

**EFFECT OF CORPORATE GOVERNANCE
MECHANISMS ON THE CORPORATE SOCIAL
RESPONSIBILITY DISCLOSURE AMONG SAUDI
LISTED FIRMS: THE MEDIATING ROLE OF
LEVEL OF CORPORATE GOVERNANCE
COMPLIANCE**

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UNIVERSITI SAINS MALAYSIA

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by

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LIST OF ABBREVIATIONS

AICC	African Institute of Corporate Citizenship
AVE	Average Variance Extracted
BiTC	Business in The Community
BMFR	Board Meetings Frequency
BOWNE	Board Ownership
BSIZE	Board Size
BSR	Business for Social Responsibility
CB-SEM	Covariance-Based Structural Equation Modelling
CEO	Chief Executive Officer
CG	Corporate Governance
CGR	Corporate Governance Regulations
CMA	Capital Market Authority
CSMAR	China Stock Market & Accounting Research
CR	Composite Reliability
CSR	Corporate Social Responsibilities
CSRD	Corporate Social Responsibilities Disclosure
CSRQUAL	Corporate Social Responsibilities Disclosure Quality
CSRQUANT	Corporate Social Responsibilities Disclosure Quantity
CSRQUALI	Corporate Social Responsibilities Disclosure Quality Index
CSRQUNTI	Corporate Social Responsibilities Disclosure Quantity Index
FSIZE	Firm Size
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GOVOW	Government Ownership
HRDF	Human Resources Development Fund

HTMT	Heterotrait-Monotrait
IBM	International Business Machine
INDUT	Industry Type
IFRS	International Financial Reporting Standards
INDTD	Independent Directors
ISO	International Standard Organization
LCGC	Level of Corporate Governance Compliance
LCGCI	Level of Corporate Governance Compliance Index
LVG	Leverage
NOCOM	Number of Committees
NTP	National Transformation Program
PLS-SEM	Partial Least Squares Structural Equation Modelling
ROA	Return on Asset
SAGIA	Saudi Arabian General Investment Authority
SAMA	Saudi Monetary Agency
SARCI	Saudi Arabia Responsible Competitiveness Index
SCGC	Saudi Corporate Governance Code
SD	Standard Deviation
SDC	Securities Depository Centre
SPSS	Statistical Package for Social Sciences
SSE	Saudi Stock Exchange
UK	United Kingdom
USA	United State of America
VIF	Variance Inflation Factor

LIST OF SYMBOLS

A	Number of PLS or PCA components in the model
a	Number of the PLS or PCA component
b	PLS regression coefficient
b	Number of blocks (b=1,2,3.....,K)
C	Coarse APM block
C_p	Pooled covariance matrix for the two classes

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**KESAN MEKANISMA TADBIR URUS KORPORAT KEATAS PELAPORAN
TANGGUNG JAWAB SOSIAL SYARIKAT DIKALANGAN SYARIKAT
SAUDI TERSENARAI: PERANAN PENGANTARA TAHAP PEMATUHAN
TADBIR URUS KORPORAT**

ABSTRAK

Pada tahun 2017, pemerintah Saudi mengeluarkan peraturan Kawal selia korporat (CG) baru yang mewajibkan semua firma tersenarai untuk mengungkapkan aktiviti CSR mereka dalam laporan tahunan berdasarkan keperluan indeks baru. Walaupun syarikat-syarikat yang disenaraikan di Arab Saudi berusaha untuk mematuhi peraturan baru, statistik yang tepat mengenai tahap pematuhan masih belum jelas. Begitu juga, penyelidikan terdahulu kebanyakannya menumpukan pada peraturan Saudi yang lama dan hampir tidak dapat mempengaruhi pengaruh ciri lembaga pada tahap pematuhan CG dan kuantiti dan kualiti CSRD bersama. Kajian ini bertujuan untuk mengisi jurang yang meneliti faktor-faktor yang menentukan tahap pematuhan CG dan kuantiti dan kualiti CSRD di Arab Saudi. Data dikumpulkan melalui analisis kandungan laporan tahunan untuk 123 syarikat tersenarai bukan kewangan Saudi. Sebagai penyelidikan kuantitatif, SPSS dan PLS-SEM pintar digunakan dalam menganalisis data. Item kuantiti CSRD diukur menggunakan lima dimensi lingkungan, tempat kerja, masyarakat, pasar, dan lain-lain. Sebaliknya, untuk kualiti CSRD, lapan pertanyaan indeks mengenai relevansi, representasi setia, pemahaman, dan perbandingan dapat digunakan. Penemuan berdasarkan hubungan yang dihipotesiskan menunjukkan bahawa ukuran lembaga dan mesyuarat lembaga yang kerap mempunyai hubungan positif yang signifikan dengan tahap pematuhan CG dan kuantiti dan kualiti CSRD. Begitu juga, bahagian pengarah bebas didapati

mempunyai kaitan negatif yang signifikan dengan tahap pematuhan CG dan kuantiti dan kualiti CSRD. Namun, hubungan antara bahagian pemilikan dewan, jumlah jawatankuasa dewan, dan tahap pematuhan CG tidak signifikan. Sebaliknya, tahap pematuhan CG juga mempunyai hubungan positif yang signifikan dengan kuantiti dan kualiti CSRD. Hubungan pengantaraan menunjukkan bahawa tahap kepatuhan CG memediasi hubungan antara ukuran lembaga, bahagian pengarah bebas, mesyuarat lembaga yang kerap, dan kuantiti dan kualiti CSRD. Walau bagaimanapun, bahagian pemilikan dewan dan jumlah jawatankuasa dewan didapati tidak mempunyai kesan tidak langsung terhadap kuantiti dan kualiti CSRD. Hasilnya selanjutnya menunjukkan bahawa pemilikan kerajaan memperkuat hubungan antara tahap pematuhan CG dan kuantiti dan kualiti CSRD. Disimpulkan bahawa peraturan CG baru meningkatkan tahap kepatuhan syarikat tersenarai. Kajian ini menyumbang kepada literatur dengan mengintegrasikan teori agensi dengan teori isyarat dan pihak berkepentingan dan menguji kesan pemilikan kerajaan yang sederhana.

EFFECT OF CORPORATE GOVERNANCE MECHANISMS ON THE CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AMONG SAUDI LISTED FIRMS: THE MEDIATING ROLE OF LEVEL OF CORPORATE GOVERNANCE COMPLIANCE

ABSTRACT

In 2017, the Saudi government released a new corporate governance (CG) regulation that mandated all listed firms to disclose their CSR activities in their annual report based on the requirement of the new index. Even though the Saudi listed firms are making efforts to comply with the new regulations, accurate statistics on the compliance level is still unclear. Similarly, previous research mostly focuses on the old Saudi regulations and hardly accessed the influence of the board characteristics on both the level of CG compliance and CSRD quantity and quality together. The study aimed at filling the gap by investigating the factors that determined the level of CG compliance and CSRD quantity and quality in Saudi Arabia. The data was collected using content analysis based on the annual reports of 123 Saudi nonfinancial listed companies. Due to the quantitative nature of the research, both SPSS and smart PLS-SEM software were used in analyzing the data. The CSRD quantity items were measured using five-dimension of environment, workplace, community, marketplace, and others. In contrast, for CSRD quality, eight index questions on relevance, faithful representation, understandability, and comparability were used. The findings based on the hypothesized relationships found board size and frequent board meetings to have a significant positive relationship with the level of CG compliance and CSRD quantity and quality. Similarly, the proportion of independent directors was found to have a significant negative association with the level of CG compliance and CSRD quantity

and quality. However, the relationship between the proportion of the board's ownership, the number of board's committees, and the level of CG compliance was insignificant. On the other hand, the level of CG compliance also has a significant positive relationship with CSRD quantity and quality. The mediating relationship shows that the level of CG compliance mediates the relationship between board size, the proportion of independent directors, frequent board meeting, and CSRD quantity and quality. However, the proportion of the board's ownership and the number of board's committees were found to have no indirect effect on CSRD quantity and quality. The results further indicate that government ownership strengthens the relationship between the level of CG compliance and CSRD quantity and quality. Theoretically, the study contributed significantly through the introduction of government ownership and level of CG compliance as moderating and mediating variables respectively. It is concluded that the new CG regulations improve the compliance level of listed firms. The study contributes to the literature by integrating agency theory with signaling and stakeholder theory and tested the moderating effect of government ownership.

CHAPTER 1

INTRODUCTION

1.1 Overview

This section highlights the general overview of the study and serves as the introductory chapter. The main issues discussed is directly related to the phenomena of Corporate Governance (CG) and the effect of its mechanisms on the quantity and quality of Corporate Social Responsibilities Disclosures (CSRD). Additionally, the chapter equally sheds more light on the gaps, which have led to the call for the investigation to be carried out in order to explore the research problem. Furthermore, both the research questions and the objectives were stated and answered in subsequent chapters. Similarly, both theoretical and practical significance, as well as the scope of this study, will be adequately addressed.

1.2 Background of The Study

Oliver Sheldon in the year 1924 came up with the concept of Corporate Social Responsibility (CSR). There has been a gradual and significant increase in terms of awareness globally (Habbash, 2016). According to Coffie, Aboagye-Otchere, and Musah (2018), the concept of CSR is a voluntary activity where according to Amran and Devi (2016) has a rising trend to become a key concept by gaining more relevance to the various stakeholders in the business in the developing countries. Firm's operations have continued to have negative impact on the environment (Habbash, 2016). The Enron scandal (Vinten, 2002), the Gulf of Mexico oil spill (Griggs, 2010), the oil spill in Niger Delta (Nwilo & Badejo, 2005) and the Union Carbide disaster in Bhopal (Dhara & Dhara, 2002) are some examples of the catastrophes that were caused by the firms' operations to the environments and the society. Such effects also raised

the society's expectations regarding environmental, social, and ethical obligations of businesses along with international concern regarding these issues (Bebbington & Larrinaga, 2014).

As concerns increases globally on relationship between firms and their host communities, regulatory bodies and standards were established that enforces corporate organizations to behave responsibly. Such bodies includes the Business in the Community (BiTC) and Business for Social Responsibility in United Kingdom (UK) in United State of America (USA) and United Kingdom (UK) respectively. Similarly, the African Institute of Corporate Citizenship (AICC) was also established to achieve similar goal. Therefore, such initiatives demands for alternatives such as CSR to improve the role of organizational activities in society and to enable organizations to practice good governance and to contribute innovatively to their respective societies (Habbash, 2016; Jamali et al., 2008).

Prior research indicate the existence of a strong association between CSR and the push for sustainable development of any nation (Amran & Devi, 2016; Maqbool, 2015). CSR is regarded as a set of policies, programs and practices combined during organizational activities and decision-making processes aimed at increasing firm's positive effect on the host community where they are sited (WBCSD, 2001). The concept of CSR was raised as a response to the call of some ethically social good in the business environment and as a response to the impacts of businesses on society (Jamali, 2006; Pratama et al., 2019). The concept of CSR according to Habbash (2016), goes beyond accountability to include other environmental and social dimensions. This because it is assumed that CSRD is essential in ascertaining and communicating

weather the organizations are complying or otherwise. Therefore, high level of awareness on the firms' side is critical to improving the CSRD quality.

Alongside this, the efforts put forward by such initiatives, strategies, and policies have been developed to integrate corporate accountability and transparency through disclosure (Gray, Owen, & Adams, 1996). The primary communication method for CSR stakeholders is CSRD (Belal & Cooper, 2011). In developed countries, companies currently have to report their CSR (Jenkins & Yakovleva, 2006). Hence, almost every major company is engaged in CSR and disclose its activities. To emphasize, the current rate of corporate responsibility reporting is 92% (KPMG, 2015). However, evidence have shown that stockholders demands for almost 11% information as average of CSRD index among Saudi listed companies (Issa, 2017).

The increased concern for CSRD and CG have evolved to greater height in the literature (Chan et al., 2014). one stream of the literature has focused on exploring the benefits of CSRD (Qiu, Shaukat, Tharyan, et al., 2016). However, another stream has investigated the motivations behind CSRD and its influential factors, including CG (Chan et al., 2014; Oh et al., 2018). Consequently, all these focuses on adopting new changes by firms through good CG practices that can lead to better CSRD and higher accountability beyond the stakeholders' expectations (Alshareef & Sandhu, 2015).

CG is seen as a set of mechanisms for guiding and regulating different ties among management, the board of directors, and other stakeholders by laying down rules which help develop an atmosphere of confidence, credibility, justice, competitiveness, and market openness (CMA, 2018). It shows that there is connection between the CG effectiveness and the extent and quality of CSRD. Therefore, an effective and efficient CG system in an organization ensures transparency in disclosure

activities related to the immediate environment (Habbash, 2016). This determines the scope of the organization's control, how power is wielded, and how decisions are made concerning the various stakeholders (Jamali et al., 2008). The CG definition has therefore shifted towards discussing the growth in CSRD and the more involvement of owners and stakeholders in the decision-making process of companies (Claessens & Yurtoglu, 2012). This interpretation corresponds to Ho (2005), who views CSRD as the CG feature or aspect, thus expanding the spectrum of CG and bringing non-financial risks into the CG risk mitigation aspects (Jamali et al., 2008).

In brief, CG mechanisms support ethical standards for a clean environment, healthy and fair working conditions, products, and services that are not harmful to the environment, along with advantages and accountability to key stakeholders. Generally, CG is about a collection of universal features that ensure the responsibility of the top management towards all the stakeholders of the organization (Alshareef & Sandhu, 2015). Thus, broader the concept of CG and, therefore, muddled CSR concept with CG since CSR values are concerned with organization practices and surrounding (Aslam et al., 2018). Jamali et al. (2008) reviewed three CG-CSR relationship models where the first model discussed CG as CSR pillar, second, CSR as a CG dimension, and finally, CG and CSR as a continuum.

Even though there are multiple components of CG, yet the board of directors is considered as one of the essential mechanisms of CG (Saad, 2010) that protect the stockholders (Arora & Sharma, 2015; Makhoul et al., 2018). The board of directors is characterized as a pillar of CG and a body that acts on behalf of shareholders as the main governance entity. At the same time, senior managers play a significant role in determining the CSR policies of an organization (Oh et al., 2018). Therefore, the board

of directors' functions, compositions, tasks, activities, process, and relationships are the most exciting points that regulators append in the CG (Arora & Sharma, 2015). Besides, the board of directors is essential for the proper functioning of the businesses and for improving the quality of company disclosures (Albassam, 2014; Alotaibi & Hussainey, 2016; Habbash, 2017; Jizi, Salama, Dixon, & Stratling, 2014; Khan, Muttakin, & Siddiqui, 2013; Young & Thyil, 2014). Subsequently, it develops an evident idea that covers the concepts of CG and CSR in the organization.

Apart from that, many previous studies in the literature consider the board of directors as the primary mechanism in the CG that affect the quantity and quality of CSRD (Alotaibi & Hussainey, 2016; Dias, 2017; Ghabayen, Mohamad, & Ahmad, 2016; Habbash, 2017; Jizi et al., 2014; Muttakin, Khan, & Subramaniam, 2015; Young & Thyil, 2014). Previous studies have addressed the influence of the board of directors on firms' disclosures (Allegrini & Greco, 2013; Ben-Amar & Zeghal, 2011; Brammer, Jackson, & Matten, 2012; Chan et al., 2014; Dias, 2017; Gibson & O'Donovan, 2007; Hassanein & Hussainey, 2015; Jizi et al., 2014; Jo & Harjoto, 2012; Johl, Bruce, & Binks, 2012; Li, Pike, & Haniffa, 2008; Michelon & Parbonetti, 2012; Young & Thyil, 2014). However, (Mohamed Adnan et al., 2018; Belal and Cooper 2011), argued that little attention was paid to developing countries when compared to studies carried out in countries that are highly developed. Furthermore, there is a lack of consistency in the previous findings on the effect of the CG mechanisms on CSRD (Oh et al., 2018). Also, many of these studies mainly focused on the direct impact of the CG mechanisms on CSRD (Oh et al., 2018).

The empirical evidence of the relationships between CG mechanisms and CSRD has been equivocal (Bansal et al., 2018; Oh et al., 2018). Some previous studies show that the board of directors has a positive effect on the quantity and quality of CSRD (Anderson & Campbell, 2004; Brammer & Pavelin, 2006, 2008; Chen & Jaggi, 2000; Hussainey & Al-Najjar, 2011; Schiehl, Terra, & Victor, 2013; Xiao, Yang, & Chow, 2004). However, other studies state that the board of directors has a negative effect on the quantity and quality of CSRD (Brammer & Pavelin, 2006; Cerbioni & Parbonetti, 2007; Cheng & Courtenay, 2006; Eng & Mak, 2003; Gul & Leung, 2004; Lakhal, 2005). Other studies show that the board of directors has an insignificant effect on CSRD (Boesso & Kumar, 2007; Cheng & Courtenay, 2006; Cheung et al., 2010; Lakhal, 2005).

Similarly, empirical results obtained from studies carried out in developed nations will not be a true reflection of the situation in developing countries due to some peculiarities of certain factors (Alhazmi, 2017). Thus prompt the question for the need to understand CSRD from another context and perspective especially that is related to developing countries as they have some peculiar challenges (Kisenyi & Gray, 1998). Beside that fewer studies investigated the CSRD in the context of Saudi Arabia especially after the release of the new CG regulations in Saudi (Ahamad Nalband & Al-Amri, 2013; Alhazmi, 2017; Ali & Al-Aali, 2012; Alotaibi, 2016; Maghrabi, 2008; Mandurah, Khatib, & Al-Sabaan, 2012).

In the context of Saudi Arabia, before 2006, there were no precise regulations on CG in Saudi Arabia according to (Ali, 2019). Saudi Arabia's Capital Market Authority (CMA) was recognized in 2003, and it took CMA three years after that to issued regulations on CG as a result of the financial crisis in the year 2006 (Almulhim,

2014). Accordingly, in April 2017, Saudi Arabia amended its regulations on CG to replace their 2006 version to provide board members and shareholders with better rights and enhance transparency on their responsibilities. The new Saudi CG code was adopted in 2017 by Saudi Arabia's CMA to enhance CG transparency, to promote accountability, ethical behavior, stewardship of investor, and communication between companies and shareholders. The new Saudi CG code was issued to the business and society to raise the CSR awareness in the society and promote the role of private sector on CSR, in line with the crown prince Mohammed Bin Salman effort to put the nation on the route to sustainable economic growth and prosperity under the Vision 2030, and the 2020 National Transformation Program (NTP).

The new code has changed many provisions, tackled numerous shortcomings, and provided substantial details. The main characteristics and vital fundamental differences of the new CG code can be summarized in four points. First, the articles of the new CG, except for a few guidance rules, are compulsory for all listed companies. Second, the number of parts and regulations in the new CG code is more significantly higher than the number in the old one. There are twelve parts in the new CG code, containing 98 articles with substantial details, compared to just five sections, including 19 articles, in the old one. Third, the new CG code aims to provide some details to explain the provisions of the new Saudi law of companies issued on the 4th of December 2015. Fourth, the new CG code provides some forms and schedules for disclosing remunerations and obliges listed companies to prepare their remuneration documents accordingly.

The Saudi Arabia as a member of the G20 nations is considered to be among the biggest economies especially among the gulf countries. It represented 25% of the total Arab GDP, represented 44% of total Arab market capitalization in 2010, the biggest country on the Gulf Co-operation Council (GCC), and has a position of leadership in the Arab region (Abro et al., 2016; Albassam, 2014; Alsaif, 2015; Alshehri & Solomon, 2012; Issa, 2017). Additional, Saudi Arabia possesses 20 % of the world's proven petroleum reserve, and it is the largest exporter of oil in the world, with about 31% of the total OPEC production in 2010 (Albassam, 2014; Issa, 2017; Khan et al., 2013). Third, internationally published material on Saudi context of CSR is limited (Khurshid, Al-Aali, Ali Soliman, & Mohamad Amin, 2014; Al-Moataz & Hussainey, 2013; Habbash, 2016; Hussainey & Salama, 2010; Issa, 2017; Khan et al., 2013; Khan, 2010). Issa (2017) highlighted that the average of CSRD in Saudi listed companies is too low; the Saudi listed companies disclose 11% of CSR information that they must provide for stockholders.

In view of the above discussion, a gap has been identified in the influence of the board of directors on CSRD literature. Accordingly, assessing the influence of CG mechanisms on CSRD especially in Saudi Arabia will contribute new knowledge to the existing literature. Hence, the focus of this study to explore the relationship between CG and CSRD quantity and quality by examining the effect of the board of directors on the implementation of multiple CG mechanisms in promoting a firm's social responsibility. Thus, this study is inspired to address the mediating role of the level of compliance with CG mechanisms in the relation between the board of directors and the quantity and quality of CSRD. Furthermore, this study also introduces the moderating effect of the government's ownership on the relationship between the level of compliance with multiple CG mechanisms and the quantity and quality of CSRD.

In this respect, therefore, this study first offers empirical evidence about the effect of the board of directors on the firm's CSRD quantity and quality through the level of compliance with multiple CG mechanisms. Furthermore, this study offers empirical evidence about the moderating effect of government ownership on the relation between the level of compliance with CG mechanisms and the quantity and quality of CSRD. In addition, the study offers empirical evidence about the new CG code in Saudi Arabia and investigating its effect on CSRD as a developing country. Thus, such investigations could give us a good understanding to grasp the concept and nature of CG and CSRD relationship as a way of filling the gap identified in the literature.

1.3 Problem Statement

Prior studies suggests that corporate decisions are often made by corporate boards, including reporting choices (Jamali et al., 2008; Ntim & Soobaroyen, 2013). However, there are issues with CSRD and CG in general (Larmour, 2017), which requires continuous effort for a better understanding of these issues. Hossain and Neng (2011) question the integrity of the firms that claim to adopt CSR and CG, by stating that most often, it is always lined to profit maximizations. For this reason, such interest has led to a growth in CSRD literature and the related areas of CG (Chan et al., 2014), and hence support the need for more comprehensive research on CSRD and CG in business operations and management context. Apart from that, the findings also showed that CG and CSRD have mixed relations (Oh et al., 2018). These mixed connections that emerge from the assumption that every governance mechanism operates independently of the other even if they relatively affect CSRD. Many studies have found that CG dominates the CSRD business (Alhazmi, 2017; Alshuwaikhat &

Mohammed, 2017; Belal & Cooper, 2011; Chan et al., 2014; Claessens & Yurtoglu, 2012; Dias, 2017; Jamali et al., 2008; Khan et al., 2013; Money & Schepers, 2007; Muttakin, Khan, & Mihret, 2018; Rashid, 2018; WBCSD, 2001). However, El Gammal, Yassine, Fakih, and El-Kassar (2018) consider the causality between CG and CSRD as unclear in the literature. Hence, the interplay of these relationships is not definite as the questions of another factor, which may act to mediate or moderate these relationships, may be present. The vast majority of prior studies concerning the relationship between board mechanisms and disclosure have studied this relationship without accounting for mediating and moderating effect (Jamali et al., 2008; Luigi Lepore et al., 2019).

Beside that Nour et al. (2020), stated that understanding the relationship between CG and CSRD is very important because the implications of CG include changes in board composition. In addition to it, CSRD was used as a tool by companies to communicate accountability showing their vision for the future and account for past performances (Mokhtar et al., 2016). The importance of CSRD was acknowledged in Prior, Surroca and Tribó (2008) that by disclosing their social and environmental activities, companies could receive favorable treatment with respect to regulation. They also gain high support from social activist groups, achieve the legitimacy from the industrial community, obtain positive news from the media, and finally maintain the company's reputation, yet not much interest shown in the aspect of Saudi Arabia (Issa, 2017). Although there are numerous studies that examine both CSRD and CG, yet such concept is still new in Saudi and the country has recently released a new CG code. Thus, it is imperative to investigate the CG compliance using the new code to comprehensively utilize the concepts for further developments of Saudi economies and developments and improvements of CG codes for the country.

Apart from the role of CG, the level of CG compliance and CSRD has yet been studied together in the Saudi context using the new CG code. Hence, in this study, the level of CG compliance serves as an intervening variable due to the nature of the relationship between the variables. This study tries to fill the existing gaps in the previous studies by evaluating mediating and moderating roles in the corporate boards and CSRD relationships. As stated by Gillan (2006) and Carter, D'Souza, Simkins, and Simpson (2010), the monitoring of the board involves continuous monitoring of CG compliance. Board characteristics thus affect CG compliance but can encourage or restrict CG compliance with board structures (Briano-Turrent, & Poletti-Hughes, 2017). In this respect, it can be contended that efficient boards of directors will play an essential role in ensuring that the level of compliance with CG mechanisms is high and will positively affect the quantity and quality of CSRD.

Chan et al. (2014) point out that high-quality CG compliance is likely to influence the provision of CSRD positively. Similarly, some studies indicated that it is not reasonable to expect that each CG process operates independently (Connelly et al., 2010; Oh et al., 2018; Schepker & Oh, 2013; Yoshikawa et al., 2014). Therefore, adherence to multiple governance mechanisms affects the social outcomes of an organization interactively (Oh et al., 2018). In this regard, it can be argued that a high level of compliance will play an essential role in ensuring that CG mechanisms will positively influence the quantity and quality of CSRD.

Previous studies, on the other hand, show the impact of the ownership structure on CSRD. Neubaum and Zahra (2006) found a positive association of some types of ownership with CSRD. In contrast, the study by Barnea and Rubin (2010) revealed that there is no longer a significant relationship between ownership and CSRD. The

types of ownership are mostly institutional; regulations and traditions often rely on a kind of investor (Brammer, Pavelin, & Porter, 2006). This fact supports the argument that the level of CSRD undertaken is influenced by the type of ownership. Thus, the role of ownership within the CG relationship with CSRD reveals key priorities of CSRD based on ownership structure. Hence, it is expected to help the firms to invest and engage in more significant CSR initiatives that are socially desirable. The ownership and relationships of CSRD may, therefore, differ because of the different roles played by shareholders in society (Dam & Scholtens, 2012). The relationship between the shareholder and the company's management is complicated because it is not fully aligned with its goals.

The agency theory (Jensen & Meckling, 1976) emphasises on the ownership related issues in the principal relationship with the agent. This theory suggests that businesses can minimize transaction costs and agency expenses through social interventions that impact stakeholder interactions (Dam & Scholtens, 2012). Companies can take social measures that promote ties between stakeholders in order to reduce knowledge and agency expenses (Jo & Harjoto, 2011; Jones, 1995). The stakeholders must also invest in the business and become shareholders to build relationship strength and to show their contribution (Belfer, 1953; Dam & Scholtens, 2012). Nevertheless, the issues of the company vary from country to country, depending on whether the country's ownership structure is developed (Al-Janadi et al., 2016).

Therefore, this study attempts to renew the interest on CG mechanisms and CSRD relationships, specifically into the board of directors as it is responsible for monitoring and controlling managers' decisions and firms' activities including the

implementation of multiple CG mechanisms and CSRD (Murya Habbash, 2016; Roshima Said et al., 2009). Oh, et al. (2018) suggests that future research should explain how various CG pathways influences CSRD interactively. Thus, the level of compliance may act to mediate the relationship between the board of directors and CSRD. Consequently, this study contributed to the literature on CSRD in relation to Saudi context specifically and developing nations in general by assessing the effect of level CG compliance on CSRD and the association between the board of directors and CSRD among Saudi listed firms. Secondly, the structure of ownership has significant implications for CG and CSRD (Al-Janadi et al., 2016). Hence, the Saudi government issued the new CG code, and its ownership of listed companies has a role in the relationship between the level of CG compliance and CSRD that this study attempts to explore empirically based on recent happening in the sector.

1.4 Research Questions

The main objective of the study is to identify the influence of corporate governance mechanism towards the CSRD quantity and quality in Saudi Arabia. The following specific questions should be addressed:

- 1) How does the CG mechanism (board size, board independence, board meetings frequency, board ownership, and the number of committees) influenced the CSRD quantity and quality?
- 2) How does the CG mechanism (board size, board independence, board meetings frequency, board ownership, and number of committees) influenced the level of CG compliance
- 3) How does the level of CG compliance influence CSRD quantity and quality
- 4) Does the level of CG compliance mediate the relationship between the CG

mechanisms and CSRD quantity and quality?

- 5) Does the government ownership moderate the relationship between the level of CG compliance and CSRD quantity and quality?

1.5 Research Objectives

The main objective of the study is to identify the factors that determined the firms' CSRD quantity and quality in Saudi Arabia. This study has five research objectives. The objectives are as follows:

- 1) To examine the influence of CG mechanisms (board size, board independence, board meetings frequency, board ownership, and number of committees) on the CSRD quantity and quality
- 2) To examine the influence of CG mechanisms (board size, board independence, board meetings frequency, board ownership, and number of committees) on the level of CG compliance
- 3) To examine the influence of the level of CG compliance on CSRD quantity and quality
- 4) To examine the mediating effect of the level of CG compliance on the relationship between CG mechanisms variables and CSRD quantity and quality
- 5) To determine whether government ownership moderates the relationship between the level of CG compliance and CSRD quantity and quality

1.6 Significance of the Study

The current study is of great significance to various stakeholders involved. Firstly, the Saudi government stand as the greatest beneficiary of the findings from this study. This is because the findings obtained will guide the government to see the

difference between the new and old Saudi CG code in terms of level of compliance. Government policies may be reassessed and further refined to suit the context of the application.

Similarly, the study is significant to Saudi non-financial listed firms, as they constitute the sample of the study. The findings from the current research will help in the policy direction of the firms in relation to CSRD and CG compliance. This is to the extent that the conclusions made can reveal how these firms abide by the Government disclosure policies. With this development, the study is highly significant to the listed firms as one of the critical stakeholders.

Finally, the CSR represents a challenge for companies as they realize that CSR activities are essential. However, firms' actions should be carried out with caution towards the minimization of social and environmental impacts. Accordingly, firms should be of immense benefit society, and reduce the negative impacts on the social and environmental aspects. This study contributes to the body of knowledge in the CG-CSRD relationship by furnishing new foresight and awareness of board characteristics' role on the level of compliance in the implementation of multiple CG mechanisms in a developing country.

1.6.1 Theoretical Contribution

From a theoretical viewpoint, this study examines how the level of CG compliance interactively influence a company's CSRD quantity and quality. While much previous literature has researched CG and CSR independently, this study makes a case for considering them jointly and systematically. Besides opening new perspectives on CSRD and CG. The theoretical contributions of this study also include the mediating and moderating elements between a variable that help in enhancing the

relationship between CG and CSRD. The detailed explanation of the contribution was explained from three angles of discussion, as elaborated below.

Firstly, this study contributes significantly to explicitly theorize the path through which CG is related to CSRD. This study provides a holistic view of the relationship between multiple CG mechanisms interactively that are shown on the level of compliance on CSRD. In theoretical terms, this research examines how various CG mechanisms affect the CSRD quantity and quality of a company interactively. In contrast, most previous studies on governance mechanisms have investigated how the interdependencies of mechanisms themselves are established by examining whether one mechanism increases or decreases the strength of another (Oh et al., 2018). However, this study extends the theoretical boundary on the interactive nature of CSRD through multiple governance mechanisms. Thus, it contributes to enhancing the understanding of CG and CSRD.

Secondly, efforts are being considered to follow mediating consequences of the extent of compliance between board characteristics and CSRD because it is mainly due to the board's ability to influence the relationship between CSRD and its CG compliance. Thus, it can be claimed that the respective relationship can be regulated by the degree of compliance. This serves as one of the significant contributions of this study. While most previous studies commonly tested the direct relationship without the inclusion of a mediating variable, this study examined the level of CG compliance by firms as a mediating variable. Thus, contribute to the theoretical foundations of CG and CSRD relationships.

Lastly, in addition to the mediating variable, this study also investigate the elements of government ownership structures as a moderating variable between CG and CSRD. The Saudi government issued the new CG code, and its ownership of listed companies has a role in the relationship between the level of CG compliance and CSRD that this study attempts to explore as compared to the previous study in the field of CG and CSRD. This study provides new insight into theoretical perspectives since most of the previous studies investigated the relationship independently. Therefore, with the following details contributions of theoretical foundations, this study hopes to contribute to developing and enhancing new knowledge related to the understanding of both CSRD and CG.

1.6.2 Practical Significance

The practical significance of this study can be seen from different perspectives. The key beneficiaries would include the firms, particularly the listed firms in Saudi Arabia and the regulatory authorities, the government, and the communities itself.

The establishments of this study believed to contribute to a more detailed understanding of the concept of CG and CSRD that would be capable of helping the firms in developing new perspectives on their business models. This study provides a more detailed clarification of how the combined effects of multiple CG mechanisms on CSRD quantity and quality. In addition, this study findings shed light on how a company should be a better corporate citizen by complying with the CG code effectively.

Besides, CSRD is regarded as a public relations strategy, especially within the market environment. Findings on CSRD, which, in turn, influence the reputation and performance of the firm, may improve the management's understanding of why CSRD

matters. To managers, this means enhancing the CSRD and building a positive reputation that is significant to intermediate steps in converting CSRD into financial gains, which could be established themselves at the forefront. Furthermore, this study contributes to the greater concerns on the impact of firms' operations on the community and the environment. This is a significant part of business operations and would not only be beneficial to the firms but also the community. The ability to manage the firm in accordance with CSR will lead to better developments of the surrounding and community's lifestyle. Thus, it leads to environmental sustainability in business.

Apart from that, the empirical findings of this study shed light on the new Saudi CG code for policy in relation to CSRD. In addition, the empirical findings from this study is of great practical significance especially for Saudi government capital market regulatory agencies. Among the key agencies includes Saudi Stock Exchange, the Capital Market Authority, and the Saudi Ministry of Commerce Industry. Clear understanding of CG and CSRD, thus lead to development of more comprehensive and detailed regulations in future.

Thirdly, thus, there is a great demand to find indications of where future research can aim at in this field. The result of this study contributed significant information to future researchers about how a business should embrace CSRD.

1.7 Scope of the Study

The study focuses on the CSRD in the Saudi Stock Exchange (TADAWUL), by which it examined the effect of CG mechanisms on CSRD quantity and quality. Additionally, the level of CG compliance and government ownership used as mediating and moderating variables, respectively. The study was limited to Saudi Arabia as the chosen country. This is motivated by recent reforms of CG regulations

in the country. Moreover, the relationship between CG and CSRD has been receiving immense attention in developed countries; however, limited attention has been given to developing countries. This study covered all non-financial listed firms on TADAWUL. The period considered is the year 2018. This period was selected as it is the year the immediate year after the introduction of the new Saudi CG code.

1.8 Definition of Key Terms

The key terms and variables used in this study were defined based on how they were used in previous studies. Table 1.1 provides a comprehensive list of the key terms and their definitions.

Table 1.1 Definition of Key Terms

S/No.	Terms	Definition
1	Corporate Social Responsibility Disclosure	It is defined as information provided by a reporting entity with a view to providing lenders, capital providers, potential equity investors, and creditors with information that enhances their decision-making (Botosan, 2004).
2	Corporate Social Responsibility Disclosure Quantity	CSR disclosure quantity could be defined as the extent or amount of disclosed information in the annual report of the listed firm (Guthrie et al., 2004)
3	Corporate Social Responsibility Disclosure Quality	CSR disclosure quality is defined in terms of annual reports' decision usefulness of CSR activities (Beuselinck & Manigart, 2007)
4	Corporate Governance	is defined as the system by which companies are directed and managed (Rao et al., 2012).
5	Level of Corporate Governance Compliance	Is defined as the compliance level of a listed firm with the regard to the new Saudi CG regulation

Table 1-1. Continued

S/No.	Terms	Definition
6	Board Size	This is referred to the total number of members as directors on the board of the firm (Rao et al., 2012).
7	Independent Directors	refers to the total number of independent directors on the firm's board of directors.
8	Board Meeting Frequency	refers to the board member's activity that has to do with the total number of meetings held by the directors in a year (Brick & Chidambaran, 2010).
9	Board Ownership	This refers to the extent to which a firm's stock shares owned by the board of directors.
10	Number of Board Committees	This is referred to as the total number of committees of the board of the firm.
11	Governmental Ownership	Refers to the shares owned by a government in firms operating in the private sector, which sometimes are known as governmental linked firms because they are usually under the direct control of the government who owns substantial shareholdings in the firm (Eng & Mak, 2003; Esa & Ghazali, 2012).

1.9 Summary

The chapter has provided an in-depth discussion of the background of the study, mainly describing the phenomena of CG and the effect of its mechanisms on the quantity and quality of CSR. Additionally, the chapter sheds light on the theoretical gaps, which has led to the need for this investigation to be conducted to explore the research problem. Furthermore, the research objectives and the research questions were stated in this chapter, which was answered in subsequent chapters. Similarly, both theoretical and practical significance, as well as the scope of this study, were addressed.

CHAPTER 2

LITERATURE REVIEW

2.1 Overview

The second chapter will review the relevant literature about the subject of the research. The general concept of CSR, CSRD, and CG was adequately discussed. Similarly, previous studies were reviewed. Peculiar attention was given to the CG practice within the context of Saudi Arabia and the new Saudi CG code. Also, an in-depth review of all the variables related to the research study will be discussed thoroughly in this section. Therefore, this chapter presents literature reviews on CSRD, multiple CG mechanisms, and ownership structure.

2.2 Corporate Social Responsibility

Businesses are an integral part of their immediate host community or environment where they operate (Dkhili & Ansi, 2012; Fordham & Robinson, 2018). Organizations attained high success stability, where there is good harmony within the different stakeholders involved. Business firms must also realize that social and environmental challenges adversely affect the overall success of a firm. It is, therefore, of great benefit for the business firms to critically analyze the impact of business activities on their immediate environment through appropriate CSR (Abbas et al., 2019; Paradi et al., 2011).

Similarly, consumers have become so critical of business firms in terms of expectations concerning the provision of goods and services. These goods and services need to reflect business behaviors that are socially and environmentally responsible at competitive prices. Therefore, firms must integrate business activities, social and environmental considerations into their overall objective of the business. As a result,

there are certain areas of concern that business organizations must pay attention to because of the impact of their business activities (Ghotb, 2011). CSR was considered by many as a critical area of concern that requires adequate attention.

The purpose of social responsibility is to raise living standards while preserving the profitability for all shareholders, both inside and outside of the company. In addition, numerous theoretical frameworks to explain the CSR dimension have been made. A significant number of attempts have been made to create a model that can represent the term CSR which is considered complex. Carroll (1979), in Fordham and Robinson (2018), identifies four major components of CSR. They are namely, economic, ethical, legal, and discretionary, which was one of the earliest attempts in this direction.

The economic dimensions represent a company's capability to generate profit, create jobs, manufacture new products, and encourage innovation. The legal aspect represents the companies complying, within the limits of society, with rules and regulations governing their activities (Jamali, 2014; Jamali & Mirshak, 2007). Ethical responsibility represents the requirement of companies to act in an ethical manner without causing harm to either the environment or the public by following the legal requirements (Solomon, 1994). The discretionary aspect represents the incentives that companies offer in the form of donations to communities. This aspect was changed by Carroll (2004) and renamed philanthropy. This is shown in Figure 2.1, which is the pyramid's graphical representation. The four CSR dimension can be represented in the form of a pyramid.



Figure 2.1 Carroll's pyramid of social responsibility

Source: Carroll (1979, 42)

Therefore, it can be concluded that CSR integrates the social, environmental and economic concerns in the operations of the firm as well as in business processes, decision making, and strategic planning which requires transparency and accountability for the purpose of ensuring improved practices that will result in the creation of wealth and betterment for the society (Linh & Hieu, 2011; Zatwarnicka-Madura et al., 2019). Thus, CSR considerations are regarded as a firm's strategic approach in the pursuit of its success and ensuring positive impacts on the environment, communities, and related stakeholders (Pop et al., 2011).

2.2.1 Conceptual Definition of CSR

CSR was given many definitions by different scholars right from the early 1950s up to the 21st century. These various definitions and understandings of the concept of

CSR vary from one concept to the other (Rahman, 2011). Table 2.1. provides a summary of several definitions of CSR that are broadly used in the literature.

Table 2.1 CSR Definitions

Definitions	Author
It refers to the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society	(Bowen, 1953)
CSR is recognition on the part of the management of an obligation to the society it serves not only for maximum economic performance but for humane and constructive social policies as well	(Heald, 1957)
[Social responsibilities] mean that businessmen should oversee the operation of an economic system that fulfills the expectations of the public. And this means in turn that the economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare	(Frederick, 1960)
In short, the new concept of social responsibility recognizes the intimacy of the relationships between the corporation and society and realizes that such relationships must be kept in mind by top managers as the corporation and the related groups pursue their respective goals	(Walton, 1967)
There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.	(Friedman, 1970)
Perhaps the best way to understand social responsibility is to think of it as good neighborliness. The concept involves two phases. On the one hand, it means not doing things that spoil the neighborhood. On the other, it may be expressed as the voluntary assumption of the obligation to help solve neighborhood problems. Those who find neighborliness an awkward or coy concept may substitute the idea that social responsibility means the commitment of a business or Business, in general, to an active role in the solution of broad social problems, such as racial discrimination, pollution, transportation, or urban decay.	(Eilbert & Parket, 1973)

Table 2-1. Continued

Definitions	Author
The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.	(Archie B. Carroll, 1979)
Corporate Social Responsibility is the notion that corporations have an obligation to constituent groups in society other than stockholders and beyond that prescribed by law and union contracts. Two facets of this definition are critical. First, the obligation must be voluntarily adopted; behavior influenced by the coercive forces of law or union contract is not voluntary. Second, the obligation is broad, extending beyond the traditional duty to shareholders to other social groups such as customers, employees, suppliers, and neighboring communities	(Jones, 1980)
CSR involves the conduct of a business so that it is economically profitable, law-abiding, ethical, and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions to discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time, and talent. Thus, CSR is composed of four parts: economic, legal, ethical, and voluntary or philanthropic.	(Carroll, 1983)
Corporate social responsibility relates primarily to achieving outcomes from organizational decisions concerning specific issues or problems which (by some normative standard) have beneficial rather than adverse effects on pertinent corporate stakeholders. The normative correctness of the products of corporate action has been the main focus of corporate social responsibility.	(Epstein, 1987)
Corporate social responsibility is concerned with treating the stakeholders of the firm ethically or in a socially responsible manner. Stakeholders exist both within a firm and outside. Consequently, behaving socially responsibly will increase the human development of stakeholders both within and outside the corporation.	(M. Hopkins, 1998)
A contract between society and business wherein a community grants a company a license to operate, and in return, the matter meets certain obligations and behaves in an acceptable manner.	(Woodward-Clyde, 1999)