



EMPIRICAL STUDY ON CORPORATE SOCIAL
RESPONSIBILITY IN UNITED ARAB EMIRATES

BY

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A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)

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MAY 2014

ABSTRACT

Recently the concern about the corporate social responsibility activities which the organizations provide to their society and stakeholders increased as a result of the globalization syndrome (Chapple & Moon, 2005). This study attempts to provide empirical evidence on the influence of the recent financial crisis on the disclosure of CSR among local banks in the United Arab Emirates. It also attempts to investigate the extent of CSR disclosure by these banks. Therefore, the study examined the annual reports of the local banks in the UAE for three different years. These years are 2007, 2009 and 2011. In addition, this study investigated the factors which influence the extent of CSR disclosure under three different categories which are, corporate governance factors (independent non-executive directors, the number of the board of directors), ownership structure factors (ownership concentration and government ownership), and the bank characteristics variables as control variables (size of the bank, profitability and leverage ratio). Furthermore, the study formulated eight null hypotheses based on four theories which are agency theory, signalling theory, legitimacy theory and proprietary cost theory. The annual reports were used for this study. Analysis of the collected data was done by conducting t-test and multiple-regression using SPSS version 20. The t-test was used to examine the extent of CSR before and after the financial crisis while the multiples-regression revealed the relationship between the dependent variable and independent variables.

ملخص البحث

في الآونة الأخيرة كان من الملاحظ زيادة الاهتمام بالمسؤولية الاجتماعية للشركات كنتيجة من نتائج العولمة (شابيل ومون 2005). ان هذه الدراسة تحاول تقديم الأدلة التجريبية على مدى تأثير الأزمة المالية الأخيرة على مدى الإفصاح عن المسؤولية الاجتماعية من قبل البنوك المحلية في دولة الإمارات العربية المتحدة . وكذلك تحاول الدراسة استكشاف مدى الإفصاح عن المسؤولية الاجتماعية في التقارير السنوية لهذه البنوك على مدار ثلاث سنوات مختلفة 2007 , 2009 و 2011. قامت الدراسة بفحص العوامل التي تؤثر على الإفصاح عن المسؤولية الاجتماعية في هذه البنوك. هذا العوامل هي عدد المدراء المستقلين غير التنفيذيين في مجلس الإدارة, عدد اعضاء مجلس الادارة, تركيز الملكية, ملكية الحكومة, حجم البنك, ربحية البنك و نسبة الرافعة المالية. الدراسة افترضت 8 فرضيات بنيت على اساس اربع نظريات وهي نظرية الشرعية, نظرية الوكالة, نظرية تكاليف الملكية ونظرية الاشارة. دلت نتائج الدراسة على زيادة في نسبة الإفصاح عن المسؤولية الاجتماعية للبنوك بعد الأزمة المالية الأخيرة وعلى سياق العوامل التي تؤثر على الإفصاح وجدت الدراسة ان عدد اعضاء مجلس الادارة, تركيز الملكية, ملكية الحكومة, حجم البنك, ربحية البنك و نسبة الرافعة المالية لهم تأثير ايجابي على مدى الافصاح عن المسؤولية الاجتماعية في هذه البنوك, ولكن بالنسبة لعدد المدراء المستقلين غير التنفيذيين في مجلس الادارة هنالك علاقة كبيرة بينها وبين الافصاح عن المسؤولية الاجتماعية.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degree at IIUM or other institutions.

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This work is dedicated to the soul of my mother Fatima Taher Al Astal, my father Yahia Mustafa Al Astal, my brothers, Mustafa , Mothaz , Mutasem , Montaser, Mohammad and to my sisters S'hyr, Soha and Sa'id'h, and their families. And to the stepmother Azyza Al Mohtaseb, And to the Mujahideen who sacrifice in their wealth and themselves in the way of Allah. For them all, I dedicate this work.

ACKNOWLEDGEMENTS

In the name of Allah most gracious and most merciful who said in the holy Quran “ Say: ‘truly, my prayer and my service of sacrifice, my life and my death, are (all) for God, the Cherisher of the Worlds:’” Al-An’am 162-6 . And prayer by upon the prophet Mohamed (peace be upon him), his family, his companions, and his followers until the Day of Judgment.

Like any other work, writing an academic dissertation like this requires the help of many people who deserve my paramount and sincere gratitude. As far as this dissertation is concerned, one person surfaces above all, my supervisor Associate Prof. Dr. Nazli Anum Mohd Ghazali who absolutely advised and helped me into the finishing line. Dr. Nazli Anum generously invested her time in my thesis. She also never said No to revise, comment, and reconstructs my work. Thank you for everything you have done to me specially “opening doors of knowledge in research” to me. I would forever be grateful for your efforts and guidance.

I would also like to thank the examiners, Dr. Nor Hafizah Abidin and Dr. Hairul Azlan Annuar, as well as to the members of the committee who commented my thesis deeply. I furthermore extend my appreciation to all the lectures in the Department of Accounting who directly and indirectly helped me during my study and also for their teaching on recent matters in accounting research.

I owe so much support to my fellow friends and classmates who without their support, the study would be difficult to materialize. I don’t know if I can say thanks enough for what my friends did to me. I hope one day I will be able to repay their invaluable suggestions and direct inputs in my work.

Last but not least, I extend special thanks to my family, especially my father who significantly motivates me to become who I am today. He waited and prayed for so long and had to adjust my absence even when he needed me the most. I genuinely love you and appreciate your prayers, support and love. I don’t not know if I can forever repay your support. As well as I couldn’t forget the support and love which came to me from my brothers, Mustafa, Mothaz, Mutasem, Montaser, Mohammad and my sisters S’hyr, Soha and Sa’id’h, and their families and to the stepmother Azyza Al Mohtaseb who stand behind me and showed their love and support which without them I couldn’t come this far.

I appreciate all your support, guidance, and love. May our Lord help us all through the right path.

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LIST OF ABBREVIATIONS

UAE	United Arab Emirates
CSR	Corporate Social Responsibility
VIF	Variance Inflation Factor
SPSS	Statistical Packages for Social Science

CHAPTER ONE

INTRODUCTION

The world economy in 2008 was greatly influenced by the financial crisis which also had adverse effects on the financial institutions. The crisis was responsible for the failures of some of the institution such as Lehman Brothers and Washington Mutual. According to (Ivashina & Scharfstein, 2010). The failures were caused due to lack of sufficient liquidity in these institutions. So also, the global credit market has been freezing during that time so the governments intervened to keep the right of the people (Erkens, Hung, & Matos, 2012).

According to Yelkikalan and Can (2012), the financial crisis affected the implementation of corporate social responsibility activities (CSR) as well as its disclosure and hence the organizations decreased their CSR practices because they were affected by the crisis and they didn't have enough resources to spend on CSR activities.

Therefore, this study attempts to provide empirical evidence on the influence of the financial crisis on the disclosure of CSR. The focus of this study will be on the local banks in United Arab Emirates (UAE) by examining three data sets; 2007 which was before the financial crisis, 2009 which was the year after the financial crisis and 2011 which was chosen to examine the extent of CSR disclosure in it.

This chapter is structured in following way. Section 1.1 provides the general background of the study, while section 1.2 discusses the research problem statement. Moreover, section 1.3 discusses the purpose of the study, and section 1.4 provides the research questions. As well as, section 1.5 discusses the research objectives. At the

same time section 1.6 presents the contributions of the study. Section 1.7 explains why UAE is of particular interest to the study. Lastly, section 1.8 presents the structure of the study.

1.1 BACKGROUND

The world is currently in the era of globalization which encourages the organizations to provide and adopt corporate social responsibility practices to their stakeholders and their hosting societies (Chapple & Moon, 2005). Moreover, organizations disclose their information about CSR in order to gain a lot of benefits which include; (i) to foster the relationship between the organizations and their stakeholders such as employee, the society and the community in general and (ii) to save the environment in which they operate.

Furthermore, this information about social responsibility of the organization is considered as voluntary information that the organizations disclose in their annual reports. In other words, organizations are at liberty to decide whether to disclose this information in their annual reports.

The CSR disclosure is defined as “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (World Business Council for Sustainable Development " 1999).

The above definition gives an overview about CSR activities of the organization that these activities are at first considered as ethical activities which are consistent with the government laws for protecting the environment. Second, is to improve the economics of the country as well, by engaging in the activities of serving the community and society which is considered a social responsibility of the

organization. This helps in improving the employees' life in particular and the society in general.

Nevertheless, the recent financial crisis had affected the financial sector and the whole economy of UAE (Mashal, 2012; Erkens et al, 2012; Brach and Loewe, 2010; Zaki et al, 2012, and Woertz, 2008). Moreover , there are a few studies conducted to examine the relationship between the financial crisis and CSR disclosure Giannarakis and Theotokas (2011) . Therefore, this study makes bold attempt to determine the extent of CSR disclosure in UAE as well as to examine the influence of the financial crisis among the local banks in UAE after the crisis.

1.2 PROBLEM STATEMENT

This study intends to investigate some issues that are related directly to the issue of CSR disclosure and to explore whether the financial crisis which started in 2008 which affected the disclosure on CSR or not.

Firstly, the intention of the study is to examine the extent of CSR disclosure in UAE. Furthermore, the code of corporate governance in UAE encourages the organization to disclose about their social activities as well as to save the environment and to protect it from harmful activities. Hence, the current study needs to investigate the influence of the code on the extent of CSR disclosure by examines its extent among local banks in UAE.

According to the ("United Arab Emirates Code of Corporate Governance," 2010) organizations should recognize the needs of stakeholders and the code mentioned clearly that "Stakeholders are understood to mean employees, customers, suppliers, creditors, regulators, the community, the environment, and any party enjoying relations with the organizations. 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 bring 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. Therefore, policies should be formulated governing the company's relationship with its stakeholders. Companies should formulate policies outlining their values and objectives in relation to areas such as customer satisfaction, product safety, employee relations, health and safety of the environment and the community in which the company operates. Companies should set targets relating to the management of stakeholder relations and progress of the targets should be monitored and measured. Also, companies should identify appropriate key performance indicators relating to their key policies, set targets and monitor the progress made against these targets.

Secondly, there is lack of studies on CSR disclosure which are specifically on UAE, and there is no previous study which looks empirically into the issue of CSR disclosure and the factors which may affect the CSR disclosure.

Third, this study looks at the effect of the financial crisis on the CSR disclosure in UAE. The recent financial crisis started in 2008 which affected the economies of countries around the world as well as the Arab countries especially the UAE. Moreover, that financial crisis affected UAE economy, according to previous studies such as Mashal (2012), Erkens et al. (2012), Brach and Loewe (2010), Zaki, Bah, and Rao (2012) and Woertz (2008) conclude that, UAE economy was influenced by the recent financial crisis.

In addition, this study looks at the gap between developed countries and the developing countries in the area of the researches on CSR. According to previous studies such as (Tsamenyi, Enninful-Adu, and Onumah (2007); Pratten and Mashat (2009); and Belal (2001)) the majority of the studies on CSR were conducted in the developed countries such as Western Europe, the U.S.A and Australia rather than developing countries. Moreover, there is a small number of existing studies on the developing countries like the UAE. Those studies that were conducted on the developing countries concentrated on industrialized countries such as Singapore and there is a few studies carried out on African countries such as Nigeria (Belal, 2001).

According to Luken (2006) there are few studies on CSR and sustainable development which were conducted in the context of developing countries, Belal (2001) highlighted that there is a need for research on CSR disclosure on developing countries to explore the practice of CSR in these countries. Jones (1999) concluded that national, social culture, the level of national economic development and the environment are the important factors that influence CSR practices and understanding. Dobers and Halme (2009) claim that, the gap between developed countries and developing countries in the area of CSR relates to two things, which are social provision and governance. This means that, there are few institutions which are providing social goods in developing countries than developed countries, and the level of support from the governments in developing countries to CSR is little compared to the developed countries.

This study focuses on three years of the disclosure about CSR in the annual reports provided by the local banks in UAE. These years are the following; first, 2007 which is considered as one year before the financial crisis which happened on 2008. The second year is 2009 which is considered as one year after the crisis, the focus on

this year is to see whether is the financial crisis affected the disclosure immediately or not. The last year is 2011 which the study assumed as a year of improvement of CSR disclosure after the financial crisis, and hence, investigates the extent in this year.

As a summary of problem statements of the current study

- 1) The code of corporate governance in UAE encourages the organization to disclose their social activities as well as to save the environment and to protect it from harmful activities. So this study is conducted to examine the extent of CSR disclosure among local banks in UAE.
- 2) There is a lack of empirical studies which was conducted on UAE about the issue of CSR disclosure. According to Tsamenyi et al. (2007); Pratten and Mashat (2009); and Belal (2001) there is lack of empirical studies on the extent of CSR disclosure in developing countries and UAE one of them.
- 3) According to Mashal (2012) his study was conducted to investigate the influence of the financial crisis of 2008 on the Arabic countries as well as UAE, the study classified the economy of UAE as economy with open financial system and trade, the relation with the international market is highly exposed, and close relation to the global markets of commodities in particular gas, petrochemical, and oil markets as well as a close relation with the global financial system. The study concludes that, the UAE economy was affected by the financial crisis due to their link with the global financial markets and an open trade system with global countries. Furthermore , Erkens et al. (2012), Brach and Loewe (2010), Zaki et al. (2012) and Woertz (2008) believed that the financial crisis really affected

UAE economic activities. Therefore, this study attempts to investigate the influence of financial crisis on CSR disclosure among local bank in UAE.

1.3 PURPOSE OF THE STUDY

The purpose of this study is to examine the extent of CSR disclosure among the local banks in the UAE for three years 2007, 2009 and 2011. At the same time is to investigate the factors which may affect the disclosure of CSR or the factors that encourage the organizations to disclose their CSR practices such as, the size of the bank, the profit of the bank, the number of the board and the leverage ratio. This study has seven factors which the researcher needs to examine the relationships between them and the CSR disclosure; these factors are corporate governance factors (independent non-executive directors and the number of the board of directors), ownership structure factors (ownership concentration and government ownership), and bank characteristic factors (the size of the bank, profitability and leverage ratio). The study used these factors because these factors are considered as important factors in each bank which may influence the disclosure of CSR. However, on the disclosure information this research investigates five types of CSR disclosure activities which are social responsibility of the bank, community responsibility of the bank, employee responsibility of the bank, environmental responsibility of the bank and the product responsibility of the bank.

This study aims to:

1. To examine the extent of CSR disclosure among the local banks in the United Arab Emirates (UAE) during three years which are 2007, 2009 and 2011.

2. To investigate the effect of the financial crisis on the CSR disclosure among local banks in UAE.
3. To investigate the factors that enhances the banks in UAE to provide the CSR disclosure.

In order to investigate the extent of the CSR disclosure, this study looks into five indicators of CSR disclosure. These indicators are social responsibility disclosure, community relations disclosure, employee disclosure, environmental disclosure and product and consumer disclosure.

1.4 RESEARCH QUESTIONS

From the research objective the researcher comes with the following research questions:

- Q1:** What is the extent of CSR disclosure in the annual reports of the local banks in the UAE in 2007, 2009 and 2011?
- Q2:** Is there a significant difference in the extent of CSR disclosure in the annual reports before and after the financial crisis?
- Q3:** What are the factors that influence the extent of CSR disclosure among the local banks in the UAE?

1.5 RESEARCH OBJECTIVES

The main objective of the study is to investigate the extent of CSR disclosure among the local banks in UAE. The study also examines the influence of recent financial crisis on the extent of CSR disclosure among these banks. In addition, it investigates the factors which may affect the disclosure of CSR such as; independent non-

executive directors, the number of the board, ownership concentration, government ownership, the size of the bank, profitability and the leverage. In order to achieve these objectives, the study analyses the annual reports of these banks in three different times before and after the crisis (2007, 2009, and 2011) which started in 2008 (Shafique et al, 2008 and Giannarakis & Theotokas, 2011).

The objectives of this research work are as follows:

RO 1: To measure the extent of CSR disclosure among the local banks in UAE.

RO 2: To examine the influence of recent financial crisis on the extent of CSR disclosure among local banks in UAE.

RO 3: To determine factors that may influence the extent of CSR disclosure of UAE local banks.

1.6 CONTRIBUTIONS OF THE STUDY

The first contribution of this study is that, it investigates the CSR practices after the financial crisis. The study also examines the annual reports of UAE local banks before and after the recent financial crisis to find out its influence or the impact on CSR practices. No prior study examined the extent of CSR disclosure before and after the financial crisis in UAE. And the studies conducted to examine the influence of recent financial crisis on the extent of CSR disclosure are few (Giannarakis and Theotokas (2011). Therefore, the findings of the study would further provide empirical evidence on the influence of recent financial crisis on the extent of CSR disclosure among local banks in UAE.

Moreover, most prior studies conducted to examine the extent of CSR disclosure provide evidence based on one year data such as Menassa (2010), Pratten

and Mashat (2009), Kotonen (2009), Siregar and Bachtiar (2010) and Ghazali (2007) , or two years data such as (Oeyono et al, 2011; Saleh et al, 2010 and Kuasirkun & Sherer, 2004). Hence, this study contributes to the literature on 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. Moreover, to ensure the reliability of the results of the current study, the annual reports were read twice.

At the same time, the study focuses on one of the developing countries which may give an idea about the practices of CSR in these countries. Also, it may give an idea or an overview about CSR disclosure in the same regime – gulf state countries such as Kuwait and Yemen.

Moreover, this study focuses on one of the important issues during those years which directly influenced the organization's shareholders that are CSR disclosure. Moreover, this study also attempts to add the accounting literature information in one of the developing countries as well as the implementation and the extent of CSR disclosure in UAE.

In addition, it gives an idea or an overview about CSR disclosure in the same regime – gulf state countries such as Kuwait and Yemen. So also, the focus of this research is on one of the main category of the UAE organizations which is the financial sector especially the banking sector. This sector was the largest sector affected by the financial crisis (Zaki et al., 2012).

Local banks in UAE are chosen for the purpose of this study because UAE has an open economy and is considered as one of the largest exporters of oil and gas in the world (Katsioloudes & Brodtkorb, 2007). However, UAE was affected by the financial crisis which directly affected the economic sector (Mashal, 2012).