Empirical Study on Corporate Social Responsibility in United Arab Emirates.

Isam Syed Arshad, Talha Muhammad, Ahmad Yahia Mustafa Al Astal

Graduate School of Management, Kulliyyah of Economics and Management Sciences, International Islamic University Malaysia.

Abstract- The concern about the corporate social responsibility activities which the organizations provide to their society and stakeholders increased as one reason for living in the era of globalization (Chapple & Moon, 2005). The study attempts to provide empirical evidence on the influence of the 2008 financial crisis on the disclosure about CSR among local banks in the United Arab Emirates. It also attempts to investigate the extent of CSR disclosure on these banks. For that reason, the study examined the annual reports of the local banks which work in the UAE in three different years. These years are 2007, 2009 and 2011. Additionally, this paper investigated the factors which influence the extent of CSR disclosure, namely; the number of the board of directors, the size of the bank, leverage ratio and profit of the bank (profitability ratio). Moreover, the study formulated four null hypothesis based on two theories namely stakeholder theory and legitimacy theory. The findings reveal that, the extent of CSR disclosure increased after the financial crisis. In terms of the factors which influence the extent of CSR disclosure. On the other hand, the multiple regression analysis indicates that the size of the bank, the board of directors and profit of the bank are positively associated with the CSR disclosure, while for the leverage ratio negatively associate with CSR disclosure.

Index Terms- (CSR) Corporate Social Responsibility, (UAE) United Arab Emirates

I. INTRODUCTION

In 2008 the economy in the world influenced by the financial crisis which affected the financial institutions around the world, (Ivashina & Scharfstein, 2010). Moreover, the financial crisis in 2008 affected the financial institutions which collapsed and the global credit market began freezing during that time so the governments intervened to keep the right of the people (Erkens, Hung, & Matos, 2012).

According to (Yelkikalan & Can, 2012), the financial crisis has affected the implementation of corporate social responsibility activities as well as the disclosure about it, which the organization increased the CSR practices to show their customers that they were not affected by the financial crisis, and other organization decreased their CSR practices because they were affected by the crisis. As the organizations were affected by the financial crisis, they might have increased or decreased the extent of their CSR activities as well as their disclosure about it.

According to the previous studies such as (Mashal, 2012), (Erkens et al., 2012), (Brach & Loewe, 2010), (Zaki, Bah, & Rao, 2012) and (Woertz, 2008) which considered that the UAE was influenced by the 2008 financial crisis.

According to the UAE’s Corporate Governance Code for Small and Medium Enterprises, the organizations should recognize the needs of stakeholders when the code mentioned clearly that “Stakeholders are understood to mean employees, customers, suppliers, creditors, regulators, the community, the environment, and generally any party enjoying relations with the enterprise. It is important that a company views itself as an integral part of the community in which it operates and is committed to a sound relationship built on respect, trust, honesty and fairness. There is increasing recognition that, managing stakeholder relations and issues can have business benefits. A company’s greater understanding of employee attitudes, customer perspectives and impacts on communities can not only reduce risks but also be a way of identifying value enhancing opportunities for the future. Companies should formulate policies outlining their values and objectives in relation to areas such as customer satisfaction, product safety, employee relations, health and safety, the environment and the community in which the company operates. Targets relating to the management of stakeholder relations should be set and progress against the targets monitored and measured. Companies should identify appropriate key performance indicators relating to their key policies, set targets and monitor the progress made against these targets.”

All these requirements of the code are to encourage the organization to disclose their social activities as well as to save the environment and to protect it from harming activities.

For the previous reasons, the current study of UAE examines the extent of CSR disclosure, as well as to examine the influence that the 2008 financial crisis might have on the extent of that disclosure.

II. LITERATURE REVIEW

A. What is corporate social responsibility?

The corporate social responsibility has more than one definition in the literature, it’s a multidimensional phase (De Bakker, Groenewegen, & Den Hond, 2005) but the common definition was given by (Carroll, 1979) who defined CSR as “ the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organizations at a given point of time”. This definition gave an overview that the organizations have four social responsibilities which they provide them to their society as well as to their stakeholders, these responsibilities are:

www.ijsrp.org
Economic responsibility: The economic responsibility of the organization is to produce goods and services which benefit the whole society, which includes what the society needs from the organization products and goods.

Legal responsibility: The legal responsibility of the organization indicates that the organizations have the duty to perform their economic transactions on legal way under the governing law without doing illegal things.

Ethical responsibility: The ethical responsibility of the organization means what the society expects from the organization which benefits the whole society and to avoid harmful thing which affects the society as all such as avoiding the damage of the environment, serving the community. Moreover, the organization is required to do right things such as respecting the human rights.

Discretionary responsibility: Discretionary responsibility includes the voluntary duties of the organization which means doing the good things to the society and serving the community outside the organization such as philanthropy or humanitarian (Galbreath, 2010).

B. Why CSR disclosure?
The disclosure about CSR will bring many benefits to the organizations which disclose it. These benefits are:

• The image and the reputations of the organization will improve, and this helps the organization with the competitive environment by providing it more advantages to face these competitions due to the idea that, each organization that has a good reputation the people will have a good idea about the organization and this is considered as one type of motivation to the organization (A. Hassan & Harahap, 2010).

• The relationship between the organizations and their employees will improve, this relationship encourages the employees to have a loyalty to their organizations, and this is because giving the employee the justice which they need in their work (Galbreath, 2010).

• Increases the relationship with the local society by providing the activities that benefit the organization community such as, supporting of public health, serving the community. (Patten & Mashat, 2009)

• Improvement of organization financial performance (Oeyono, Samy, & Bampton, 2011) (Arendt & Brettel, 2010). According to (Arendt & Brettel, 2010) when the organizations disclose their CSR activities their reputation will increase among the people, in this way the competitive advantages also will increase, by this process all the performance of the organization will increase.

• Improves the relationship with the organization stakeholders (Cheng & Ahmad, 2010) as well as providing a clear information about the beliefs and the position of the organization. Besides, decreases ambiguity in the mind of investors and stakeholders on long term risks and actions, the idea behind this is when the organizations disclose their CSR activities which are considered as a voluntary disclosure, this means that the organizations generate their profit and don’t have big problems in their work (A. Hassan & Harahap, 2010).

• Improvement of the customer loyalty to the organization (Galbreath, 2010).

• The image of the organization will improve, so by this improvement the amount of sales will increase (Gallego, 2005).

• Enhances the interaction between the organizations and their suppliers and their customers as well, and this will reduce the operating cost as well as the amount of sales will increase. (Gallego, 2005).

C. Corporate social responsibility disclosure in developed Countries?
There were a lot of studies conducted in developed countries to investigate the disclosure of CSR activities, (Arendt & Brettel, 2010) conducted their study in European multi – industry companies with a sample of 389 companies, the purpose of the study is to look on the effects of corporate social responsibility practices on the image, identity, and the firm’s performance. The study concludes that the activities of CSR could provide benefits to the organizations such as the image and the firm’s performance and that depends on the company size and the marketing budget of the company.

In Spain (Gallego, 2005) did his empirical study to investigate corporate social responsibility information among certain Spain firms between the year 2001-2002, and the study focused on the information that disclosed corporate social responsibility which complies with the Global Reporting Initiative (GRI) framework. The study showed increase and improvement of the type of the information on corporate social responsibilities among Spanish firms in the recent years.

For the purpose of investigating whether if the national cultures have an influence on the level of the corporate social responsibility disclosure, (Orij, 2010) conducted his study among 600 large industrial corporations in 22 countries both developed and developing countries. The study showed that the influences of national culture are significant on the information disclosed on corporate social responsibility among the 22 countries.

D. Corporate social responsibility practices in UAE?
(Jahamani, 2003) in his study about green accounting in developing countries conclude that UAE firm's decision makers were aware of the issue of the green accounting which concentrates on the issues of environment in the three aspects which are; environmental awareness, environmental reporting and environmental involvement.

To investigate the issues of social accounting and reporting (Kamla, 2007) conducted her study among nine of the Arab Middle East countries, which are Kuwait, Qatar, United Arab Emirates, Saudi Arabia, Oman, Bahrain, Jordan, Egypt and Syria. The study used content analysis method to examine the result. The data of the study were 68 annual reports of companies.
which worked in nine Arab Middle East countries. The study also looked on three dimensions about the social accounting namely; environmental dimension, economic dimension, disclosure about general social issues dimension and social characteristic of the reports dimension. The study concluded that, the disclosure about employee issues were the common among Arab Middle East countries as well as the community disclosure and customer related issues disclosure while the disclosure about the environment got the lowest level disclosure compared to economic and social.

- (Rettab et al., 2009) investigated the relationship between the disclosure about corporate social responsibility and the organization’s performance among 280 organizations from different sectors which worked in Dubai by using the survey method. The study measured the firm’s performance by looking on three dimensions namely; financial performance, employee commitment and corporate reputation. The study concluded that, there is a positive relationship between the disclosure about corporate social responsibilities and firm’s performance.

- (Hossain & Hammami, 2009) conducted his study in order to examine the voluntary disclosure of the one of the emerging countries namely Qatar, the authors developed a list of 44 items which the organization disclose in a voluntary basis and one of them is a disclosure about corporate social responsibility. The study used multiple regression analysis method for analysing the data. The sample of the study was 42 annual reports of the companies listed on the Qatar Security Market at the end of 2007. The study concludes that the size of the company, age, assets and complexity have been the main variables that encourage the companies to disclose about voluntary disclosure.

- To examine the disclosure about corporate social responsibility in UAE as one of the Islamic countries with multinational companies that came from all over the world such as Shall, DHL, Intel as well as is the one of the developing countries (Katsioloudes & Brodtkorb, 2007) did their study by surveying 403 companies with a questionnaire of 12 questions about the awareness of these companies on the issue of corporate social responsibility as well as the authors concentrated on 4 dimensions about CSR, these are environmental issues, consumer protection and community affairs. The study concluded that, the UAE companies are aware of the issue of CSR and the importance of disclosing it as well as the firms which work in the UAE has the same understanding the concept of CSR that generated from America and Europe.

III. DISCUSSION

One reason behind the difference of the disclosure about CSR in local banks in UAE may because the influence of the 2008 financial crisis in the UAE, according to previous study such as (Mashal, 2012) (Ellaboudy, 2010), the financial crisis affected UAE.

For the disclosure in 2011, the results indicated that, the maximum level of disclosure in 2011 on a scale of 0-1 was 0.88, however, the minimum level of the disclosure was 0.31, as well as the average level of disclosure was 0.58. Moreover, we can see that the disclosure was increased after the crisis to become 0.58 in 2011 which was in 2008, 0.53.

The second way which the current study used to examine CSR disclosure is by having four hypotheses to investigate the relationship between the four independent variables (size, profitability, leverage and number of the board of directors) and the disclosure about CSR.

Hypothesis of one of the current study examined whether there is no significant relationship between the disclosure on CSR and the size of the organization. From the previous literature review the current study expected that, there is a positive relationship between the disclosure about CSR and the size of the organization. Furthermore, the findings about the effect of the size of the bank generate that, the size of the organization has a relationship with the disclosure about CSR.

For the second hypothesis which examined whether there is no significant relationship between the disclosure about CSR and the profit of the organization. The current study used the return on equity ratio “net income / shareholders equity” as a proxy to measure the profit of the bank. The result indicated that, there is a significant positive relationship between the profit of the organization and the CSR disclosure. Moreover, the findings about the effect of the profit of the bank generate show that, the profit of the bank has a relationship with the disclosure about CSR, as well as influenced the disclosure about CSR.

For the third hypothesis which examined whether there is no significant relationship between the disclosure about CSR and the number of the board of directors. The result indicated that, there is a positive relationship between the number of the board of directors of the bank and the CSR disclosure. Moreover, the finding about the effect of the number of the board of directors of the bank generates that, the number of the board of directors has a relationship with the disclosure about CSR, as well as has an impact on the disclosure.

For the last hypothesis of the current study, which examined whether there is no significant relationship between the disclosure about CSR and leverage ratio of the organization? The current study used the debt ratio “total debt to total assets” as a proxy to measure the leverage ratio of the bank. The result indicated that, there is a significant negative relationship between the disclosure and the leverage ratio.

Furthermore, the results show that, there is a fluctuating of the disclosure about CSR between three years 2007, 2009 and 2011 and this might have happened because of the financial crisis which affected the world in 2008 as well as affected UAE. And this is another answer of the research question number 2 which showed that the extent about CSR disclosure has been changed after the financial crisis.

Moreover, most prior studies which conducted to examine the extent of CSR disclosure provide evidence based on one year data such as (Menassa, 2010) (Pratten & Mashat, 2009) (Kotonen, 2009) (Siregar & Bachtiar, 2010) (Ghazali, 2007), or two years data such as (Oeyono et al., 2011) (Saleh et al., 2010)
(Kuasirikun & Sherer, 2004). Hence the current study contributes to the literature of CSR disclosure by examining three years data (2007, 2009 and 2011) to investigate the factors which affect the extent of CSR disclosure in annual reports of UAE local banks. At the same time, the current study focused on the one of the developing countries as well as the implementation and the extent of CSR disclosure in UAE. At the same time, it may give an idea or an overview about CSR disclosure in the same regime – Gulf state countries such as Kuwait, Yemen.

IV. CONCLUSION

To conclude, this study was conducted to examine the extent of the CSR disclosure among local banks in UAE. The study examined four hypotheses which showed the relationship between the disclosure about CSR and four variables, these variables are; the size of the organization, profit of the organization, the number of the board of directors and the leverage ratio. Moreover, the study examined if the 2008 financial crisis has affected the disclosure on CRS or not. The findings of this study are consistent with the previous studies conducted to examine the disclosure on CSR. The results of the study showed that, there no significant relationship between the disclosure about CSR and the size of the organization, the number of the board of directors and the leverage ratio, while for the profitability ratio there is a significant relationship between it and CSR disclosure. For the effect of the financial crisis on the CSR disclosure, the study showed that there is an effect of the financial crisis, before the financial crisis which in the year 2007, the results showed the disclosure about CSR on a scale of 0-1 is 0.67, while in 2009 after one year of the crisis the study showed that the disclosure was decreased to become 0.54, however the disclosure increased to become 0.60 in 2011.

REFERENCES


AUTHORS

First Author – Isam Syed Arshad. Master of Management, Graduate School of Management, Kulliyyah of Economics and
Management Sciences, International Islamic University
Malaysia. isamarshad@gmail.com.

Second Author – Talha Muhammad. Master of Management,
Graduate School of Management, Kulliyyah of Economics and
Management Sciences, International Islamic University
Malaysia. talhalhr2000@yahoo.com.

Third Author - Ahmad Yahia Mustafa Al Astal,
Master of Science (Accounting), Kulliyyah of Economics and
Management Sciences, International Islamic University
Malaysia. alastalahmad@hotmail.com.