

**INTEGRATION OF CORPORATE SOCIAL RESPONSIBILITY (CSR) INTO CORPORATE GOVERNANCE: NEW MODEL, STRUCTURE AND PRACTICE: A CASE STUDY OF SAUDI COMPANY.**

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**ABSTRACT:** *This paper seeks to explore the integration of corporate social responsibility (CSR) into corporate governance (CG) structure and system. To obtain this objective, this paper firstly reviews the extensive literature of CG and CSR. Second, it investigates the conception and understanding of interrelationship between CG and CSR within case study context of petrochemical company operates in Saudi Arabia. A qualitative case study was adopted by conducting in-depth interviews with participants at various levels of board and management in petrochemical company operates in Saudi Arabia. The findings suggested that the majority of participants consider CG as an essential foundation for sustainable CSR activities. The significance of the findings can be found in the fact that the previous trend of focusing solely on CG in developing countries has been reverted and more attention is dedicated to CSR. The current study contributes to existing body of CSR and CG literature by presenting the new CSR governance model. Two important implications can be found in this study. At organizational level, board members and managers can improve the corporate policy and practice in context of engaging with stakeholders. At the national level, the policy makers within developing countries can build on the conclusion drawn in this paper and enhance capacities of their regulatory and judicial systems to protect stakeholder's interest.*

**KEYWORDS:** Corporate governance, Corporate Social Responsibility, CSR governance.

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## INTRODUCTION

Over the recent years, corporate failures have emphasised the role of good governance, accountability and ethics, shifting the debate towards the areas of corporate governance (CG) and ethical aspects of the economic conduct (Agrawal and Chadha, 2005, Aguilera et al., 2006, Huse, 2005, Jamali et al., 2008). In addition to the increased role of CG, social and environmental impacts of the business conduct are becoming increasingly more important for various stakeholders and general public (Agrawal and Chadha, 2005, Ayuso and Argandoña, 2009, Boulouta, 2013, Ingley, 2008). Consequently, embracing the changes in these domains can be associated with allowing organisations to engage in proactive legal, social, environmental and reputation risk management; increased organisational effectiveness and better stakeholder management.

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The good corporate governance has become associated with good corporate responsibility, increased accountability that goes beyond the need of the shareholders and recognizes the needs of various stakeholder groups (Jamali et al., 2008, Carroll, 2000, Hazlett et al., 2007). Although the focus is still predominantly put on maximizing the shareholder value, further aspects of corporate performance in addition to financial results are becoming more commonly used. Empirical evidence suggested that trend towards the inclusion of longer-term social, environmental and economic impacts in addition to the short-term financial focus amongst contemporary organizations (Arora and Dharwadkar, 2011, Freeman, 2010, Kolk, 2008) .

Many scholars argued that sustainable governance is not optional (Kolk, 2008, Ingley, 2008, Aguilera et al., 2006, Sacconi, 2007). That stated that sustainable governance is a key expectation from governments, markets and society at the large. Increasing public confidence and developing trust requires organisations to pursued open, transparent and fair practices. Global Reporting Initiative (GRI) has emerged as an innovation in the governance reform and disclosure(Kolk, 2008). Sound environmental governance practice can be associated with financial performance through higher returns, business opportunity and competitive advantage (Kolk, 2008, Husted, 2003, Sacconi, 2007).

In line with the role of accountability and governance discussed above, the importance of CG and CSR can be inferred. Ethics, fairness, transparency and accountability are promoted via CG practices. The decisions should not only follow the shareholders' interests but also acknowledge the interests of various stakeholder groups (Freeman, 2010, Jamali, 2008). Thus, ethical, legal and communal needs of the society need to be included in strategic considerations. The topic of CSR has attracted a growing attention from the academic community and the general consensus supports the need to align CSR with CG. The presented paper examines the relationship between CG and CSR. Building on the existing body of research and a qualitative analysis of a petrochemical company operating in Saudi Arabia, this paper investigates managerial interpretations and deployment of CG structure and practices in the context of CSR.

## **A REVIEW OF EVOLUTION OF CG CONCEPTS, MODELS TOWARDS THE CSR ADOPTION**

Cadbury (2000) defined CG as a system through which organisations “are directed and controlled”. In addition to the compliance notions, accountability and transparency (MacMillan et al., 2004) the control aspect also focuses on the way in which the managerial functions are carried out via respective codes of conduct and laws (Cadbury, 2000). CG is considered important because it refines the laws, regulations and company contracts that govern corporate operations, ensures that shareholder rights are protected, interests of stakeholders and managers are compatible, and maintains transparency of the environment to enable each party to carry out its duties and promote the organization's welfare as well as create value (Jamali, 2008, Carroll, 2000, Hancock, 2004). In this way, governance enables the organization to define the manner in which power is exercised and decisions are made. Generally speaking, CG is a system of laws and financial accounting executed without much priority given to the socio-environmental considerations (Saravanamuthu, 2004).

The broader concept of CG emphasizes all the corporate responsibilities of the different stakeholders who provide the organization with the vital means of survival, competitiveness and success (MacMillan et al., 2004, Westphal and Milton, 2000). Managers are first and

above all responsible before the stockholders whose wealth is at stake. But they are also accountable before the organization's staff, customers, and suppliers, as well as the communities that have made significant investment in the organization. Thus, this broader concept of CG gives due regard to the interests of all stakeholders and puts constraints in this respect on managerial action (Arora and Dharwadkar, 2011, Harjoto and Jo, 2011). Beside these components, good governance encompasses wise leadership and goal and strategy setting. The latter two components, in turn, encompass definition of roles and responsibilities, setting of performance standards based on a long-term vision, development of prudent plans for good resource allocation, creation of expert knowledge and know-how and dissemination thereof among the organization employees, securing adequate external information, carrying out different watchdog functions, and orienting the organization's stakeholders in the right direction (MacMillan et al., 2004, Van Velsor et al., 2009, Cadbury, 2000).

It should be noted that the board aspects of CG that include roles such as leadership and control are not mutually exclusive, but are intricately linked with each other, and both of them define the amount of power conferred on the different stakeholders, including top managers, line managers and employees, and, to some degree, external constituencies and other actors (MacMillan et al., 2004). Top managers in this regard should apply all the capabilities at their disposal to take their organizations forward, while being adequately accountable toward all stakeholders (Ingley, 2008, Ibrahim and Angelidis, 2011). Therefore, CG is generally about a collection of universal features that ensure responsibility of the top management towards all the stakeholders of the organization, by devising mechanisms that serve to control managers' behaviour, and ensure that the company is operated according to the governing laws and is accountable toward all the stakeholders. The general purpose is to ensure that the reporting system in the company is organized in a manner that facilitates good governance (Kendall, 1999), create strategic management and effective leadership that work toward the protection of shareholders as well as all other stakeholders' rights, and enhance management accountability and employee performance (Khan, 2010, Jamali et al., 2008, Coffey and Wang, 1998)

### **The Relationship between CG and CSR**

The broader concept of CG in particular clearly indicates that good governance necessitates responsibility before the key stakeholders of the organization and due regard toward them as well and ensuring that the organization is accountable to its entire stakeholder groups (Aguilera et al., 2006, Agrawal and Chadha, 2005, Arora and Dharwadkar, 2011, Beltratti, 2005, Hazlett et al., 2007, Huang, 2010). As a result, an apparent overlap between CG and CSR concepts emerges in which the company is accountable to a wide range of stakeholder groups (Freeman, 2010, Jamali et al., 2008, Hazlett et al., 2007)

Alternatively, many CSR scholars stress the need to sustain the highest standards of internal governance, especially when considering the internal dimension of CSR. For example both CG and CSR require the organization to assume its moral as well as its fiduciary responsibilities toward its stakeholders. This dimension of accountability is crucial for a company to build trust with its shareholders as well as other stakeholder groups (Hazlett et al., 2007, Sacconi, 2007, Ibrahim et al., 2003). Honesty, transparency and accountability represent the key aspects of both concepts (Huang, 2010, Beltratti, 2005). Similar conclusions have been drawn by Marsiglia and Falautano (2005) who uncovered that philanthropic corporate capitalism and authentic strategies underpins effective CG and CSR. While CG is now synonymous of "being held accountable for," CSR is now synonymous of "taking account of" and both are now

increasingly used by organizations to standardize their operations (Beltratti, 2005, Marsiglia and Falautano, 2005).

### **CG Models: CSR integration into CG System and Structure**

The existing body of research on CG and CSR has advanced our understanding of the studied concepts. Despite the growing body of literature on these topics however, a number of questions regarding their relationship arises. The presented paper highlights numerous models which have examined the link between CG and CSR and thus addresses the complex nature of this relationship.

#### **1.1.1. CG as the system of regulations**

Gillan (2006) perceived CG to represent a regulatory system which governs the company's operations. Regardless of the multitude of concepts, researchers usually see CG mechanisms as incorporating two groups of mechanisms: internal and external. However, it should always be remembered that companies, are not just employees, shareholders, managers, boards, and financiers. Gillan (2006) offers a broad perspective of CG and the company that apply it (see figure 1). The author describes the people that make up the corporate structure including employees, customers, suppliers and other stakeholders. The figure also encompasses the community where the company operates, its political environment, the laws and rules that govern it, along with the markets where the company operates, and by doing so the figure also represents a stakeholder view of the company (Hazlett et al., 2007, Jamali et al., 2008).

Figure 1: CG Structure

Source: Gillan (2006)



Source: Gillan (2006)

### **From profit model to social responsibility model to corporate community model**

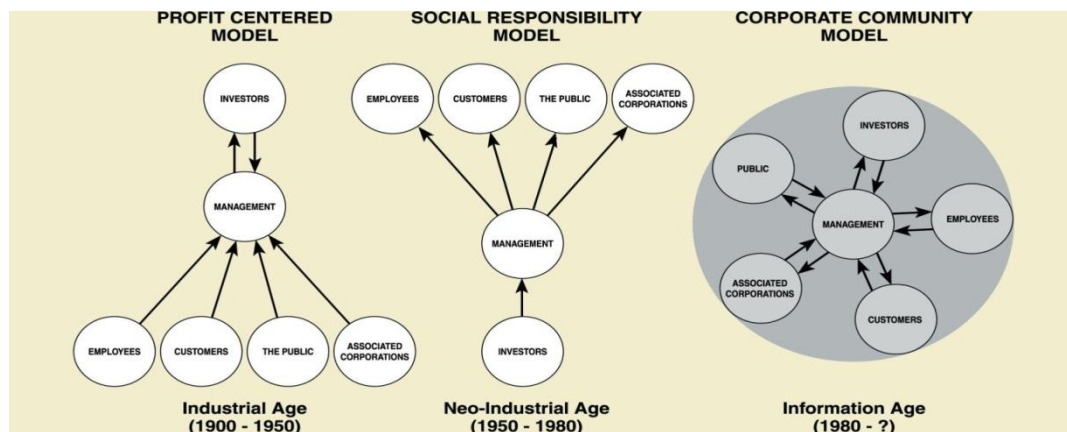
The review of CG conducted by Halal (2000) suggests that the concept has evolved from "profit-centered" towards "social responsibility" and ultimately "corporate community" model. Figure 2 provides a graphical representation of these three models. The origins of the profit-centred model (PCM) can be found in the industrial era and the model itself focuses mainly on the capital formation as the key role of a business. In line with this underlying premise, the managers' responsibilities revolve around profit and shareholders' wealth maximisation. While various stakeholder groups may benefit from the PCM approach as well, the model considers their interests as mere means to the end of achieving profitability instead of specific goals (Halal, 2000).

In the 1960, the social responsibility model (SRM) has emerged in the academic debate. It builds on the shortcomings of the PCM and the model itself has been applied by various

organisations to refocus on the social constituencies. Benefits derived from this model stem from the customers' and workers' appreciation of the social orientation however unlike PCM, SRM perceives "doing well" as a goal in its own rights. The particular shortcoming of this model revolves around Fortune magazine's editor's claim that "doing well is bad business"(Halal, 2000).

Figure 2: Evolution of corporate governance

Source: Halal (2000)



Halal (2000) maintains that the integration of stakeholders to make up productive whole or a "corporate community" (Figure 3) adds to the wealth creation function of the organization. The corporate community model is one that regards the organization as a socioeconomic system where wealth is made by utilizing stakeholder collaboration. By engaging in this partnership, the organization does not only become socially responsible, but more competitive.

### CG as a Pillar of CSR Model.

According to Hancock (2004), CG represents the key building block of CSR. Hancock (2004) identified four mainstays of CSR, highlighting strategic governance (which includes traditional CG issues along with strategic management capacity) as among the mainstays. Figure 1, shows how Hancock (2004) describes CG as among the mainstays of CSR coupled with human, stakeholder and environmental capitals. Hancock (2004) recommends that investors and senior managers should pay attention to these four mainstays, namely: strategic governance, human, stakeholder and environmental capitals, as these four together make up about 80 per cent of the true value of the organization that will be created in the future. Resource-based model supports this finding as it considers the creation of value to involve the use of human, stakeholder and environmental capital via good strategic governance (Ingley, 2008, Jamali et al., 2008). According to the resource-based model, CG may be regarded as among the key building blocks of CSR (Aguilera et al., 2006, Ingley, 2008). This concept agrees with Elkington (2006) who regarded the corporate boards as responsible for CSR, and regarded CG as a mainstay of sustainable CSR.

### CSR as a Dimension of CG Model

Another model which considers CSR as a key aspect of CG can be found in the work of Ho (2005). The model extends the risk dimension of CG to include non-financial risks with specific reference to CSR Figure 2 shows this concept of CG that includes the conventional aspect such as strategic leadership, board structure, social responsibilities, market relations and capital

structure, in addition to CSR. Other authors such as (Kolk, 2008, Jo and Harjoto, 2012) agreed with model as they regarded CSR as a constituent part of CG.

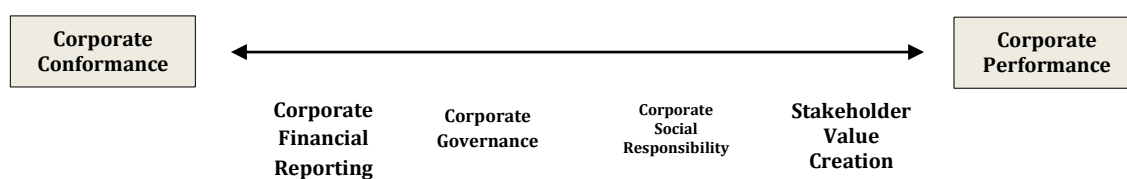
Ho (2005) proposed a wider framework that gauges CG by incorporating much more aspects that include CSR. Her work in this field is based on Kendall's (1999) work by portraying good CG as one that ensures that organizations are operated in a socially responsible manner based on good ethical values where the business complies with the established norms of the community where it operates. That is to say that the organization, based on this model, will be accountable to the society as a whole and internally to its employees such that it becomes embedded in good CG structures and formulations. This study furnishes evidence that commitment to CSR is positively and strongly correlated with the qualifications of directors, boards with strategic leadership roles, and capital market pressures management, all of which constitute the prints of good CG.

### Corporate Responsibilities Continuum Model

Bhimani and Soonawalla (2005) view CG and CSR as two components belonging to the same accountability continuum and complement each other. They see poor CG and inaccurate financial statements on the one hand, and poor CSR on the other hand, as two matching attributes of the organization (Bhimani and Soonawalla, 2005). Figure 3 represents an integrative framework, intended to make reporting of compliance with the laws and that of performance agree with each other and be fully integrated, rather than treated as different from each other (Bhimani and Soonawalla, 2005). The two dimensions of the continuum from compliance (on the left side) towards corporate performance (on the right side). This model implies the view that CG met with a lot of attention in the literature and in practice, but CSR and CSR reporting are likewise drawing more and more similar attention, and although no deliberate focus is being placed on it, it is increasingly portrayed as desired (Bhimani and

Figure3: The Corporate Responsibilities Continuum

Source: (Bhimani and Soonawalla, 2005)



Soonawalla, 2005). However, the literature is increasingly showing some nuances between the legally obliging requirements of corporate compliance incorporated in governance mechanisms, and self-regulated stakeholder and CSR initiatives, thus indicating unplanned corporate social performance (Marsiglia and Falautano, 2005, Rao and Tilt, 2015, Ingle, 2008). It is clear today that CG and corporate compliance along with the increasingly emerging legal requirements are drawing more and more attention relative to voluntary CSR initiatives. However, the continuum constitutes a good tool for the demarcation of the basic structure of corporate accountability, with CG and compliance lying on the left side representing the basic foundation and the rest of the items gradually integrated so as to consolidate the global overall accountability.

### CG in managing strategic risk Model

The model of five interrelated elements was introduced by Drew et al. (2006). It enables the organization to manage risks, get involved in sound and effective CG, and apply regulatory changes. The authors identified these elements as culture, leadership, alignment, systems, and structure, and represented them by the acronym CLASS for the sake of convenience. For instance, leadership practices shaped organizational culture; systems shape organizational culture and support its structure; alignment helps harmonize each element with the others in order to allow leadership to reinforce explicit cultural norms; and the culture is reinforced by systems. In this way interact with each other elements.

Figure 4 shows how each of these elements positively reinforces the other elements thus strengthening strategic risk management. The examination process can be used by the board members to assess organisational challenges and introduce change management plans to improve areas in need of improvement. The outcomes of the process can be found in positive effects on risk management and CG capabilities. The core of corporate community model (depicted in Figure 2) can incorporate elements of governance as shown in Figure 4. By combining these two models it can be shown how CG influence CSR and corporate community. Therefore, the models are revisited with reference to a qualitative case study of an organisation operating in Saudi Arabia with the aim of exploring the practical applications of CG and CSR. The exploration of CG and CSR interrelationships is not examined yet in the context of the Saudi Arabia. Additional benefits from the use of the Saudi context can be found in the examination of the interplay of social and economic factors affecting on the interrelationships between CG and CSR practices. Therefore, Saudi context is expected to provide valuable implications for the developing countries. The following section highlights the key issues in Saudi Arabia and discusses the research methodology and empirical findings of this study.

Figure 4: Five elements of CG to manage strategic risk

Source: (Drew et al. 2006)



### CG and CSR as contemporary business issues in Saudi Arabian context

Saudi Arabia has achieved a significant reforms in its political, social and economic aspect during last decades (Gallarotti, 2013, Al-Matari et al., 2012). The main objective of economic reforms was to improve its ranking and position in global competitiveness index. Therefore, the adoption of (CG) and (CSR) were essential development and reforms in Saudi economy. The growing attention have been paid to CG and CSR as response to global calls after global

collapses/scandals in 2008 (Hussainey and Al-Nodel, 2008, Al-Nodel and Hussainey, 2010, Al-Moataz and Hussainey, 2013)

Until the early 2000s, the Saudi Arabia in particular has not appreciated the importance of CG and CSR (Ali and Al-Aali, 2012, Al-Matari et al., 2012). Furthermore, until 2006, the companies' behaviour in Saudi Arabia was governed by the Companies Act of 1965 (Haniffa and Hudaib, 2007, Hussainey and Al-Nodel, 2008, Al-Nodel and Hussainey, 2010). Since the Companies Act does not address internal CG mechanisms directly with the exception of few provisions relating to the composition of the board of directors, the Act was insufficient to promote effective CG. Furthermore, the Companies Act has neglected provisions to social and environmental disclosure, transparency, accountability as well as protection towards the stakeholder groups. The situation changes in 2006 with the publication of the Saudi CG Code (SCGC) which introduced specific CG guidelines for the protection of stakeholders in the country. Moreover, Saudi government established the CMA in 2003 in order to response the growing pressures (both domestic and international) to stimulate the security of the environment and attract investment (Hussainey and Al-Nodel, 2008, Al-Nodel and Hussainey, 2010). The CMA has focused on regulation and reforming of CG practices as well as stock market trading rules (Alsaeed, 2006, Alzharani et al., 2011). Consequently, the number of listed firms, market capitalization, liquidity and visibility has increased substantially over the last decade in Saudi Arabia (Alzharani et al., 2011).

Although the general governance reforms started in 2003 (CMA), the institutionalization of internal CG was achieved in 2006 through the publication of the SCGC (Al-Moataz and Hussainey, 2013, Al-Nodel and Hussainey, 2010, Hussainey and Al-Nodel, 2008). The rapid pace of market capitalization since 2004 has diverted CMA's attention from the focus on CG code. The three year period of sharp increases in share prices, local crises emerged in the beginning of 2006 on Saudi stock market which forced CMA to suspend the trading for some listed companies. As result of local financial crises, the Saudi stock market exposed a significant deterioration in share's value by December 2006. Following the sudden appearance of the Saudi stock market crash, the need to improve CG legislation, disclosure, board incompetence, corruption and monitoring devices to promote stakeholder's interests was acknowledged (Al-Abbas, 2009).

In November 2006, CMA issues the Saudi CGCode (SCGC) as a voluntary economic reform to be implemented by listed companies. Since the introduction of the SCGC, CMA aimed to highlight the benefits of good CG and enhance its adoption rate. Awareness of the importance of good CG was however very low and companies seemed to be in early stages of implementing these codes. In 2008, the Saudi stock market experienced the second rapid decline due to the global financial crisis. In the aftermath of the global financial crisis, the focus was put on CGpractice and responsible behaviour towards the environment. Furthermore, calls for a greater accountability towards stakeholder groups have been raised in numerous national and international jurisdictions (Kiel and Nicholson, 2003, Ingley, 2008, Jamali et al., 2008). In 2010, all listed companies have been forced to adopt CG code by CMA with the aim of developing the Saudi capital market and enhancing the credibility as well as transparency of financial reporting with the ultimate goal of protecting shareholders' interests. Five particular parts are included in the code. The first part defines the terms included in the regulation (e.g. non-executive and shareholders). The second part emphasizes the shareholders' rights and the general assembly. The third part focuses on the disclosure and transparency issues and thus



revolves around company's policy and board's reporting responsibilities. The fourth part highlights the directors' roles and responsibilities. The fifth and the final part of the code summarize the implementation procedure.

Despite the effort put towards the development of the code, corporate manipulation, mismanagement and fraud are still very common in the Saudi financial market. The underlying reason can be found in the fact that the CG code developed has not recognized the shift from the shareholder model towards stakeholder model. As a result, the growing evidence of bad CG practices, fraud and mismanagement in Saudi Arabia highlights the need for a reform in the Saudi CG codes by including the focus on the stakeholders. This approach would force the companies demonstrate CSR and to become more accountable to wider stakeholder groups (and not only to shareholders). CSR has been given more emphasis by businesses and government in Saudi Arabia (Ahamad Nalband and Al-Amri, 2013, Ali and Al-Aali, 2012, Emtairah et al., 2009, Mandurah et al., 2012). In 2000, Saudi Arabian Government has intended of becoming one of the top-ten competitive nations in the world by the year 2010(SAGIA, 2008d). In order to achieve this objective, Saudi Arabian General Investment Authority (SAGIA) was established to encourage legal and economic reforms by improved responsible business practices in the companies operate in Saudi Arabia. SAGIA believed that CSR mainly as an element of its competitiveness that lead to attaining this major objective of being Saudi Arabia among the top-ten competitive economies, as increased corporate social responsibility will lead to continuous improvements (Foundation, 2008, SAGIA, 2008d).

In July 2008, SAGIA, the King Khalid Foundation, and the international NGO, Accountability started cooperating together to establish the Saudi Arabian Responsible Competitiveness Index (SAGIA, 2008a, SAGIA, 2008d) in order to measure and rank Saudi companies in CSR practices and contributions. SARCI has reiterated the main central objectives of vision 2010 in achieving a society "infused by strong moral and ethical values". SAGIA claimed that partnership and cooperation with private sector is a main motivation to achieve this purpose. It also argued that companies would not just consider their own fiscal welfare but also the interest of stakeholders and society at the large (SAGIA, 2008a). Therefore, it encouraged businesses to embrace CSR to maintain and increase ethical values and standards in their business decision making. In 2008, SAGIA has issued the Saudi Arabia Responsible Competitiveness Index in order to evaluate Saudi companies in CSR programs and contributions. Due to voluntary jointed and lack of law in complying all Saudi companies to participate in this index, 40 Saudi companies have participated in this index with main findings that many participating companies were intermediate-poor performance in relation to CSR. However, although the Saudi economy has improved its position in the Global Competitiveness Index ranking (GCI) from 41 in 2007 to 21 in 2010 and back to 24 in 2014-2015 (SAGIA, 2008a, Klaus Schwab, 2012). Although Saudi government has improved its position in world competitiveness Index ranking, it has not probably achieved its aim to be one of world's top ten competitive nations by 2010. However, one of the important factors affected on the Saudi Arabia's progress is lack of private sectors' contributions in participating with Saudi government in building social and sustainable development in the country. The poor CSR contributions by Saudi companies have recently investigated by researchers (Ahamad Nalband and Al-Amri, 2013, Ali and Al-Aali, 2012, Emtairah et al., 2009, Tamkeen, 2007), who indicated several issues:

- The lack of CSR practices definition and measurements in Saudi context.

- CSR breaches are as a result of the design of CSR policies, structures implementations, practices;
- The lack of CSR explanation by the Saudi CG codes;
- The absence of CSR from corporate policy;
- The lack of theoretical and practical frameworks for CSR that guide Saudi companies in practicing a good social responsible business. Therefore, this paper explores the interrelationship and interaction between the CG structure, practices and CSR in Saudi context.

## **RESEARCH METHODOLOGY**

The nature of this research methodology is interpretive (Creswell, 2013). In-depth interviews conducted with board members and executive managers within the case study context of petrochemical company listed in Saudi stock exchange. The designing of case study applied as research method seek to explore the nature of nature of the interrelationship and effect between the CG and CSR practices (Yin, 2013). The adoption of case study method helps to explore the nature of integration of CSR into governance structure and system within organizational context (Yin, 2013). To obtain a better understanding and knowledge of integration of CSR into governance structure and system, it was suitable to obtain views derived from board members and executive managers involved in CG structure. This diverse sample was important to capture various perceptions, perspectives and practices. Case study data collection relies on numerous sources of information including documentation, archival records, open-ended interviews, direct observation, participant-observation and physical artefacts which represent a key strength of this research method (Yin, 2013). The existing information on current system highlighted the obstacles in promoting user acceptance of systems development and implementation process. A triangulation process was developed in order to process information from numerous sources and thus provide a more complete picture of the studied phenomenon (Creswell, 2013).

A petrochemical company has agreed to take part in the research project. This company is listed in Saudi stock exchange. In order to critically investigate the level of integration of CSR into CG structure, board members and executive managers in various hierarchical levels of the CG structure have been invited to take part in the study. Table 1 below summarizes the participants' positions, educational qualifications and experience levels. The demographic data was collected very briefly as the respondents focused on their capacity of representatives of particular organisations

**Table 1: Profile of Participants**

No	Position	Experience (years)	Educational Level	Functional Background
<b>Case study A: Petrochemical company' Participants</b>				
1	Management level	13	Bac	Chemical Engineering
2	Management level	16	MA	Chemical Engineering
3	Board Level	25	PhD	MBA (Business)
4	Management level	26	Bac	Chemical Engineering
5	Board Level	25	MA	Law
6	Management level	15	PhD	Chemical Engineering
7	Management level	16	Bac	Manufacturing Engineering
8	Board Level	22	PhD	Business administration
9	Management level	10	Bac	Environmental Engineering

Open-ended questions were used during the interviews (Creswell, 2013, Yin, 2013) which allowed the researcher to provide a topic (see Table two) and gather respondents' opinions regarding the events. The reliability of the responses was enhanced via the use of a reasonable approach by verifying the validity of the responses with other sources of information (Creswell, 2013, Yin, 2013). The participants were encouraged to share their insights and opinions on the issues which were consequently analysed together with opinions from other participants and additional sources of information. Given the potential negative effects on the scope of the study and the importance of data gathered, the researcher went beyond the use of a specific sequence of the guiding questions.

**Table 2: Topics Addressed in Interviews**

Corporate (CG)	governance [.	Corporate Responsibility (CSR)	Social [.	Board of directors (BOD)
<ul style="list-style-type: none"> <li>• Concept committees</li> <li>• Governance Codes of conduct codes</li> <li>• Motives for good CG practice</li> <li>• CG disclosure</li> </ul>	<ul style="list-style-type: none"> <li>• Structure,</li> <li>• Codes of mission</li> <li>• requirement</li> </ul>	<ul style="list-style-type: none"> <li>• CSR Conception</li> <li>• CSR practices</li> <li>• Strategic CSR, mission</li> <li>• Most important stakeholders</li> <li>• Measurement of CSR</li> </ul>	<ul style="list-style-type: none"> <li>• values,</li> <li>• important</li> </ul>	<ul style="list-style-type: none"> <li>• Board of directors (BOD)</li> <li>• BOD Composition</li> <li>• BOD Roles and Responsibilities</li> <li>• Board size</li> <li>• Board independences</li> </ul>

### Case Study of Petrochemical Company

This case study concerns a petrochemical company listed on the Saudi stock exchange. The company has radically changed its business strategy by integrating CSR into its operational activities. This change led to the establishment of a separate CSR governance structure in 2009.

### Evaluation of CG Concept, Structure and System

In early 2009, the company drastically altered its operational activities and management structure to become a more socially responsible business. This was achieved by establishing a separate internal CSR governance structure. This result in the foundation of new executives

committees and departments specialized in overseeing company's CSR in accordance with its operational activities. The company founded this structure in order to have various managerial authorities among its NED, executive, senior managers and employees. Nine NEDs are at the top of CSR governance structure supervisory and strategy-related duties. Other executive directors sit on relevant committees and head up departments. There are 15 executive directors, 6 of which head the various operational activities, while the rest head the various company functions. According to the company's strategic objective was set in 2007, highlights the integration of CSR within the operational activities is main objective. Therefore, the majority of the committees within this structure include executive members from six operational activities.

CG structures and procedures underpin the adoption of CSR (Cadbury Report, 1992). The alignment of a governance structure and the company's CSR strategy as well as business model is essential for the board to evaluate the challenges faced by the company. However, company laws and codes of conduct constrain the governance structures which results in the fact that no universally applicable best solution can be found (Aguilera et al., 2006, Jamali et al., 2008, Jo and Harjoto, 2011, Pass, 2004). A particular CG structure that meets the needs of one company's CSR practices might be inappropriate for others. Indeed, companies have widely varying governance structures due to different business models and stakeholder concerns. Nevertheless, adoption of the CG concept is essential if a company wants to become more socially and environmentally responsible. However, the center of debate is around how to build CG structure that takes into account company stakeholder interest and depends on factors demonstrated by the two case studies which are:

- Understanding the needs of stakeholders from the CG structure,
- Specification of obstacles that face the company,
- The nature of operational activities and
- The business model of the company.

As indicated by participants that importance of establishing governance structure specialist in CSR separate from the general CG structure due to its environmental consideration associated with its petrochemical operations. The results of this analysis indicated that this company perceived the problems and risks associated with its operational activities which can result in environmental and social damage. Therefore, the nature of this company's operations motivated the establishment of CSR governance in order to ensure sustainability in integration of CSR practices into its operational activities.

Participants stated that building a CG structure which takes into account the interests of stakeholders would lead to ongoing business security *''Sound and effective CG is essential to our success. It ensures that the interests of all our stakeholders, including customers, employees, shareholders and the communities in which we operate, are safeguarded and promoted over the long term''*. Other two of participants highlighted the importance of maintaining corporate control by improving the governance processes that encourage best corporate practices with regards to the environment, health, and employee security, as well as mitigating legal risks.

### **Understanding of CG Concept towards CSR Integration**

In relation to CG, the interviews conducted and managerial interpretations clearly suggest revealed that the importance of adopting comprehensive CG concepts that consider all relevant stakeholders which builds a solid base to meet the needs and expectations of those stakeholders through socially responsible practices in both companies. The participants emphasized the adoption of CG concepts from the perspective of stakeholder to ensure that protection of those stakeholders including clients, employees, the environment, the society and shareholders and meet their long-term expectations. This help company during its strategic shifting of its business to be more sustainable asocial responsible business by establishing the new separate governance structure for CSR practice, in order to be integrated into operational activities.

A narrow concept of CG depends on profit and the protection of shareholders strictly while environmental and social responsibilities are at lower priority in those companies (Saravanamuthu, 2004). While other companies that adopt a more comprehensive CG concept depend on a social concept that emphasizes company responsibility toward stakeholders that provide the company various sources for sustainability and boasts its competitive advantage (MacMillan et al., 2004). In this context, the responsibility of the board member is first toward shareholders who possess the capital but also are responsible toward employees, the environment, the society and other stakeholders (Saravanamuthu, 2004). By adopting a comprehensive social governance structure, the needs of stakeholders are protected in addition to other shareholder interests and their desire to grow and protect their wealth.

Therefore, the participants of this company support that ensuring accountability to shareholders as well as wider stakeholder groups represents the key universal attribute of the CG concept. This creates mechanism to control managerial behaviour and consequently ensures the facilitation of good governance via reporting systems incorporation of stakeholder as well as shareholder value into effective strategic management, and the improvement of corporate performance and accountability. The effective CG is therefore underpinned by leadership, direction, control, transparency, and accountability attributes.

### **Building CG Structure towards CSR Integration**

Most of percipients indicated that strategic shifting of its company business to be more sustainable social responsible business was significantly motivated the company in establishing the new separate governance structure for CSR practice. The new governance structure assists the company in integration of CSR into operational activities though:

- Establishing relevant CG committee to CSR activities and practices.
- Activation of Board members' roles in protecting stakeholder.

This is clear evidence that company has moved from PCM to CSM. This view lends support to the Halal (2000) that CG structure as a socioeconomic system where wealth is made by utilizing stakeholder collaboration. By engaging in this partnership, the organization does not only become socially responsible, but more competitive. The participants highlighted that effective CG is essential for a genuine CSR orientation (Devinney, Schwalbach & Williams, 2013). Based on the outcomes of the interviews, strategic leadership and good control systems are required to provide the underlying infrastructure and thus allow the firm to cater for the needs of its stakeholders.

Supportive evidence can be therefore found for the Ho's model (2005) in which CSR is perceived as a dimension of CG. In essence, the model suggests that good CG encompasses the focus on socially responsible conduct of a company. Overall, the firm perceives CSR as an essential attribute of CG and not merely as an optional or discretionary aspect of this concept.

### **CG current practices towards CSR Integration.**

The participants provided an interesting feedback about current CG practices during the integration of CSR into operational activities. Therefore, the reported strength in current CG practices revolved around the strategic guidance exercised by boards, and their regular oversight of internal control mechanisms within CSR governance structure.

### **CSR integration into operational activities: Board Monitoring practices**

A number of participants noted that the goal of establishing a CSR governance structure was to engage the BOD in supervising CSR activities and the process of integrating these practices into the company's operations. The company's CSR governance structure enhances its ability to monitor CSR activities and improve its sustainability. The process of establishing a CG structure resulted in the involvement of executive and NEDs in monitoring CSR activities. They also revealed that this enabled them to monitor internal reports related to CSR activities' performance, in order to evaluate CSR activities progress. More specifically Innovative Plastics Executive also emphasised the importance of the CSR Council members in assessing the success of the integration of CSR into its six operational activities. CSR performance is measured using the Key Performance Indicator (KPI) tool.

KPI reports are important as they allow the BOD and executive managers to evaluate progress in achieving goals and accomplishing strategy. KPIs enable the board and executives committees to:

- Monitoring quantitative and qualitative details of the six operational activities' progress in integrating CSR practices into operational activities.
- Reviewing the company's strategies related to integration of CSR practices in operational activities.

Two of participants highlighted the importance of the accountability KPI provide, which also protects the interests of stakeholders in the company and fulfils their ambitions through the company's investment in CSR implementation. Therefore, the other benefits of KPI report monitoring roles emerged:

- Measuring the progress of meeting stakeholders expectations
- Provide the accountability to stakeholders

Participants from board level noted that CSR Council is the link between the company's general CG structure and CSR governance structure. CSR Council produces all the financial and non-financial reports concerned with the corporate operations relevant to implementing social responsibility. They outlined the role of a functional accountability team within the CSR governance structure; it audits the CSR governance structure annually and delivers reports to the CSR Council, which studies those reports and proposes amendments and changes to fulfil the needs of stakeholders. Therefore this view emphasised that the roles of boards of directors today, should be more than just overseeing company's CSR activities, but it goes to review the governance CSR structure internally in order to verify whether this structure is able to protect stakeholder interest and meet their expectation or not.

Therefore, participants revealed seven aspects of the board's monitoring of CSR practices:

- Evaluation of CSR activities performance;
- Evaluation of CSR operations performance;
- Revision of strategies for CSR activities;
- Evaluation of the non-financial aspects of CSR activities based on KPIs;
- Ensuring accountability to the organization's stakeholders; and
- Ensuring the company has adequate internal CSR auditing systems, procedures and policies.

### **CSR integration into operational activities: Board strategic practices**

Numerous respondents associated the key role of the board with ensuring that CSR issues are encompassed in the corporate strategy and goals. Over the past few years, CSR has evolved from the edges to the core aspect of the strategy and currently has a significant impact on sustainable growth and shareholder value. Two of participants from board level highlighted CSR council in ensuring the integration of CSR practices within six operational activities through implementing the vision, priorities and goals of CSR that are compatible with their operational activities. In addition, this participant confirmed a previous participant's comment that the CSR Council responsible for evaluating the company's progress towards its CSR goals. Moreover, directors need to support the council room discussions, decision making process and further contribute to the control of strategic issues related to CSR practices. A particular emphasis needs to be put on the implementation of CSR strategies to enhance the CSR performance achievement.

Four of participants from executive management level confirmed that CSR strategy development and linking those strategies with overall corporate strategy was their responsibility. He highlighted that the process of developing CSR strategies is governed by the company's three main CSR objectives: more environment-friendly products, cost-effectiveness, and high quality. Satisfying these objectives requires the integration of CSR in the production process which, in turn, requires development of a CSR strategy for activities and projects within all six operational activities to align with the overall corporate strategy. They claimed that steering committee is responsible for executing CSR strategic decisions due to CSR activities being integrated into the company's operational activities. Such strategic decisions require managers who are familiar with daily activities and have detailed knowledge and experience of operations. Company documents show that the steering committee is managed by the CSR department head and other managers of extended experience in all six operational activities, in addition to representatives from functional departments. The steering committee is also responsible for consultation and developing strategic recommendations and providing them to the CSR Council for further discussion, approval and execution by the steering committee (Company Sustainability Report, 2012). This analysis confirms that Steering committee is responsible in:

- Developing CSR strategic options and decisions
- Executing CSR strategic decisions.

Therefore, the analysis of overall participants' perception reveals that the CSR governance of improved strategic CSR by:

- Developing CSR visions and goals to shape the overall CSR strategy;
- Developing strategies for integrating the CSR activities and projects into company's operational activities;

- Matching CSR strategies with the overall corporate strategy;
- Developing the strategic decisions; and
- Executing the strategic decisions.

### **Towards CSR governance Model**

“CSR governance model” refers to an approach of CSR governance and structure in a business environment. It goes beyond the top down advocacy for CSR and suggests that board oversight and engagement as well as management layers, systems, processes and policies need to support the inclusion of CSR within the company’s value chain. A number of leading companies have realized the benefits of this approach by including social and environmental issues as key considerations relating to business value creation. The challenges of CSR governance and management are likely to become more complex due to the evolving nature of the contract between organisations, government and civil society on a global level. The resulting changes may even lead to the formal stakeholder representation on the board or regular communication between board sub-committees and coordinative bodies. Overall, two particular approaches towards CSR governance emerge:

- The first approach focuses on the responsibilities and roles of the board of directors, including monitoring, strategic and services roles to the stakeholders.
- The second approach revolves around the development of a suitable governance structure concerned with stakeholder’s issues.

CSR governance represents the integration of CSR practices into governance mechanisms, structures and corporate decision-making. Although not all of the decisions are influenced directly by the board, the examples portrayed by the executives’ and leaders’ actions shape the organisational decision-making in a wider sense. Particular significance of their role can be found in high profile CSR issues (e.g. human rights, climate change, and discrimination) which can be associated with a significant effect on the company’s profitability and reputation.

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