# BOARD CAPITAL, CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE QUALITY, AND FIRM PERFORMANCE IN SAUDI ARABIA: DOES CEO POWER MATTER?

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**by**

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| CEO | Chief Executive Officer |
| CG | Corporate Governance |
| CMA | The Capital Market Authority |
| CSR | Corporate social responsibility |
| CSRDQ | Corporate social responsibility disclosure quality |
| CSRI | Corporate Social Responsibility Initiative |
| G20 | The Group of Twenty |
| GCC | Gulf Cooperation Council |
| GRI | The Global Reporting Initiative |
| GSCI | The Global Sustainable Competitiveness Index |
| H | Hypothesis |
| IFRS | International Financial Reporting Standards |
| ISO | International Organization for Standardization |
| KSA | Kingdom of Saudi Arabia |
| MEP | Ministry of Economy and Planning |
| SAGIA | The Saudi Arabian General Investment Authority |
| SCGR | Saudi Corporate Governance Regulations |
| Tadawul | The Saudi Stock Exchange |
| UN | United Nations |

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Appendix A Normality Test – CSRD Quality Model

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**MODAL PENGARAH, KUALITI PENDEDAHAN TANGGUNGJAWAB SOSIAL KORPORAT DAN PRESTASI FIRMA DI ARAB SAUDI: ADAKAH KUASA CEO PENTING?**

## ABSTRAK

Tanggungjawab sosial korporat telah menjadi suatu topik penyelidikan hangat dalam kalangan penyelidik dan banyak kajian empirikal telah dijalankan mengenai penentu tanggungjawab sosial korporat dan peranan tanggungjawab sosial korporat dalam prestasi organisasi. Tren semasa dalam penyelidikan berkaitan tanggungjawab sosial korporat telah beralih kepada kualiti pelaporan organisasi. Selaras dengan peralihan tren dalam literatur CSR ke arah kuantiti dan kualiti pendedahan tanggungjawab sosial korporat, penyelidikan ini berusaha untuk menggunakan Teori Agensi dan Teori Kebergantungan Sumber untuk mengkaji hubungan antara sumber lembaga (sumber manusia dan sosial) dan kualiti pendedahan tanggungjawab sosial koporat (CSR) firma bukan kewangan tersenarai Saudi. Ia seterusnya menyiasat hubungan antara kualiti pendedahan tanggungjawab sosial korporat dan prestasi firma. Selain itu, penyelidikan ini meneliti peranan penyederhana kuasa CEO terhadap hubungan antara sumber lembaga dan kualiti pendedahan CSR. Memandangkan pengaruh sumber lembaga adalah agak rendah dalam firma Saudi, CEO yang berkuasa berusaha untuk menambah baik dan mengekalkan kualiti pendedahan CSR. Sebanyak 114 firma bukan kewangan tersenarai di Bursa Saham Saudi bagi tahun 2018 telah dianalisa. Kajian mendapati bahawa pengalaman pengarah dan pengarah yang mempunyai jawatan di beberapa firma (*interlocking*) mempunyai kesan positif yang signifikan terhadap kualiti pendedahan CSR dalam firma bukan kewangan tersenarai Saudi. Ia juga mendapati bahawa hubungan politik pengarah memberi kesan negatif

terhadap kualiti pendedahan CSR. Selain itu, ia juga mendapati kuasa CEO menyederhanakan hubungan antara tahap pendidikan pengarah, kepakaran pengarah, *interlocking* pengarah, dan kualiti pendedahan CSR dalam firma bukan kewangan tersenarai Saudi. Akhir sekali, kajian ini mendedahkan hubungan signifikan yang positif antara kualiti pendedahan CSR dan prestasi firma dalam firma bukan kewangan tersenarai Saudi. Berdasarkan hasil penyelidikan ini, pembuat dasar mungkin boleh menggunakan penemuan kajian untuk mengiktiraf kepentingan kedua-dua aspek sumber manusia dan sosial untuk ahli lembaga pengarah meningkatkan kualiti pendedahan CSR di Arab Saudi yang rendah. Di samping itu, Pihak Berkuasa Pasaran Modal juga harus menggalakkan syarikat untuk terus menangani kualiti pendedahan CSR, dan bukan hanya menumpukan pada kuantiti.

**BOARD CAPITAL, CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE QUALITY, AND FIRM PERFORMANCE IN SAUDI ARABIA: DOES CEO POWER MATTER?**

## ABSTRACT

Corporate social responsibility has become a hot topic of investigation among researchers and many empirical studies have been conducted on the determinants of corporate social responsibility and the role of corporate social responsibility in organizational performance. The current trend in corporate social responsibility research has shifted to the reporting quality of organizations. With the trend shifting in CSR literature toward the quantity and quality of corporate social responsibility disclosure, this research endeavors to use Agency Theory and Resource Dependence Theory to investigate the relationship between board capital (human and social capital) and corporate social responsibility (CSR) disclosure quality in the Saudi non-financial firms. It further investigates the relationship between corporate social responsibility disclosure quality and firm performance. Additionally, this research examines the moderating role of CEO power on the relationship between board capital and CSR disclosure quality. Given that influence of board capital is relatively low in Saudi firms, powerful CEOs seek to improve and sustain CSR disclosure quality. A total of 114 non-financial listed firms on the Saudi Stock exchange for the year 2018 have been analyzed. The study finds that directors' experience and directors' interlocking have a positive significant impact on CSR disclosure quality in Saudi non-financial listed firms. It also finds that directors' political ties negatively impact CSR disclosure quality. As well as finds that CEO power moderates the relationships between directors' education, directors' expertise, directors' interlocking, and CSR disclosure

quality in Saudi non-financial listed firms. Finally, the study reveals a positive significant relationship between CSR disclosure quality and firm performance in Saudi non-financial listed firms. Based on the results of this research, policy-makers might use the study's findings to recognize the importance of both social and human capital attributes for board members in improving the low level of CSR disclosure quality in Saudi Arabia. In addition, the Capital Market Authority should also encourage companies to further address the quality of CSR disclosure, instead of solely focusing on quantity.

# CHAPTER 1

# INTRODUCTION

## 1.1 Introduction

There has been increasing attention to social issues among societies at large over the last 30 years (Eugénio et al., 2010; Gray, 2010; Mathews, 2004). This attention has resulted in wake-up calls for firms to be socially responsible. The basic principle of social responsibility is “a concern of business organizations with the needs and goals of society that goes beyond the merely economic” (Eels & Walton, 1974, p. 247). In particular, corporate social responsibility (CSR) means that companies are obliged to work towards addressing the needs of a broader spectrum of stakeholders, who can be identified as identifiable groups or individuals who may be impacted and who are influenced by the achievement of the goals of the organization (Clarkson, 1995; Waddock et al., 2002). In response to such calls, corporate social responsibility disclosure (CSRD) practices have evolved, developed, and increased in many organizations. Meanwhile, corporate social responsibility disclosure has become a hot topic of investigation among researchers (Bagh et al., 2017; Cucari et al., 2023; Dimitropoulos, 2022; Fernández-Gago et al., 2016; Gray, 2001; Li et al., 2023; Sofian et al., 2022; Unerman, 2000).

The work of Dierkes and Antal (1986) on corporate social responsibility is among the pioneer works that set the ground for the study of CSR reporting, CSR disclosure, and recently CSR disclosure quality and quantity. Since then, there have been many empirical studies on the determinants of corporate social responsibility and the role of corporate social responsibility on the performance of organizations. The trend in the investigation of corporate social responsibility later shifts to its reporting

in the annual reports of organizations. Moreover, the current trend in CSR literature has shifted to corporate social responsibility disclosure quantity and quality (Brotons & Sansalvador, 2020; Kalai & Sbais, 2019; Khan et al., 2019).

This chapter provides the background of the study, the problem statement, objectives of the study, research questions, significance of the study (both theoretical and practical implications), definition of the terms, and organization of this thesis.

## 1.2 Background of The Study

The disclosure of corporate social responsibility serves as the primary medium through which firms communicate with stakeholders about their CSR activities (Belal & Cooper, 2011). In the last few decades, there has been considerable debate over the role of CSR and the goals of stakeholders (Aguinis & Glavas, 2012; Carroll & Shabana, 2010). In recent years, there is a growing demand from stakeholders for the quality of information reported on the environment, employees, and society. This information establishes the range of stakeholders in companies, and how these companies have been able to support social and environmental issues by providing a higher level of CSR disclosure (Aribi & Gao, 2010; Deegan & Gordon, 1996; Guthrie & Parker, 1989). Thus, firms must pursue a “shared value” for the business entity and the society at large with quality information (Porter & Kramer, 2011).

The increased interest in CSR practices could be attributed to the aftermath of notable events such as economic crises (i.e. global financial crisis) and irresponsible business practices (i.e. the Enron scandal; oil spills; child labour) and their impacts on the society (Mostovicz et al., 2009). In this regard, the United Nations has held the Earth Summits in Rio in 1992, Johannesburg in 2002, the Rio+20 conference in 2012,

the Paris Agreement (or the Paris Climate Accords) on climate change, and more recently is the 2021 United Nations Climate Change Conference on COP26 climate agreement, which was planned to explicitly reduce unabated coal usage. The European Commission has also emphasized CSR issues and corporate accountability by introducing a Green Paper in 2001 and 2002 (Archel et al., 2011). Additionally, organizations such as the World Council on Sustainable Development, Business for Social Responsibility and Ethical Corporate have endeavoured to promote CSR initiatives (Carroll & Shabana, 2010). Furthermore, institutional investors, such as CalPERS in the United States, have committed themselves to investing only in socially responsible businesses (Guenster et al., 2011).

Corporate social responsibility in Saudi Arabia has become one of the most important topics for researchers and international organizations during the previous years to the present. CSR has become more important to practitioners since the issuance of the Corporate Governance Regulations in 2007 by The Capital Market Authority (CMA) for (Listed Companies) and regulations for the governance of unlisted shareholding companies by The Ministry of Commerce and Investment of the Kingdom of Saudi Arabia. Since the enactment of the Saudi Corporate Governance Regulations in 2007 in Saudi Arabia which have paid heed to setting effective governance arrangements for the joint stock companies listed in the Saudi stock exchange, CSR has been an important part of the government agenda to achieve global competitiveness and make Saudi Arabia one of the world's top 10 most competitive economies (SAGIA, 2008). The Saudi Arabian General Investment Authority (SAGIA) is a governmental body that propagates and promotes CSR initiatives to support responsible business practices in the country. The governmental body links Saudi's economy to the corporate social responsibility of companies. SAGIA states

that human and social capital are the primary drivers of competition. Thus, SAGIA believes that corporations can enhance their CSR quality by investing more in human and social capital (Khan et al., 2013). This is supported by the Saudi corporate governance regulations 2017, Article 88, the article states that firms should disclose their corporate social responsibility (SCGR, 2017). Since then, there have been studies on CSR quantity and quality. However, with the low disclosure reported by Saudi firms (Alotaibi & Hussainey, 2016b; Habbash, 2016, 2017), it, however, calls for quality rather than quantity. Thus, studying the determinants of corporate social responsibility disclosure quality (CSRDQ) is important to know and for policymakers in Saudi Arabia to understand that CSR related policies should be geared towards quality than quantity (i.e. just instructing firms to disclose CSR related activities). Becker, (1964) classified board capital into human and social capital. Since SAGIA's role is for firms to invest in human and social capital to enhance their CSR related activities, and in support of the studies on board capital, this study finds it important to study board capital variables as both human and social capital are components and attributes of board capital (Muttakin et al., 2018; Ramón-Llorens et al., 2019; Yousaf et al., 2022).

In November 2008 during the global financial crisis, SAGIA organized the first leadership dialogue in Riyadh, which was in partnership with the King Khalid Foundation and Harvard Kennedy School (HKS)'s Corporate Social Responsibility Initiative (CSRI). The leadership dialogue was graced by participants from the local chamber of commerce, Saudi foundations, the Saudi government, international non-governmental organizations, and academia. The leadership dialogue resulted in the provision of eight key factors that are important to drive the Saudi CSR agenda. Jane Nelson of Harvard Kennedy School ruled out eight items that form the framework for

the Saudi CSR agenda, which are CSR as a competitive tool, strategic direction, competence-led philanthropy, accountability, transparency, new types of public-private partnerships to tackle complex global and national problems, new models of leadership and cooperation from key emerging economies including the Middle East, integrating CSR into business schools and university curricula and the growing role of the media.

CSR is a key component of public relations for companies, helping them to communicate and build consensus behind CSR disclosure. By giving key stakeholders and society at large legitimacy, the aim is to control any conflicts between the firms and stakeholders (Golob & Bartlett, 2007). Since the global financial crisis, there has been an increase in the number of studies on voluntary disclosure and CSR awareness in an effort to resolve potential conflicts between the firms and stakeholders through voluntary disclosure (Golob & Bartlett, 2007; Iatridis, 2008; O'Dwyer & Unerman, 2007). The importance of CSR to economic development has been highlighted by early studies on CSR in Saudi Arabia (SAGIA, 2008).

As a result, there has been an increase in the literature on corporate social responsibility disclosure, greater chances have become available for research, and the emergence of numerous themes (Ali et al., 2017; Belal & Momin, 2009). The motivations behind corporate social responsibility disclosure (CSRD) and its influencing factors, such as corporate governance traits (Brammer & Pavelin, 2008; Gamerschlag et al., 2011; Rao et al., 2012) and firm-specific traits (Clarkson et al., 2008; Roberts, 1992; Sotorrío & Sánchez, 2010), are the subject of one trend. The second stream of studies has focused on exploring the benefits of CSRD by investigating the relationship between firm performance and CSRD (Dawkins & Fraas, 2011; Dhaliwal et al., 2011; Prado-Lorenzo et al., 2008; Qiu et al., 2016). Additionally,

several studies have investigated the effect of board capital on CSRD (Said et al., 2013; Vveinhardt et al., 2014). However, the focus has been on the developed countries, and limited attention has been given to developing countries (i.e. Saudi Arabia) (Belal & Cooper, 2011).

Recently, there is evidence that companies must disclose all the information relating to their CSR activities in developed countries (i.e. Germany and the UK) (Beck et al., 2010; Meng et al., 2019). Thus, disclosure of CSR activities is becoming more mandatory than optional, and as a result, companies see CSR activities as actions that improve their reputation and are less costly (Mandurah et al., 2012). Moreover, firms in developed countries are in advanced stages of CSR disclosure by disclosing issues relating to environmental conservatism and the quality of what they disclosed about CSR activities. However, companies in developing countries are still in their early stages of developing CSR programs by performing philanthropic efforts (Mandurah et al., 2012).

The quality and quantity of CSR disclosure have attracted significant attention and major interest in the fields of business and accounting literature since the theoretical framework of Hasseldine et al. (2005) on the quality-signalling theory about environmental disclosures. Hasseldine et al. (2005) do not only consider the number of CSR information disclosed in the annual reports by firms but the weight of the CSR activities disclosed to reflect their likely significance, reliability, and level of quality disclosure. Motivated by the study of Hasseldine et al. (2005), this study focuses on the quality of CSR disclosure in terms of the reliability, understandability, faithful representation, and relevance of the CSR disclosure activities. This is in support of the growing demands from stakeholders to ensure quality rather than

quantity in their CSR disclosure practices (Aribi & Gao, 2010; Hui & Matsunaga, 2015).

In recent times, Saudi Arabia has been ranked low in the global sustainable competitiveness index, 2019 when compared to neighbouring countries and advanced economies (SolAbility Sustainable Intelligence, 2019). Saudi Arabia is ranked below 50% in social capital and intellectual capital in the global sustainable competitiveness index, which may account for the low level of corporate social responsibility disclosure quality. Concerning the Saudi Vision 2030 to improve the level of human capital development across firms, it becomes imperative for firms in Saudi Arabia to examine their board capital attributes (such as experience, education, expertise, nationality, political ties, and interlockings) in relation to their firm performance. Theoretically, the resource dependence theory has been used in corporate governance literature to address board human and social capital variables (Duru et al., 2016; Pfeffer & Slancik, 1978; Sitthipongpanich & Polsiri, 2015). However, Hillman and Dalziel (2003) argued that the resource dependence theory functions in the position of resource provisions, which is not enough to increase the performance of firms. The authors argued that firms must consider a mix of resource provisions through the resource dependence theory and resource monitoring through the agency theory (Jensen & Meckling, 1976), in a way to increase board functions and responsibilities (such as those related to CSR disclosure practice and firm performance). Thus, it requires the role of powerful CEOs to function as resource monitoring actors.

One important issue in agency theory is the monitoring role of CEOs and board members in ensuring that the resources of the firm are well channelled to profitable investment that can achieve the goals of shareholders and all relevant stakeholders. Although powerful CEOs may be reluctant to invest heavily in CSR-related activities

by inhibiting a board’s monitoring ability (Muttakin et al., 2018), however, they perform monitoring roles that can achieve shareholders’ objectives. Conversely, directors (particularly outside directors) with education, skills, experiences, and knowledge who protect shareholders' and stakeholders’ interests may advocate for more CSR activities (Uddin and Choudhury, 2008).

Studies have linked higher CEO power to increased firm value and ESG disclosure (Li et al., 2018). These studies indicate that firms with higher CEO power have a greater commitment to ESG practice including environmental and social disclosures. This is also in line with past studies that argue that the disclosure quality of a firm could also be linked to the influence of the CEO (Francis et al., 1994; Hui & Matsunaga, 2015). CEOs have the incentives (i.e. through ownership and tenure-ship) to influence the disclosure policies and control the regular information disclosed by the board (Axelson & Baliga, 2009; Goldman & Slezak, 2006). The quality of CSR disclosure indicates the ability of the executives to understand the competitive business environment and how such disclosure could enhance their relations with the internal and external environment to influence their firm value positively (Hui & Matsunaga, 2015). Thus, since the efforts of the CEO is important to facilitate the effectiveness of the executive team, the role of powerful CEOs is important to enhance a firm’s disclosure quality (Li et al., 2018). This implies that powerful CEOs would want to disclose more CSR-related activities and information due to the various opportunities at their disposal like maximizing their personal gain. CEOs who are incentivized by stock ownership due to their performance are willing to disclose more CSR-related information that are reliable and useful to relevant stakeholders (Wang et al., 2008). CEOs also improve the quality of CSR disclosure to build their image and improve their reputation (Li et al., 2018; Rashid et al., 2020). Rashid et al. (2020) stated that

CEOs undertake CSR disclosure in a way to build an empire and make them highly visible in their communities and societies. Powerful CEOs who embrace reducing the level of information asymmetry achieve this by disclosing quality CSR information about their firms (Cho et al., 2013). However, as far as the CSR literature is established, there is less literature that examines the moderating role of CEO power on the individual board capital attributes and how such interaction effect of the CEO further enhances the quality of CSR disclosure. CEOs do take responsibility for not only the investment decisions of the firm but also the decisions that affect all relevant stakeholders including CSR disclosure activities (Hui & Matsunaga, 2015).

Business organizations are becoming required by stakeholder groups and investors to be more transparent and open in their business practices. They are also required to pay more attention to the needs of their clients, employees, suppliers, society, and communities. This implies that stakeholders and investors nowadays require not only financial information but also more non-financial information that will assist them in decision making, especially in evaluating the performance of the organizations (Gholami, 2011). As Cowen, Ferreri, & Parker (1987) stated, reliance on the quantity of disclosure might be misleading. The greater number of words used does not indicate better CSR reporting. Therefore, the quality of CSR disclosure matters more than quantity, as disclosure quality was found to be the only significant predictor of value creation for organizations (Darus et al., 2016). Moreover, the positive link between the quality of CSR disclosure and increasing the value of the firm can affect and encourage more firms to engage in the practice and disclosure of CSR in line with their core business.

## 1.3 Problem Statement

This study addresses board capital and CEO power as issues affecting corporate social responsibility disclosure quality, which in turn affects the firm performance of non-financial listed firms in Saudi Arabia.

The research problem of this study arises from the low level of CSR disclosure practices by Saudi firms. This is further supported by Habbash (2016) that the research on CSR disclosure quantity has been well addressed while the level of CSR quality is still low among Saudi firms when compared with firms in advanced countries. Evidence has shown that firms in developing countries have a low level of CSR disclosure (Nalband & Al-Amri, 2013). In Saudi Arabia, Al-duais et al. (2021) found that Saudi firms are relatively low in CSR reporting (15 per cent) .Al-Janadi et al. (2013) report 14.61 per cent on the disclosure level of Saudi firms. Macarulla and Talalweh (2012) report 16 per cent for Saudi government-owned firms while Habbash (2016) reports 24 per cent for both Saudi government and family-owned firms after the SCGR of 2007. Habbash (2016) further argued that the 24 per cent of CSR disclosure is relatively low for Saudi firms when compared to their counterparts in the developed countries. The fact also shows that there are about 54 per cent of Saudi listed companies on the Saudi stock exchange that do not disclose social responsibility (Al-Qarni, 2014) and CSR disclosure quality was relatively low (Alotaibi & Hussainey, 2016a, 2016b) due to constraints such as sustainable competitiveness, low natural capital, social capital, intellectual capital, governance, and resource intensity (SolAbility Sustainable Intelligence, 2019). Supporting the low level of CSR disclosure in Saudi, the disclosure of social responsibility is not mandatory for companies but voluntary (Al-Qarni, 2014, Bamahros et al., 2022, Freeman & Hasnaoui, 2011). Moreover, Habbash (2016) found that some CG mechanisms (audit

committee, institutional ownership, and board independence) do not support and inspire Saudi firms' managers towards greater CSR disclosure.

Previous studies show the importance of the quality of CSR disclosure rather than the quantity (Darus et al., 2016, Hasseldine et al., 2005, Haifeng et al., 2020). Darus et al. (2016) found that quality of CSR disclosure matters more than quantity, as disclosure quality was found to be the only significant predictor of value creation for organizations (Haifeng et al., 2020). These findings have important implications, as they suggest that stakeholders require more non-financial information in order to evaluate social performance of a company. Moreover, Hasseldine et al. (2005) confirmed that quantity is not incrementally significant in the presence of quality. In other words, quality disclosures add significantly to firm reputation, which once achieved will not be supplemented by quantity.

Board capital has been a growing concern for corporate firms, governments, and relevant stakeholders in Middle East and North Africa (MENA) countries especially in Saudi Arabia. This concern for human and social capital is among the goals of the Saudi Arabia government as contained in the Saudi Vision 2030, a strategy designed to diversify the economy (Saudi Vision 2030). Similarly, CEOs are now being encouraged to perform more firms' duties and focus solely on improving the performance of the firm. This led to the amendment of the 2017 SCGR to abrogate CEO duality. Thus, as the Saudi government intended to improve the disclosure of CSR information, both board capital and CEO power should be examined to achieve better and quality CSR disclosure.

Board capital has been used in some studies to improve CSR disclosure. In developing countries, past studies have argued for the role of board capital to improve

CSR disclosure (Guerrero-Villegas et al., 2018; Muttakin et al., 2018). Many studies have focused on board capital and firm performance while there have been limitations on the nexus between the dimensions of board capital and CSRD Quality (Guerrero-Villegas et al., 2018). Muttakin et al. (2018) stated that future studies should focus on how board capital could improve CSR disclosure quality. The authors argued that studies on CSR disclosure are limited to CSR indicators that are measurable while firms fail to report CSR indicators that are unmeasurable which limits the quality of CSR disclosure. Thus, making a distinction between CSR disclosure quantity and quality.

Furthermore, prior studies have examined the link between board capital and CSR disclosure (Amorelli & García-Sánchez, 2020; Fuente et al., 2017; Gul & Leung, 2004; Muttakin et al., 2018; Ramón-Llorens et al., 2019), however, most of these studies have focused on CSRD quantity, not quality (Fuente et al., 2017; Gul & Leung, 2004; Muttakin et al., 2018; Ramón-Llorens et al., 2019) . Amorelli and García-Sánchez, (2020) investigated the effect of the human capital of female directors on the disclosure quality of CSR by comparing the CSR reporting information and GRI guidelines. Fuente et al., (2017) examined the board of directors' role in terms of sustainability transparency and the presence of non-executive directors on the company, the board diversity (with special reference to the presence of female board members), as well as the existence of CSR committees in the disclosure of CSR information by adopting GRI guidelines. Gul and Leung (2004) focused on the relationship between CEO duality and expert outside directors and voluntary corporate disclosure while Ramón-Llorens et al., (2019) studied the effect of outside directors' board capital on enhancing CSR disclosure of Spanish companies by classifying the outside directors among business experts, support specialists and community

influentials. As well, Muttakin et al. (2018) examined the relationship between directors' board capital and the level of CSR disclosure quantity and also investigated the impact of CEO power on this relationship.

Moreover, a few studies (such as Jermias & Gani, 2014; Muttakin et al., 2018) have examined board capital using an index or as a single variable. As such, we do not really understand the board capital components that significantly or insignificantly affect corporate outcomes (i.e., CSRD Quality). Board capital attributes are heterogenous across firms, suggesting that CSRD quality may differ in relation to various board capital attributes (Barroso et al., 2011; Chen et al., 2021; Johnson et al., 2013; Shui et al., 2022). Therefore, contrary to past studies that have examined board capital attributes as a single factor or an index (Jermias & Gani, 2014; Muttakin et al., 2018), this study examines the individual board capital attributes holistically. This would provide evidence on which board capital attributes have strong or weak influence on CSRD Quality. Thus, this study provides heterogenous explanations of board capital attributes in predicting CSRD Quality.

In the Saudi context, there is a general lack of studies on board capital and CSRD quality. Although there are few studies on CSRD Quality in Saudi firms (Alotaibi & Hussainey, 2016a; Alwahaibi et al., 2019; Habbash, 2016; Issa, 2017; Mahjoub, 2019), these studies have focused on the determinants of CSRD Quality without focusing attention on board capital that influences their recommendation to disclosure CSR policies and activities. For instance, Alotaibi and Hussainey (2016a) found that board size, managerial ownership, government ownership, and remuneration committee size are associated with CSRD Quality in Saudi firms and that the level of CSRD Quality is relatively low in Saudi firms. Mahjoub (2019) found that firm size, sensitive industry, leverage, and information asymmetry determine

CSRD quantity in ISO 26000 Saudi firms. Issa (2017) found that profitability, size, and board independence determine the CSRD index in Saudi firms.

On the other hand, the 2017 Saudi Corporate Governance Regulations require the board of directors' recommendation for CSR disclosure, and the social and human capital integration of board members is important to influence such decisions. Saudi Corporate Governance Regulations (2017) provide that the election and appointment of board members shall be based on some criteria: experience, qualifications, skills, memberships and ties, and previous and current jobs. These factors of board capital are important to vote members on the board who can make and improve decisions in CSR disclosure. Given the importance of board experience, board education qualification, board expertise, board political ties and memberships or directors interlocking in the Saudi Corporate Governance Regulations (2017) for Saudi corporations, it is justifiable to examine how such board requirements for board appointment may influence the quality of CSR disclosure.

Given these inconsistencies in the nexus between board capital and CSR disclosure, some studies have suggested the moderating role of CEO power to improve the predictive power of board capital on CSR disclosure (Jain & Jamali, 2016). Jain and Jamali (2016) suggested that future studies should interact CEO power with the board and CSR disclosure to holistically study how corporate governance mechanisms could affect the CSR of firms. Ramón-Llorens et al. (2019) supported that studies (such as Filatotchev & Wright, 2017) that did not analyse the role of powerful CEOs are too simplistic to study the interdependences among corporate governance mechanisms and CSR disclosure for both monitoring and firm’s added value.

The significance of the CEO Power to moderate the relationship between board capital variables and CSR disclosure quality is important in agency relationships. The presence of CEO Power reduces the long debates and discussions that lead to more diverse views which affect the firm’s overall goals and performance (Zahra and Pearce, 1989) and in the opinion of (Finkelstein & D’Aveni, 1994), CEO power reduces board ineffectiveness. Hambrick et al. (1993), and Haynes and Hillman (2010) argued that CEO power influences CEOs to have a higher commitment to the status-quo of the firm than the board. Concerning the board capital, (Carpenter, 2000) argued that firms’ investment in human capital requires high commitment and course of action, which can be more required from powerful CEOs. CEO power could also be responsible for effective board process, board outcomes and maintenance of strategic persistence to change the poor performance faced by board members to good outcomes (Haynes & Hillman, 2010; Westphal & Bednar, 2005). So, to increase firm performance, CEO power can influence a firm’s commitment to CSR disclosure quality.

Firm performance is the creation of value by attempting to understand how socially responsible corporate activities affect or create shareholder wealth (Mackey et al., 2007). Since CSR disclosure is linked to a firm's resources and performance, it is expected that firms' performance will improve as they engage more with their external communities (Carroll & Shabana, 2010; Dhaliwal et al., 2011; Prado-Lorenzo et al., 2008; Qiu et al., 2016; Waddock & Graves, 1997). According to Malik (2015), socially responsible firms are more likely to experience improved firm's performance. Such public awareness often results in more public engagement and customer patronage for the firm (O’Dwyer, 2002; Steiner, 1971).

These findings create three literature gaps. First, there is a low level of CSR disclosure quality in many Saudi Firms. This problem requires an investigation into what determines the quality of CSR disclosure in the Saudi context. For instance, most studies in advanced and developed countries have attributed low CSR disclosure to corporate governance mechanisms due to the quality of their institutional settings and the harmonized financial reporting standards. However, in developing and emerging countries like Saudi Arabia with weak financial and market institutional settings, CG factors seem to have accounted for low CSR disclosure. Therefore, other variables are required to enhance CSR disclosure quality in the Saudi context other than the CG mechanism. Maqbool (2015) supported this by stating that to enhance improved CSR disclosure quality in Saudi Arabia, private and corporate firms should invest in human capital, social capital, and cultural factors.

Second, the low level of board capital in Saudi firms has contributed to low CSR disclosure quality. The Global Sustainable Competitiveness Index (GSCI) shows that Saudi Arabia has scored very low in the global human and social capital index compared with their neighbouring countries like UAE, Kuwait, and Oman, and is far behind developed countries like the USA and the United Kingdom (SolAbility Sustainable Intelligence, 2019). The research gap in past studies lacks empirical evidence on board capital attributes on CSR disclosure quality in Saudi Arabia. The Vision 2030 of the KSA to enhance economic diversification and development has depended on developing and enhancing human and social capital. Therefore, an investigation into the relationship between board capital attributes and CSR disclosure quality would provide better policy implications for Saudi firms and the government on how this Vision 2030 can be strategically achieved. The study on the link between board capital attributes and CSR disclosure quality would further improve the level of

CSR disclosure quality and reputation, which will serve as an alternative mechanism to CG factors that firms in advanced countries used to enhance their level of CSR disclosure quality.

Third, several studies are yet to enhance the relationships between board capital attributes and CSR disclosure quality using CEO power. The use of board capital in CSR literature can be grouped into two, board capital and CSR disclosure, and board capital and firm performance. Findings on the moderating variables between board capital attributes and CSR disclosure quality have been mixed in past studies due to variable use and measurement, thus, establishing inconsistent findings, which may be misleading for policymakers and relevant stakeholders about corporate firms. For instance, Ramon-Llorens et al. (2019) measured CSR reporting using the counting method, which corroborates which CSR disclosure quantity and not quality. Concerning board capital, the author focused largely on business experts, support experts, and political ties, lacking directors' education, board nationality, director social interlocking, and experience. Another mixed finding can also be attributed to the study of Muttakin et al. (2018). Muttakin et al. (2018) paper has a few limitations. Muttakin et al. (2018) did not examine the influence of each board capital variable on CSR disclosure quality. The authors consider board capital as an index, which losses information as to whether director experience, director expertise, director education, and director political ties affect CSR disclosure quality. The measure of CSR disclosure is in line with CSR disclosure quantity and not quality, and the measure of CEO power does not follow the requirement of the Saudi CG code 2017 that CEO duality is no longer in practice for Saudi firms (Muttakin et al., 2018; Ramón-Llorens et al., 2019). Thus, this study measures CEO power as an index of CEO ownership and CEO tenure. In conclusion, past studies have linked board capital to CSR disclosure

quantity rather than quality, and the measure of CEO power does not follow the CG practice in Saudi firms. Therefore, this study improves the level of CSR disclosure quality using CEO power through broad attributes of board capital.

## 1.4 Research Objectives of the Study

This study investigates the impact of board capital (Human capital and social capital) on corporate social responsibility (CSR) disclosure quality in non-financial listed companies in Saudi Arabia. It also examines the moderating role of chief executive officer (CEO) power on the relationship between board capital attributes and CSRD quality. As well as the impact of CSRD Quality on firm performance. The specific research objectives are:

- Human capital and corporate social responsibility (CSR) disclosure quality:

1. To investigate the relationship between directors' experience and CSRD Quality in Saudi non-financial listed firms.
2. To assess the relationship between directors' education and CSRD Quality in Saudi non-financial listed firms.
3. To investigate the relationship between directors' expertise and CSRD Quality in Saudi non-financial listed firms.
4. To investigate the relationship between board nationality and CSRD Quality in Saudi non-financial listed firms.

- Social capital and corporate social responsibility (CSR) disclosure quality:

5. To examine the relationship between directors' political ties and CSRD Quality in Saudi non-financial listed firms.

6. To examine the relationship between directors' interlocking and CSRD Quality in Saudi non-financial listed firms.

- The moderating role of chief executive officer (CEO) power on the relationship between CSR disclosure quality:

7. To examine the moderating effect of CEO Power on the relationship between directors' experience, directors' education, directors' expertise, board nationality, directors' political ties, and directors' interlocking and CSRD Quality in Saudi non- financial listed firms.

- CSRD Quality on firm performance:

8. To investigate the impact of CSRD Quality on firm performance in Saudi non- financial listed firms.

## 1.5 Research Questions of the Study

The main research question of this study is: what is the relationship between board capital (Human capital and social capital) and corporate social responsibility disclosure quality in non-financial listed firms in Saudi Arabia? It also asks a question relating to what the impact of CSRD Quality on firm performance. In addition, it examines the moderating role of CEO power on the relationships between board capital attributes and CSRD quality.

The related research questions are:

- Human capital and corporate social responsibility (CSR) disclosure quality:

1. What is the relationship between directors' experience and CSRD Quality in Saudi non-financial listed firms?

2. To what extent does directors' education affect CSRD Quality in Saudi non-financial listed firms?

3. To what extent does directors' expertise affect CSRD Quality in Saudi non-financial listed firms?

4. What is the relationship between board nationality and CSRD Quality in Saudi non-financial listed firms?

- Social capital and corporate social responsibility (CSR) disclosure quality
  5. What is the relationship between directors' political ties and CSRD Quality in Saudi non-financial listed firms?
  6. To what extent does directors' interlocking affect CSRD Quality in Saudi non-financial listed firms?

- The moderating role of chief executive officer (CEO) power on the relationship between CSR disclosure quality:
  7. To what extent does CEO power moderate the relationship between directors' experience, directors' education, directors' expertise, board nationality, directors' political ties, directors' interlocking, and CSRD Quality in Saudi non-financial listed firms?

- CSRD Quality on firm performance:
  8. To what extent does CSRD Quality affect the firm performance in Saudi non-financial listed firms?

## 1.6 Significance of the Study

The importance of this study appears for the following reasons. First, the study fills the literature gap on CSR disclosure and in particular, Saudi Arabia, where the current study finds paucity in this field of research. Second, because of the recent changes made to SCGR in 2017, this study evaluates CSRD Quality after the SCGR reforms. This study documents some theoretical, practical, and methodological contributions.

### 1.6.1 Theoretical Contributions

This study uses the agency theory to further know how the corporate governance impact of CEO Power could improve the CSRD Quality of Saudi firms. The agency theory is applied to test the moderating effect of CEO Power on the relationship between board capital and CSRD quality. This study would contribute to the agency theory by using the CEO Power to reduce the stakeholder-managerial conflicts to increase the quality of information disclosed by Saudi firms. CEO Power through CEO tenure and CEO ownership can increase the expected firm value and firm performance of firms. Practically, the Board of directors who act in the interest of the shareholders are likely to dismiss CEOs whose related power does not translate into good and increased financial performance. The monitoring role of the CEO Power can foster higher CSR disclosure quality.

In addition, this study applied the resource dependence theory to establish the resources provision role of the board of directors on the CSR disclosure quality of Saudi firms through directors' experience, directors' education, directors' expertise, board nationality, directors' political ties, and directors' interlocking. This study integrates the agency theory and resource dependence theory to further improve the

quality of CSR disclosure in Saudi firms, and thus, their firms' performance. Such theoretical integration is lacking in many studies in the Saudi context. Past studies on CSR disclosure in Saudi firms have used the agency theory with CG variables (such as audit committee, institutional ownership, and board independence) but with less focus on board capital attributes which explains why the low CSR disclosure results have been reported in past studies on Saudi firms (Al-Janadi et al., 2013; Habbash, 2016; Issa, 2017). Through the resources monitoring role of CEO power and the resources provision role of the board of directors, the low CSR reported in past studies for Saudi firms can be increased and enhanced.

### 1.6.2 Practical Contributions

The outcomes of this study on board capital attributes are valuable for the regulators and accounting standard-setting bodies in drawing superior policies for the board of directors as Saudi Arabia strives for an improved corporate governance practice through effective board governance. Since the requirements for the board of directors' selection and corporate governance are still loose, this study specifically intends to validate the impact of board capital attributes as it may improve the corporate social responsibility disclosure quality among Saudi companies. Moreover, the empirical findings of this study may shed light for the investors, analysts, and researchers to better understand how the board of board capital attributes affects CSRD Quality and consequently the effect on firm performance.

This study is also substantial for the financial managers and policymakers through the CEO tenure, it can help to know whether the longevity of the CEO could improve CSR disclosure quality where evidence has shown that CEOs who stay long in the firm show high quality in firm performance and other disclosure requirements.

Moreover, the findings of the study would be useful to CG committees in Saudi Arabia and other countries within the Middle East to include in their CG policies whether to increase the tenure of the CEO or not. In a situation, where the CEO duality increases the predictive power of CSRD quality, the CG committee could enact corporate practices and principles advising Saudi firms for the CEO to be both board of directors and the CEO.

### 1.6.3 Methodological Contributions

This study has methodological implications for CEO power. This study measures CEO power as a combination of CEO ownership and CEO tenure. The present study excludes CEO duality as part of the components of the CEO power index. In support of past studies that have used the CEO power index as a combination of CEO ownership, CEO tenure, and CEO duality, the revised SCGR 2017 has abrogated CEO duality by reducing the agency problem caused by CEOs who are also chairmen of the board and at the same time functioning as CEOs. Most studies have found that CEO duality affects CSR disclosure (Alabdullah et al., 2019; Giannarakis, 2014b; Muttakin et al., 2018). As a result, including CEO duality in the computation of CEO power may have an additional impact on the relationships between board capital and CSRD quality.

## 1.7 Scope of the Study

This study is focused mainly on the board capital attributes that impact CSR disclosure quality. It further investigates the moderating role of CEO power on the relationships between board capital attributes and CSR disclosure quality. Furthermore, it examines the impacts of CSR disclosure quality on firm performance

using Tobin's Q. In addition, this study examines 114 Saudi Arabian listed firms in the non-financial industry (including manufacturing, mobile telecommunications, beverages, construction, media, general industrials, leisure goods, and travel and leisure). Financial firms are excluded from the study due to their separate and specialized accounting principles in the preparation and presentation of their financial accounts and annual reports. To support the objectives of the study, the relevant literature on CSR disclosure, CSR disclosure quality, board capital, and firm performance are reviewed to identify the research gaps and the need to address the gaps within the context of Saudi Arabian firms. Saudi Arabia is chosen as the country of the study due to its lower CSR disclosure quality which is caused by the weak corporate governance system in Saudi Arabia where the financial systems and corporate governance practices are still in their developmental stages. Moreover, Thus, the current study seeks to determine whether the performance of Saudi non-financial listed firms in terms of CSR disclosure quality has improved when compared to findings reported in previous studies on CSR in the Saudi context prior to revised 2017 Saudi Regulations of Corporate Governance.

## 1.8 Definition of terms

The following are the definitions of the key terms mentioned throughout this study:

### 1.8.1 Board Capital

Board capital is defined as directors' ability to utilize their knowledge, experience, expertise, skills, and reputation to perform monitoring functions and provide advice and counsel to management (Chen, 2008; Hillman, 2005). It refers to both human and social capital (Becker, 1964).