

# The Rise of Corporate Social Responsibility: A Tool for Sustainable Development for the SMEs in Saudi Arabia

Muhammad Adnan Khurshid<sup>1</sup>, Abdullah Mohammed Aldakhil<sup>1</sup>, Muhammad Moinuddin Qazi Abro<sup>1</sup>, Alamzeb Aamir<sup>1</sup> & Omair Mujahid Malik<sup>1</sup>

<sup>1</sup> Department of Management, College of Business Administration, King Saud University, Riyadh, Kingdom of Saudi Arabia

Correspondence: Muhammad Moinuddin Qazi Abro, Department of Management, College of Business Administration, King Saud University, Riyadh, Kingdom of Saudi Arabia. E-mail: mqazi@ksu.edu.sa

Received: November 12, 2015

Accepted: December 8, 2015

Online Published: December 18, 2015

doi:10.5539/ijbm.v11n1p54

URL: <http://dx.doi.org/10.5539/ijbm.v11n1p54>

## Abstract

The Corporate Social Responsibility (CSR) concept is not a new phenomenon for the Small and Medium Enterprises (SMEs) operating in the Saudi Arabia. Saudi Arabian government has taken many initiatives in this regard. Arab forum for Environment and Development (AFED) in their 2008 report have confirmed that the Arab countries have to shift their focus on the green economy to achieve sustainable development and this is possible if CSR is being successfully implemented in all the business organizations specially SMEs. Therefore, the focus of this paper is to analyze the awareness of SMEs regarding the concept of CSR and their efforts towards the CSR for a greener Saudi Arabia.

**Keywords:** corporate social responsibility, SMEs, Saudi Arabia

## 1. Introduction

Corporate Social Responsibility (CSR) is a concept about how enterprises bring values and needs of their stakeholders i.e. investors, customers, employees, suppliers, and local communities. CSR covers almost community relationship, environmental problems, business ethics and issues of human rights, i.e. employee's welfare programs such as education and training programs along with safety measures of the workforce at workplace.

Today in this knowledge world, corporations are fairly working for their social image and for the betterment of the local society. Most of the large organizations today are practicing CSR regulations, and it becomes very famous and important aspect for every business corporation throughout the world (Sahlin-Anderson, 2006). However, it is believed that the large and small firms operating in the developed countries are practicing CSR in their organizations and playing a positive role towards the betterment of the society. In the developed countries there are huge number of SMEs working on the concept of CSR, mainly on the sustainable management practices, like education and other welfare programs for employees as well as society as a whole to increase the healthy growth of the society. More than 3,500 organizations are participating into Global Reporting Initiative, and all of them have issue more than 8000 environmental and social sustainable reports. Moreover, the number of companies started to practice CSR is on increase in the recent years. However, in the developing countries, the foreign firms are practicing the practices of CSR but most of the SMEs are not as much aware about the CSR issues and its measures. This is because of many reasons but one of them is lack of awareness about CSR. Therefore, this paper focuses on the CSR issue of SMEs which are operating in the Saudi Arabia. The reasons to choose the SMEs is that there are variety of enterprises which form the clusters because they are working in close proximities, which incite the competition of firms to create better products and unique social image for themselves. Waheed (2005) mentioned that Sri Lanka is getting competitive advantage due to best practices in the business sector. In India, SMEs contribute about 8% of the gross domestic product (GDP) of the country, about 45% of the manufactured output and about 40% of the export. SMEs provide employment to about 60 million people. Saudi Arabia with no exception, have started the initiatives in CSR and developing the national policies.

## 2. Literature Review

Traditionally, CSR has been associated with large corporation and there is an assumption that CSR approaches are based and predominantly developed in and for large corporations (Jenkins, 2004). Conventionally, SMEs are run and managed by owner or entrepreneur and have personalized style of management and lack of formal management structures (Bolton, 1971). The most common form of SMEs is the owner-managed firm where ownership and control lie with the same person. Goodpaster and Matthews (1982) stated that CSR practices are the approach from the corporate owners so, companies specially SMEs are managed and escorted by the company heads, it means that individuals are anchored them in the society where they carry out their businesses activities. Therefore, it is very clear that until the individuals from corporations are not familiarize with such kind of practices, till that it is not possible to frame these kinds of practices to benefit the community.

In order to implement the CSR, it is obvious that there are multi facet requirements needed such as awareness of shareholders, governmental proposals to form rules and regulations, information regarding local and international models, and the highly volatile business scenario, all have had a role to play in determining the centrality of CSR in today's business environment. But, difference to the opportunity, CSR is not distinct that based on the specific set of principles which entrepreneurs usually seek, in the ever shifting viewpoint and it's very clear to have analysis and reevaluating of firm's strategy according to the decision related to the moral values, lawful fulfillment, and value for the stakeholders. This all would count in the socially responsible strategies of firms.

However, to matter of all of these aspects of the business, the size of the firm is not concerned; multinational as well SMEs are able to implement same kind of practices in the enterprise. It is also a beneficial for the help of public and healthy growth of the environment and. This viewpoint is also given by the Gautam and Singh, (2010) that the enterprise today are accepting this responsibility for the sake of the role of them in the society and they realized that business should invest in the social and environmental activities in which they are working. Now it is very much needed that there should be a strategic plans and implementation of those plans on time, so that CSR would grow and give its benefit to the society, such as sustainable environment, social and financial plans to ease the peoples, customers, and employees. As stated by Rangan et al. (2012) the issue of CSR has been captioned with of the names, including strategic charity, company citizenship and social duty. As the names entail, all carry with it a firm's point of view on the position of trade in the social order. In spite of the label, now a days leading pattern underlying CSR is innermost idea of creating "shared value". The responsibility of corporation, as per this model is to create worth for its shareholders but in a way that it should also produce value for local community and society, and obvious itself as a must win position. CSR is not only about the performance of regularized practices but it also covers the ethical image and responsibility of the enterprise in the society, such as child labor is set as opposed practice according to rules of CSR and mostly the SMEs are committing this practice. CSR is very important aspect for the owners of business, the public and the society at large.

Saudi Arabia is one of the world's rapidly growing economies, enriched with oil. The kingdom has initiated many economic plans for its citizens, so to integrate its economy into the global market. Initially, the Saudi Arabia plans were to increase the gross domestic product (GDP) and develop its human resources. The most recent designs have focused on encouraging research, development and technological assimilation; promoting scientific activities; strengthening Saudi Arabia's role in the worldwide economic system; enhancing private-sector participation in the growth process; expanding basic services provided to citizens; protecting the environment, natural resources and wildlife; and acquiring and conserving water resources, among other matters. The kingdom also believes that, CSR plays central role in the business now days. CSR has been introduced as a topic in business syllabus already and many Multinational corporations working in Saudi Arabia have implemented the CSR techniques.

Saudi Arabia is the largest economy in the GCC (Gulf cooperating countries). During the last eight years, the country's budget has grown from \$69 billion to \$170 billion, a near threefold expansion. Despite this growth SMEs contribute to only 25 percent of total employment and only 33 percent to the country's GDP (Shehadi and Jamjoom, 2014). This is in stark contrast to most developed economies. For example in Spain SMEs contribute to 64.3 percent of GDP, or even Austria where SMEs contribute 44 percent. Given the current gaps, the size and growth of Saudi Arabia's economy and the nation's focus on economic diversification, SMEs should contribute to more than 50 percent of the country's GDP. Within the current economic situation SMEs in the Kingdom face difficult challenges which limit their ability to remain competitive and uphold sustained growth. Moreover, the lack of targeted and continuous support services and financing programs which meet the needs of SMEs across their development stages has led to short life spans for SMEs in the Kingdom where the average SME is only

seven years old. According by Shehadi and Jamjoom (2014), kingdom need to diversify their economies, make them more robust, and put more people to work, kingdom is needed more forceful activity among SMEs, which form the backbone of economic stability and job creation in the developed world. An SME sector that is creating jobs reduces the pressure on large companies to hire people to reduce unemployment. For instance, Germany and France, SMEs account for 60 percent and 61 percent of employment, respectively. Yet in Saudi Arabia, SMEs account for only 25 percent. In the U.K., U.S., Germany, and France, SMEs contribute a little more than half of GDP, whereas in Saudi Arabia the contribution is just 25 percent. The main hurdles also can summarize below:

- Absence of unified operational definition for SMEs.
- Lack of Skilled Saudi human resources in many fields i.e. management, accounting, marketing, technical, technology and other basic skills.
- Lack of fund.
- Lack of information.
- Lack of policy structure, regulation and lack of incentives.
- Weak bonds between SMEs and large enterprises (Alsulami, 2014).

The question is how companies can help to reduce unemployment. For instance, both local governments and the private sector in the kingdom increasingly realize they have vested interests in clearing a path for SME creation, and they are beginning to act on those interests. For example, the Ministry of Labor in Saudi Arabia has identified 36 initiatives, seven under development, as part of its “SME Ecosystem” project (Alsulami, 2014). These initiatives include a digital gateway that provides information on requirements for startups in different industries, restructuring the SME funding process, and encouraging the creation of accelerators (Baqadir et al., 2011).

### 3. Research Methodology

The purpose of this paper is to identify the awareness about CSR of Saudi SMEs. For this research quantitative research methodology is used because it is evident that, quantitative methodology can portray results in much better way. Quantitative methodology expresses results in a much better form in graphs and charts. In the quantitative methodology; close ended questionnaire was used. The questionnaires were prepared with the help literature review, after finding out of gaps from the literature. Data collection method was in a form of the questionnaires, which was distributed among the manufacturing SME’s, existed in the Saudi Arabia. The reason behind to select manufacturing companies is that the issue of CSR is importance for Saudi Arabia as the Saudi economy is opening up and government is trying to diversify its investment and reduce its reliance on the petroleum sector. The country has invested in various sectors like food, telecommunications and financial institutions to change the situation from being major importer to self-sufficient or even an exporter of many products. Moreover the Saudi companies are expanding their activities and business around the region and globe and manufacturing/industrial and retail business sector is most active in CSR (Tamkeen, 2010).

Properly designed close ended questionnaires were distributed in the firms and instructed to be filled from the authoritative person of the companies, it may be an owner and managers who filled the questionnaires and then return in the time frame. In this study, SMEs are considered to be businesses that employ more than 5 but fewer than 100 persons (Turyakira et al., 2014)). The author of this study selected the study sample from city of Riyadh. It is the capital and the largest populated city in the country. There are 1,175 SMEs firms are based in Riyadh city and. The questionnaires were posted on the mailing address of the all companies. The response rate remain more than 30% (352) but incorrect filling of the questionnaire was the reason that only 27% (328) of questionnaire was in status to get the desired assessment from them. As the research consists to evaluate the CSR practices of Saudi SMEs therefore, most of questions were designed to get the information and awareness of the entrepreneur regarding CSR as well as hurdles that stop implementing such practices into their companies. Also evaluate the factors that are attractive for any company for starting such schemes. Therefore, most of the questions have options as “Yes” and “No” format and few of the have questions have other options included, but those also are the guided and to be choose from the given options. Participant of this research are the SMEs. Most of the SMEs, which return the questionnaire, were polymer companies, electric equipment manufacturers, furniture industries. However, questionnaire was made on general basis and not limited to focus any of the industrial sectors.

Microsoft Excel was used to get the percentage level of responses. Pie chart of Microsoft was a test the applied on all the questions. These charts were used because it provides clear percentage level and provide results with obvious numbers. That is the only tool that is easy to edit data in case of mistake and erroneous entries. This

research is also to evaluate the impact by examining the percent level by the number of companies. Therefore, pie charts are used in all section and questions of this research. The questionnaire was posted and delivered to companies mailing addresses and waiting time stands more than a month. After collecting these questionnaires, the subsequent procedures were applied. However, more than a month is reserved for each step.

Table 1. Demographical profile of respondents

Demographical profile of respondents		Frequency	%
<b>Gender of respondent</b>	Males	299	91
	Females	29	9
<b>Number of years in business by respondent</b>	Less than three years	10	3
	Between 3 and 5 years	197	60
	Between 6 and 10 years	93	28
	More than 10 years	28	8
<b>Respondent's position or title in business</b>	Owner (silent partner)	138	42
	Owner and active manager in the business	63	19
	Employed manager (CEO or functional manager)	127	38
<b>Level of education of respondent</b>	Advanced level certificate	21	6
	National certificate or diploma	144	43
	Bachelor's degree	115	35
	Master's degree and higher	36	10
	Other	12	3
<b>Form of enterprise</b>	Sole trader	194	59
	Partnership	90	27
	Private limited company	44	13
	Other	0	0
<b>Size of the business (Number of full-time employees)</b>	Between 5 and 10 129 34%	106	32
	Between 11 and 20 150 40%	140	42
	Between 21 and 50 73 19%	54	16
	More than 50 24 6%	28	8
<b>Size of the business (range of annual turnover)</b>	Less than 1 million SR per annum	74	22
	1-5 million SR per annum	105	32
	6-10 million SR per annum	51	15
	More than 10 million per annum	28	8
	Not willing to disclose	70	21

#### 4. Data Analysis

CSR defined as the voluntary activities of enterprises in which they have to behave at a properly to work in the interest of country for the financial growth. At the same time, works for the betterment of the society. It covers covering several aspects of welfare of peoples, such as philanthropy, work place safety, consumer protection measures and many others. This research is focused on CSR in SMEs of Saudi Arabia. However, the major facet of this research is to evaluate the knowledge and practices of CSR.

##### 4.1 Knowledge Regarding CSR

The question is asked that either company have knowledge or any information regarding CSR or not. The reply stands as shown in Figure 1 the percentage shows that fifty-seven (57%) percent companies have knowledge regarding the concept of CSR in enterprises. As mentioned by Donaldson and Preston, (1995); that number of companies are dealing with a stakeholders and they are concerned about the CSR in a very positive understanding, and making supplementary income for their company to implement CSR in the firm and related subsidiaries to give awareness for the stakeholder and gaining benefit from the business with a better image in the society. As social image is very important for growth of a company as a case of Europe, as its companies started the programs with socially responsible strategy, and providing access to capital income, that become important strategy for the firms. Therefore, this question is asked from the SMEs operating in Saudi Arabia to see that either firm are aware about this important business strategy or not. It is also argued that awareness is basic step to implement any business strategy.

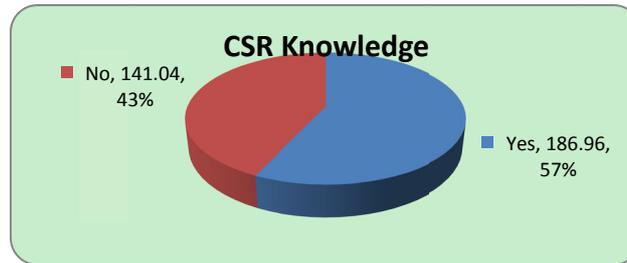


Figure 1. Knowledge regarding CSR

#### *Energy conservation/Environment protection*

This question was asked in order to identify about the energy conservations as a CSR strategy for the SME. The Figure 2 depicts that thirty six (36%) companies have taken steps for energy conservation. However, for a country like Saudi Arabia energy seems not an issue, however the SMEs are still trying to save the energy through different techniques. It is worth mentioning here that Saudi Arabia is facing problems in air pollution, solid waste pollution, water pollution along with vehicles and industrial pollution.

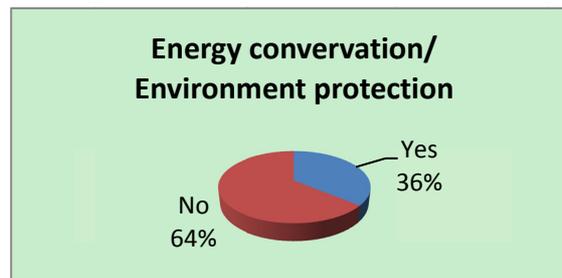


Figure 2. Energy conservation/Environment protections

#### *4.2 Investment in Welfare Schemes*

The results show that no any SME from selected sample has invested in any welfare schemes; however, it is believed that investment in welfare schemes is essential element of CSR. This is may be because in Saudi Arabia government plays a central role in establishing the social facilities for the betterment of the society.

#### *4.3 Corporations Implementing Consumer Protection Measures*

Consumer protection measures are one of the major areas in CSR, however, it is found that no SME has taken steps for consumer protection measures. Consumer protection means to look after the needs of consumers. For example, an administration possibly will need business to reveal full information concerning goods — mainly in area where security or public strength is a subject, such as foodstuff. Consumer protection is concurrent in the direction of the plan of "consumer rights" (that customers have a variety of benefits for the consumers), and to the development of customer association, which help consumers create improved choices in the open market plus obtain help by means of consumer complaints.

#### *4.4 Companies Creating Industrial Cooperation*

The results show that (Figure 3) forty six (46%) SME have created cooperation with other local industries. However, remaining 54% of the companies are including those that some even do not have any information regarding concept of industrial cooperation.



Figure 3. Companies creating industrial cooperation

#### 4.5 Companies Reserve Vacancies for Special Persons

Special person is a part of society and giving them benefit is very helpful for its healthy progress. The question was asked that either companies have reserve such vacancies. In reply it is found that only twenty four (24%) reserve such vacancies, for the special persons. However, in the rest i.e. 76% of companies are included those companies which are unable to reserve such vacancies such as electric equipment and chemical production companies. Firms are probable to be responsible in the sections for creating the job and economic opportunities for the both able bodied and the physically challenged peoples of the community, as the physically challenged peoples are also the part of the society and their physically challenged position is natural. So helping them in terms of job opportunities for them is two ways benefit both, for that person and for the company, as company would also get some work done by the physically challenged person.



Figure 4. Companies reserve vacancies for special persons

#### 4.6 Providing Occupational and Health Measures to the Employees

Occupational safety (including tuned machines and healthy work environment) is very basic right of employees. It is found in reply (shown in graph) that eighty nine (89%) companies have taken steps to provide such atmosphere for employees. Workplace safety practices are very essential and industries should give awareness to the employees regarding using of machines and other necessary information. As a major accidents can harm the image of company as well. Therefore, companies must take action regarding workplace safety and as it for the welfare of the community so that it is motioned in the CSR as very important aspect.



Figure 5. Providing occupational and health measures to the employees

4.7 Companies Implemented Anti-Corruption Measures

The graph illustrates that forty three (43%) companies have policies regarding creating ethics in business dealing and having anti-corruption measures and creating some kind of models to stop corruption in the organization. However, rest are the percentage which included both type of firm one are the kind of firms which have no any kind of policy that may work as anti-corruption measures and second are the firms which have some policies but they do not know about such information that organization by themselves can or should create such kind of policies.

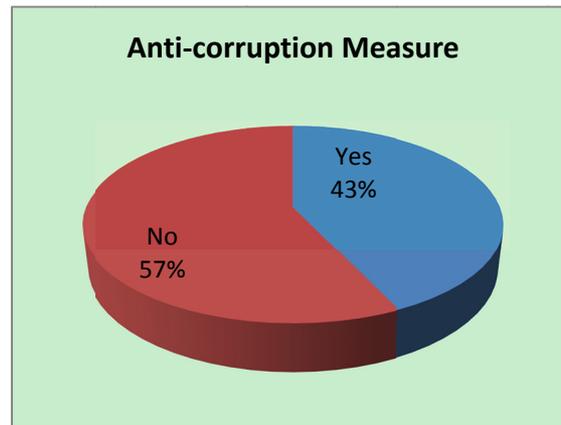


Figure 6. Companies implemented anti-corruption measures

4.8 Reasons for not Perform CSR

The graph depicts the reason that why the companies do no performing CSR activities in their organizations. In this regard it is found that sixty four (64%) replied that they do not perform CSR as they do not have resources and remaining companies i.e. thirty six (36%) percent said that they do not have proper guidelines to start such activities.

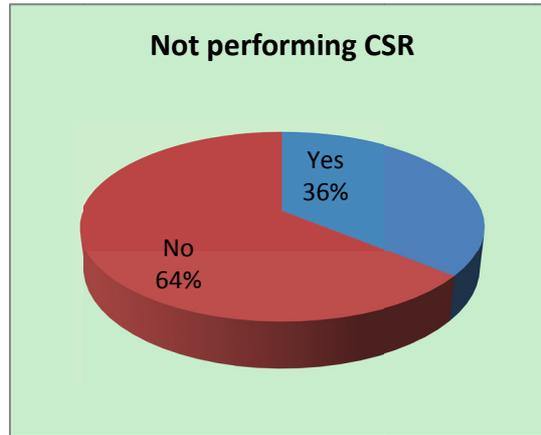


Figure 7. Reasons for not perform CSR

#### 4.9 Companies Think that CSR Would Create Better Social Image and Financial Profit

CSR is helpful to increase company's social and ethical image that will help to increase company's profit in the market. In this regard it is asked from the companies do you think that if you implement CSR, would it be beneficial for your organization economically. The results, shows that fourteen (40%) of the companies agree on this perspective, however, 60% of companies do not agree on this viewpoint. It is suggested by Tyagi (2012) that CSR has come out as an aspect that it can also increase the financial performance as better image of the company will increase its sales revenue as reliable products has more demand, However, it is also a perspective that price of products would increase if corporations start investing in CSR fields. The coin of this issue has two sides both portrait different image. This depends on the company's management perspective that what they are planning about, either for the short terms policies or long term polices.

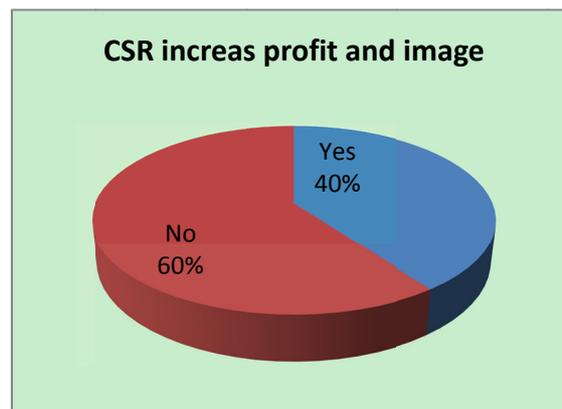


Figure 8. Companies think that CSR would create better social image and financial profit

#### 4.10 Companies Think that CSR Is Helpful for the Society

This question is asked about understanding of the companies that do they think that CSR is beneficial for the healthy growth of Society or not. In reply, it is found that sixty eight (68%) companies are agreed on this perspective has said yes, that means that the said percent of companies think that CSR is beneficial for the Healthy growth. However, rests i.e. 32% are disagreed on this point of view.

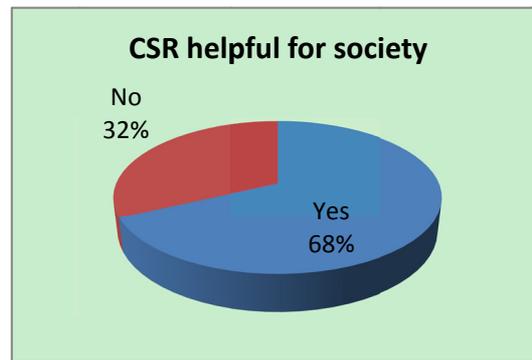


Figure 9. Companies think that CSR is helpful for the society

## 5. Conclusions

This research is to evaluate the impact of CSR of Saudi Arabia SMEs and to find out the hurdles and attractive factors for these SMEs which are influencing on practicing the CSR. It is revealed that most of the companies are not performing CSR practices because number of companies does not have such information about the practices and level of CSR. The factors of CSR such as performing philanthropic functions and consumer protection schemes are very rarely observed and implement in the Saudi SMEs. As only 25% of companies perform philanthropic functions, only 36% have started energy conservation programs and none of the enterprise investing the welfare programs. This describes the state of performing of CSR by the SMEs in the Kingdom. As the number of companies i.e. 31% responds that it is not their duty to implement such program in the private organization. Moreover, at another questions the respondent i.e. 64% mentioned that they do not have sufficient resources to perform such practices. Most of the organizations i.e. 79% argued that implementation of CSR would be easy if the proper guidelines are being provided. It shows the poor communication and less economic stable firms that should practices corporate social reasonability, and factors which are the hurdles for the enterprises to implement such practices should handle that their effect may reduce.

It is also concluded that, as CSR is very beneficial and important practice for the employees and society as whole, if implemented and most of companies are not familiar with this easy and important aspect of helping peoples. It is all because of lack of knowledge and lack of guidance, so that the concerned quarters should create awareness programs for the companies' especially for the SMEs to give the knowledge for these programs and assist them to start and put into practice of these kinds of schemes in early on phase.

## Acknowledgment

The researcher would like to thank the Deanship of Scientific Research at King Saud University represented by the research center at CBA for supporting this research financially.

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