QATAR UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

CORPORATE GOVERNANCE EFFECTS ON THE EXTENT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE IN THE GCC BANKING SECTOR

BY

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ABSTRACT

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Title: Corporate Governance Effects on the Extent of Corporate Social Responsibility Disclosure in the GCC Banking Sector.

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This study seeks to investigate the association between corporate governance mechanisms, and the extent of corporate social responsibility disclosure. The sample includes the banking sector of the GCC countries (Qatar, KSA, Kuwait, Bahrain, Oman and UAE), during a three-year period (2013-2015). A disclosure index method is used to capture the corporate social responsibility disclosures (items) in the annual reports. In accordance with the prior studies, the current study has identified eight hypotheses to test this association through eight different variables, which are: The Audit Committee, the Board's Size, the Board's Independence, Ownership Concentration, Bank type (Islamic and non-Islamic), Bank size, profitability, and leverage. The population includes 63 listed banks, but the study excluded 22 banks to arrive at a sample that includes 41 listed banks, with a total 123 observations in the three years. The data have been extracted from the annual reports that are available on the websites of the banks. The results indicate a significant association between corporate social responsibility disclosure and two of the variables, which are government ownership and leverage. This study may have an important contribution to make to the previous literature, as few studies have focused on the banking sector especially in the GCC countries. Like any other study, this study has faced several limitations, such as the sample size, and all of the data was extracted from one source, which is made up of the annual reports, yet this study has important implications for both Corporate Governance regulators and stakeholders, and this is explained in more detail in the concluding chapter.

DEDICATION

I would like to dedicate my work to my family and my friends. To my late father who taught me how to be ambitious and work hard to make my dreams come true. To my mother, whose prayers are the main reason for my success. To my sweet children, Ali and Joud who have been my rock throughout this experience. To my beloved husband Liwaa, for being always beside me, and for his non-stopping support and encouragement.

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CHAPTER 1: INTRODUCTION

In the past few years, there has been increasing awareness among the global public of the function of organizations in society. Many organizations, which have been assigned with the responsibility of engaging in economic, and technology development, have been charged with causing problems in society, for instance, waste, resource reduction, pollution, problems related to product quality and safety, employees' rights and status. According to Makower's (1994) definition, corporate responsibility is all about doing the right thing and is the basis of the competitiveness of the organizations, their existence and their survival. He studies everything related to corporate social responsibility (CSR) by examining the beliefs, rules, guidelines, programs and practices that put social responsibility into the workplace in some of the world's most successful organizations. He also looks at which of these rules and practices work, and which do not work, and what should be done to make everything work, and how this can affect the organization. Makower (1994) also studies policies and suggests the best practices that the organization can use to apply these strategies in relation to other organizations. Moreover, he gives examples of what organizations can do, and are doing, in societal participation. Kilcullen and Kooistra (1999) also test studies that attempt to show a positive association and that try to prove that the corporate social responsibility and the profitability of the organization do not depend on each other.

1.1 Corporate Social Responsibility:

Corporate social responsibility (CSR) is presently a critical element of the discussion between organizations and their stakeholders, and it continues to obtain attention and to be at the top of companies' agendas (Bhattacharya *et al.,* (2008)). Corporate social responsibility, from Jamali's (2008) and Jamali *et al.*'s (2008) points of view, is involved with the organization's engagement in participating in sustainable improvement, the interests of stakeholders and the improvement of social environments.

Furthermore, while focusing on the benefits of stakeholders, Hopkins (2007) explains CSR as being:

> ''Interested with dealing with the organizations' stakeholders morally or in an accountable way" […..] 'morally or accountable' mean to treat stakeholders in a way considered adequate in cultured communities. Social contains the responsibility for both environment and economic. Both inside the organization and outside it, the stakeholders can be. The broader purpose of social responsibility is to generate better standards of living, and at the same time maintaining and protecting the profitability of the organization, for individuals both within and outside the organization'' (pp.15-16).

In the banking sector, regardless of the types of country and culture, the essential business of banks is almost identical, and this business includes, banks deposits, affording credit and supplying supportive services. The banks are required to be accountable for their clients in a social responsible way. CSR in the banking sectors will include the following components: risk calculation, actual and well-organized internal audit process with value added for the stakeholders. Hereafter, to ensure attractiveness in the market, and in order to be accountable to clients, bankers are required to realize the economics' conditions. They need to be aware of the situation of the economic, to try to concentrate more on the marketing planning with a reasonable system of risk management, to recognize the worries of clients, to apply reasonable action measures so

as to guard clients and the community as a whole. The banking industries reacted comparatively late to the challenges of CSR. At the first step, banks only considered the environmental topic, and then they started to consider the social issues (Viganò – Nicolai, 2009). CSR, as a tool of the business sector, assists growth, validates the performance of the economy of the industry, and looks as the implications of the essential values of business ethics (Scholtens, (2006)). In 2008, after the financial crisis, the banking sector started to pay more attention to the importance of, and the need for CSR, since after the crisis, the banks' need for trust was increased, as well as the need for transparency and accountability, and this all lead to CSR.

In the GCC, most organizations are family owned ones, which permit family standards to affect the way in which the businesses operate. These organizations usually consider the interests of stakeholders, but may not believe in calling it 'CSR'. This will have an impact on the present, and may be on the future, profile of CSR in the Gulf area. At present, most managers in the GCC countries think that the governments of their countries need to be more involved in directing organizations in order to build up their CSR practices. They believe the government should specify the extent to which organizations should emphasize their CSR practices and offer motivations in order to direct them along that track. For instance, governments could support corporate activities that they wish to boost, while taxing other activities that they want to discourage.

An example of CSR practices in the GCC: Al Tamimi (2013) conducted a study to investigate the CSR practices of the UAE banking sector. The main finding showed that the UAE's banks are alert to the notion of corporate social responsibility; they give more

importance to complying with compulsory social and environmental regulations, and less importance to the non-compulsory regulations. They consider the socially precise issues to be the most significant ones; the banks gather data about/from stakeholders, counsel those stakeholders, and contribute to multi-stakeholder enterprises. The banks participate positively in assisting community activities, for example, during donations and sponsorship; and the banks are not deeply engaged in problems of weather change; the banks guarantee equivalent entrée to their banking services for all women, regardless of their marital status, race, etc. The banks comply with the obligatory legislation that is associated with CSR; and, finally, the majority of the UAE's banks (90 percent) showed that it is vital for their banks to notify stakeholders about their corporate social responsibility practices.

1.2 Corporate Governance:

As Monks and Minow (2004, p. 1) mention in their study, because of organizational frauds and organizational failure, corporate governance is developing as a serious area of new management. In many of the previous clarifications of Corporate Governance (CG), CG is defined as a framework that is applied to protect and defend the interests and benefits of the investors. Shleifer and Vishny (1997) have described CG as the conduct by which debtors guarantee to generate higher return on their investments. La Porta *et al.* (2000) define CG as ''a group of techniques by which the investors from outside can save themselves from confiscation by managers and major shareholders.'' CG procedures are a mechanism an organization can authorize to help in reducing agency costs and to better place the benefits of boards and the providers of capital (Picou and Rubach, 2006).

Another definition, Wheeler (2002) defined corporate governance as mechanisms which should exist to make sure to provide the shareholders with accurate and valid information, so they can use this information to decide whether to continue their investment in the company, or not, and to enable them to maximize their interests. Yet, out of its clarity of corporate governance as ‘‘a group of associations between an organization’s management, its board of directors, its shareholders and other stakeholders’’, the OECD (2004) looks further away than the association between the directors and the investors into broader associations that include other stakeholders, not just the shareholders. The above definitions debate those who participate in the value chain of the organization in the background of corporate governance. Furthermore, the first two definitions consider corporate governance as means or instruments, while the third definition of CG is not like the first two definitions; it is concerned with the relationships between stakeholders, stressing the morals of care instead of justice.

When Mallin (2002) defined CG as ‘‘the practice of control over corporate entities and the practice of accountability for corporate entities’’, here, Mallin (2002) considers responsibility to be a part of the morals or care alongside the mechanism of the power over regulations and guidelines, as considered in a number of definitions. Gillan and Starks (1998), for example, define CG as the structure of regulations, instructions, and features that govern operations at an organization. In the meantime, CG is illustrated in the Cadbury Report (1992) as ‘‘the system by which companies are directed and controlled.’’ The Cadbury Report (1992) is not only interested in the control instruments, but also in the guidance needed for that instrument, which is reflected in the expression ‘‘directed’’ in the definition. One of the modifications and improvements in this control

mechanism in corporate governance is the scorecard on corporate governance (Cheung and Jang, 2008) as a challenge to the broad administration and measurement of the stakeholders' achievements and performance.

Moreover, in taking stakeholder perception, investigators are willing to classify CG mechanisms into two classes: mechanisms inside the organizations, and mechanisms outside the organizations, which smooths the track of two types of corporate governance, the "shareholders" type, which considers the external mechanisms, and the "stakeholders" type, which considers the internal mechanisms. Another type of corporate governance is structured on agency theory, the principles are the stakeholders, who authorize and delegate a role to agents, who are the managers, and this will cause the appearance of a risk that is shared among the organizations and the potential conflict of interest (Eisenhardt, 1989). Agency theory, however, is incomplete in explaining how managers should classify and handle the benefits of non-direct shareholder, like political burdens and the social prospects of companies (Nwabueze and Mileski, 2008).

In the GCC, and after the incident of Mobily (a Saudi telecom company), corporate governance starts to gain much more focus. In November 2014, Mobily confessed that it would have to restate 18 months' worth of corporate earnings due to accounting anomalies that had been claimed. At that time, Mobily's share was one of the strongest stocks in the telecoms market, but this incident caused it to lose about 60% of its share value between November 2014, and October 2015. Furthermore, according to statistics which disclose that over 70% of business enterprises in the GCC are either family-owned or controlled, which shows that businesses owned by families must adopt the idea of corporate governance, since this will help these businesses to succeed in the region.

A corporate governance framework still needs time to develop in the GCC countries, compared with the best practices in other countries. The GCC countries are aware that they need to be patient in order to let corporate governance practices and procedures reach maturity. For example, in 2013, Kuwait issued its corporate governance codes, asking for three important regulations which are that: The Chairman and Chief Executive should not be the same person (separation of the positions); organizations should disclose its information to the market quickly; and, each organization should have its own internal controls and risk management. Upon the institution of the new codes, audit requirements became greater, and this increased the cost of compliance for the organizations. Yet, Kuwait's market regulator took into account that there might be practical restrictions that might delay some of the Kuwaiti organizations from putting in place all the governance instructions, so they expanded the deadline to apply these new codes by a year and a half, until the end of 2016. In October 2015, the Council of Gulf Family Business and McKinsey and Company issued a study that measured the biggest businesses owned by a family in the GCC. This led to achieve a yearly revenue of US$100 billion, businesses owned by family in the area have experienced significant development in funding CG structures, but they are absent when such experience is related to efficient employment. There are two major methods of expressing CG codes: The first method is based on principles, and the second is based on rules. Corporate governance codes in the GCC have the tendency to be rule-based, where detailed directions are given, and a set of guidelines is clarified so they can be obeyed. In some authorities, for instance, in the UK, the Combined Code of Governance Principles, which is released by the Cadbury Commission of the London Stock Exchange, is considered principles based. The same

applies to Hong Kong, where the good governance implementations were issued as a 'Code of Best Practices'. Here, the codes' purpose is not to offer instructions to be strictly followed, but, relatively, to assist as motivated procedures.

The method based on principles highlights more the heart of the direction and it tries to enhance and promote accountability and the practice of specialized decision-making. This process also removes the mechanistic mindset of 'box-ticking' in order to obey the regulation and the use of possible gaps for keeping away from compliance. The principles-based method is believed to be comparatively robust and flexible. In the meantime, many countries considered the rules based method to be easier to conform with. In this approach, the requirements and regulations are expressed and communicated clearly, and, by this, there will be little chance for misinterpretation. Regulators preferred the method based on rules, which they believed to be easier to impose. Authorities, and most jurisdictions around the world, prefer the method based on principles and guidelines, in order to encourage and enhance better governance. This could be because of the thought that the spirit of the rule should be given more importance, and that trust should be extended to companies to recommend such understood values.

In 2014, it was warned by Fitch Ratings, however, that the CG practices are constantly growing in the GCC, but still the businesses owned by private parties are being hindered because of the absence of actual independent boards members, and because they have restricted transparency and weak disclosure practices. Lagging and underdeveloped corporate governance practices are discouraging international investors from investing in GCC international companies, because they are facing a firmly controlled ownership construction that exercises restricted transparency. Gulf countries need to consider

enhancing the variety of the boards, by including more directors that are independent and more expertise. This will help by having different specializations within the board's members, which is very important for the organization's success.

Large organizations in the Gulf area are now very aware of the necessity to deal with specialized bodies in order to learn more about the best practices of corporate governance. For instance, in March 2015, one of the large companies in Saudi Arabia (Saudi Arabia's mining and metals major, Ma'aden), signed a contract with the GCC Board Directors Institute, which would permit Ma'aden employees to access the newest courses, best practices and networking openings. The GCC countries are also willing to improve board variety by having both men and women on boards. In 2012, the UAE bureau endorsed a rule that states that it is compulsory for the country's organizations to have women on their boards.

1.3 Objectives of the Study:

The key purpose of this research is to examine the level of CSR disclosure in a sample of the GCC listed banks and to recognize the major elements of CSR disclosure by exploring a comprehensive and varied set of the variables that link CG variables, ownership variables, and company characteristics. The results indicate that the average CSR disclosure is 47% and that government ownership and bank leverage are the main drivers of CSR disclosure in the GCC banking sector. This study is important for the following reasons. Firstly, the study begins to fill the literature gap on CSR disclosure in the GCC banking sector;

1.4 The Study Questions:

The main question that this study aims to answer is: what are the variables that impact upon the extent of corporate social responsibility disclosure in GCC listed banks? To answer this question the study breaks it down to two questions, as seen below:

1. Do Corporate Governance mechanisms affect the extent of CSR disclosure in the GCC banks?

To answer this question, the study examined several dimensions, which are the audit committee, the board size, the board's independence, government ownership.

2. Do banks' characteristics affect the extent of CSR disclosure in the GCC banks?

To answer this question, the study examined three characteristics that are bank size, profitability and leverage.

The structure of this study is as follows: the next chapter discusses the prior studies on this topic. Chapter 3 covers the hypothesis's development, and the fourth chapter discusses the sample and the methodology that has been used to carry out this study. Chapter 5, which includes the results, follows this and the final chapter provides the conclusions of the study, and discusses the limitations and the recommendations for future studies.

CHAPTER 2: LITERATURE REVIEW

CSR is an extremely important movement, and advanced companies are taking it very seriously (McManus, 2008). It will be continued, minimally for the expected future, and even beyond that (Idowu, 2011). CSR is a moral and ethical trend, and people who encourage and support CSR want greater principled values and standards to be used for the boards of directors (Robins, 2008). Many companies and organizations are interested in CSR because it assists them to establish the company's strategy and reputation (Galbreath, 2006; Papasolomou-Doukakis *et al.*, 2005). It affords a chance to re-configure the competitive position of a firm and to develop distinguishing and active resources and competences (Arendt and Brettel, 2010; Husted and Allen, 2007).

A strong standard of CG can be considered the foundation for good CSR practices, (Welford, 2007). Organizations that are involved in socially responsible activities provide more informational and comprehensive disclosures than do those organizations that are less involved. In this manner, improved disclosure is a signal of socially responsible performance (Coombs and Holladay, 2013; Gelb and Strawser, 2001). Companies use CSR reporting as a corporate communication and marketing instrument in order to be judged as being legitimate by their different stakeholders (Nielsen and Thomsen, 2007; Podnar and Golob, 2007). Stakeholders expect that firms will inform them about their activities, covering issues like labor management, human rights, society, the environment and product responsibility. Accordingly, firms are required to report their social impact to stakeholders through their CSR reporting (Sutantoputra, 2009).

Many papers, both recent and old ones, have examined the relationship between CG and CSR in different sectors, other than the banking sector. One of these papers is by Haniffa

and Cooke (2005), who aimed to raise the understanding of the ways in which the culture and CG mechanisms can have an impact on social disclosure. The three CG elements examined in this study are, board composition, the type of shareholders and multiple directorship. In addition to the two independent variables; (culture and CG), the study examined five control variables (size, gearing, profitability, listing status and industry type). Haniffa and Cooke (2005) targeted the non-financial listed companies in Malaysia for the two years 1996 and 2002; the results indicated that there is a major difference in the CSRD in the two periods, CSRD increased in the annual reports that were tested in the two years. Regarding corporate governance variables, the analysis for the two years showed that there is a significant association between boards dominated by Malay directors, boards dominated by executive directors, Chairs with various director's posts, and external share ownership. In terms of control variables, four out of five variables, which are (size, profitability, various listings and industry type), also have a significant relationship to CSR disclosure.

Likewise, *Said et al.* (2009) aimed to test whether there is a relationship between some CG mechanisms, such as board size, audit committee, board independence, etc., and the disclosure of corporate social responsibility. The study was conducted on Malaysian listed companies for the year 2006, and information and data were extracted from companies' websites and annual reports, which might be considered to be one of the paper's limitations. Regression analysis was applied to test the association between the corporate social disclosures index and the corporate governance mechanism, which are the board size, the board's independence, duality, the audit committee, the ten largest shareholders, managerial ownership, foreign ownership and government ownership, with

the control variables: the firm's size and the profitability of the companies. The results of this paper show that there is a significant positive relationship between only two variables, which are, government ownership and the audit committee with CSR disclosure.

On the other hand, Khemir & Baccouche, (2010) examined two issues in their study. The first was the extent of corporate social responsibility, and the second was to explore the elements of the choice to release social responsibility data. Khemir & Baccouche, (2010) concentrated on examining corporate social responsibility disclosure in the annual reports of 23 Tunisian listed companies over a four-year period from 2001 to 2004. Khemir & Baccouche, (2010) implemented a multivariate analysis of social responsibility disclosure to examine the elements effecting this kind of disclosure. Regarding the first issue examined in this study, which is the extent of disclosure, the findings showed that the level of CSR disclosure increased from 2001 to 2004. This in relation to the factors that might have an impact on CSR disclosure, the results have shown that the minimum significant factors that can influence the choice to disclose CSR information are the companies' debt level, the company's internationalization level, and the companies' political visibility.

Similarly, Khan *et al*. (2012) tested the association between corporate governance and corporate social responsibility disclosure by testing Bangladeshi companies' annual reports. The theory Khan *et al*. (2012) implemented in this study is the legitimacy theory, in order to try to realize how corporate governance mechanisms, such as CEO duality, board independence, government ownership, the audit committee, public ownership, and other mechanisms, can have an impact upon the companies' reaction to the different

groups of stakeholders. The sample for this study included 116 companies, this sample included many sectors, and the study was carried out over 5 years. The data was collected from annual reports published on the Dhaka Stock Exchange, and the corporate social responsibility information was gathered from different reports, such as CG disclosure, CRS disclosure, directors' reports and financial statement notes. The method used to examine this relationship is regression analysis. Khan *et al*. (2012) found that CSRD has a negative correlation with managerial ownership, while foreign ownership, CEO duality and board independence have a positive relationship with CSRD. Moreover, the findings pointed out that the control variables: firm size, firm age, leverage and the return on assets, are associated with CSRD.

On the other hand, Esa *et al.* (2012) studied the relationship between CSR disclosure and CG in Malaysian government linked companies. The purpose of this study was to decide whether CG elements have an impact on CSR disclosure, and to examine whether there has been a revolution in the level of corporate social responsibility (CSR) disclosure in the companies' annual reports from Malaysian government-linked companies (GLCs). Esa *et al.* (2012) analyzed the annual reports for 27 GLCs, a multiple regression was implemented to determine the elements that were impacting upon CSR disclosure in the annual reports. Six hypotheses with six different variables were tested in order to investigate this relationship, and these variables are the *extent of CSR disclosure,* which was measured by the GLC's willingness to disclose CSR after one initiative, which was called 'the silver book'. The silver book performs as a guide for GLCs to proactively participate in social responsibility and, at the same time, it generates value for their shareholders. The other elements tested in this paper were: board size, independent

directors, company size, profitability and leverage. The findings of this paper showed that there is a significant association between CSR disclosure and the board size and leverage, while it is not significant for the other variables: independent director, company size and profitability. The findings of Esa *et al.* (2012) also proposed that the extent of CSR disclosure in Malaysian GLCs has developed.

Haji (2013) assessed corporate social responsibility (CSR) disclosures in the Malaysian Market in a certain period of time, when Malaysia went through different major changes, which were mainly financial crises and changes and modifications in the regulations. Haji (2013) also tested the elements affecting CSR disclosure both before and after the changes mentioned above. The sample included 85 listed companies on the Bursa Malaysia, for the period 2006-2009. The factors examined, which the Haji (2013) assumed were affecting CSRD, were CG and ownership structure. Haji (2013) focused on three major CG mechanisms that are independent non-executive directors, board size and board meetings. While, for ownership structure, the variables tested were: ownership concentration, director ownership and government ownership. In addition to those variables, Haji (2013) examined control variables, particularly the firm's characteristics (firm size, profitability and leverage), since most prior studies have proven that there is a significant relationship between these variables and CRSD. Two multiple regression models were implemented, one to examine the extent and quality of CSRD, and one to examine the independent variables. The findings of Haji (2013) indicated that from 2006 till 2009, the extent and quality of CSRD has increased, which means that the changes that happened in the Malaysian environment had a positive impact on CSRD. Regarding the factors affecting CSRD, the results found that the relation is insignificant between

CSRD and independent non-executive directors, board meetings and ownership concentration, while the results found significant associations between CSRD and company size, direct ownership and government ownership (Haji, 2013).

Abdel Razek (2014) investigated the relationship between CSR disclosure and CG in Egyptian companies. The study was carried out by distributing a survey randomly to the Egyptian companies, and the total number of responses received was 49, which were 17 responses from professionals (managers and accountants), 23 responses from faculty members of Cairo University, and 9 responses from Masters and Ph.D. students. The CG mechanisms tested in this study are: multiple board directors, board diversity, board size, audit committee, ownership structure. After receiving the 49 responses from the online-distributed survey, the results showed that a multiple board of directors has a significant and positive impact on CSR disclosure; also, the participation of audit committee talents and competencies is the most significant feature that determines corporate social responsibility. Moreover, one of the elements that has an impact on social responsibility in Egypt is to have an audit committee in the organization. Regarding the ownership structure, the results found that private companies tend to disclose more data about their CSR activities and events. Lastly, the results also showed that the internal audit quality influenced the CSR disclosure.

Giannarakis (2014), aimed to explore the relationship between different CG mechanisms, such as, board meetings, the existence of women on the board, the average age of the board members, the board's size, CEO duality, the board's composition. Moreover, some financial characteristics, such as, profitability, financial leverage and the company's size, to the extent of CSR disclosure in 100 listed companies in the USA. The CSR disclosure

data was extracted and calculated by Bloomberg, and a multiple linear regression was implemented to test the relationship between CG and CSR disclosure. The sample contains large- sized companies, because they assumed that the largest companies are more willing to participate in socially responsibility activities. Giannarakis (2014) found that CSR disclosure is significantly influenced by a company's size, profitability, financial leverage and the board's commitment to CSR. CSR disclosures can be used by profitable organizations as an instrument with which to advertise their image and to validate their corporate creativity. Moreover, because of the reporting process's cost, organizations with high levels of financial leverage appear not to announce corporate data, although businesses will feel freer to announce and disclose CSR information with low financial leverage levels. The company's size, has a positive association with CSR disclosure, which is consistent with assumptions from earlier empirical studies. Rahman *et al.* (2011), for instance, has suggested that there are many reasons behind this response, one of them being that large companies make CSR disclosure apparent to investors.

Stuebs & Sun (2015) tested the relationship between CG and CSR through stakeholder theory. They assumed that there is a positive relationship between CG and CSR. Stuebs and Sun (2015) used the CG index that was given by Brown and Caylor (2006, 2009), and the CSR information taken from Kinder Lydenberg and Domini (KLD) Inc. KLD offers information about around 80 items in seven different areas, which are CG, employee relations, the environment, human rights, diversity, products, and community. FCG, which is the second variable, is measured using 61 variables, which they group into eight groups, i.e., board structure, audit issues, executive and director compensation, and others. In this paper, they used a regression analysis to test this association, and this

analysis gave them important evidence that there is a positive relationship between CG and CSR.

Ling & Sultana (2015), intended to give observed evidence on the importance of signal breaches of technical trading pointers in clarifying the differences in the level of CSR disclosures (CSRD) by companies. Ling & Sultana (2015) pursued this research to decide whether companies disclose CSR data in a real and honest effort to report their influence on the community and the environment, or whether firms use CSRD as protection with which to validate their corporate operations. The final sample for this study included the top 100 companies listed in SGX in 2011. Ling & Sultana (2015) tested one hypothesis which is "*there is a positive relation between the technical trading indicator breaches by companies and the level of CSRD by those companies.* The data for this study was gathered from different places, mainly annual reports. The authors used different control variables in this paper mainly the company size, profitability, sector type and leverage, in addition to other CG mechanism, namely, board size, duality, external audit type and board independence. After applying the Ordinary Least Squares Regression and the Descriptive Statistics, the results have shown that the association between CSRD and technical trading breaches is significantly positive. Further, the findings showed that the association between the dependent variable (CSRD) and the control variables for both the firms' characteristics and CG mechanisms is a significant positive association, except for duality, and the findings proved that the relationship between duality and CSRD is significantly negative.

Usman & Amran (2015) examined two purposes in this study, the first is to define the features and tendencies of CSR practices in Nigeria. The second is to test the association

between the extents of CSR disclosures and company financial performance (CFP) among Nigerian listed companies. To perform this study, data and information about CSR and financial performance were collected from the annual reports of 68 listed companies on the Nigerian Stock exchange by conducting content analysis. CSR indices and financial performance measures were calculated for an approximation of the regression analysis equation. Usman & Amran (2015) depends on both stakeholder and legitimacy theory to examine the association between CSR dimensions and Corporate financial performance. The results from this study propose that financial performance can be enhanced and improved by community involvement disclosure, products and customer disclosures, and human resource disclosures. The findings also pointed out that the relationship between environmental disclosure and financial performance is significantly negative. Results from this study therefore provide an innovative vision of the association between the extent of CSR and corporate financial performance in Nigeria. These results have offered suggestions on the management of Nigerian companies that suggest that they should think again and change strategies for their CSR plans so that they combine the social and economic performance of an organization in order to advance and develop their Corporate Financial Performance. Yet, to advance CSR practices in Nigeria, the academics endorse the notion that the government, in partnership with private and public agencies, should take into consideration the requirements for a CSR framework and a database so as to guide social and environmental reporting in the country.

Benomran *et al* (2015), examined the impact of CG on the extent of CSR disclosure in Libyan companies, using both qualitative and quantitative methods. The researchers chose Libya for its unique political and economic systems. The study examined four

variables which are; government ownership, chief executive officer duality, board independence, and board size. Under the quantitative method, data was gathered from 162 annual reports derived from 42 Libyan companies between 2006 and 2012. Benomran *et al* (2015) used the indexes of the Egyptian Institute of Directors, Standard & Poor's, and CRISIL (S&P/EGX ESG, 2010) which categorize CSR activities into four themes (environment, employee information, community investment, and customer and product), Benomran *et al* (2015) gave 1 if the item is disclosed and 0 otherwise. A multiple regression analysis was utilized to measure the connection between CG and CSR disclosure, the quantitative results showed that only the board size having a positive and significant impact on CSR disclosure, while on the other hand the remaining three variables are having a positive but insignificant impact on CSR disclosure. For the qualitative method, Benomran *et al* (2015) obtained the data from 31 interviews. The researchers interviewed 7 Financial Managers and 24 Public Relations Managers who expressed their perception concerning the impact of the study variables on the extent of CSR disclosure. The qualitative results indicated that none of the variables has a significant impact on the extent of CSR disclosure in Libyan companies.

Furthermore, Lone *et al.* (2016) explored whether CSR disclosure in Pakistani companies has been affected or modified in accordance with the CSR voluntary guidelines of 2013, which were issued by the Securities and Exchange Commission of Pakistan, and tested the impact of the CG mechanism on CSR disclosure. This study was made using 50 companies from eight different sectors. Data was extracted from annual reports for the period 2010-2014. Lone *et al.* (2016) used two tests, the first was the paired-samples t-test, which was implemented to test the changes in CSR disclosure both before and after

2013 guidelines, and the second was regression analysis, which was used to test the relationship between the CG mechanism and CSR disclosure. The findings and results of this paper show that CSR disclosure changed after the Securities and Exchange Commission of Pakistan voluntary guidelines were published in 2013. This result indicates that a CSR reporting culture is developing in Pakistan, and it is consistent with a study directed in relation to the top companies in India. Concerning the relationship between the CG mechanism and CSR disclosure, the results of Lone *et al.* (2016) point out that there is a significant positive association between some CG elements, namely, board size, independent directors, and women directors and CSR disclosure.

Mardini (2015), aimed in his study to determine if the voluntary disclosure in Jordanian bank is affected by the CG mechanisms and company's characteristics. The sample included 15 banks from the period 2007 to 2010. Mardini (2015), used an index approach which included 80 items to investigate the level of CG voluntary disclosure. Mardini (2015), examined nine variables which are; bank size, profitability, leverage, number of branches, ownership concentration, board independence, board size, chairman duality, and audit firm. The study ran a multiple regression analysis to examine the relationship between these variables and the voluntary disclosure of CG. The findings indicated that the bank size, the number of branches and leverage have a significant impact on the level of CG voluntary, while on the other side the results suggested that the other variables which are profitability, board independence, board size, chairman duality, and audit firm don't have a significant association with CG voluntary disclosure.

In a study conducted in Saudi Arabia, Habbash (2016) examines a sample of 267 annual reports from non-financial listed companies in Saudi Arabia for the period 2007 to 2011,

trying to discover the practices and the impact of CSR, the ownership structure and the corporate characteristics. The CSR disclosure index contain 17 items that are grounded on ISO 26000. The multiple regression analysis finds that only the board independence variable may be useful and helpful in assessing and encouraging organizations' managers to offer more CSR disclosure and this could thus be counted as being elements of CSR disclosure. The results indicated that government and family ownership, the firm's size and the firm's age also have a positive impact on CSR disclosure, the firm's leverage having a negative influence, and the effectiveness of an audit committee, the percentage of independent directors, role duality, institutional ownership, company profitability, and the type of the industry, are found not to have an impact on CSR disclosure.

Graaf, (2016) aimed to investigate the association between CG and CSR by focusing on one research question, which is: how can stakeholders with their places in the governance structure have an impact upon corporate reactions to a change in the community? In this paper, they consider the global financial crisis to be a serious occasion and they based the paper on two important theories: institutional theory and stakeholder theory. The data were collected for the period 2002 – 2004 through conducted interviews. These 17 interviews were undertaken with the top managements of several companies, especially with the managers of the internal audit departments, risk management, the CEO, and others. The methodology used in this paper is a historical analysis, because Graaf, (2016) has assumed that historical perception allows an understanding of the reaction of the organization to any modification in the environment. The results of this paper show that the method allows investigators to relate the normative element of CSR to exact governance mechanisms. The effects of these governance mechanisms are stated in direct

and indirect ways. Historical information pointed to how, during the crisis, the stakeholders affected the principles and policies of the organizations.

Mathuva *et al*. (2017) applied legitimacy theory to assessing the relationship between CG and CSR disclosure. The sample of this study consists of the observation of 1,272 credit unions in Kenya, which is a developing country, but the final data were collected only from 212 credit unions. Symmetrically with previous papers, such as Johnson and Greening (1999), Kent, and Zunker (2013), the conclusions demonstrate that credit unions freely implementing and reporting best practice in co-operative governance practices are more likely to report an increased quantity of CSED. Additionally, the findings show that, after the regulatory improvements of 2010 in Kenya's credit unions, these have caused some institutional pressures on the credit unions to develop their governance practices. This conduct appears to have participated significantly in relation to the volume of corporate social and environmental disclosure practices. The result supports the presence of a probable link between institutional theory and organizational legitimacy. This suggests that credit unions implementing co-operative governance practices looked to practicing higher corporate social and environmental disclosure after the adoption of the credit union rules of 2010, which existing an institutional power. In conclusion, the findings show the positive influence of credit union size on the level of CSED, and the negative influence of credit unions' financial performances on the level of CSED. This result argues for a probable application of CSED to block consideration of poor performance in order to prevent probable agency struggles. The results suggest that, given the governance tasks tackled by credit unions in Kenya, the acceptance of best practice co-operative governance practices would support reaching the higher levels of

social and environmental accountability.

Sadou *et al.* (2017) pursued their research to prove whether there is any improvement and development in the level of CSR disclosure, and the quality of this disclosure. In addition, Sadou *et al.* (2017) attempted to specify the elements that have an impact upon the extent of CSR disclosure and its quality. Sadou *et al.* (2017) targeted Malaysian companies in the years between 2011 and 2014. The third issue that the study tested is the method of disclosure, and what it was that the biggest Malaysian companies addressed. Sadou *et al.* (2017) analyzed the annual reports of the biggest 71 Malaysian listed companies, and they used a regression analysis to test the nine hypotheses put forward by the study. The first hypothesis is to examine whether there is an increase in, and development of, CSR disclosure from 2011 to 2014 in Malaysia, while the remaining 8 hypotheses examine different factors that might have an influence on CSR disclosure which are: ownership Structure (which includes ownership concentration, direct ownership, government ownership), CG (including: independent, non-executive, and board size), awards and control variables (which include the firm's size and its return on assets). Sadou *et al*. (2017), found that the variables that have a significant positive relationship to the level of CSR disclosure are the board size, awards, government ownership and independent non-executives. Likewise, ROA, as a control variable, has a positive correlation. Regarding the quality of CSR disclosure in 2011, the results pointed out that some variables have a significant positive association, such as the board size, independent non-executives, and awards, while other variables have a significant negative correlation, i.e., the firm's size and ownership concentration. For the year 2014, findings indicated that only awards remained significant to the CSR disclosure level, and

the firm's size and director ownership have a significantly negative effect.

Ika *et al* (2017), investigated the relationship between CG and CSR disclosure in Indonesian public listed companies. The sample of this study included 115 public listed company for the period 2011 and 2012. Ika *et al* (2017) used six variables to test this association which are; board size, board independence, audit committee effectiveness, ownership concentration, profitability and company size. The dependent variable of this study is the extent of CSR disclosure which was measured by using a CSR disclosure index based on the Global Reporting Initiative guideline. The index included 79 items covering six themes (Economic, Environment, Labor, Human Rights, Society and Product Responsibility). The checklist contained 30 mandatory CSR disclosure items, while the remaining 49 items are voluntary CSR disclosure. A multiple regression analysis was utilized to determine the variables impacting CSR disclosure. Ika *et al* (2017) results indicated that, there is a positive association between CSR disclosure and two variables which are audit committee effectiveness and company size.

Wachira (2017), aimed to test the extent of CSR disclosure in companies listed on the Nairobi Securities Exchange and to find out what are the CG variables and the company characteristics that impact CSR disclosure in Kenya. The sample of the study included 54 listed companies for six years period (2006 to 2011). Wachira (2017) investigated eleven different variables which are, gearing, size of the company, profitability, liquidity, industry, country of origin, ownership structure, presence of non-executive directors, presence of dual leadership structure, type of auditor and presence of audit committee. Disclosure index and content analysis have been used to measure CSR disclosure, an item got 1 if it is disclosed and 0 otherwise. The study utilized a multiple regression analysis

to examine the relationship between CSR disclosure and the 11 variables mentioned above. The findings showed that there is only a significant association between CSR disclosure and company size, profitability, liquidity, ownership structure and industry.

Tufail *et al* (2017), enlightened the importance of the disclosure about CSR in Pakistan. There were two objectives for this study, the first objective is to investigate the extent of CSR disclosure, and the second objective was to examine the impact of company size, profitability and leverage on the extent of CSR disclosure. The sample of the study includes 120 companies of consumer's product industry, and 34 Plantation companies listed in Pakistan. Annual financial reports were used to collect data for the company size, profitability and leverage. Regarding the dependent variable of the study which is CSR disclosure, Tufail *et al* (2017) measured it by counting the sentences in the annual reports and called it (total CSR disclosure). The results found that CSR disclosure is improving in Pakistan, and that firm size has a significant impact on CSR disclosure.

As shown above in the literature review, many papers have examined CSR development and its association with CG mechanisms and company characteristics, in a variety of sectors other than the banking sector. Very limited studies have discussed this association in the banking sector, mainly in the GCC. Khan (2010) aimed to examine the impact of CG mechanisms on CSR disclosure in the listed commercial banks in Bangladesh. Khan (2010) examined and analyzed the annual reports of all of the commercial banks for the period 2007-2008. The three CG elements tested are: non-executive directors, women's existence on boards, and the existence of people with external nationalities on the board of directors. Khan (2010) also included three control variables, which are: company size, profitability and gearing. After applying a multiple regression analysis, the results found

that there is a significant association between CSR reporting and non-executive directors, and the association with women's representation on a board is not significant, while it is also significant in relation to the third variable, which is ownership by foreign nationalities. In addition, the study found that the two control variables: the firm's size and its profitability, have a significant relationship with the extent of CSR reporting in private commercial banks in Bangladesh.

Hassan & Harahap (2010), explored only the CSR disclosure in Islamic banks. The sample for this paper was seven Islamic banks from seven different countries, namely, Bahrain, Bangladesh, Indonesia, Malaysia, Saudi Arabia, Kuwait, and the United Arab Emirates. More than 50% of the sample are GCC countries, the annual reports for the year 2006 were studied for any type of CSR disclosure. The aim of this paper was just to measure the disclosure of each bank, and did not test what the elements are that can determine the CSR disclosure, which could be considered one of the gaps that this study is trying to cover.

Kiliç *et al.* (2015), investigated two things in this paper; the first was to investigate the nature, the level and the tendency to CSR disclosure in the banking sector in Turkey. The second examined here was the influence of board structure and ownership on CSR disclosure. To investigate these two issues, Kiliç *et al.* (2015) examined the annual reports for the period between 2008 and 2012, and the final sample of this study was 25 banks after two types of bank were excluded: investments banks and foreign banks. The variables used to test the study's hypothesis were: bank size, ownership structure, board size, board diversity and board composition. By applying panel data analysis methodology, the results point out that there is an improvement in CSR disclosure

between 2008 and 2012, and the variables that can be considered a determinant of CSR disclosure that has a significant influence are: bank size, board independence and the existence of females on the board. On the contrary, board size is not.

One of the papers that examines the relationship between CG and CSR disclosure in the GCC banks is Abduh and Alageel (2015), this paper tried to investigate this association in over 17 Islamic banks in the GCC in the period between 2007 and 2011. The results show that there are only two variables that are significant to CSR disclosure, these are the board's independence, which positively impacts on CSR disclosure, and bank size, which conversely has a negative, but significant, impact on CSR disclosure in GCC Islamic Banks.

Gali *et al.* (2016) investigated the relationship between CG and CSR disclosure in the Lebanese banking sector. To compare different opinions of banks and bank authorities in this regard, Gali *et al.* (2016) also performed this study by distributing a survey to the managers of five banks and bank authorities in the Lebanon. Gali *et al.* (2016) collected the responses to carry out a qualitative comparative study of the views in relation to the three from the CG, CSR and the relationship between CG and CRS. The results of this study tell us that differences occur between the Lebanese banks and banking authorities in determining the CG–CSR relationship. Although the banking authorities see CG as an inclusive idea, most banks attribute to this model the notion that CG is an element of CSR. In addition, the findings have many suggestions for the understanding and practice of CSR and CG in the Lebanese banking sector. Primarily, the results propose that the culture of CG in Lebanon's banking sector is expected to continue and to develop in spite of the sustained efforts of the banking controllers to encourage CG, in addition to the

solid trust of banking sector legislatures in the significance of CG. Secondly, the findings show that the banking sector in Lebanon is not expected to mandate CSR. The results also point to the realization of CG and CSR in the Lebanese banking sector. For example, the principle of having an extensive CSR model that benefits all the stakeholders is not yet being dynamically encouraged by the banking authorities. Actually, the Lebanese banking authorities did not openly mention CSR in their commands, even if bank managers seem to be well informed about the idea of CSR and its significance.

Many prior studies on CSR disclosure have excluded banks and focus only on other sectors, even though the number of pieces of research which investigate the CSR content of the banks' disclosures has increased in recent years, it still insufficient. Moreover, previous research on CSR reporting in relation to the banking sector have been slightly illustrative. This topic needs to be handled more comprehensively. The incentives behind CSR reporting in the banking sector need to be recognized. In addition, many fewer studies of this topic have been conducted in the Middle East, mainly in the GCC countries. So, the contributions of this study are to fill the gap in the previous literature and to try to provide new information in regard to CG and CSR in the GCC banking sector.

CHAPTER 3: HYPOTHESES' DEVELOPMENT

This study displays a complete assorted set of eight independent variables to test the extent of CSR disclosure. The first set includes the first five variables, which are related to CG mechanisms, namely: the audit committee, board independence, board size, ownership structure and bank type. The second set is made up of corporate characteristics, and it includes company size, profitability and leverage.

3.1 The Audit Committee:

By monitoring and control, the Audit Committee is assumed to confirm the truth and honesty of the financial reporting (Fama, 1980; Fama and Jensen, 1983; Abdel-Fattah, 2008). Yet, the achievement of this goal mainly relies on the effectiveness of the audit committee. This effectiveness can be measured by means of the composition and characteristics of the committee. Under Section14 of the 2006 Saudi CG code, each company should set up an Audit Committee, which includes a minimum of three non-executive directors, and a minimum of one of these directors should be a specialist in accounting and financial issues.

Previous studies have confirmed that the audit committee is considered an important part in the development of the corporate governance criterion. Again, what strongly affects the integrity of financial reporting is the composition of the audit committee Wright (1996), McMullen and Raghunandan (1996) confirmed that there is a relationship between the existence of the audit committee and more consistent financial reports. Another association which was confirmed in previous studies is that the presence of an audit committee has a significant and positive correlation with the extent of voluntary

disclosure (Ho and Wong, 2001; Bliss and Balachandran, 2003).

The function of the audit committee is to provide a way to evaluate how the company prepares its financial data and to review its internal control; therefore, its presence is seen in the making of high quality financial reporting. In the Malaysian Code of Corporate Governance (2000), it is required that the board should set up an audit committee; this committee should consist of a minimum of three, or more, independent directors. The more independent directors in the audit committee the less the agency cost, and this will enhance the internal control, which will provide a higher quality of disclosure (Forker, 1992).

Previous papers have confirmed that the disclosure quality is positively affected by how effective the audit committee is. Soliman and Ragab (2014) confirmed that the characteristics of an effective audit committee, such as the number of meetings they have, enhances the quality of the financial reports. Moreover, one of the other characteristics which improves the effectiveness of the audit committee, as per prior studies, is the number of experts, the higher the number of experts the more effective the committee, which leads to better financial reporting (Xie *et al.* 2003, Soliman and Ragab, 2014). Furthermore, Madawaki and Amran (2013, p. 1072) find that the independence of the audit committee members will lead to more objectivity and will decrease the manipulation and misappropriation of the financial statements. This discussion is consistent with agency theory, which states that a higher number of independent directors on boards and committees reduces data asymmetry. On the other hand, Habbash (2016) examined the association between AC and CSR disclosure in Saudi Arabia, and found that there is a positive, but insignificant, association between these two variables.

Therefore, the first hypothesis of this study is:

H1. There is a positive association between the audit committee and the extent of CSR disclosure in the GCC banking sector.

3.2 Board Independence:

In order to fulfill the stakeholders' benefits and their interests, boards should perform an important part in the process of managers' monitoring and directing. However, to what extent does the effectiveness of the board's monitoring rely on the board's composition? Board composition means the number of independent and non-independent members who are on the board of directors. Previous studies state that the more independent boards are the more they are expected to motivate directors towards more transparent and high-quality disclosure (Forker, 1992; AbuRaya, 2012). According to the stakeholder and agency theories, having a greater number of independent directors can be an important mechanism for Corporate Governance, through which the problems of agency theory can be solved. This led to the benefits of all of the people who are engaged with the organization are improved, for instance, the personnel and the local societies (Amran *et al.*, 2009; Chen and Roberts, 2010). A huge number of pieces of research, e.g., Barako and Brown (2008) and Khan *et al.* (2013), state that hiring directors on the board who are non-executives has a positive influence on CSR disclosure. This study therefore trusts that the non-executive directors are more likely to inspire managers to play an important role towards the community, and they therefore increase the quality of CSR disclosure. Likewise, Habbash (2016) assured that there was a positive and significant relationship between board independence and CSR disclosure in KSA listed companies on the Saudi Stock Exchange during 2007-2011. Similarly, Abduh and Alageely, 2015, found in a

study conducted with 17 Islamic banks in the GCC, that board independence has a positive and significant relationship to CSR disclosure. Consistently with agency theory, the empirical literature from a prior study on governance recommends that the level of board independence is connected to structure, and this independence will enhance and promote board effectiveness. Another study, Webb (2004), compared companies with social responsibility and other companies that are not socially responsible; she found that the board structure was different, socially responsible companies tended to have more independent directors from outside the company, while the non-social companies tended to have fewer independent directors. Independent directors are motivated to protect the shareholders' interests and the benefits to them. Independent directors are considered to be an instrument for monitoring management behavior (Rosenstein and Wyatt, 1990), leading to greater voluntary disclosure of company information. Forker (1992) argued that as much as a greater number of independent members on the board improved the control of the quality of financial disclosure, it decreased the benefits of keeping back information.

The second hypothesis in this study is therefore that:

H2. There is a positive association between board independence and the extent of CSR disclosure in the GCC banking sector.

3.3 Board Size:

One of the critical characteristics of corporate governance, as Lee and Chen (2011) confirmed, is the board's size, while Golden and Zajac (2001) remarked how strategic changes in companies can be impacted upon by the board's size. In prior studies, the impact of a board's size on CSR disclosure was debatable. Jensen (1993) found that when

the board consists of a small number of directors, it will be more likely to function effectively, and when the directors are more than seven or eight, it is less possible for it to function effectively. In relation to resource dependency theory, Abeysekera (2010) stated the opposite, that a larger board brings varied and critical resources and overlooks global challenges more effectively and efficiently. Another study, Siregar and Bachtiar (2010), found that there is a positive and non-linear association between board size and corporate social responsibility disclosure. Large boards can monitor the operations of the company more effectively than can small boards, yet very large boards can make the monitoring process more difficult. Said *et al.* (2009) assumed, at the beginning of their study, that there was a negative association between a board's size and the extent of CSR disclosure, as the large board's size causes unsuccessful coordination in the decision-making process and communication. However, their findings show the contrary, there is a positive association. Esa and Mohd Ghazali (2011) studied this relationship through the Malaysian listed companies; they found that there is a positive relationship between a board's size and the extent of CSR disclosure.

Lipton and Lorsh, (1992); Eisenberg *et al.,* (1998); Raheja, (2003) said that the agency conflict between shareholders and managers would be reduced if the company has a small board. Jensen (1993) confirmed that by having a large number of directors on the board, the effectiveness of coordination will be less, and the possibility of the CEO controlling the decision-making process will be higher. Accordingly. it is assumed that when the coordination in communication and decision making is ineffective, this will reduce the quality of financial reporting because the board members will not be able to carry out their duties and responsibilities efficiently. The third hypotheses in this study is

thus that:

H3. There is a positive association between board size and the extent of CSR disclosure in the GCC banking sector.

3.4 Ownership Concentration:

Ownership concentration is considering one of the most important mechanism of corporate governance, the improvement in the stock market and the quality of the country's rules and interference are highly affected by ownership (Cohen *et al.,* 2004). Ownership concentration is about the level, or the percentage, of the majority stockholders, who hold the firm's stocks. (Cherrati, 2010). There are different types of ownership; it can be institutional ownership, family ownership, private ownership or governmental ownership. Habbash (2016) examined the relationship between corporate social responsibility and three types of ownership, Governmental, institutional, and family ownership. Habbash (2016) found that there is a significantly positive association between governmental ownership and CSR disclosure in KSA, which means that companies owned by a government will be more willing to publish CSR data, this result was confirmed by other studies Said *et al.* (2009), Ntim *et al.* (2013) and Al-Janadi *et al.* (2013). On the other hand, the results of previous studies show that there is a negatively insignificant association between institutional ownership and CSR disclosure Habbash (2016). Another study also found that institutional ownership could not be considered an element of CSR disclosure and found a negative association are Eng and Mak (2003), Elzahar, and Hussainey (2012). The fourth hypothesis in this study is thus that:

H4. There is a positive association between Governmental Ownership and the extent of CSR disclosure in the GCC banking sector.

3.5 Islamic Versus non-Islamic Banks:

In the GCC countries, many banks function under a group of restrictions that are directed by the Islamic legal code or, in other words, Sharia. However, Islamic financial institutions, which the Islamic banks fall under, are required to disclose extra information, which other conventional or non- Islamic banks do not have to disclose, an example of this is that information must be given to the Sharia Supervisory Board (SSB), Zakah, Charity, and Qardul Hassan (which is a loan returned without interest). The Holy Qu'ran is considered the main source from which Islamic Social Responsibility is determined. The Holy Qu'ran specified and detailed many significant and important activities, such as Zakat, Charity, and Qardul Hassan, which are seen as part of corporate social responsibility (Farook, 2007; Hassan and Latiff, 2009). In Islam, there are many forbidden activities in which organizations are not allowed to be involved, and it is the responsibility of the managers to confirm that their organizations are only engaged with allowable and permitted activities Hassan and Harahap, (2010). On the other hand, conventional and non-Islamic banks function under a more flexible system just to meet their aim, which is maximizing their profit. Since the rules that direct Islamic banks are more restrictive than the rules for non-Islamic banks, which are more relaxed, the fifth hypothesis in this study is that:

H5: There is a positive association between Islamic banks and the extent of CSR disclosure in the GCC banking sector.

3.6 Company Size:

In order for large organizations to show, or represent, their corporate citizenship, and thereby to validate their presence, since larger organizations are expected to disclose more CSR (Ghazali, 2007). Furthermore, larger organizations are regularly involved in more activities, have a greater effect on the society and the community, large companies usually have more shareholders, who may be interested in the community projects that are performed by the company, and the annual report can be an effective method of communicating this information (Cowen *et al.,* 1987).

Many of the prior papers have confirmed the presence of a positive association between company size and the extent of CSR disclosure (e.g., Wallace *et al.,* 1994; Ahmed, 1995; Zarzeski, 1996). Belkaoui and Karpik (1989) stated that company size positively affected the extent of corporate social disclosure. The same results and findings are also stated by Patten (1991), Hackston and Milne (1996), Abdul Hamid (2004), Ghazali (2007) and Said *et al* (2009). External stakeholders pay more attention to large companies, which tend to be more visible to them, and therefore they release more CSR information in order to validate their actions (Cowen, 1987). Cormier and Gordon (2001) found that, for accountability reasons, large companies publish CSR disclosures as legitimacy theory has suggested. Furthermore, to be able to undertake the social initiatives, companies need resources, and these are more available in the large companies than they are in the small ones. In addition, the cost of social responsibility disclosure is comparatively much less for the large companies than for the small or medium sized companies, (Siregar and Bachtiar, 2010; Werther and Chandler, 2005; Graafland *et al*., 2003; Ho and Taylor, (2007). However, Abduh and Alageely (2015) investigated this association across 17

Islamic banks in the GCC, and they found that the association is significant, yet negative. On the other hand, Roberts (1992), did not find a significant relationship between company size and social disclosure in the USA. Several indicators have been used to measure the company's size, for example, its market capitalization (Mohd Ghazali, 2007; Reverte, 2009) the number of its employees (Tagesson *et al.,* 2009), the market value of its equity (Ho and Taylor, 2007), the total assets (Brammer and Pavelin, 2004; Haniffa and Cooke, 2005; Siregar and Bachtiar, 2010; Hossain and Reaz, 2007; Khan, 2010; Reverte, 2009; Rahman *et al.,* 2011), and its turnover (Adams *et al.,* 1998; Tagesson *et al.,* 2009). Many of the prior studies have confirmed a positive relationship between the extent of CSR disclosure and a company's size by using the total assets as an indicator (Eilbert and Parket, 1973; Trotman and Bradley, 1981; Haniffa and Cooke, 2005; Branco and Rodrigues, 2008; Gamerschlag et al., 2010; Hossain and Reaz, 2007; Khan, 2010; Reverte, 2009; Rahman *et al.,* 2011). Based on the findings of previous studies, a positive association is predictable in relation to the company's size and CSR disclosure. This study uses total assets as a proxy for the bank size. The sixth hypothesis in this study is therefore that:

H6. There is a positive association between company size and the extent of CSR disclosure in the GCC banking sector.

3.7 Profitability:

Giner (1997) investigated three theories with which to explain and rationalize the positive association between profitability and CSR disclosure. The first theory, the agency theory, proposed that profitable organizations offer data that are more complete in order to back up their own positions and compensation preparations. The second theory is Signaling

Theory, which suggests that the owners are willing to avoid the underestimation of their shareholders' value, and that is why they provided good news; and the third theory is political process theory, which agreed that in order for profitable companies to justify their profits they just have to publish more information on disclosures. As far as the experiential studies are concerned, Haniffa and Cooke (2005) have assumed that organizations, which are profitable, will be more willing to provide and publish CSR data in order to validate their presence. The flexibility and freedom of the management to provide more CSR information to shareholders plays an important role in having a positive association between profitability and the extent of CSR disclosure. On the other hand, Gamerschlag *et al.* (2010) studied this relationship between the two different aspects, and found that this relationship was positive between profitability and environmental disclosure, but, on the other hand, there was no relationship between profitability and social disclosure. On the contrary, Ho and Taylor (2007) found that less profitable organizations have a tendency to publish more data relating to social and environmental disclosures in order to prove and verify their influence on society and the community. Siregar and Bachtiar (2010) discovered that profitable companies dedicate more financial resources to social activities; yet the empirical findings appeared to demonstrate no significant impact between profitability and CSR disclosure, possibly because it is considered somehow costly to implement CSR initiatives, which offer no direct benefits in return. Likewise, Habbash (2016) could not find a significant association between profitability and CSR disclosure across KSA listed companies. Moreover, many other prior studies, e.g., Mohd Ghazali (2007), Rahman *et al.* (2011), Patten (1991), McNallyetal. (1982) and Reverte (2009), could not find a solid statistical

significance for profitability in relation to the extent of CRS disclosure. However, some prior studies found a positive association as discussed above, thus, the seventh hypothesis in this study is therefore that:

H7. There is a positive association between profitability and the extent of CSR disclosure in the GCC banking sector.

3.8 Leverage:

When companies have high debt levels, it is expected that the cost of controlling them will be high. This is why the managers of these organizations are willing to publish more data, in order to decrease this cost (Ahmed and Courtis, 1999). Furthermore, the higher the organizations leverage ratios, the more it is anticipated that the organizations will publish data in order to guarantee to borrowers that both management and shareholders are not willing to avoid their agreement dues. Naser *et al*. (2002) and Ferguson et al. (2002) have both confirmed a significant and positive relationship between leverage and the level of CSR disclosure. Conversely, Habbash (2016) confirmed, in a study conducted across the KSA listed companies, the relationship between leverage and CSR disclosure is negative and statistically significant. On the other hand, Ho and Wong (2001), Chau and Gray (2002) and Huafang and Jianguo (2007) could not find a relationship between leverage and the extent of CSR disclosure. The same applies to Haniffa and Cooke (2005), who did not find leverage to be an important influence affecting CSR disclosure. As the previous studies' results are unproven, we could not foresee whether the relationship would be positive or negative between leverage and the extent of CSR. The eighth hypothesis in this study is therefore that:

H8. There is a positive association between leverage and the extent of CSR disclosure in

the GCC banking sector.

These are the eight hypothesis and variables; the study aims to test and investigate to find if they have any impact on the CSR disclosure in GCC banking sector. The below two chapters will show how the study tests theses hypotheses and what are the results.

CHAPTER 4: METHODOLOGY

This chapter describes and justifies the study's sample, the data collected, and the gathering method used. This chapter also outlines how the study analyzed the data, what model used, what is the dependent variable, and how the study measures it. And its independent variables, their definitions and measurements.

4.1 Sample and Data:

The population of this study is all the GCC listed banks during the period 2013-2015. Table 1 shows the allocation of bank-year observations over the years covered by the study. At the beginning, the total primary sample included 189 observations allocated over the three years. Later on, this study rejected and excluded 66 observations, those that belong to the banks whose annual reports were not available, and also those banks that didn't disclose the required data needed for this study. The final sample therefore includes 123 observations, (Appendix A). Regarding the data for this study, it was collected from the annual reports of the banks, which were published on the website of each bank.

Table 1

The Study Sample

	2013	***2014***	***2015***
The primary sample	63	63	63
Less: banks with missing data	22	22	22
Final Sample	41	41	41

4.2 Multiple Regression Model:

This study runs two multiple regression models that are applied in order to examine the relationship between the corporate governance mechanism and the extent of corporate social responsibility disclosure. The first model is used to examine the relationship across the six GCC countries. The second, to examine the relationship in each significant country independently.

The following multivariate model is estimated:

$CSRD = \beta0+\beta1\ AC+\beta2Brdind+\beta3Brdsize+\beta4Govown+\beta5Bnktype+ \beta6Asst + \beta7ROA + \beta8levrg+ \beta9COUNTRY1+\ldots..+ \beta14COUNTRY6$

- Where CSRD = CSR disclosure ratio.
- $\beta1$ AC = Audit committee.
- $\beta2$Brdind = Board Independence.
- $\beta3$Brdsize = Board size.
- $\beta4$Govown = Government ownership.
- $\beta5$Bnktype = Bank type (Islamic and non-Islamic).
- $\beta6$Asst = Bank size (total assets).
- $\beta7$ROA = Profitability (Return on Assets).
- $\beta8$levrg = Leverage
- COUNTRY1-6 = dichotomous variable for country

4.3 Dependent Variable:

In this study, the extent of CSR disclosure is the dependent variable. The study follows four steps in order to measure the extent of CSR disclosure. The first step was to prepare a CSR index that includes 28 items, this index was taken from a previous study Jain and Winner (2016*),* and the original CSR index included 52 items, but this study finally had 28 items (appendix B) after deleting those items that were not disclosed by the 123 observations. The index included seven CSR topics, which are, Corporate Profile, Ethics and Integrity, Economic Disclosure, Environmental Disclosure, Product Responsibility, Labor Practices, Human Rights and Society. There are pros and cons of using a disclosure index, the main pros of using disclosure index is that it treats all the items in the index equally regarding their importance which helps in avoid any subjectivity in the analysis, Mardini (2015). On the other hand disclosure index has main problem which is each item included in the index may not necessarily be relevant to all banks, also the preparation of disclosure index could have the element of subjectivity, which means the index developer might be influenced by personal feelings or opinions while deciding the items included in the index, the last issue concerning disclosure index, it is only assess the quantity of information disclosed, not the quality of the disclosed information. The justifications of using disclosure index method are that, first this study is a quantitative study and it assumes that its one the best way to measure the CSR disclosure. Second, since this study conducted across six countries, it will be difficult to conduct other methods such as questioner, survey or interviews to measure CSR disclosure. Finally, this method is the most method conducted in the previous literature, which make it more reliable. The second step was to check the annual reports of the sample banks to identify

whether the items in the CSR index are really disclosed by each bank. The third step was to study the dichotomous scoring process by giving a score of 1 if the bank disclosed the item, and 0 if the bank did not. The fourth, and last, step was to find the CSR ratio by discovering the sum of all of the items disclosed and to divide it by the total number of items in the CSR index.

$$\text{CSRD}=\frac{\sum Items\ disclosed}{Total\ index\ items}$$

4.3.1 Weighting Approaches: Weighted vs. un-weighted approach:

The data collected in the CSR disclosure index can be recognized through two different approaches. The first is a weighted approach that allow the users of financial statements to value each item and its importance by employing a specific scale (i.e. 1 to 3 or 1 to 5). The second is the un-weighted approach, which deals with all financial statement items as having similar importance, and this will help to avert any subjectivity that is related to the weighted indicators (Cooke and Wallace, 1989; Marston and Shrives, 1991). This study implements the un-weighted method; the dichotomous approach is adopted to build the index score; an item is given a value of 1 if the bank has disclosed it, and a 0 otherwise. The key supposition of this approach is that all of the items in the CSR index are given the same importance and significance (Gray *et al.,* 2007)

4.3.2 Reliability and Validity of CSR Disclosure Index:

Social scientists use two key notions to measure the quality and the credibility of the research tool developed. These two notions are Reliability and Validity. Reliability is about whether the index introduces symmetrical results that could be repeated if the process were to be performed a number of times (Gray *et al*., 2007). In particular, it refers

to the likelihood of similar findings being created, regardless of who uses the index to measure the disclosure of a specific organization for a certain period. Since the data measured by the index is extracted from the same annual report, reliability should be found here (Marston and Shrives, 1991; Gray *et al*., 2007).

The other concept is validity, which refers to the context of a disclosure index and the degree to which a tool measures (a) what it requires to measure, and (b) what the researcher aims to study (Punch 1998; Black 1999). To improve the reliability of the CSR index in this study, the annual reports of the sample banks were read twice, by the student and by another assistant, in order to ensure that the index scoring was reliable and consistent. This will also serve to avoid any errors and faults in the CSR index.

4.4 Independent Variables:

The study includes eight different and independent variables in order to test the extent of CSR disclosure. These variables are: the audit committee, board independence, board size, government ownership, bank size, profitability, leverage and bank type (whether it is an Islamic or a non-Islamic bank). As for country variables, there are six dummy variables in the model. Following Debreceny and Rahman (2005), Bonsón and Escobar (2006), a value of 1 is given if the bank belongs to that country, and 0 if it does not. The Table below shows the independent variables and how they were measured.

Table 2

Description of Independent Variables

Independent Variables	Measurement
Audit Committee	A dummy variable gives 1 if the bank has an audit committee, and 0 otherwise.
Board Independence	Which is a ratio calculated by dividing the number of the directors from outside by the total number of directors.
Board Size	The number of the directors on the bank's board.
Gov. Ownership	A ratio of shares held by the government to the total number of the banks' shares.
Bank type	A dummy variable that is equal to 1 if the bank is non-Islamic, and 0 otherwise.
Bank Size	The natural logarithm of the total assets of the bank.
Profitability	The return on assets.
Leverage	The total debts / total assets of the bank.

Many prior studies have used the same definitions that are used above, for instance, Said *et al.* (2009), who used the same definition for board size, board independence and government ownership. This paper also used the same proxy as that used in this study for bank size and profitability. Similarly, Habbash (2016) used the same measurements for board size, board independence and government ownership. In addition, they used the same proxy for the bank characteristics' variables: bank size, profitability and leverage.

CHAPTER 5: RESULTS

This study set out to investigate what are variables that affect CSR disclosure in GCC countries. This chapter addresses the results of the data analysis, to answer the study's main question, and outlines the variables that have a significant association with CSR disclosure.

5.1 Model One (Across the Six GCC Countries):

5.1.1 Descriptive analysis:

Table 3 shows the descriptive analysis of the study's variables. First, the mean value of the CSRD variable is 0.4669, this value indicates that the average CSR disclosure of the sample banks is about 47%. This percentage means that most of the sample banks did not disclose at least 14 of the 28 items in the CSR index. Second, the mean value of *AC* 0.9756 indicates that 98% of the sample banks have an audit committee for their boards. Third, the mean value of the board independence variable is 55.2735, which give an indication that more than half of the boards' directors in the sample are independent directors. Fourth, the mean of the board size variable is 9.3252, which means, on average, that the sample banks have nine directors. Fifth, the mean of government ownership is 20.0162; this can be explained because the government owns 20% of the sample banks' shares. Sixth, the mean of the bank type is 0.63, indicating that, on average, 63% of the sample banks are non-Islamic banks.

Table 3

Descriptive Statistics (N=123)

	Minimum	Maximum	Mean	Std. Deviation
CSR Ratio	.00	.89	.4669	.14712
Audit Committee	.00	1.00	.9756	.15489
Board Independence	11.11	100.00	55.2735	25.21845
Board size	7.00	13.00	9.3252	1.51222
Government ownership	.00	79.29	20.0162	19.89497
Profitability	-2.58	4.99	1.6181	.95351
Company Size	9.10	11.73	10.3486	.71137
Leverage	2.78	14.47	7.899	1.96807
Bank type	0	1	.63	.484

5.1.2 Pearson Correlation Test:

The Pearson Correlation Test shows the correlation between dependent variables, independent variables and control variables. It shows both the significance and the direction of the relationships between the variables, and it assists in identifying any multi collinearity problem. As Gujarati (1998) proposed, the researcher can consider any correlation between independent variables to be a harmful correlation when it is above

0.90. This is almost the same opinion as that offered by Bryman and Cramer (2001). They claim that there will be a critical problem only if the correlation between the independent variables exceeds 90%. However, the correlation analysis in this study does not show any correlation problems between the independent variables. As shown in Table 4, the highest correlation between independent variables is the one shown between profitability and government ownership, which was 0.401, followed by a correlation of 0.364, between company size and profitability. Although these correlations are high and positive, they are not considered harmful correlations, because they did not exceed 90%.

In addition to the Pearson Correlation analysis, a test of multicollinearity problem is conducted between the independent variables in order to determine if two or more independent variables are highly correlated making it difficult to determine the individual contribution of each variable to the prediction of the dependent variable Mardini (2015). The correlation coefficient is considered high if it exceeds 0.7 for any two of the independent variables. According to the results of the multicollinearity test, none of the correlation coefficient exceeded 0.7.

Table 4

Pearson Correlation Analysis

	CR	AC	BI	BS	GO	BT	Pro	Lev	CS	Qatar	UAE	KSA	KW	Oman	Bahrain
CSR-Ratio	1														
Audit Committee	0.04	1													
Board Independence	-0.127	0.11	1												
Board Size	-0.005	-0.071	-0.134	1											
Government Ownership	0.176	0.16	-0.178*	-0.101	1										
Bank Type	0.007	-0.12	-0.054	0.119	-.193	1									
Profitability	0.082	-0.069	-0.013	-0.149	.401**	-0.123	1								
Leverage	0.161	0.105	-0.035	.221*	0.081	-0.105	-.381**	1							
Logsize	-0.009	-0.139	-0.443**	0.018	.292**	-0.045	-.364**	-.184	1						
Qatar	.301**	0.065	-.231*	-.257**	0.094	0.171	0.146	-0.052	.350**	1					
UAE	-.336**	-.298**	0.107	0.003	-0.041	0.158	.269**	-.399	0.134	-0.22*	1				
KSA	-0.089	0.078	-.245**	0.071	0.131	-.265**	0.14	-0.019	.574**	-.204*	-.261**	1			
KW	-0.144	0.065	.261**	0.018	-.272**	0.028	-.264**	.314**	-.356**	-0.17	*.220*	-.204*	1		
Oman	.287**	0.065	.348**	-0.12	0.012	0.028	-0.061	0.124	*.511**	-0.17	*.220*	-.204*	-0.171	1	
Bahrain	0.05	0.065	-.228*	.277**	0.066	-0.115	-.292**	0.104	-.284**	-0.17	*.220*	-.204*	-0.171	-0.171	1

5.1.3 Regression results:

In regard to the variables that are related to corporate governance, as shown in Table 5, none of the variables are statistically significant, except for government ownership, the coefficient of government ownership is both positive and statistically significant, which indicates that the existence of government ownership may be an element of CSR disclosure. This result is similar to those in previous studies, such as Said *et al.* (2009), Haji (2013), Habbash (2016), and Sadou *et al* (2017) which confirmed that government ownership is positively and significantly associated with CSR disclosure. This study suggests that the GCC banks should increase government ownership in order to have higher CSR disclosure. On the other hand, as shown below, the audit committee, board

independence and bank type are both negatively and insignificantly correlated with CSR disclosure, and this result is in line with the results given by Said *et al.* (2009), who did not find a significant association between these variables and CSR disclosure. Also, khan *et al* (2012) couldn't find a significant association between audit committee and CSR disclosure. Esa et al (2012) and Haji (2013) results are in line with this study result regarding the board independence, both indicated that the relationship between board independence and CSR disclosure is insignificant. Regarding board size, Abdel Razak (2014) and Kilic *et al* (2015) both confirmed that the relationship between board size and CSR disclosure is insignificant which is similar to the study result.

Regarding the variables that are related to the company's characteristics, the analysis shows that only the firm's leverage may be an element of CSR disclosure, while company size and profitability are not. The coefficient of the leverage variable is both positive and significant at 5%, indicating that banks with a higher leverage ratio are more likely to disclose CSR information to assure their creditors that both management and shareholders are less likely to steer their agreement payments. This result is in line with Khan *et al* (2012), Esa *et al.* (2012), and Giannarakis (2014), all of them have found a significant and positive association between the leverage and the extent of CSR disclosure. The coefficient of profitability is positive, but insignificant, and this result is in line with previous studies, such as those of Esa *et al.* (2012), Richardson and Welker (2001), Habbash (2016), and Lone *et al.* (2016), who found that profitability doesn't affect CSR disclosure. The same applies to firm size, where the coefficient is positive, but statistically insignificant, this finding is similar to those of prior papers (Lone *et al*. 2016; Cho *et al*., 2015).

From the Table below, we can also see that there are three main countries that significantly influence upon CSR disclosure in GCC, which are Qatar, Oman and Bahrain. This study assumes that the reason behind this is that these three countries have a higher CSR disclosure in their banking sectors.

Table 5 illustrates the association between the study's variables and the extent of CSR disclosure in the GCC banking sector. Notice that the adjusted R^2 is 0.239 which means the independent variables in the first model explain 23.9% of the variations in the level of CSR disclosure among the banks in this study (Mardini 2015).

Table 5

Regression Analysis Results

	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	-.077	.451		-.171	.865	
	Audit Committee	-.031	.085	-.032	-.364	.716	1.271
	Board _Independence	-.001	.001	-.104	-1.025	.308	1.636
	Board _size	.007	.009	.070	.740	.461	1.418
	Government _ownership	.000	.001	.028	2.157	.033	1.772
	Bank type	-.002	.028	-.007	-.079	.937	1.313
	Profitability	.025	.017	.162	1.508	.134	1.841
	Leverage	.006	.008	.083	2.614	.010	1.702
	Company size	.034	.041	.164	.834	.406	1.203
	Qatar	.178	.047	.430	3.769	.000	2.086
	KSA	.030	.048	.081	.628	.531	2.697
	KW	.089	.054	.215	1.650	.102	2.719
	Oman	.248	.059	.598	4.225	.000	2.216
	Bahrain	.133	.056	.321	2.367	.020	2.948
	Adjusted R^2= 0.239						

In other words, when the adjusted R^2 is 0.239, this mean that almost 75% of the variables influencing the CSR disclosure have not been captured in this study.

5.2 Model Two (each significant country alone):

5.2.1 Qatar

5.2.1.1 Descriptive Analysis:

Table 6 shows the descriptive analysis of the study's variables in Qatar. First, the mean value of the CSRD variable is 0.5733, and this value shows that the average CSR disclosure of the sample banks in Qatar is about 57%. This percentage means that most of the sample banks in Qatar disclosed around 16 items of the 28 items in the CSR index. Second, the mean value of *AC* 1 indicates that all the sample banks in Qatar have an audit committee for their boards, which is sensible, because it is mandatory for any listed company to have an audit committee. Third, the mean value of the board independence variable is 41.2828, which signals that only 41% of the Qatari banks' boards' directors are independent ones. Fourth, the mean of the board size variable is 8.3889, which means, on average, that the Qatari banks in the sample have eight directors. Fifth, the mean of government ownership is 24.4922, which means, on average, that the Qatari government owns around 25% of the banks' shares. Sixth, the mean of the bank type is 0.83, indicating that 83% of the sample banks are non-Islamic banks.

Table 6

Descriptive Statistics (Qatar N=18)

	N	Minimum	Maximum	Mean	Std. Deviation
CSR Ratio	18	.21	.89	.5733	.17540
Audit Committee	18	1.00	1.00	1.0000	.00000
Board Independence	18	11.11	77.78	41.2828	18.24819
Board size	18	7.00	10.00	8.3889	1.09216
Government ownership	18	.00	50.00	24.4922	19.89296
Profitability	18	1.16	2.73	1.9533	.49383
Company Size	18	10.42	11.73	10.9471	.39216
Bank type	18	0	1	.83	.383
Leverage	18	6.37	9.17	7.6512	.82901

5.2.1.2 Pearson Correlation Test:

As explained above, the Pearson Correlation Test is run to examine the correlations among dependent, independent and control variables, the percentage should not exceed 90% in order to make sure that no harmful correlation exists in the study. The audit committee has been excluded from this test, because all of the banks have an audit committee, so the variable value is constant, and, due to this, the correlation between the audit committee and the other variables could thus not be computed.

Table 7

Pearson Correlation Analysis (Qatar)

	CR	BI	BS	GO	BT	CS	Pro	Lev
CSR- Ratio	1							
Board Independence	-0.103	1						
Board Size	-0.155	0.196	1					
Government Ownership	-0.335	0.018	0.099	1				
Bank type	0.35	-0.173	-0.257	-0.067	1			
Profitability	0.09	-0.087	.753**	0.442	0.076	1		
Logsize	-0.654	-0.247	.529*	0.048	-0.641	0.179	1	
Leverage	0.097	-0.281	-0.036	0.326	.536*	0.403	-0.435	1

The Table above illustrates that none of the correlations exceed 90%, so there is no harmful correlation in this study. The high and positive correlation is between board size and profitability (0.753), followed by 0.536 between the bank type and company size, yet none of them exceed 0.90.

5.2.1.3 Regression Results:

In relation to corporate governance variables, board independence has a positive association with CSR disclosure, but is statistically insignificant. The results indicate that board size is statistically significant, but negatively so, which means banks with fewer board members are more willing to publish and disclose CSR date. This finding is in line with those of Jensen (1993), who confirmed that there is a negatively significant relation between board size and the extent of CSR disclosure. On the other hand, this result is different to that of Siregar and Bachtiar (2010), who found that the relation between board size and CSR disclosure is significantly positive. The findings indicate that government ownership is positively significant in relation to the extent of CSR disclosure, and, again, this study suggests that Qatari banks should increase the number of shares that are held by the government in order to have higher CSR disclosure. This finding is similar to the findings of Habbash (2016) and Said *et al.* (2009). The bank type is also significantly associated with CSR disclosure in a negative direction, which means Islamic banks are more likely to disclose CSR information.

Regarding the variables that are related to the company characteristics, which are bank size, profitability and leverage, all have a significant relationship with CSR disclosure in Qatari listed banks. Yet, profitability and leverage show a negative direction, which means less profitable banks are more likely to disclose CSR information, and this result is in line with that of Ho and Taylor (2007), while Habbash (2016) didn't find any significant association in regard to leverage, the result shows that less leveraged banks are more willing to disclose CSR information. This finding agrees with Habbash (2016), while it disagreed with those of Nasel *et al.* (2002) and Ferguson *et al.* (2002), who

confirmed that the association between leverage and CSR disclosure is positively significant, and, finally, Ho and Wang (2002) and Chau and Gray (2002) didn't find any significant relationship between leverage and CSR disclosure. Finally, results show a positively significant association between bank size and the extent of CSR disclosure in the Qatari listed banks. This result is similar to that of many previous studies, such as Wallace *et al.* (1994), Ahmed (1995) and Zarzeski (1996). On the other hand, Abduh and Alageely (2015) confirmed that the association is negatively significant, while Roberts (1992) found, in the USA, that the association between company size and the extent of CSR disclosure is insignificant.

Table 8 illustrates the association between the study variables and the extent of CSR disclosure in Qatar. Notice that the adjusted R^2 is 0.798 which means the independent variables explain 79.8% of the variations in the level of CSR disclosure among the banks in this study (Mardini 2015). In other words, when the adjusted R^2 is 0.798, this mean that almost 20% of the variables influencing the CSR disclosure have not been captured in this study.

Table 8

Regression Results in Qatar

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	-3.494	1.023		-3.417	.007	
	Board Independence	.002	.001	.227	1.808	.101	1.329
	Board size	-.122	.044	-.757	-2.794	.019**	2.210
	Government ownership	.006	.001	.704	4.635	.001*	1.945
	Bank type	-.143	.075	-.312	-1.911	.085***	2.229
	Profitability	-.314	.060	-.884	-5.218	.000*	2.417
	Leverage	-.083	.034	-.391	-2.431	.035**	2.760
	Company Size	.595	.127	1.331	4.698	.001*	2.178

*significant at 1%

**significant at 5%

***significant at 10%

Adjusted R^2= 0.798

5.2.2 Oman:

5.2.2.1 Descriptive Analysis:

Table 9 displays a descriptive analysis of the study variables in Oman. First, the mean value of the CSRD variable is 0.5683, and this value indicates that the average CSR disclosure of the Omani banks is almost 57%. This figure means that most of the Omani banks in this sample are disclosing 16 items of the 28 items in the CSR index.

Table 9

Descriptive Statistics Oman (N=18)

	Minimum	Maximum	Mean	Std. Deviation
CSR_ ratio	.36	.75	.5683	.10263
Audit_ Committee	1.00	1.00	1.0000	.00000
Board_ Independence	40.00	100.00	76.3778	19.21815
Board_ size	7.00	11.00	8.8889	1.45072
Government_ ownership	.00	48.59	20.6128	13.49990
Profitability	.47	2.46	1.4791	.51032
Leverage	6.92	11.62	8.4844	1.32259
Company Size	9.13	10.10	9.4743	.26883
Bank type	0	1	.67	.485

Second, the mean value of the audit committee is 1, which gives an indication that all the sample banks in Oman have an audit committee for their boards. Third, the mean value of the board independence variable is 76.3778, which means that around 76% of the boards' directors in the Omani banks are independent directors. Fourth, the mean of the board size variable is 8.888, which means that, on average, the Omani banks in the sample have almost nine directors. Fifth, the mean of government ownership is 20.6128, which means that, on average, the Omani government owns around 21% of the banks' shares. Sixth, the mean of the bank type is 0.67, indicating that 67% of the sample banks are non-Islamic banks.

5.2.2.2 Pearson Correlation Test:

Similarly, to the Qatari sample, the audit committee has been excluded from this test, the reason being that the audit committee variable has a constant value, which is 1, and that is why the correlation between the audit committee and the other variables could not be computed.

Table 10

Pearson Correlation Analysis (Oman)

	CR	BI	BS	GO	BT	CS	Pro	Lev
CSR- Ratio	1							
Board Independence	-0.183	1						
Board Size	-0.361	-0.254	1					
Government Ownership	-0.029	-0.451	0.302	1				
Bank type	-0.106	0.075	0.362	-0.127	1			
Company Size	0.005	-0.177	0.114	.769**	0.196	1		
Profitability	0.108	-0.43	.596**	.664**	-0.149	0.22	1	
Leverage	0.045	-0.142	-0.293	0.04	-0.8	-0.206	0.068	1

The highest and most positive correlation is 0.769, which is between company size and government ownership, followed by 0.664, although none of them exceeds 0.90, so there is no harmful correlation between the study's variables in the Omani sample.

5.3.2.3 Regression Results:

In relation to corporate governance variables, all of the variables; board independence, board size and government ownership, have a negative association with CSR disclosure. The board size is the only variable that is statistically significant. This result is similar to the result in the Qatari sample, and, again, this result is in line with that of Jensen (1993), who confirmed, in a previous study, that there is a negatively significant association between board size and the extent of CSR disclosure. On the other hand, this result is

contrary to that of Siregar and Bachtiar (2010), who found that the association between board size and CSR disclosure is significantly positive. The bank's type has a positive relationship with CSR disclosure, but is statistically not significant. In relation to the company characteristics' variable, both company size and profitability have a positive association with CSR disclosure; however, only profitability is statistically significant. This can be explained by the more profitable banks being more likely to disclose CSR information. On the other hand, leverage has a negative and insignificant association with CSR disclosure.

Table 11 illustrates the association between the study variables and the extent of CSR disclosure in Oman. Notice that the adjusted R^2 is 0.228 which means the independent variables explain 22.8% of the variations in the level of CSR disclosure among the banks in this study (Mardini 2015). In other words, when the adjusted R^2 is 0.228, this mean that almost 77% of the variables influencing the CSR disclosure have not been captured in this study.

Table 11

Regression Results in Oman

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	-1.223	1.822		-.671	.517	
	Board_ Independence	-.002	.001	-.360	-1.392	.194	1.476
	Board_ size	-.064	.023	-.900	-2.729	.021*	2.393
	Government_ ownership	-.009	.005	-1.195	-1.790	.104	2.811
	Bank type	.002	.093	.011	.024	.981	2.229
	Company size	.258	.196	.677	1.317	.217	2.812
	Profitability	.231	.088	1.146	2.629	.025*	2.186
	Leverage	-.012	.029	-.152	-.412	.689	2.992

*significant at 5%

Adjusted R^2= 0.228

5.2.3 Bahrain

5.2.3.1 Descriptive analysis:

Table 12 presents a descriptive analysis of the study's variables in Bahrain. First, the mean value of the CSRD variable is 0.4844, and this value shows that the average CSR disclosure of the Bahraini banks is almost 48%. This figure means that most of the Bahraini banks in this sample are disclosing 13 items of the 28 items in the CSR index. Second, the mean value of the audit committee is one, which gives an indication that all the sample banks in Bahrain have an audit committee for their boards. Third, the mean value of the board independence variable is 41.4161, which means that around 42% of

the boards' directors in the Bahraini banks are independent directors. Fourth, the mean of the board size variable is 10.333, which means, on average, that the Bahraini banks in the sample have almost ten directors. Fifth, the mean of government ownership is 23.1878, which means, on average, that the Bahraini government owns around 23% of the banks' shares. Sixth, the mean of the bank type is 0.50, indicating that 50% of the sample banks are non-Islamic banks, and the remaining 50% are Islamic banks.

Table 12

Descriptive Statistics Bahrain (N=18)

	Minimum	Maximum	Mean	Std. Deviation
CSR_ ratio	.32	.61	.4844	.08333
Audit_ Committee	1.00	1.00	1.0000	.00000
Board_ Independence	28.57	61.54	41.4161	7.55909
Board_ size	7.00	13.00	10.3333	2.00000
Government_ ownership	.00	49.00	23.1878	17.33574
Profitability	-1.10	1.95	.9474	.92458
Leverage	2.78	14.47	8.3900	2.93073
Company size	9.10	10.53	9.8630	.49140
Bank type	0	1	.50	.514

5.2.3.2 Pearson Correlation Test:

Again, the Pearson Correlation Test was conducted to examine the strength and direction of the relationships between the dependent variables, independent variables and control variables. Similarly, to the Qatari and Omani sample, the audit committee variable has been excluded from this test, since its value is constant, and the correlation cannot be computed between the audit committee and all of the other variables. As Table 13 illustrates, the highest and most positive correlation is 0.837, which is between profitability and government ownership, followed by 0.790, which is between CSR disclosure and government ownership. Although these two correlations are high, they did not exceed 90%, so there is no problem with the correlation between the variables.

Table 13

Pearson Correlation Analysis (Bahrain)

	CR	BI	BS	GO	BT	CS	Pro	Lev
CSR- Ratio	1							
Board Independence	0.14	1						
Board Size	.527*	0.376	1					
Government Ownership	.790**	-0.081	0.257	1				
Bank type	0.069	-0.305	-0.171	0.17	1			
Company Size	0.183	0.374	0.115	0.159	-0.889	1		
Profitability	.677**	0.074	0.069	.837**	0.395	0.014	1	
Leverage	0.206	0.269	.678**	0.127	-0.345	0.302	-0.02	1

5.2.3.3 Regression Results:

In relation to corporate governance variables, board independence has a negative association with CSR disclosure, but is statistically insignificant, both board size and government ownership show a positive direction, but only board size is statistically significant, this means large boards are more likely to disclose CSR information. In relation to the bank type, the association is positive but statistically insignificant. Concerning the corporate characteristics' variables, none is statistically significant, but both company size and profitability are positively associated with CSR disclosure, while leverage is negatively associated with CSR disclosure.

Table 14 illustrates the association between the study's variables and the extent of CSR disclosure in Bahrain. Notice that the adjusted R^2 is 0.646 which means the independent variables explain 64.6% of the variations in the level of CSR disclosure among the banks in this study (Mardini 2015). In other words, when the adjusted R^2 is 0.646, this mean that almost 35% of the variables influencing the CSR disclosure have not been captured in this study.

Table 14

Regression Results in Bahrain

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	VIF
		B	Std. Error	Beta			
1	(Constant)	-.336	1.283		-.262	.799	
	Board_ Independence	-.001	.002	-.075	-.349	.735	2.236
	Board_ size	.026	.011	.624	2.358	.040*	3.360
	Government_ ownership	.002	.002	.366	.985	.348	2.638
	Bank type	.033	.128	.206	.260	.800	2.183
	Company size	.058	.125	.343	.465	.652	2.024
	Profitability	.022	.043	.241	.510	.621	1.762
	Leverage	-.008	.006	-.271	-1.286	.227	2.127

*significant at 5%.

Adjusted $R^2 = 0.646$

CHAPTER 6: CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

This study has found very few studies that investigate the impact of CG on the extent of CSR disclosure in the GCC. The purpose of this study is to find the main determinants of CSR disclosure in the GCC banking sector, and thus it will help to fill this gap in the literature. The study tests a complete set of 8 variables across CG, ownership structure and corporate characteristics.

This study uses an index taken from a previous study: Jain and Winner (2016), the original index includes 52 items, but the study's CSR index ends up with 28 items, after deleting all of the items that were not disclosed by any bank in the sample.

The study uses multiple regression analyses to examine a sample of 123 annual reports dated between 2013 and 2015. In the first regression analyses across the six GCC countries, the results show that there is a significant positive association between government ownership and CSR disclosure in GCC banking sector. This result is similar to other previous studies Said *et al.* (2009), Haji (2013), Habbash (2016), and Sadou *et al* (2017) which confirmed that government ownership is positively and significantly associated with CSR disclosure. Also, the study found that there is a positive significant relationship between bank leverage and CSR disclosure are. This result is in line with many previous studies such as Khan *et al* (2012), Esa *et al.* (2012), and Giannarakis (2014), all of them have found a significant and positive association between the leverage and the extent of CSR disclosure. The results also indicate that there are three main countries that have a significant impact on CSR disclosure in the listed banks of the GCC countries, which are Qatar, Oman and Bahrain. The analysis finds that the remaining variables, the audit committee, the board size, board independence, bank Type,

profitability, and bank size, don’t have a significant association with CSR disclosure in the GCC, and they are therefore not considered to be CSR disclosure determinants.

The second regression analysis was across the three main countries, Qatar, Oman and Bahrain. The results indicate that, in Qatar, the board size, government ownership, bank type, profitability, leverage and bank size each has a significant association with CSR disclosure, while, in Oman, there are only two variables which have a significant impact on CSR disclosure, which are the board size and profitability. Finally, in Bahrain, the board size is the only variable which has a significant association with CSR disclosure.

The findings of this research have some limitations. The first limitation that the study faced is the size of the sample, the study assumes that if the sample were bigger, the data collected would be richer, the results might be different, and the association between CG and CSR disclosure could be tested in a more satisfactory way. Second, the study’s CSR index may not be solid and relevant, since Jain and Winner, (2016) used this index to study CSR in the manufacturing sector, and there have not been many studies on banks’ CSR disclosure that consider them as a reference and use them to draft the study’s CSR index. Third, the study only depended on their annual reports to investigate the banks’ CSR disclosures and the associations with the different variables. However, there are many other methods, and reports of disclosure should be investigated and tested along with the annual reports, for instance, separate environmental reports, websites, and other reports from the banks. This might allow us to discover a more complete picture of banks’ disclosures. Fourth, this study only focused on measuring the quantity of CSR disclosure, not on the qualitative features of the disclosed information.

Regardless of the above limitation, the study’s findings can provide some important

implications. First, the CG regulators should identify the positive impact of government ownership on CSR disclosure, and how government ownership can improve and enhance CSR disclosure, and they should benefit from this result through their shareholdings, the regulators may take the results into consideration when they are going to determine the appropriate levels of disclosure and compliances of regulations in the future. Also, it can help policy-regulators or the ones who create the best practices who are working on the development of disclosure regulations or guidelines. Second, in relation to the stakeholders, the results propose that they should exercise more pressure on managers to disclose and publish more social data, as the average value of the CSR disclosure was comparatively low. Also, it can provide useful information for new investors if they are interested in CSR disclosure. That banks with higher government ownership will disclose more, so they will look for banks where they have higher percentage of shares owned by government to invest in. Furthermore, for banks with high leverage, stakeholders should not require a high level of CSR disclosure, as they believe that disclosing CSR information might involve them in additional cost, money which they can use to repay loans and lower their leverage ratio.

The findings have substantial suggestions for academics and researchers in this field, as they smooth the way for additional examination. The future study might take into consideration a larger sample, which will assure that they have more solid data. This study also investigates the disclosure found only in annual reports, yet it is known that management employs other disclosure reports and methods. A future study should thus also investigate disclosures in other reports and mechanisms, such as newspapers, magazines, and circulars. Moreover, future studies might consider survey methods,

including extra comprehensive interviews with managers and stakeholders, which might help to improve the intelligence of the CSR disclosures in the GCC banks. Another suggestion for a future study might be one that compares CSR practices in different emerging countries, so it might be interesting to repeat this study in another Middle Eastern country and to compare the results, since this could be productive. In addition, as this study has concentrated on the extent of CSR disclosure by the listed banks in the GCC, a future study might be focused on the accuracy and reliability of the information that is disclosed in the banks' annual reports. Also, since this study used the un-weighted disclosure index approach, the results might be changed if a weighted disclosure index approach is used, one that measures the significance of each item in accordance with the exact user group' perception. Finally, since the adjusted R^2 is 0.239, this give an indication that other variables can be tested in future studies and have an impact on CSR disclosure such as audit committee effectiveness, board diversity and other variables.

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APPENDIX

Table A: Banks Names in each country:

Qatar		
1	Qatar National Bank	QNBK
2	Commercial Bank of Qatar	CBQK
3	Doha Bank	DHBK
4	Al Ahli Bank	ABQK
5	Masraf Al Rayan	MARK
6	Al Khalij Commercial Bank	KCBK
Kingdom of Saudi Arabia		
1	Riyadh Bank	RIBL
2	Bank Al Jazira	BJAZ
3	Saudi Investment Bank	SAIB
4	Alawwal Bank	ALAWWAL
5	Banque Saudi Fransi	BSFR
6	Saudi British Bank	SABB
7	Arab National Bank	ARNB
8	National Commercial Bank	NCB
United Arab of Emirates		
1	Commercial Bank of Dubai	CBD
2	Mashreq Bank	MASQ

3	Bank of Sharjah	BOS
4	Commercial Bank International	CBI
5	National Bank of Fujairah	NBF
6	National Bank of Umm Al-Qaiwain	NBQ
7	National Bank of Ras Al-Khaimah	RAKBANK
8	United Arab Bank	UAB
9	Union National Bank	UNB
Kuwait		
1	National Bank of Kuwait	NBK
2	Gulf Bank of Kuwait	GBK
3	Al-Ahli Bank of Kuwait	ABK
4	Ahli United Bank	ALMUTAHED
5	Burgan Bank	BURG
6	Boubyan Bank	BOUBYAN
Oman		
1	Ahli Bank	ABOB
2	Bank Dhofar	BKDB
3	Bank Muscat	BKMB
4	HSBC Bank Oman	HBMO
5	National Bank of Oman	NBOB
6	Sohar Bank	BKSB
Bahrain		
1	Ahli United Bank	AUB
2	Bank of Bahrain & Kuwait	BBK

3	National Bank of Bahrain	NBB
4	Arab Banking Corporation	ABC
5	Ithmaar Bank	ITHMR
6	United Gulf Bank	UGB

Table B: Corporate Social Responsibility Index

- Corporate Profile:

1. Overview.
2. Leadership/Management Information.
3. Locations.
4. Description of the workforce.
5. Revenues.

- Ethics and integrity:

6. Statement/declaration of values, principles, standards, and norms (or code of conduct).

- Economic disclosure:

7. Economic performance.
8. Market presence.
9. Procurement practices.

- Environmental disclosure:

10. Materials.
11. Energy.
12. Water.

13. Effluent and waste.

14. Products and services.

15. Transport.

16. Environmental issues.

- Product responsibility:

17. Health and safety.

18. Customer privacy.

- Labor practices:

19. Employment.

20. Retirement plan.

21. Training and education.

22. Diversity and equal opportunity.

23. Number of Employees.

24. Employee Benefits.

- Human rights:

25. Security practices.

- Society:

26. Local communities.

27. Anti-corruption.

28. Public policy.