.28	.889	.004
02. Well-managed companies comply with laws and regulations of government	4.24	.809	.340
03. Companies shouldn't compromise the ethical norms Societyfor achieving corporate goals.	4.52	.700	.443
04. Funds should be contributed by companies to community .	4.27	.721	.380
05. Business should help needy persons inthe society.	4.11	.824	.316
06. Natural environment should be taken care by companies	4.31	.726	.515
07. Socially responsible organizationsdo efforts to lower their costs.	3.16	1.052	.231
08. Companies should take care of the society's legal framework	4.38	.654	.448
09. Socially responsible companies always do what is right.	3.36	.984	.333
10. Socially responsible companies work for the Betterment of community	3.80	.842	.288
11. Companies should be charitable for helping need people in society.	4.09	.785	.310
12. damaging natural environment should be avoided by the companies	4.52	.627	.561
13. Companies should work for highest financial returns to the shareholders.	4.42	.686	.067
14. sometimesit is acceptable to violate rules for companies	3.84	1.120	.285
15. Companies shouldn't harm society at any cost	4.26	.968	.288
16. Companies should actively promote volunteerism.	3.98	.759	.436
17. voluntary actions should be taken by companies to promotegood in the society.	4.02	.711	.446
18. Companies should work for keeping the natural environment.	4.33	.664	.557
19. Companies should contribute to solve social problems.	3.68	1.012	-.029
20. all rules and regulations of government should be			

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should be followed by the companies even if it costs them	4.20	.773	.375
21. Companies can involve in various questionable practices for economic benefits.	4.12	1.068	.301
22. resources should be used by companies to support the arts and culture.	3.02	.995	.258
23. Socially responsible organizations contribute to charitable organizations by giving funds	3.72	.788	.380
24. Waste should be reduced by Companies during doing business.	4.36	.755	.402

### \*Reversed Scores

There is need to mention that scores of participants were very elevated (variables, 4, 5, 11, etc.) on other philanthropic and charitable items as they did on the meeting legal compulsions' related items. Using the Varimax rotation method, factor analysis was conducted to get better understanding about the CSR dimensions beyond the economic domain. From the analysis, variables whose loadings were less than .37 were omitted. This resulted in five responsibility factors which were labelled in following order: "environmentalism, legality, voluntarism, philanthropy and ethical responsibility". An analysis of variance was carried out to see if there were noteworthy discrepancies in each category or responsibility factor across certain organizational or demographic variables. It was ended across education, industry's type, gender, profession (non-traditional vs. executives) and age. It was deduced that on legal commitment, as compared to women executives, scores of male executives were higher but on other dimensions, similar orientations were shared. To legal aspects and regulations' observation, higher commitment was shown by who were thirty-five or older. On voluntarism and environmental dimensions, scores of those who had undergraduate degrees were lower as compared to graduate degree holders.

Great preference for ethical and voluntarism dimensions was shown by the service sector as compared to those who were in manufacturing department. CSR is not well-established, as indicated by countries and it has also been shown that great focus is on philanthropic and charitable acts. Both non-traditional students and executives in Saudi Arabia have great CSR's understanding which goes beyond charitable involvement. In business conduct, towards better incorporation, this development is a step forward. Business conduct is an objective which is pursued by the government. Public-policy makers must give severe consideration towards two caveats. First one is that CSR is considered as an intentional and voluntary doing by the participants. Study by Tamkeen underscored the second point that it is believed by corporations and public at large that government duties have an integral part known as social responsibility. With the quest of government, the first point doesn't fit to make a normal routine of CSR a private core business. Social responsibility is viewed as an obligation by Islamic teaching. It is instructed to believers by Quran to "spend out of the whereof He made you heirs," and "in their wealth there is a due share for the beggar and the deprived"

### 4.1 Discussion

In developing countries and the Arab world, most of the research on CSR is conducted. A formidable challenge is in the second point which needs effort on government's behalf so that a public debate can be directed towards admitting and accepting that for building a healthy society and business growth, corporations are essential besides the fact that they have a social responsibility (Visser, 2014). While giving motivation to the private sector for accepting that CSR is a part of good practice and it is an obligation, this might not be consistent with the free market economy's practice as it is a perception in the West. Corporation shouldn't be forced by the states in capitalism to engage in those acts which are other than the market dictated acts. It is assumed that reasonable returns on capitals of stakeholders will be generated by corporations. Many business

people have been exposed in the kingdom for a long time to capitalism's code either via their abroad studies or Western businessmen. It may be difficult to change their orientations. It has been shown by the results that focus of business graduates and people in the kingdom business is mainly on getting highest financial return to stakeholders and also on profit maximization. Belief of these participants is on those economic goals which maximize the profit and not getting detracted from economic activities by giving solutions of social issues which are not CSR's part. This shows that Saudi participants distinguish between nonmarket factors and market factors although they have broad perspective of CSR and they also think that there should be distinct treatment with each group. This thinking is common in the West. A powerful argument was made by Shehadi and Jamjoom (2014) that "the only social responsibility of business is to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game." Later in 1970, it was argued by him that social responsibility's doctrine "involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses." (Gustafson, 2002).

It was supposed by Friedman that companies don't have social accountabilities, only people have. Overt disregard of Friedman towards CSR has been dismissed as impractical and illogical in both business and academia in West. It has been argued by Walter E. Hoadley who is Bank of America's previous executive vice president that distinction between noneconomic forces and economic forces isn't clear in the global economy: to the non-economic forces' influences such as psychological, ethical, social, technological and political, more recognition will be given which forces in moulding future. The difference among non-economic and economic can't be fixed. Frequently some amalgamation happens but more focus will be placed on human life's emotional elements by the public interest. It may be costly not to recognize this change and it may also produce disruptive social unrest and more tensions will be invited. It was believed by participants that in society, corporations play their role and to get engaged in charitable activities, strictly following ethical guidelines and government rules and protecting the environment are their social duties. Getting engaged in social responsibility is considered as a voluntary activity especially by those who have graduate degrees, work in service sector or are non-traditional students. Voluntarism suggests that it should be on corporations that what they have to do and when and how to get involved in social problems. This doesn't denote planned acts rather it represents randomness therefore for a purposeful tradition in pursuing and CSR's execution in corporate affairs, it is impossible to set the groundwork. Hussein A. Al-Athel, secretary-general of the Riyadh Chamber of Commerce and Industry, recently articulated this point and he stated that transformation of CSR to an institutionalized practice from voluntary efforts is imperative. CSR's arena is narrowed by volunteerism and it a thinking is also reinforced by it that CSR is a government business primarily. As a result, up to the level which is expected by the government, CSR programs might not reach. In order for the kingdom to effectively talk about the primary challenges (for growing number of graduates, offering jobs, attaining economic diversity and maintenance of stability and social cohesiveness), a change in usual thinking about CSR has to take place. These challenges link with CSR collectively or individually and they can't be given to government for tackling them all alone. Private sector's active management is required by them. For the last 3 decades, the first 2 challenges have topped the government's priorities still development has not been able to meet the expectations. In state of CSR in the kingdom, Tamkeen conducted a comprehensive study and found "absence, among the majority of companies, of strategy or structured processes for identifying, prioritizing and managing for CSR."

When the report was issued by Oxford Business Group, in 2012 in Saudi Arabia, it was revealed that the spending initiatives of Saudi Arabia are expected to produce short term as well as solid growth. However, in the long run, these achievements can be regarded quite difficult to be sustained without any fruitful and effective partnership between the private sector and the government (McWilliams et al., 2006). Indeed, this has emerged to be the most pressure issue since there has been remarkable progress in oil related and petrochemical industries companies by increasing Saudis graduate from universities and colleges each year at abroad and home.

## 5. Conclusion

To sum up in a nutshell, it can be concluded that this study's results that the broad understanding of CSR is possessed by the Saudi participants. Participants as well as their corporations, consistent with general expectations, seemed to be committed to meet the rules and regulations of the government. By manifesting the government regulations' strictness, a high degree of receptiveness and attentiveness is disclosed by the results. And it also highlighted the CR issues related to government's rules and regulations. Furthermore, the fact is underscored by the study that participants appeared not to limit their own CSR focus to philanthropic and charity activities. The consideration of legal, environmental ethical and economic responsibilities, in particular, represented a qualitative shift where the CSR's necessity and centrality can appear to be the most effective and useful a guiding principle. However, participants, while focusing the principle of emphasizing economic priorities and profit maximization in their affairs' context, demonstrated that exposure to teachings in the business schools of west and the free-market economy's practices has a great impact upon business priorities and Saudi thinking. Certainly, the results of this study refuted general assumptions that executive managers in Saudi Arabia in particular and region in general primarily focus on CSR's charitable aspects. Moreover, the results revealed that that CSR's concept is dependent of social and political developments. A powerful incentive is served by this linkage for corporations to collaborate with other cooperation and the government for meeting social challenges by advancing economic prosperity and growth.

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