Perceptions and Drivers of CSR in Developing Countries:

The Role of Institutional and Organizational Factors

A Focus on Egypt

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PART A: Introduction
1.1 Background, Contribution and Structure

The enormous boost of technological advancements has unfortunately caused remarkable environmental damage. This is when “sustainable development” was brought on top of
contemporary world list. Advances in sustainability knowledge and concepts have increased as well as research on the social and environmental activities of corporations. Along the same line, recent corporate scandals have awakened public awareness and increased corporate social responsibility (CSR) practices (Lee & Carroll, 2011). CSR disclosures have now become common practice by businesses where thousands of companies provide CSR reports worldwide and their number is growing every year (Ernst & Young & Boston College Center for Corporate Citizenship, 2016).

Yet, the diversity in CSR application in different societies and the reason for their existence are not adequately reflected in mainstream CSR research. A considerable body of CSR literature is Western-driven and research studies that explore the perceptions and practices of CSR in developing nations, which have different social, political and economic conditions compared to Western societies, are still limited. Based on that, the main aim of this dissertation is to study the CSR phenomenon in a developing country context to contribute to a more holistic understanding of the CSR concept and help in comprehending how CSR is applied in diverse settings. Accordingly, this dissertation examines different macro-institutional and micro-organizational level forces that drive CSR practices in a developing country context; namely Egypt. Following is a representation of the dissertation’s main research questions and overall research model that clarifies the examined predictors of CSR in Egypt and visualizes the interlinks between the individual studies of the dissertation.

**Research Questions, Contribution & Overall Research Model**

This dissertation mainly touches on the significant influences of CSR predictors on both the macro-institutional and micro-organizational levels of analysis. In Figure 1.1(A), the overall research model of the dissertation is presented. On the institutional level, CSR predictors related to the political, economic & business operating environments are tested. On the other hand, the organizational level of analysis captures the effects of corporate economic performance, internal corporate governance, diversity and general firm characteristics on CSR application in Egypt. Overall the dissertation examines two main research questions on which the individual studies are based:
1. **What is the influence of macro-institutional & micro-organizational level factors on CSR practices in developing countries?** Do macro-level factors affect the interplay between micro-level factors and CSR?

2. **How can the CSR practices of corporations operating in developing countries with complex and unique institutional environments be stimulated & enhanced?**

While a general increase in the CSR literature in developing countries is noticed, a review of this research domain identifies a number of important gaps that needs to be accorded more attention. This includes a lessened focus on the institutional and individual levels of analysis as opposed to the organizational level (Jamali & Karam, 2016). Accordingly, the importance of studying the drivers of CSR in developing countries on the institutional level and how they influence the interplay between organizational-level factors and CSR is highlighted. In addition, the CSR literature, in general, tends to focus on the conceptualizations and drivers of corporate responsible actions whilst disregarding bad behavior (Lange & Washburn, 2012). Considering the multiple dimensions of CSR and how they are influenced by various CSR predictors contributes to understanding the drivers that would enhance or otherwise curtail the overall social performance of companies operating in developing country contexts.

**Figure 1.1(A): Overall Research Model**
This dissertation represents a multi-level research in the CSR field to help broaden our understanding of how CSR is practiced in the complex and unique institutional context of developing countries, specifically Egypt. The dissertation thus contributes to the CSR research field by addressing CSR predictors in developing countries on the institutional and organizational levels of analysis and by illustrating how institutional-level factors can influence the dynamics of interaction between organizational-level factors and CSR. In addition, the dissertation highlights the context dependence of CSR and clarifies the context-specific factors that trigger CSR in developing countries. It also encompasses different types of CSR practices, including both positive and negative dimensions, and utilizes different measures of CSR and its drivers including corporate perceptions and actual data.

**Structure of the Dissertation**

The dissertation is composed of three main independent studies that tackle the predictors of CSR practices in a developing country context at various levels of analysis. To reach that end, theoretical frameworks have been developed and different yet complementary methodologies have been applied.

Study 1 mainly tackles the political institutional influences of CSR while highlighting the effects of macro- and micro-economic factors on CSR. More precisely, the study employs an institutional theory perspective to examine the effects of the political turmoil in Egypt after 2011 on the CSR practices of Egyptian firms where the interplay of CSR practices considering firms’ financial performance and stock market uncertainty is analyzed. Based on the unprecedented positive relationship between political instability and CSR as revealed in study 1, the following study of the dissertation (study 2) aims to unleash the motivations of corporations to engage in CSR in the Egyptian context where unstable political and economic conditions are noticeable. The study examines the influence of a number of perceived drivers of CSR at both the institutional and organizational levels of analysis using evidence from 110 locally-owned firms and multinational corporations (MNCs) operating in Egypt. More precisely, the study tests the effect of perceived corporate governance on CSR as an internal organizational driver within management control and the perceived influence of external institutional regulatory and stakeholder pressure. The study reveals that internal corporate governance acts as a major driver
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for CSR in Egypt and highlights the importance of organizational-level drivers of CSR in developing countries. Given that main finding of study 2, the final study of the dissertation (study 3) focuses on the influences of firm-specific CSR predictors in developing countries, specifically internal governance structures and corporate diversity. The study also draws on institutional theory to explain the varying influences of firm-level influencers on the CSR (reporting) practices of companies in developing (Egypt) vs. developed countries (Germany and the US). The results of the study indicate that CSR in developing country contexts, namely Egypt, are highly influenced by firm-level factors as opposed to their counterparts in developed countries.

Motivation behind the Choice of the Selected Empirical Studies

Since the main aim of this dissertation is to examine the drivers of CSR in a developing country context, Egypt is chosen as the main focus of the three studies conducted. This choice is motivated by a number of reasons. In study 1, two prevalent observations in the Egyptian business environment post 2011 inspired the choice of Egypt for testing the effect of the institutional political environment on CSR. First, although the political condition of Egypt since 2011 had a significant negative economic effect on the micro and macro levels, it restored hope to the future which, in turn, revived the sense of responsibility towards the development of Egypt. One example on the corporate level is the initiation of a web portal, Sharek.org, after 2011 by Egyptian employees in multinationals in cooperation with NGOs and business associations. The online platform aims at encouraging employee volunteerism by matching employee capabilities with the voluntary opportunities existing in the market. That example of corporate responsibility towards the community, along with others, was primarily motivated by the substantial enthusiasm towards the development of Egypt post 2011. The second observation is that while there is a willingness of corporations in Egypt to participate or initiate CSR activities, specifically post 2011, the scope of application is confined to the concept of community development and/or philanthropic contributions, which is only one dimension of CSR. These two observations give notice to not only the economic effect of political instability on firms and stock markets in Egypt, but also the social effect that is represented in firms’ CSR practices. Based on that, examining the CSR practices of Egyptian firms post the 2011 political
condition of Egypt and how it has affected the Egyptian Business environment would help in understanding corporate societal role in Egypt, a transcontinental country that has a major economic power in North Africa. It would also provide insight into how corporate decision-making in Egypt may address sustainability when trade-offs between corporate economic growth and social and environmental welfare are likely to occur.

Study 2 is primarily motivated by the notion that divergent understandings and practices of CSR stem from the different social, political and economic contexts of developing countries. The lack of sound institutional frameworks and stakeholder awareness are commonplace in most developing countries. Such an environment poses questions regarding the effectiveness of external factors in driving CSR practices in developing countries and the application of prominent CSR theories used in Western settings. The different economic and socio-political contexts confronted by Egyptian firms and MNCs operating in Egypt offer an interesting opportunity to investigate the different drivers and hidden motivations behind CSR practices in this country.

Study 3 centers on differences in the drivers of CSR (disclosure) practices in developing vs. developed countries. Given that developed countries are exposed to different institutional settings, the study examines the influence of firm-level factors, specifically diversity and corporate governance structure, on the CSR reporting practices of corporations operating in developing and developed country contexts. For developing countries, Egypt is chosen as a representative country given its dominating economic activity in the African continent (Rossouw, 2005). On the other hand, the US and Germany are chosen as developed industrial countries. Germany is specifically chosen from Europe since, unlike other European countries, CSR information disclosure is voluntary and no specific legal regulations exist demanding companies to report on their CSR activities (Gamerschlag et al., 2011). While national (institutional) differences exist between the US and Germany, as a European country (Doh & Guay, 2006), they represent two developed continents that are prominent in CSR practices. In addition, the three sample countries voluntarily disclose CSR information without being bound by regulation (Gamerschlag et al., 2011; Habisch et al., 2011; Salama, 2009).
Author’s Contribution to Individual Papers

Dina El-Bassiouny is the major contributor to all three papers. Peter Letmathe contributed to the three papers by developing and discussing the idea, structuring the paper, discussing the model, and finalizing the papers. Additionally, he helped with the statistical analysis regarding the third paper. Noha El-Bassiouny contributed to the literature section of paper 3.

Next Steps

The remainder of this part aims to provide the theoretical underpinning of the link between the main three studies conducted in this dissertation. Section 1.2 discusses the different conceptualizations of the CSR construct and illustrates how the CSR construct is operationalized in each of the three studies based on their main research aims. After presenting an overview of the different debatable approaches to CSR, Section 1.3 briefly presents the different debates over the social responsibility of businesses and illustrates the main distinctive characteristics of the literature on CSR in developing countries. It also clarifies the business climate in Egypt and presents managerial views on CSR and the barriers to effective CSR implementation in Egypt. The section finally describes the CSR strategies used as corporate responses to pressures and sheds light on the perceived position of companies operating in Egypt from such strategic CSR stances. Section 1.4 discusses the limitations of the overall methodologies applied in the dissertation. Finally, Section 1.5 concludes by summarizing the main findings and implications of the three studies conducted.

1.2 CSR Defined

1.2.1 Conceptualizations of CSR

Despite the widespread conceptualization and operationalization of CSR in the academic business literature (Matten & Moon, 2008), theoretical and empirical inconsistencies are still apparent in the meanings and practices of corporate responsibility (McWilliams et al., 2006). Several definitions have been proposed by academic researchers in an attempt to define and further develop the CSR construct. The most prominent of these is the definition developed by
Carroll (1979) in his well-known research study “A Three Dimensional Conceptual Model of Corporate Performance”. In his social performance model, Carroll (1979) defines the social responsibility of businesses as “the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (p. 500). According to this view, the economic and legal actions of corporations are considered part of their social responsibility. Yet, other authors argue that the economic performance of corporations is the main motive for their existence and should therefore not be considered as a responsibility of businesses towards their societies. According to Turker (2009), for instance, CSR is defined as “the corporate behaviors that aims to affect stakeholders positively and that go beyond its economic interest” (p. 413).

Some business scholars also questioned the inclusion of the legal component in CSR. McWilliams & Siegel (2001), for instance, view the social responsibilities of firms as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (p. 117). Matten & Moon (2008) also argue that CSR at its core represents “clearly articulated and communicated policies and practices of corporations that reflect business responsibility for some of the wider societal good” and “is therefore differentiated from business fulfillment of core profit-making responsibility and from the social responsibilities of government” (p. 405). Accordingly, based on that view, the economic as well as the legal responsibilities of corporations are considered regular corporate actions not related to CSR.

On the other side of the continuum, Campbell (2007) argues that the corporate responsibilities offered by most CSR literature focus mainly on the responsible behavior of firms that go beyond economic and legal actions and highly neglect corporate irresponsible behavior. As such, he presents a CSR definition that “sets a minimum behavioral standard with respect to the corporation's relationship to its stakeholders, below which corporate behavior becomes socially irresponsible” (p. 951). This minimal responsible behavior requires corporations to perform two main actions. First, not deliberately causing any harm to corporate stakeholders including employees, investors, customers and society. Second, rectifying discovered harm whether voluntarily or as a result of normative or legal pressures. Accordingly, the definition developed by Campbell (2007) focuses on the minimum end of the continuum rather than corporate behavior located on the other end. In a broader understanding of the CSR continuum, Strike et al.
(2006) distinguished between corporate responsible and irresponsible behavior. They define corporate irresponsible acts as “corporate actions that negatively affects an identifiable social stakeholder’s legitimate claims” (p. 852). In their study, they argue that the social responsibility of corporations does not necessarily undo corporate irresponsible actions and have thus classified two separate constructs for CSR and criticized the aggregation of both CSR dimensions.

Based on this quick review of CSR definitions, it is obvious that the “CSR continuum” is wide and diverse. As Campbell (2007) puts it; “socially responsible corporate behavior may mean different things in different places to different people and at different times” (p. 950). Historical shifts (Campbell, 2007), cross-country differences (Chapple & Moon, 2005; Matten & Moon, 2008), and the different academic interpretations of CSR reduce the possible standardization of the CSR construct. Accordingly, different definitions and measurements of CSR were chosen based on the main concern and aim of each of the three research studies conducted in this dissertation.

1.2.2 The CSR Construct in Each Study: An Elaboration

In Study 1, the level of CSR practices in Egyptian firms is measured across five dimensions: the community, the environment, employees, customers and the government. The economic dimension of CSR is not considered in this study since this study mainly questions the role of business in society during times of political, social and economic unrests. That is, the study mainly examines the ethicality of corporate practices as well as their active role in developing their societies. Based on that, adding the economic component of CSR seems irrelevant in this case given that, during such times, businesses are expected to fulfill their basic economic obligations to ensure their survival. Such a CSR measurement was also chosen because it represents the closest fit to the measurement of CSR disclosures used in the same study.

In study 2, both corporate responsible and irresponsible acts are considered. Given the economic and socio-political contexts confronted by firms operating in Egypt, the study examines possible internal organizational-level and external institutional-level drivers that may lead to enhanced corporate citizenship. Based on that, all aspects of corporate responsible and irresponsible actions that may influence their citizenship are measured. Accordingly, in this study, corporate
responsible behavior encompasses all CSR aspects, as depicted by Carroll (1979), including economic and legal responsibilities. Maintaining economic growth and meeting consumption needs within the legal requirements of the country may represent the minimum level of social responsibility required by firms operating in complex institutional conditions.

The third and final study of the dissertation examines the effects of firm-specific drivers of CSR, specifically diversity and governance practices. In this study, the voluntary CSR disclosures of corporations operating in Egypt, Germany and the US are examined. Given this diverse cross-national investigation, global standards for voluntary CSR disclosures are chosen from the Global Reporting Initiative guidelines including core social and environmental indicators of CSR. Economic indicators are not considered in this study since the study mainly examines whether voluntary global CSR disclosures, specifically those related to social and environmental issues, can be increased by diversity and governance practices.

1.3 CSR and the Developing World: A Focus on Egyptian Companies

1.3.1 The Business and Society Debates

Different debates over the social responsibility of businesses have produced various schools of thought. On the one end, the followers of Milton Friedman view CSR as a “misguided” business activity that reduces profits while the main concern of businesses should be profit maximization (Blowfield & Frynas, 2005; Bowd et al., 2006). Businesses, under this view, do not have any social obligations as they are not people, hence, cannot be considered citizens (Ofori & Hinson, 2007). On the other end, the pro-CSR school criticizes business behavior and argues that the survival of businesses is dependent upon the benefits they consume from their societies (Ofori & Hinson, 2007) and by that businesses have a responsibility towards them (Bowd et al., 2006). Accordingly, businesses should be responsible for all the impacts of their activities not only on shareholders but on the society at large (Blowfield & Frynas, 2005; Ofori & Hinson, 2007).

Within the pro-CSR school, various justifications exist for the CSR initiatives employed by companies. According to Porter & Kramer (2006), there are four arguments for the engagement of companies in CSR initiatives; moral obligation, sustainability, license to operate and
reputation. The moral justification argues that companies should act as moral citizens and consider the different stakeholders affected by their operations including their communities and natural environment. The sustainability notion emphasizes business stewardship obligations towards future generations. The license to operate argues that corporate social activities are used as a way to legitimize corporate actions in the eyes of the different stakeholders including governments and communities. The final justification for CSR, reputation, notes that companies initiate CSR activities to enhance corporate image and may be even improve corporate stock value (Porter & Kramer, 2006).

The manifestation of the varying views revolving around the conceptualization and importance of CSR in developing countries is still unclear. Dobers & Halme (2009) argue that the prominent CSR views are mainly addressed in Western-driven literature hence may not apply in a developing country context. The economic, social and political concerns faced by many developing economies may create unique arguments for corporate engagement in CSR practices. In the general sense, operating in a relatively unhealthy economic environment that is characterized by high inflation rates, low productivity and relative immaturity of consumer (and financial) markets causes uncertainties regarding short-term profit yielding (Campbell, 2007). Accordingly, corporations operating in such environments tend to focus more on increasing their basic economic growth (Ofori & Hinson, 2007) rather than focusing on higher level sustainability issues. In the presence of weak institutional conditions, CSR is pursued mainly by cause of “personal discretion, hindsight, and initiative” (Jamali & Mirshak, 2007, p. 260).

Corporate social practices in developing countries are also often regarded as gap fillers where governments have failed. Given the limited role played by governments in the social domain of many developing countries (Jamali & Neville, 2011), a number of studies on developing countries highlight the social role of businesses in developing their societies when governments fall short (Amaeshi et al., 2006; Frynas, 2005; Ite, 2004). In the Middle East, the poor performance of governments represents one possible explanation of corporate social activities. Given the insufficient social services provided by governments in that region, it is argued that most philanthropic contributions by corporations support education, research and health to
“reduce the social tension, gain legitimacy and create a safer environment to conduct business” (Ararat, 2006, p. 5).

**1.3.2 The CSR Literature in Developing Countries**

On the theoretical level, the literature domain on CSR in developing countries is growing. In her comprehensive review of 452 CSR articles in developing countries from 1990 till 2015, Jamali & Karam (2016) found that 93% of the reviewed articles were published in the period between 2005 and 2015. This indicates the emergence of CSR as a domain of study in developing countries.

Her study also shows that the literature on CSR in developing countries exhibit high variation and is distinguishable due to five main aspects. First, given the specific and complex characteristics of the institutional environment in many developing countries, the literature on CSR in developing countries is most distinctive at the institutional level of analysis. The unstable or failing government systems, ineffective regulatory frameworks, high levels of corruption and underdeveloped governance structures contribute to what is referred to as “institutional voids” in many developing countries (Jamali & Karam, 2016). Such institutional voids represent one type of regulatory voids that indicate a lack of competent institutions that enforce regulations and norms. In the presence of weak regulatory environment, the embeddedness of societal concerns into corporate strategy & operations become very unlikely (Short, 2013), and hence, the proper application of CSR in such a context is highly questioned (Campbell, 2007). Also, the contradicting influence of the various institutions on promoting or obstructing corporate social behavior creates countering effects on the authenticity and structure of CSR practices. As such, analyses on CSR in developing countries reflect the different institutional conditions that shape unique conceptualizations and applications of CSR that can hardly be placed within predominant mainstream CSR literature (Jamali & Karam, 2016).

The second important differentiator of the CSR literature in developing countries represents the complex effects of other macro-level factors that extend beyond the business operating environment, including geopolitical factors and globalization. A critical review of the literature clearly highlights existing tensions between corporate attempts to adopt best practices of CSR
due to the spread of international organizations and standards and the complications and burdens placed on corporations by past geopolitical factors. Third, the literature captures the complexities of governance systems in developing countries. The institutional voids of formal and informal governance systems amplify the space for agency by multiple actors who can strategically pursue their interests by taking advantage of encountered voids. In the presence of weak governmental influence, other actors, including political elites and local and multinational firms, may intervene and assume active roles of governance (Jamali & Karam, 2016). At the organizational level, it is argued that publicly-listed companies in developing countries often adopt the external image of corporate governance practices rather than the core substance (Peng, 2004). Local companies can take advantage of informal networks to reduce formal governance control while continuing to pursue philanthropic contributions (Jamali & Karam, 2016). Having ineffective corporate governance mechanisms lead to more agency problems (Harjoto & Jo, 2011) that can have salient implications on CSR application. Accordingly, within this specific institutional environment, the dynamics of governance in developing countries and its CSR implications can be comprehended more if the various non-traditional actors and the roles they play are clearly identified (Jamali & Karam, 2016).

The fourth aspect deals with the varied forms of CSR expressions across developing countries. It can be said that different forms of CSR are shaped depending on the varying effects of multiple sociopolitical and historical factors and that explicit global forms of CSR are mainly imitated to serve specific purposes. The varied CSR expressions in developing countries can be better understood if the countervailing effects of the complex institutional environment and the existence of multiple governance actors are taken into account (Jamali & Karam, 2016). The final aspect is related to CSR consequences in developing countries as highlighted by previous studies (Karam & Jamali, 2013; Kolk & Lenfant, 2013). A wide scope of consequences is depicted and varies between financial and social outcomes as well as positive and negative considerations regarding individuals and the society at large (Jamali & Karam, 2016).

Those aspects highlight the unique settings of developing countries and how they contribute to distinguishable research in the CSR field within developing countries as well as worldwide.
Understanding where the literature on CSR in developing countries currently stands initiates a starting point from which future research on CSR in developing countries can begin.

1.3.3 Background on the Egyptian Business Climate

Egypt is a large populous country in the Middle East with a total area of 1 million square kilometers and a population of around 91.5 million inhabitants (The World Bank, 2016 (a)). Since 2011, a major political and social transition has been witnessed as well as considerable economic disruptions that have negatively influenced various sectors in Egypt including tourism, retail and banking (The World Bank, 2013). To identify the effects of the 2011 political event on the business environment, managers\(^1\) in Egyptian companies from various sectors listed in EGX100 were asked to mention the main business factors that were highly affected after 2011. Interviewed managers identified a broad spectrum of concerns that were specifically heightened post 2011. Major concerns revolved around the low availability of resources and liquidity, the rising costs of raw material, energy and transportation, increased labor cost while witnessing low levels of labor productivity, and low investment levels as a result of market stagnation. Several interviewees also made reference to the high regulatory uncertainty stemming from contradicting and continuously changing governmental decisions as well as the presence of consumer and investor distrust in the Egyptian economy.

These findings highlight the adverse effect that the 2011 political event had on the business environment in Egypt. According to Enterprise surveys conducted by the World Bank in 2013 on 2897 firms operating in Egypt, business managers ranked political instability as the biggest obstacle faced by the private sector in Egypt. Despite obvious challenges created by the 2011 political event, this transitional change can still be positively utilized by policy makers to sustainably address major challenges and obstacles embedded in the Egyptian business environment. The presence of anti-competitive practices, corruption and regulatory policy uncertainty represent major challenges that hinder private sector activity. Enterprise surveys show that the private sector in Egypt identified practices of the informal sector from the top 10 obstacles to doing business. Almost 48% of firms are competing against informal firms in Egypt.

\(^1\) A total of 95 managers answered this question.
This high level of informality in the market is an outcome of excessive and complicated regulations and administrative procedures for starting a business in Egypt (The World Bank, 2013). The rank of Egypt in the World Bank’s Doing Business 2016 Report was 131\textsuperscript{st} (The World Bank, 2016 (b)) implying a complex business environment. Applying easier and more transparent rules would assist in increasing the number of formal firms, enlarging tax base and reducing corruptive practices. Along the same line, reducing the gap between the written and the applied law would pave the way to more equitable economic growth and more job opportunities across Egypt (The World Bank, 2013).

In developing countries, the private sector provides an estimate of 90\% of jobs making it a major employer. Given the high and rising unemployment rates in Egypt (13\%) specifically amongst the youth, the role of the private sector to provide quality formal jobs is becoming more and more crucial. Yet, the vigorous growth of the private sector, and the economy at large, is dependent upon the application of sound business regulations. In Egypt, the central government conducts most of the government’s business and a concentration of power exists among superior government actors. To streamline policy implementation and increase accountability, more power delegation to administrative units is required. A re-definition of institutional roles and processes and coordination among the different sectors and institutions can increase government responsiveness to local private sector needs (The World Bank, 2013).

1.3.4 The Philosophy of CSR Existence in Egypt

To explore the main drivers for CSR involvement in Egypt, 74 managers in Egyptian companies listed in EGX100 were interviewed. Despite scholarly arguments on business engagement in CSR practices as a result of government failures, only 10.8\% of respondents see that government failures are the reason for CSR practices in Egypt, as shown in Table 1.1(A). On the other hand, 44.6\% of the respondents view publicity as the main driver of CSR in Egypt followed by stakeholder pressure (28.4\%) and globalization (13.5\%). Reports on CSR in the Middle East indicate that society places more value on corporate image and reputation than observed corporate behavior (Ararat, 2006). In light of this fact, Egyptian corporations may use CSR as a tool to boost corporate image.
The majority of respondents (82.4%) also see that the main reason behind the lack of CSR initiatives in Egypt is the poor economic conditions of the country while only 10.8% consider the lack of awareness and media pressure hinders social responsibility practices amongst Egyptian firms.

**Table 1.1(A): CSR Drivers in Egypt**

<table>
<thead>
<tr>
<th>Drivers</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Relations</td>
<td>44.6</td>
</tr>
<tr>
<td>Stakeholder Pressure</td>
<td>28.4</td>
</tr>
<tr>
<td>Globalization</td>
<td>13.5</td>
</tr>
<tr>
<td>Government failures</td>
<td>10.8</td>
</tr>
<tr>
<td>Corporate affiliation to society</td>
<td>8</td>
</tr>
<tr>
<td>Political Reasons</td>
<td>4</td>
</tr>
<tr>
<td>International Competitiveness</td>
<td>1.3</td>
</tr>
<tr>
<td>Government Regulations</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Also, companies operating in Egypt tend to resemble the stockholder view of CSR that represent a “limited and narrow view of corporate obligations only to stockholders” (Shafer et al., 2007, p. 270). This is apparent from our survey results of 110 managers in local and multinational companies operating in Egypt that were surveyed about managerial attitudes toward social responsibility. As shown in Figure 1.2(A), around 74% of companies do not agree with the notion that a firm’s ethical and social responsibility is essential to its long-term profitability. Also, 76.4% of the companies surveyed disagree that businesses have a social responsibility beyond making a profit and around 72% of the companies surveyed confirm the statement that

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2 Survey items of managerial attitudes toward social responsibility are adopted from Shafer et al. (2007)
states that “the most important concern for a firm is making a profit, even if it means bending or breaking the rules”. On the other hand, a small percentage of managers agree with the first two statements (1% and 26.4% respectively) that resemble the stakeholder view of CSR.

**Figure 1.2(A): Managerial Attitudes towards Social Responsibility in Egypt**

This all provides insights as to how CSR is viewed and practiced in Egypt. It is well obvious that the practice of CSR amongst firms operating in Egypt is mainly viewed as a tool used by companies to improve corporate branding and reputation. Also, the economic conditions of the country represent a main obstacle to the proper initiation of CSR practices in Egypt. Underneath such views lie two main arguments. First, less profitable firms are less likely to engage in CSR practices compared to more profitable firms due to the lack of resources required for such activities (Campbell, 2007). Many research studies on the association between firm profitability and CSR have revealed positive associations between corporate financial and social performance (Margolis & Walsh, 2003). Second, to maintain short-term profit maximization, firms operating in a weak economic and regulatory environment with relatively low stakeholder pressure and awareness are less likely to act in socially responsible ways (Campbell, 2007). In Egypt, regulations controlling corporate social and environmental behavior exist. Yet, the enforcement of these regulations is rare and selective resulting in a gap between written laws and practice.
The presence of weak and ineffective enforcing bodies produces inconsistent enforcement and inspection and results in corporate non-compliance with laws. In addition, the low level of disclosure practices that address social concerns pose questions regarding the ethical stances of Egyptian companies (Hanafi, 2006).

1.3.5 Barriers to Effective CSR Implementation in Egypt

Common CSR barriers in developing countries include ineffective regulatory and governance systems, relatively high levels of corruption, lack of top management commitment and insufficient levels of CSR expertise (Arevalo & Aravind, 2011; Nasrullah & Rahim, 2014). These factors combined reduce corporate tendency to act in the public’s interest and curtail their commitment to effective CSR implementation (Nasrullah & Rahim, 2014). Although CSR is gaining some momentum among private companies in Egypt, many restraints hinder its successful implementation.

To explore the challenges of integrating CSR practices in the Egyptian context, 110 managers from local and multinational firms were surveyed to explore the barriers for implementing social and environmental improvement in their companies. Figure 1.3(A) shows some of the factors that may limit the implementation of CSR in corporate business units and the percentage of managers that perceive those factors as relevant barriers in Egypt. The majority of the managers (67.3%) consider the lack of top management commitment as the main barrier for adopting CSR in their corporation. This indicates that CSR issues are still a second-tier concern for corporate elites in Egypt. It also shows that top management plays an important role in launching and promoting CSR implementation in corporations operating in Egypt. Also, 41.8% of the managers consider the lack of customer demand as an important barrier to CSR implementation. Devoting resources to CSR necessitates extant pressures from multiple stakeholder groups including customers (McWilliams & Siegel, 2001). If stringent customer demands are sought, raising customer awareness on social and environmental issues seems salient for fostering CSR practices in Egypt.
Figure 1.3(A): Barriers for CSR in Egypt

Around 35% of the managers consider the lack of employee interest in CSR and competition on costs as important barriers for CSR implementation in Egypt. Employees are important stakeholders who can play an important role in pressuring companies to adopt work-related CSR policies (McWilliams & Siegel, 2001). Recognizing employee demand for CSR, managers are more likely to support work-related CSR issues such as financial security and safety. On the other hand, low levels of awareness of CSR issues (26.3%) and lack of skills and training (16.4%) are not considered as relevant barriers by the majority of the managers surveyed. Overall, multi-stakeholder engagement, specifically employees and customers, top management commitment and going above & beyond market-based success criteria are considered important contributors to the promotion of CSR in Egypt.

1.3.6 Strategic CSR Stances: Where does Egypt Stand?

Corporate social responsiveness represents one important component in the social performance of corporations. This dimension addresses “the philosophy, mode, or strategy behind business (managerial) response to social responsibility and social issues” (Carroll, 1979, p. 501). Businesses respond to social issues and pressures in different ways ranging from having no response to being a proactive leading company in the industry. Four main categories of social responsiveness have been identified by previous CSR literature; reactive (obstructionist),
defensive, accommodative, and proactive (Carroll, 1979; Henriques & Sadorsky, 1999; Lee, 2011). The degree to which corporations respond to social issues is dependent upon the strength of the institutional and stakeholder influences surrounding the business environment. Lee (2011) provides two interdependent social mechanisms that represent the external influences that shape the CSR strategies used by corporations in response to social issues. First, corporate social behavior, in general, is affected by the strength of the regulative, normative and cognitive institutional influences. And second, stakeholder influences can pressure corporations to serve stakeholder interests and other social demands. Depending on the strength and alignment of the signals provided by those two mechanisms on CSR-related issues, corporations create CSR strategies equivalent to the relative reinforcement of such issues by external influences.

In Egypt, like many other developing countries, the weak regulation enforcement (Dobers & Halme, 2009; Graham & Woods, 2006; Qu, 2007) and low awareness or demand for CSR (Amran & Devi, 2008; Naser et al., 2006) create challenging CSR environments that may hinder the application of CSR practices in developing countries and discourage the embeddedness of CSR in corporate strategies. This argument is consistent with Lee’s (2011) proposed model that suggests that companies operating in an environment where institutional and stakeholder pressures are weak tend to follow the obstructionist (reactive) approach to CSR. Corporations employing such a CSR strategy reject social responsibilities that lie outside their economic interests (Lee, 2011) and do not perceive CSR issues as a priority (Henriques & Sadorsky, 1999). In such an environment, companies lack the incentive to act in a socially responsible manner and may even bare a competitive disadvantage from acting responsibly. Under such conditions, the obstructionist (reactive) strategy is the expected CSR strategy for companies.
Table 1.2(A): Percentage of CSR Commitment of Companies in Egypt

<table>
<thead>
<tr>
<th>CSR Commitment</th>
<th>Committed</th>
<th>Do not know</th>
<th>Uncommitted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>no. of firms</td>
<td>%</td>
<td>no. of firms</td>
</tr>
<tr>
<td>CSR Plan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Written Plan</td>
<td>20</td>
<td>18.2%</td>
<td>37</td>
</tr>
<tr>
<td>Plan communicated to shareholders</td>
<td>21</td>
<td>19.1%</td>
<td>45</td>
</tr>
<tr>
<td>Plan communicated to employees</td>
<td>41</td>
<td>37.3%</td>
<td>27</td>
</tr>
<tr>
<td>CSR Unit</td>
<td>41</td>
<td>37.3%</td>
<td>13</td>
</tr>
<tr>
<td>External CSR reporting</td>
<td>28</td>
<td>25.5%</td>
<td>41</td>
</tr>
<tr>
<td>Employee CSR training</td>
<td>85</td>
<td>77.3%</td>
<td>13</td>
</tr>
</tbody>
</table>

Table 1.2(A) shows manager’s perceptions on the CSR commitment of a sample of 110 local and multinational companies operating in Egypt. This was examined based on seven main aspects; (1) having a CSR plan, (2) having a formal document describing the plan, (3) presenting the plan to shareholders and stakeholders, (4) presenting the plan to employees, (5) having a CSR unit dealing with CSR issues, (6) providing external CSR reporting, and (7) providing employee CSR training (Henriques & Sadorsky, 1999). While around 50% of the firms examined have a CSR plan, only a small percentage of the firms have it in a written form (18.2%) and communicate it to their shareholders (21%). It is also obvious that the extent of external CSR reporting amongst examined firms is still immature where only 25.5% confirmed the presence of external CSR information disclosure. On the other hand, employee CSR training seems to be well-established as almost 77.3% of examined firms provide CSR training to their employees. The weak communication of CSR plan and CSR information to shareholders and various stakeholders
suggests the lack of effective communication channels with corporate stakeholders and ineffective strategic stakeholder management amongst the sampled Egyptian companies.

1.4 Limitations of the Methodologies Applied

The methodologies applied in the studies of this dissertation can be subject to a number of criticisms. Yet, this section is not concerned with the detailed shortcomings of the individual studies since they are thoroughly discussed in the following part of the dissertation. Instead, the weaknesses of the overall methodologies applied in the dissertation are acknowledged in this section as well as the reasons for selecting such instruments in the dissertation studies.

1.4.1 Self-Report Bias

The first two studies of this dissertation rely mainly on self-reported data that is considered to be a potential source of common method bias. Self-report bias stems from “any artifactual covariance between the predictor and criterion variable produced by the fact that the respondent providing the measure of these variables is the same” (Podsakoff et al., 2003, p. 881). A common rater may be tempted to appear consistent and rational in his survey choices and may accordingly produce relationships that may not hold in real-life settings. Related to the same kind of bias is the distorted correlations that may exist between the predictor and criterion variables as a result of implicit assumptions and theories held by raters that may not reflect actual relationships. Based on that, it might be argued that the empirical validation of the models of the first two studies is at stake given that it is based on perceptions not on actual data.

While the use of actual data may better capture the actual performance of sample companies examined, the use of self-reported survey data may still be useful specifically for studies performed in a developing country context such as that of Egypt. In such a context, two main difficulties exist for measuring the social responsibility of companies. First, detailed quantitative information on the social activities of sample companies used in the first two studies is mostly unavailable. One reason for that may be the fact that CSR, in its recent form, is still in its infancy in developing markets. Accordingly, having a comprehensive analysis of corporate social performance in Egypt based on actual data in not feasible at this current stage. Second,
collection difficulties in Egypt, that are also common in many developing countries, hinder the use of an adequate measure of CSR since it requires “unrestricted access to data on the full range of activities of the firm” (Abbott & Monsen, 1979, p. 502).

Also for research purposes, the use of actual data may not apply. For example, in study 1, the effect of the 2011 political instability and market uncertainty was tested on the CSR activities of Egyptian firms. Since this study is concerned with the influence of the 2011 political incident on CSR in Egypt, it does not involve a wide variety of companies operating in different countries. Accordingly, the use of actual data cannot be used on companies operating in one country because the numbers will be same for all companies per year. In that case, the use of actual data is not possible and instead perceptions can be used to provide valuable insights on the examined relationships in the study’s model.

1.4.2 Limitations of the Content Analysis Method

Another main methodology used in this dissertation, specifically in studies 1 & 3, is the content analysis method. Content analysis is “a method of analyzing written verbal or visual communication messages” (Elo & Kyngas, 2008, p. 107). This research method provides reliable and valid information that is specifically important “in understanding social and environmental, intellectual capital and stakeholders reporting” (Boesso & Kumar, 2007, p. 281). A number of limitations exist in using content analysis with subjectivity in information coding being the main limitation of this research method. Yet, the reliability of the content analysis approach was sought by choosing disclosure items and categories from well-grounded relevant literature and establishing a coding instrument with clearly identified decision rules (Guthrie et al., 2004).

In line with most social disclosure studies, the use of content analysis in the studies conducted in studies 1 & 3 of this dissertation is restricted mainly to corporate annual reports3. Other corporate communication media, such as corporate websites, are excluded from the analysis for two main reasons. First, annual reports are considered a primary as well as a more credible source of information for multiple users compared to other information media (Magness, 2006). It is also

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3 It is worth noting here that corporate CSR reports were also considered in study 3 because some companies disclose “integrated reports” which include both annual and CSR reports. Accordingly, to be consistent, the CSR reports of all other companies examined in this study were accounted for, whenever applicable.
argued that the information disclosed in annual reports is considered a reflection of the social commitment of corporations and how corporations perceive the importance of social issues to society. Based on that, annual reports are considered important indicators of corporate attitudes toward any issue, including social responsibility (Hanafi, 2006). Second, annual reports are regularly produced by all companies, since they are required by legislation, facilitating comparisons (Tilt, 2001). This reason is particularly important in the empirical investigation conducted in study 3 since CSR disclosures of companies from three different countries are examined.

Since the quantity of CSR disclosures is the approach used when conducting content analysis in this dissertation, it can be argued that ignoring the quality of CSR disclosures would lead to not precisely knowing what is actually being disclosed (Guthrie et al., 2004). While studying the quality of disclosures related to type of information, news and location is important, the selection of the content analysis method used is highly dependent on the aim of the studies applying content analysis. If the main aim of the study holds an in-depth investigation on how corporations define, measure and report CSR related information, then a content analysis approach that takes into account the quantity and quality of CSR information disclosed is favored. However, if, like in our case, the main aim of the study is to investigate drivers of CSR activities and disclosures, then the quantity of CSR disclosures may be an appropriate tool to use to calculate a CSR score that can be used in further statistical analyses that serve the main purpose of the study. In study 1, analyzing the perceived effect of political instability on the CSR activities of Egyptian companies is the main aim. Accordingly, content analysis was only used in this study as a complimentary research method to further investigate whether CSR disclosures by Egyptian companies increased as a result of the political instability that occurred in 2011. Although some qualitative changes were discussed in the findings of this study, a thorough investigation of the quality of CSR disclosures was not performed as it was considered irrelevant to the main investigation done in this study. In study 3, the main aim of the study is to examine how CSR disclosures are affected by other factors related to diversity and corporate governance. Based on that, content analysis was only used to calculate a CSR score that was later inserted as a dependent variable in the study’s model.
While the above mentioned criticisms must be acknowledged, all research methods have their drawbacks. Given that CSR is an important contemporary topic in the field of business research, an array of research methods is employed by CSR-related research studies. Selecting a suitable research methodology highly depends on the research purpose and feasibility of data collection. Undoubtedly, the reliability of the gathered data has been tested to ensure the validity of the results of the studies conducted in this dissertation.

1.5 Summary and Conclusion

Overall, the dissertation contributes to the CSR literature by providing valuable insights into how CSR is perceived and practiced in a developing country context. The dissertation specifically examines CSR predictors on the institutional and organizational-level of analysis and highlights differences in the CSR drivers of developing and developed countries with distinct institutional settings. Overall, the results of the dissertation show that CSR in Egypt is highly influenced, on the macro-institutional level, by the political and economic environments mainly depicted by political instability and financial market uncertainty. On the other hand, macro-institutional factors related to the business operating environment, specifically regulatory and stakeholder pressures do not play a role in triggering CSR in Egypt. This can be explained by the weak and ineffective regulatory systems, lack of CSR awareness, and lack of stakeholder-power balance that are common in most developing countries. On the organizational level, the results of the dissertation show significant influences of firm-specific factors on CSR in Egypt, particularly corporate economic performance, internal corporate governance, corporate diversity and firm size. The dissertation thus highlights the salient importance of organizational-level factors in promoting CSR in weak institutional contexts. It also emphasizes how the influence of organizational-level factors can be driven by macro-institutional forces. In developed countries, the influence of organizational-level factors on CSR diminishes in the presence of strong institutional environments. Overall, the dissertation highlights the fact that CSR practices and drivers in developing country contexts that exhibit different social, political and economic conditions are highly distinct compared to developed countries that are mainly examined in mainstream CSR literature. Accordingly, future research examining CSR developments, practices, drivers and trends in developing countries seems critical if a holistic development of
the CSR research field is sought. Following is a representation of the key findings of each of the three studies in this dissertation. Then an overall reflection on the theoretical and practical implications of the work is provided.

1.5.1 A Summary of the Results of Individual Studies

Study 1: Political Instability and Corporate Social Responsibility: The Case of Egypt

This paper employs an institutional theory perspective to examine the impact of political uncertainty and instability caused by the 2011 Egyptian revolution on the CSR practices of Egyptian firms. The study contributes to the understanding of the nature of the relationship between business and society by examining the role of business in times of political turbulences.

Figure 1.4(A): Summary of Study 1 Results

As shown in Figure 1.4(A), the results of the study show that political instability is perceived to have a significant positive effect on the CSR practices of Egyptian firms. The results also reveal that the financial performance of firms is perceived not to be affected by the political instability after 2011 as opposed to stock market uncertainty which is perceived to be significantly affected.
Overall, the study provides evidence that CSR is practiced by Egyptian corporations even when political instability is high. Given that no severe economic disturbances occurred post 2011, Egyptian corporations increased their CSR practices to ensure their legitimacy and to contribute to society.

**Study 2: Positive and Negative CSR practices in Egypt: Organizational Legitimacy, Stakeholder Concerns, or a Pursuit of Personal Benefits?**

Using evidence from 110 locally-owned firms and multinational corporations operating in Egypt, this study aims to unleash the motivations of corporations in CSR engagement by examining the influence of a number of perceived drivers of CSR. More precisely, the paper tests the effect of perceived corporate governance on CSR as an internal driver within management control and the perceived influence of external legal regulations and stakeholder pressure.

**Figure 1.5(A): Summary of Study 2 Results (Main Constructs)**

![Diagram](image)

Notes: **significant at 5%; *** significant at 1%.

The results indicate that the major driver of CSR in Egypt is internal corporate governance, as shown in Figure 1.5(A). The results support agency theory and reveal that other prominent CSR theories, such as stakeholder and legitimacy theories, do not explain the motivation behind CSR engagement in Egypt. Overall and in line with agency theory, we find that CSR efforts are driven
by (short-term) economic interest. The results also show insignificant influences of legal regulations and stakeholder pressures on CSR practices in Egypt. The paper thus highlights the existence of weak regulations and low awareness and emphasizes the importance of the engagement of multiple stakeholder groups in corporate decision making. This would contribute to corporate governance pluralism that focuses on wider community goals rather than only corporate shareholders.

**Study 3: Firm-specific drivers of CSR Reporting: A Comparative Analysis between Top-listed Firms in Egypt, Germany and the US**

The institutional embeddedness of CSR in the societal fabric has great influences on the degree of embracement of social responsibility practices. This study illustrates how institutional contexts can influence the dynamics of interaction between organizational-level factors and CSR. In developing countries, where there are weak institutions and low awareness and demand for CSR, the influence of organizational-level factors on CSR becomes more salient. Taken from an institutional theory perspective, this paper explores the effects of organizational-level factors, specifically diversity and corporate governance structure, on the CSR reporting practices of corporations operating in developing and developed country contexts, namely Egypt, Germany and the US. Since developed countries are exposed to different settings, the paper argues that there is likely to be a difference in the organizational-level drivers of CSR reporting in developed vs. developing countries.
As shown in Figure 1.6(A), the results are mostly consistent with institutional theory where the effects of diversity and governance structure, observed mainly by foreign BOD, board independence and institutional ownership, are found to be significant on the CSR disclosure levels of sample Egyptian companies only. On the other hand, no significant influence of tested factors was observed on the level of CSR reporting in the US and Germany. The results thus indicate that the influence of organizational-level factors on CSR is highly dependent on the institutional context where companies operate.

1.5.2 A Reflection on Theoretical and Practical Implications of the Dissertation

The results of the dissertation indicate that CSR practices in Egypt are still at a nascent stage of development. Social responsibility in Egypt is still confined to the concept of philanthropy and community development. Although this act is perceived to be common amongst Egyptian companies, the systematic disclosure of this CSR category, along other social responsibility items, seems to be underdeveloped. The analysis of the CSR disclosures in Egypt shows that the CSR disclosure approach amongst Egyptian companies remains unsystematic and inconsistent.
This is apparent from the wide variation in the content and type of CSR disclosures across companies as well as within the same company across different years. This highlights that CSR as a practice is not embedded in corporate business strategy where material CSR issues to the business and its stakeholders are identified and dealt with. In addition, impact assessment of corporate monetary community contributions disclosed in corporate reports is not communicated by Egyptian companies. Along the same line, it was well noticed during corporate report assessments that mainly positive CSR information is disclosed in Egypt while corporate irresponsible actions are mostly ignored. It is thus perceived that the CSR disclosure practice in its current form in Egypt is mainly performed for publicity reasons.

The results also show that institutional theory provides helpful theoretical insights regarding the social practices of companies in Egypt. Although stakeholder theory represents one prominent CSR theory that has received strong empirical support from Western-driven CSR studies, the inactive participation of stakeholders in the Egyptian corporate life questions its relevance in Egypt. In the results, the effect of stakeholder pressure on the CSR practices of Egyptian and multinational companies operating in Egypt is shown to be statistically insignificant. This can be explained by the broader institutional context that encourages or limits stakeholder action and influence. In Egypt, the weak legal and regulatory systems and the strong presence of informal institutions tend to diminish the operationalization of the stakeholder approach to CSR. This institutional environment existing in Egypt also influences the effective implementation of corporate governance practices that, in turn, influence how CSR is effectively pursued. In many developing countries, the external image of corporate governance practices is often adopted rather than effective corporate governance implementation. When less effective corporate governance is practiced, more agency problems are expected where agent managers use CSR as a tool to improve their reputation. In our results, a significant negative influence of effective corporate governance on positive CSR practices is found. That is, the more corporate governance is effectively practiced in Egypt, the less the CSR practices performed emphasizing corporate managers’ opportunistic behavior. Accordingly, CSR practices seem not to have solid strategic ground in Egypt and are mainly used to improve corporate image. This notion is further supported when the CSR practices of Egyptian companies are examined during times of political, economic and social distress. Following the 2011 political event, sample Egyptian companies
continued their involvement in CSR practices. To improve financial performance in the presence of institutional voids and regulatory uncertainties, a “bad-moon” self-regulation strategy that only artificially complies with normative demands to reach self-serving interests may have been practiced by sample Egyptian companies.

The results of the dissertation show that the business operating environment on the institutional level does not play a role in fostering CSR in Egypt, specifically legal regulations and stakeholder pressure. This implies that CSR practices are detached from government regulations and policies and left to management discretion. A degree of government involvement is thus recommended. This includes, for example, enforcing legal regulations that hold companies accountable for socially irresponsible practices such as environmental damage caused by corporate economic operations. In this regard, mandated environmental impact assessment policies may be needed. Other examples include, raising CSR awareness, fostering socially responsible investment and leading by example. However, legal regulations alone cannot prevent corporate irresponsible behavior. The results indicate that organizational-level factors play an important role in enhancing CSR practices in Egypt. More specifically, internal norms and governance structures embedded in corporate environments highly affect the degree by which corporations effectively adopt social practices. This is particularly the case for developing countries. Given the well-established institutional environment in developed countries, the influence of firm-level factors on CSR becomes much less obvious in developed country contexts. The results indicate that CSR practices in Egypt can be enhanced through the activation of micro-organizational-level forces, specifically internal corporate governance and corporate diversity. Employing effective governance mechanisms and instilling some degree of diversity in Egyptian companies seem salient for boosting CSR in Egypt. In addition, the role of the government and stakeholders needs to be more effective and visible in the Egyptian business environment. Having an appropriate combination of external governmental influence and internal corporate practices that tend to enhance CSR may move Egyptian companies toward more socially responsible behavior.
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PART B: Dissertation Papers
# Political Instability and Corporate Social Responsibility: The Case of Egypt

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1.1 Introduction

There has been a growing interest in the social and environmental activities of corporations among researchers in the academic community (Dentchev, 2009; Lioui & Sharma, 2012; Orlitzky, 2013). Yet, CSR practices and models are mainly Western-driven (Jamali & Mirshak, 2007) and may not adequately reflect the role of business in non-western environments. Contemporary CSR models consider factors such as having businesses that are interested in CSR, civil societies that actively engage and cooperate with businesses and an ‘enabling environment’ for CSR provided by the state (Newell & Frynas, 2007). This enabling environment is often a product of a strong institutional environment that is commonly found in developed markets. On the other hand, the lack of competition among firms, inefficient enforcement of regulations and the marginal roles of NGOs and employee unions are likely to cause institutional voids that create challenging CSR environments (Amaeshi et al., 2014). This holds true in developing countries. For example, businesses in developing countries are usually restricted from providing basic infrastructure and social services that are insufficiently provided by governments either due to government monopolies or bureaucracy and overregulation. Even if it is economically efficient for private businesses to engage in developmental projects in industries such as healthcare and transportation where governments fall short, entering such markets is difficult due to governments’ control over these industries. The instability of political regimes and the corruption of political and governmental institutions may also deter businesses from investing in such projects (Fisman & Khanna, 2004). This therefore creates a non-enabling CSR environment that discourages (Fox, 2004; Idemudia, 2011) and sometimes even hinders (Naor, 1982; Idemudia, 2011) the application of CSR practices in developing countries.

This paper capitalizes institutional theory to capture the complex interactions between organizations and their external institutional environments. Specifically, the research investigates the implications of institutional voids on CSR practices in developing countries in politically unstable times. This is particularly useful in understanding how CSR is perceived and applied in non-enabling environments in developing countries specifically when institutional instability and
uncertainty prevail. The ways in which CSR is applied in different societies and the reasons for them are not adequately reflected in current CSR research. Hence, exploring the perceptions and practices of CSR in developing nations, which have different institutional conditions compared to Western societies, would contribute to a more holistic understanding of the CSR concept.

Although research studies have become more attentive to examining CSR in developing countries, related studies applied on African countries are still limited (Kolk & Lenfant, 2010). With the exception of South Africa, Nigeria and Lebanon (Amaeshi et al., 2006; 2014; Dawkins and Ngunjiri, 2008; Jamali & Mirshak, 2010; Jamali, 2010), the role of business in other African developing societies has hardly been discussed in the CSR literature (Kolk & Lenfant, 2010).

Examining the role of business in developing countries with unstable environments is a topic that would open new avenues for understanding the nature of the relationship between business and society. Previous research studies in Africa tackling CSR in unstable environments focused on countries with prolonged periods of violent conflict (Kolk and Lenfant, 2010; 2012; 2013 in Central Africa) and on more localized forms of conflicts such as the recent conflicts in Lebanon (Jamali & Mirshak, 2010). Yet little is known of the functioning of CSR during the occurrence of different types of political instabilities in other African countries.

In light of this research gap, this paper aims at examining the direct and indirect effects of the political turmoil in Egypt after 2011 on the CSR practices of Egyptian firms. Specifically, we analyze the interplay of CSR practices of Egyptian firms considering firms’ financial performance and stock market uncertainty. The Egyptian conflict context that occurred in 2011 represents a temporary widespread political conflict that had a major impact on the local business environment. Analyzing CSR in light of such a political situation would help to understand the corporate societal role in a North African developing country with a major economic power in North Africa. Our results provide insights into how corporate decision-making may address sustainability when trade-offs between corporate economic growth and social and environmental welfare are likely to occur. Although there are no legal or professional requirements demanding accountability of corporate responsibility, Egypt has been experiencing an increased public awareness regarding the role of business in the Egyptian society (Salama, 2009).
The remainder of this paper is divided into six sections. In the next section, previous literature on the role of business in society is reviewed pointing out the debatable approaches and theories of CSR. Following, it discusses the reasons behind why corporations are increasingly becoming important social and political actors and how institutional voids may affect the efficient performance of corporations towards required social duties. Section 3 proceeds to develop a set of hypotheses relating to the direct and indirect impact of political instability on CSR in Egypt. Section 4 describes the data collection procedure and the measures used in the study. In section 5, the results of the survey that test the study’s hypotheses are presented. Finally, section 6 concludes by highlighting the findings of the study, discusses the limitations of the study and proposes avenues for future research.

1.2 Theoretical Background

1.2.1 Approaches to Conceptualizing CSR

While CSR is generally associated with business responsibilities towards society, a lack of theoretical and empirical consensus challenges the clarity of this concept (Brown & Forster, 2013; Newell & Frynas, 2007). In spite of extensive research that attempts to explain the reasons for firms engaging in CSR practices (Lioui & Sharma, 2012), there is still clearly a lack of consensus (Carroll, 1999; De Bakker et al., 2005; Vaaland et al., 2008). The inconsistency of empirical findings hinders credible generalizations of existing theories (Endrikat et al., 2014; Lioui & Sharma, 2012; Rousseau, 2006). Which of these theories best explain the CSR practices in developing countries and whether a new CSR theory should be developed are questions that still remain unanswered.

Different debates about the role of business in society have been cited. Opponents of corporate social accountability argue that CSR is not related to the economic role of corporations (Jensen, 2002; Sundaram & Inkpen, 2004). Friedman (1970, pp. SM17) stated that “the social responsibility of business is to increase its profits”. According to this view, concentrating on firm value maximization would lead to maximum social welfare. Managing more than one objective at the same time may cause confusion in decision making which may then create market distortions (Jensen, 2002; Sundaram & Inkpen, 2004). Jensen (2002, pp. 238) clearly stated that,
“multiple objectives is no objective”. Accordingly, shareholder value maximization should be the only target of business firms from an economic point of view.

Supporters of CSR propose that business responsibilities go beyond shareholder value maximization and include social responsibilities (Carroll, 1979; Gray, 2006) that may lead to the reduction of social and environmental problems (Ite, 2004). Various approaches have arisen among proponents of CSR to explain the responsibilities of firms towards society (Brown & Forster, 2013). Many of the CSR studies provide a positivist interpretation of corporate responsibility (Scherer & Palazzo, 2007) emphasizing a complementary nature of CSR with corporate goals. Given that underlying assumptions about the role of business in society are often accompanied with CSR models (Pedersen, 2010), the positivist approach to CSR agrees with the assumptions of the classical economic doctrine (Scherer & Palazzo, 2007). According to Scherer & Palazzo (2011), three main assumptions form such an economic view of CSR. First, business and politics are clearly separated. Second, profit maximization is the responsibility of managers towards the shareholders of the company. Third, social activities of firms are only welcomed if they contribute to firm value creation. There are more than one hundred empirical research studies that study the relationship between corporate social and financial performance, confirming the implicit economic approach of the CSR research stream (Margolis & Walsh, 2003; Scherer & Palazzo, 2011).

There are, however, some CSR research studies that tackle the relationship between business and society, which do not fit into the economic view of CSR (Scherer & Palazzo, 2011). Theories that follow the normative research paradigm include the normative stakeholder theory, for example (Donaldson & Preston, 1995). This theory assumes a relationship between business and society that is based on ethics (Garriga & Melé, 2004). According to (Donaldson & Preston, 1995), the normative stakeholder theory suggests that managers should manage the legitimate interests of all stakeholders regardless of their power.

Other theories emphasize the social role of business where the social responsibility of firms in the political domain arises. These theories are classified by Garriga & Melé (2004) as political theories. An example of this is the corporate constitutionalism theory. This theory assumes that the social responsibilities of firms stem from their social power. The theory suggests that the
social role of a firm should be equivalent to its social power, hence taking full social responsibility of the society is not accepted (Garriga & Melé, 2004). On the other hand if they were not to take on their social role, it would result in a loss of their social power (Davis, 1973). According to the “Iron law of responsibility” principle, other groups will take over the social responsibility of firms if they do not use their social power which will eventually lead to a loss of their social status in society (Davis, 1973, pp. 314).

Institutional theory is another example of political (and social) theories that provides helpful theoretical insights regarding the CSR practices of firms (Fernando & Lawrence, 2014). Institutional theory examines how social, political and economic institutions play a role in legitimizing corporate action (Baughn et al., 2006). Institutions can be defined as “formal and informal enduring constraints that structure the economic, political, and social relationships between a business and its environment” (Amaeshi et al, 2014, pp.8). Applying institutional theory would offer explanations as to how and why CSR changes across and within countries (Brammer et al., 2012). In the context of political change and the existence of institutional voids, institutional theory may be an appropriate framework for conceptualizing changes in corporate social behavior within one geographic context.

1.2.2 CSR and the Rise of Business Power

According to neoclassical economics, the dominant paradigmatic foundation on which many CSR concepts are based, private and public domains are strictly separated. Such distinction indicates that the goal of a corporation is to maximize shareholder value and that social and environmental problems fall under the sole responsibility of the state. This business and society model inherently assumes that the state is capable of predicting societal problems beforehand and of addressing those problems by formulating and enforcing legal regulations. Accordingly, the involvement of corporations with such responsibilities is not needed. However, this division of labor between governments and corporations may not always hold as a result of modern society complexities and diversities as well as state imperfections (Scherer & Palazzo, 2011). An increasingly integrated global economy has made it difficult for governments to solely protect rights, leading to an increased involvement of corporations in social issues to fill the gap (Matten & Crane, 2005).
In a globalized world, national governments are sharing political, social and security powers with non-state actors including businesses, international organizations and non-government organizations (Mathews, 1997). Hence, globalization has been a major force in the redistribution of power between states, businesses and societies as commonly known by liberal democracies (Falk, 2000; Matten & Crane, 2005; Mathews, 1997). The shift of citizenship responsibility away from governments has placed new demands on corporations (Matten & Crane, 2005).

The involvement of corporations in social responsibility can also occur as a result of government failure in developing societies (Matten & Crane, 2005). Reports on CSR in the MENA region show that one possible explanation of CSR activities in the Middle East is the poor performance of governments (Ararat, 2006). In Nigeria, state failure to promote the economic and social development of the Niger Delta has caused Nigerian communities as well as its government to shift originally state-related responsibilities to multinational oil companies (Ite, 2004). Amaeshi et al. (2006) conducted interviews with senior executive personnel in local Nigerian firms and found that the insufficient provision of infrastructure, healthcare etc. by the Nigerian government is one reason for the necessary involvement of the private sector in CSR. In a similar study, Frynas (2005, pp.596) mentions that companies in Nigeria act as a “quasi-government” and engage in development projects such as building schools and hospitals just to fill in the development role. Gugler & Shi (2009) argue that the regulatory gap created in many Asian developing countries as a result of improper enforcement of regulations that have already been established related to labor rights and environmental protection has caused MNCs to apply their own CSR policies. Several studies suggest that governments in developing countries fail to provide an ‘enabling environment’ that enforces or at the very least motivates the application of CSR (Fox, 2004; Idemudia, 2011). Consequently, governments play a very limited role in the provision of social development in developing countries and companies engaging in CSR practices are often perceived as gap fillers of government failures (Jamali & Neville, 2011).

In addition, the political conditions of the home country can influence corporations’ engagement in CSR activities. A large number of developing countries have political instability problems along with other issues related to political distrust between the local communities and their government, inequality, inefficient implementation of laws and severe corruption (Webb, 2012). The rise of the Arab Spring was a reflection of the various political, social and economic failings
within the Arab world indicated by low democracy rankings, high unemployment and illiteracy rates in addition to inequality and corruption (Karam & Jamali, 2013; Premsingh, 2011). The increased social unrest of the Arab region over the past decade has been expressed by the citizens of the Arab states using different forms of social protests including strikes, protests and demonstrations (Ottaway & Hamzawy, 2011).

The business environment in the Arab world has been affected by the Arab Spring including expectations of companies’ behavior. The Arab civil uprisings have created challenges for companies to show the ethicality of their practices as well as proactively take part in the process of change during and after the rise of the revolutions. Previous relationships between companies and prior regimes have been criticized. As a consequence, a number of companies have withdrawn their connections to such regimes. Steps were also taken by companies in response to the rising demand of increased transparency from the “new societal influencers”. In Egypt, for example, the three main telecommunications companies initiated community-related CSR projects after the revolution acted perhaps as a response to the communication channels that were blocked during the initial phase of the revolution. Overall, societal forces have exposed companies to new pressures related to corporate transparency and may even emerge as new roles of corporate social responsibility (Avina, 2013, pp. 78).

1.2.3 CSR in and around Institutional Voids

Institutional voids are one type of regulatory voids that indicate a lack of competent institutions that enforce regulations and norms (Short, 2013). Campbell (2007) argues that not only the existence of state regulations is important to the proper application of CSR but also the presence of effective state institutions that are able to enforce them and surveil corporate behavior. Evidence also suggests that corporate self-regulation would fail in embedding social concerns into strategy and operations under conditions of weak regulatory environments (Short, 2013). Arnold & Valentin (2013) argue that transnational corporations may hold the assumption of the existence of strong regulatory environment when operating in developing countries. Under this assumption, ethical considerations related to human rights and plausible exploitation of the poor may seem irrelevant to such corporations since governmental protection is presumed. Yet this assumption may not hold true in many developing countries due to the existence of institutional
failures as well as corruption and resource scarcity (Arnold & Valentin, 2013). In such cases, corporations may seek to manipulate state regulators to the benefit of their self-interest and corporate self-regulation would only smooth the way for corporate “opportunistic” behavior rather than a socially responsible one (Campbell, 2007, pp. 956).

During times of political change, normative expectations vastly spread out and define the types of behavior that are either accepted or denied. Yet again, on the organizational level, efficient compliance with normative or regulatory obligations requires strong governmental presence. In developing countries, effective enforcement of regulations by governments is often lacking (Gugler & Shi, 2009) as well as government interventions (Frynas, 2005), specifically in politically unstable times. Hence, even if corporate social power has increased, the existence of institutional voids may lead to a state of “bad moon” corporate self-regulation that only artificially complies with normative demands to reach self-serving interests rather than public goals (Short, 2013, pp. 26).

1.2.4 The Economic Situation in Egypt Before and After 2011

Before the year 2011, when major political changes occurred, Egypt was just starting to recover from the negative effects of the 2008 world financial crisis. The steps that Egypt had taken towards implementing economic reform programs, the provision of investment incentives and the encouragement of foreign direct investments have led to significant improvements in Egypt’s economic market and growth rates (Samaha & Dahawy, 2010). However, in 2011, the uprisings had major negative effects on Egypt’s economy. Growth rates significantly decreased by 3.3 points, reaching 1.8% in 2011 (The World Bank Group, 2015) and inflation rates increased from 11.1% in 2010 to 13.3% in 2011 (Trabelsi, 2013). However, in spite of an immediate significant negative effect of the 2011 revolution on Egypt’s economy, stabilized GDP growth rates of around 2% in the years that followed were reported (UNECA, 2013; The World Bank Group, 2015). According to the World Bank projections, Egypt’s economic growth is expected to improve significantly in the coming years to reach 4% in 2017. This indicates that the Egyptian economy experienced a rapid recovery and maintained its stability in spite of unfavorable political and social conditions. In this respect, the Arab spring had major consequences for firm operations but did not result in a breakdown of the economy.
1.3 Hypotheses Development

1.3.1 Direct Effects of Political Uncertainty and Instability

The Arab spring increased the social expectations of consumers. Hence, firms are likely to address these expectations cautiously by intensifying the dialogue with their stakeholders (Avina, 2013). Accordingly, political instability may require companies to step in to substitute the insufficient provision of social services from governments as a result of revolutions (Gerson, 2001). Moreover, if the argument of corporate opportunistic behavior holds true, artificial compliance with normative demands may be necessary to reach corporate goals. Stated differently, if in reality a fair and complete application of state rules is not always the case, then CSR can be used by companies as an “opportunistic” tool for improving relations with the public as a way of increasing profits and manipulating regulators to safeguard themselves from undesirable state laws. Previous studies also show that CSR can play a ‘buffering role’ when negative events occur (Ducassy, 2013, p. 159). In that case, it can be logically inferred that in times of political instability, CSR would temporarily increase as the uncertainty of state laws and actions is much more obvious and institutional voids widen even further.

Accordingly, a positive relationship between political instability and CSR is hypothesized.

H1: Political uncertainty and instability in Egypt after 2011 is positively associated with the CSR practices of Egyptian firms

1.3.2 Indirect Effects of Political Uncertainty and Instability

1.3.2.1 Political Uncertainty and Instability, Financial Performance of Firms and CSR.

Political Instability and CSR Practices

Previous literature shows a negative relationship between political uncertainty and instability and financial performance. Petracco & Schweiger (2012) examined the short-term effect of the 2008 armed conflict between Georgia and Russia on the financial performance of Georgian firms. The results revealed a significant negative effect of the conflict on the sales and exports of at least a subset of firms examined in the study. Ayyagari et al. (2006) studied the factors of the business
environment that are perceived as growth obstacles for firms using the survey data of 80 companies. The tests of the study showed that political instability was one major direct obstacle to firm growth. According to Avina (2013), the revenues of many companies in the Arab world have decreased as a result of the instability of the market conditions associated with the Arab Spring. Hence, we infer that the political uncertainty and instability in Egypt will be negatively associated with Egyptian firms’ financial performance.

**H2:** The political uncertainty and instability in Egypt after 2011 is negatively associated with the financial performance of Egyptian firms.

*Financial Performance and CSR Practices*

The relationship between CSR and the financial performance of firms is still uncertain (Servaes & Tamayo, 2013). The results of some studies show a positive association between financial performance and CSR (Yusoffa et al., 2013; Rettab et al., 2009), whereas other studies find the opposite (Lioui & Sharma, 2012), state no significant association (Magness, 2006), or show mixed associations between financial performance and different CSR practices (Javed et al., 2013). However, recent meta-analyses have revealed a general positive relationship between corporate social/environmental responsibility and corporate financial performance (Orlitzky et al., 2003; Endrikat et al., 2014). In addition, Orlitzky et al (2003) reported the existence of a mutual virtuous circle where a bidirectional relationship exists between financial and social performance of firms. That is, corporations with high financial performance can afford to spend more on CSR and at the same time good social performance tends to contribute to a better financial position. It also appears from past meta-analyses and other studies that the causality direction mainly runs from financial to social performance (Margolis et al., 2007; Scholtens, 2008) not the reverse causality currently assumed by many business scholars. Margolis et al. (2007) argue that a number of motivations may lead more profitable corporations to invest more in social activities including risk mitigation, external expectations, a sense of reciprocity and guilt. In the context of Egyptian firms, the risk mitigation motivation may seem plausible as large profitable firms, specifically the ones connected to prior political regimes, would tend to strengthen or reestablish legitimacy in their home markets and in society by engaging in CSR practices. A higher degree of legitimacy might not only stabilize business relationships and
market share but can also protect firms against arbitrary political interventions if firms are able to mobilize critical stakeholder groups (Detomasi, 2008). Yet given the specific political condition, firms suffering severe losses are less likely to jeopardize their short-term profitability to perform socially responsible behavior. Basic economic conditions must be fulfilled in order for firms to perform social practices (Campbell, 2007). A sense of reciprocity may be another motivation for profitable firms to perform social activities where they assume responsibility to their societies. In the case of Egypt, large profitable firms may hold a sense of responsibility to perform additional social investments specifically at times when governments fall short. Hence, the following is hypothesized:

\textbf{H3:} The financial performance of firms is positively associated with the CSR practices of Egyptian firms.

1.3.2.2 Political Uncertainty and Instability, Stock Market Uncertainty and CSR.

\textit{Political Instability & CSR Practices}

Previous literature has provided evidence of the positive relationship between political uncertainty and instability and market uncertainty (Bittlingmayer, 1998; Kim & Mei, 2001; Mei & Guo, 2004). Bittlingmayer (1998) examined the relationship between political uncertainty, stock volatility and output in Germany during and after World War I. The study revealed that political factors have an effect on the relationship between stock volatility and output, as major stock price movements were associated with sudden, major political events in Germany. Kim & Mei (2001) investigated the effect of political events on the Hong Kong stock market. They found that market volatility is significantly affected by political developments in Hong Kong. Mei & Guo (2004) examined the effect of political uncertainty manifested by political elections and transitions on financial crises of twenty-two emerging economies. The study showed an increase in market volatility during times of political elections and transitions. Hence, it is anticipated that increased political uncertainty and instability in Egypt would result in increased stock market uncertainty.

\textbf{H4:} The political uncertainty and instability in Egypt after 2011 is positively associated with the stock market uncertainty of the Egyptian stock market.
Stock Market Uncertainty and CSR Practices

Ullmann (1985) argues that social disclosures reduce investors’ information uncertainty. In times of high market uncertainty as reflected by stock return volatility, the reliance and relative importance of corporate disclosures tend to be high (Sengupta, 1998). Boesso & Kumar (2007) found that business complexity and volatility, which includes the level of stock volatility faced by a company, significantly affected the level of voluntary disclosures of 72 Italian and US companies. This can be explained by the view that CSR-oriented firms can reduce the volatility of their stock prices as perceived by senior executives interviewed by Petersen & Vredenburg (2009).

Taking the specific Egyptian context into account, we argue that CSR practices can counterbalance stock market uncertainty by companies showing that they have understood the situation. Through progressive CSR practices, companies can mitigate stock market risks and prove that they are action-oriented and respond to societal concerns. Accordingly, we predict that an increase in stock market uncertainty caused by political instability in Egypt is likely to lead to an increase in CSR practices and disclosures of Egyptian firms.

**H5:** Stock market uncertainty is positively associated with the CSR practices of Egyptian firms.

1.4 Methods

1.4.1 Sample and Data Collection Procedures

Data on CSR practices in Egypt were collected through a survey of Egyptian firms as well as content analysis of annual reports from publicly traded firms. These annual reports were analyzed for the CSR information provided in 2010 and 2012 to capture the differences in CSR disclosure practices before and after the 2011 Egyptian Revolution.

Based on the constructs tested in this study, two main concerns guided the selection of the sample. First, companies have to be from the 100 top companies listed on the Egyptian Stock Exchange (EGX). Compared to other Egyptian-listed companies, such companies are larger in size, more active in trading, have more resources and are more highly committed to building
investor relations (Samaha et al., 2012). Accordingly, the top EGX100 companies are expected to be more involved in CSR practices and disclosures. Second, companies have to be located in Cairo or Alexandria. This is particularly important because major protests of the 2011 revolution mainly took place in Egypt’s Capital, Cairo, and its second largest city, Alexandria. In order to increase accuracy when measuring the effect of political instability on business, we limited our sample to EGX firms located in these two cities.

1.4.1.1 Sample Size of Survey

The initial survey sample consisted of 121 Egyptian companies listed in the EGX100 in years 2010 and 2012. 109 companies remained in the sample after eliminating 12 companies that were not located in Cairo or Alexandria. Corporate managers from a wide variety of industrial and service sectors were surveyed using a self-administered pen and paper survey. Table 1.1(B) provides a detailed description of the characteristics of the participants. Given the necessity of having to possess a license to obtain information from companies, a licensed data collector was assigned for this task. In addition, licensed data collectors have the privileges of having access to comprehensive company databases and a wide circle of business contacts given that they are members in the stock exchange as well as in chambers that are authorized to sell databases of companies operating in Egypt such as the Egyptian chamber of commerce and the industrial development authority. For quality assurance purposes, the data collector was trained beforehand and each questionnaire that was delivered was thoroughly revised. A total of 99 companies responded to the survey over a three-month period leading to a response rate of 91%. Those 99 surveys represent the basis for the Structural Equation Modeling (SEM) statistical technique performed later in this paper.

Table 1.1(B): Demographic Characteristics of Participants

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Experience</td>
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<tr>
<td>Less than 5 years</td>
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</tr>
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</table>
5 to 9 years 29.3
10 to 20 years 57.6
more than 20 years 11.1

Age

25 to 34 11.1
35 to 44 31.3
45 to 55 47.5
above 55 10.1

Education

Secondary 5.1
Bachelor 42.4
Masters 43.4
Doctoral 9.1

1.4.1.2 Sample Size of Content Analysis

Qualitative content analysis methodology was applied following the survey. In line with the initial sample size of the survey, 121 Egyptian companies listed in EGX100 for the years 2010 and 2012 represented the initial sample size of this analysis. Annual reports of sample companies were gathered from the Egyptian Company for Information Dissemination (EGID) and companies’ websites. For the purpose of this analysis, companies that have CSR reports or CSR sections in their annual reports were chosen. After examining the sample companies, a total of 27 companies met the required criteria. However, due to the lack of available CSR reports or annual reports with CSR sections for both or either of the years included in the analysis (2010 and
2012), the reports of only 17 companies were analyzed, as described in Table 1.2(B), resulting in a final sample size for content analysis of 34 company-year observations.

Table 1.2(B): Selection Procedure of Sample Annual Reports

<table>
<thead>
<tr>
<th>Sample Size</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies Listed in EGX100 in years 2010 and 2012</td>
<td>121</td>
</tr>
<tr>
<td>less:</td>
<td></td>
</tr>
<tr>
<td>Companies not located in Cairo or Alexandria</td>
<td>12</td>
</tr>
<tr>
<td>Companies without CSR reports/sections in annual reports</td>
<td>82</td>
</tr>
<tr>
<td>Companies without annual reports for 2010</td>
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</tr>
<tr>
<td>Companies without annual reports for 2012</td>
<td>4</td>
</tr>
<tr>
<td>Companies without annual reports for 2010 and 2012</td>
<td>5</td>
</tr>
<tr>
<td>Final Sample</td>
<td>17</td>
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</table>

<table>
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<th>Industry distribution</th>
<th>No. of Firms</th>
</tr>
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<tbody>
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<td>Industrial sector</td>
<td>No. of Firms</td>
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<tr>
<td>Cement</td>
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<td>Chemicals</td>
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<td>Financial Services</td>
<td>5</td>
</tr>
<tr>
<td>Food and beverages</td>
<td>1</td>
</tr>
<tr>
<td>Transport</td>
<td>1</td>
</tr>
</tbody>
</table>
1.4.2 Survey Items

All constructs were measured using multi-item scales obtained from or based on the literature. To measure the perceived political instability and uncertainty, we referred to (Brunetti, Kisunko, & Weder’s (1998) survey items that measured the predictability of rule-making and perceived political instability. The survey items were adjusted based on local references to suit the political environment of Egypt and similar developing countries (Ali, 1994; Ismail, 2009; Mohamed, 2005). For example, “Constitutional changes of government (as a result of elections) are usually accompanied by large changes in rules and regulations that have an impact on my business.” was modified to “frequent changes in ministries or governments, occurring after 2011, are usually accompanied by large changes in rules and regulations that have an impact on the company’s business process”. Another example is the addition of “The existence of a state of discontent and dissatisfaction after 2011 may entail processes of political violence (such as demonstrations and strikes) which, in turn, negatively affects the business activities of the company” to test the effect of political violence as a result of the revolution on business. Moreover, in order to have absolute and relative measures of political instability and uncertainty, each survey item is duplicated with the addition of “after 2011”. For example, the statement “The Egyptian government implements, to a great extent, announced economic policies”, which represents an absolute measure of political instability and uncertainty, is written again as “the Egyptian government implements, to a great extent, the economic policies that were announced after 2011” to have a relative measure of political instability and uncertainty. This also applies to other main constructs tested in this study, specifically, perceived market uncertainty and CSR.
The perceived financial performance was measured by the items similar to those in Delaney & Huselid (1996), Ellinger et al. (2002), Liao & Yu (2012) and Lane et al. (2001). Although we could not find any direct reference to measuring perceived stock market uncertainty, Bstieler’s (2005) environmental market uncertainty items, related to stability and predictability of the market, provided a guideline for the development of the stock market uncertainty items. Based on his items, managers’ perceived uncertainty in stock markets was measured by their perception of the level of stock market returns and price volatility in terms of stability and predictability after the 2011 revolution compared to before.

Survey-based items were used to measure the level of CSR practices in Egyptian firms across five dimensions: the community, the environment, employees, customers and the government. After reviewing several local (Abdullah, 2012; Elteera, 2012; Hassan, 2013) and international studies (Galbreath, 2010; Luo, 2006; Maignan & Ferrell, 2000; Rettab et al., 2009; Turker, 2009), the scale of the study of Rettab et al. (2009) was used as the base. Relevant items from other studies, specifically local literature, were also used to suit the Egyptian environment. For example, ‘ethnic background’ in the statement “treat all employees fairly and respectfully, regardless of gender or ethnic background” was replaced by ‘religious affiliation’ because discrimination based on ethnicity is not common in Egypt. Also, statements such as “Our company has a work council that deals with matters such as improving job security and working conditions” and “Our company provides medical and health care and social services such as social security services and a means of transportation to and from work” related to employees rights were added. Detailed questionnaire items for constructs tested in this study can be found in Appendix (A).

1.4.3 Content Analysis

Content analysis of the annual reports of Egyptian firms represents the second empirical base of this study. The source of the data was the annual reports of 17 Egyptian firms listed in EGX100 obtained either from the Egyptian Company for Information Dissemination (EGID) or from companies’ websites. Content analysis is a research methodology that provides reliable and valid information that is specifically important “in understanding social and environmental, intellectual capital and stakeholders reporting” (Boesso & Kumar, 2007, pp. 281). Although
annual reports are not the only media used for publishing corporate information, they are the primary as well as a more credible source of information for multiple users compared to other information media (Magness, 2006).

A CSR measuring instrument was obtained from (Hanafi, 2006). The content of the four main CSR categories employed in the mainstream CSR literature were examined: the community, the environment, employees and consumer and product service quality (Jizi et al., 2014; Hanafi, 2006). An additional “general other” category was also adopted from Hanafi (2006) to capture any CSR issue that is not particularly related to a defined CSR category. Modifications were made to the CSR disclosure measure based on a number of pilot testing rounds performed by the author and revised by another CSR researcher. Finally, a total of 87 CSR reporting items were included in this study. However, in order to not penalize companies for not disclosing irrelevant items, such items were excluded when calculating the CSR scores of companies affiliated with specific industries (including banking, transportation and telecommunication industries). The excluded items are particularly related to environmental disclosures such as waste, emissions, land contamination and environmental reserves.

Each disclosure item is equally weighted where 1 is assigned if an item is disclosed and 0 is assigned if an item is not disclosed. Following Branco & Rodrigues (2008) and Haniffa & Cooke (2005), the CSR disclosure score index is calculated by dividing the number of disclosed items by the maximum possible score. The existence of an item is the base of scoring in this study because the focus of the study is the extent of disclosure. It is also important to note that a distinction between voluntary and mandatory CSR disclosures was not made given that such a distinction is not necessary when mandatory CSR disclosure is very low (Chan et al., 2014), as in the case of Egypt.

### 1.5 Empirical Results and Discussion

#### 1.5.1 Aggregate Findings: Overall CSR Reporting Practices in Egypt

Table 1.3(B) shows the CSR disclosure practices of the Egyptian companies that were listed in the Egyptian stock exchange (EGX100) in the years 2010 and 2012. Approximately 35% of the
109 sample firms do not have CSR disclosures. This indicates that the level of CSR disclosure by Egyptian firms in Egypt is still relatively limited. The analysis also shows that around 40% of the listed companies in the EGX100 disclose issues related to CSR in their annual reports and approximately 25% have CSR disclosure practices on their websites only. This means that almost two thirds of the companies listed in the EGX100 have some sort of CSR disclosure practice. Despite this apparent awareness of CSR among Egyptian firms, the wide variation in the disclosure types of CSR information indicates that the CSR disclosure approach remains unsystematic and inconsistent.

Table 1.3(B): CSR Disclosure Practices of EGX100

<table>
<thead>
<tr>
<th>Level of CSR Disclosure</th>
<th>Number of Firms</th>
<th>Percentage of Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR section in annual report</td>
<td>27</td>
<td>24.77%</td>
</tr>
<tr>
<td>CSR items in annual report</td>
<td>17</td>
<td>15.6%</td>
</tr>
<tr>
<td>CSR on websites only</td>
<td>27</td>
<td>24.77%</td>
</tr>
<tr>
<td>No CSR disclosure</td>
<td>38</td>
<td>34.86%</td>
</tr>
<tr>
<td>Total</td>
<td>109</td>
<td>100%</td>
</tr>
</tbody>
</table>

The CSR reporting scores of the 17 companies examined, as shown in Table 1.4(B), suggest a concentration of some categories of CSR over others. CSR disclosures related to community services are the highest, indicating that Egyptian companies place great value on community service and philanthropic activities. This finding is in agreement with previous studies on CSR in developing countries (Jamali & Mirshak (2007) on Lebanon; Amaeshi et al. (2006) on Nigeria). In contrast to trends of CSR disclosures in developing countries, the community development domain of CSR is least emphasized in the developed world (Hanafi, 2006).

On the other hand, CSR disclosures related to the natural environment are rare. That is, companies on average disclosed only 13.71% of the items related to the natural environment in the annual reports of 2010 and 18.87% in 2012. More emphasis, although still low, was given to employee-related disclosures followed by product and consumer service quality with an average disclosure of 25.35% and 23.04% respectively in both years. This result is inconsistent with
Hanafi (2006) who found that although the disclosure of community services were common among a sample of Egyptian firms, their CSR disclosures were dominated by employee-related data in the period between 1998 and 2001.

Table 1.4(B): CSR Reporting Scores by Category in Years 2010 and 2012

<table>
<thead>
<tr>
<th>CSR Category</th>
<th>2010</th>
<th>2012</th>
<th>Average 2010 &amp; 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>13.71%</td>
<td>18.87%</td>
<td>16.29%</td>
</tr>
<tr>
<td>Consumer/Product</td>
<td>20.59%</td>
<td>25.49%</td>
<td>23.04%</td>
</tr>
<tr>
<td>Community</td>
<td>44.32%</td>
<td>45.06%</td>
<td>44.69%</td>
</tr>
<tr>
<td>Employee</td>
<td>27.18%</td>
<td>23.53%</td>
<td>25.35%</td>
</tr>
<tr>
<td><strong>Total CSR score</strong></td>
<td><strong>24.88%</strong></td>
<td><strong>30.29%</strong></td>
<td><strong>27.58%</strong></td>
</tr>
</tbody>
</table>

The little attention that was given to the domains of CSR, specifically issues related to the natural environment and consumer and product service quality, may be due to the weak regulations and markets that are prevalent in developing countries (Amaeshi et al., 2006). On the natural environment level, companies rarely report about areas such as product and process-related information, environmentally-related financial data, and energy usage and conservation. On the consumer and product level, companies pay little attention to consumer and product safety information, customer relations, improved services for all consumers including disabled and aged customers. On the employee level, equal employment opportunities, staff turnover, the employment of disabled persons and employee statistics only play a minor role. These CSR-related issues are rarely referred to in the annual reports of the sample companies.

An inconsistency of the CSR disclosures within the same company has been noticed for some of the sample firms investigated. This is illustrated by focusing on one CSR category in one year and ignoring it in another year without clearly communicating which CSR items are significant to the business, to external stakeholders or both. This might indicate a lack of understanding about which CSR issues are material to the business and its stakeholders, highlighting a missing link between the CSR practices performed by companies and their business strategy. This lack of transparency might affect the long-term sustainable development of Egyptian companies. Also
consistent with the findings of Jamali & Mirshak (2007), sample companies tend to report their monetary community contributions and the resources committed to or affected by such investments, whilst totally ignoring their actual impact on the community. Hence, an impact assessment of the wide variety of community investments performed by sample companies is not communicated.

1.5.2 The Political Instability Effect on CSR in Egypt

As shown in Table 1.4(B), a slight increase can be noticed in the level of CSR disclosure in 2012, compared to 2010, in total as well as across each category except for employees that slightly decreased. It is also worth noting that some companies added a ‘CSR’ title in their 2012 annual reports. However, there is no substantial change in the disclosure of CSR-related content in the 2012 annual reports compared to 2010. The political context in which these findings are assessed needs to be taken into account. The national and institutional environment in which the firm operates affects the promotion of the CSR practice (Jamali & Mirshak, 2007). With growth rates of around 5 percent before 2011 and around 2 percent in 2011 and 2012 (The World Bank Group, 2015), the Egyptian environment post 2011 created less favorable but still economically stable conditions. Egyptian companies suffered financial deficiencies (at least during the revolution year) that would normally redirect their efforts to ‘survival’ economic factors such as productivity and profitability rather than ‘luxurious’ CSR initiatives. However, in spite of these restrictions, sample companies continued their involvement in CSR practices. This phenomenon could have two possible explanations. Companies may be pursuing their CSR practices because they understand the suppressing need for CSR active involvement in developing countries specifically when unfavorable national political and economic conditions mount. During these times, where governments are least effective, societal welfare becomes dependent on the efforts provided by the private sector. Another explanation may be that companies viewed the institutional voids and uncertainties created and widened by political instability as an opportunity for a “bad-moon” self-regulation strategy that improves financial performance. CSR can then be used as a tool to improve their corporate image, control policy and regulatory uncertainties and contain stakeholders’ concerns in times of low financial performance. More research is needed in this area to unveil the motivations behind the CSR involvement of firms in times when political and economic conditions continue to affect the adoption of CSR initiatives. Research on the
impact of the social activities of Egyptian companies on their societies would reveal whether CSR only serves as a “frontage” to achieve self-serving goals or as a real operationalized corporate strategy to serve public goals.

1.5.3 Reliability, Validity and Measurement Model Fit

The reliability and validity of the measurement scales were assessed using commonly used validation tests. First, Cronbach’s alpha was used to measure the reliability of the constructs. As shown in Table 1.5(B), the construct reliability values range from 0.78 to 0.92 and are all above the critical value of 0.7 (Hair et al., 2014) revealing an acceptable internal consistency of construct measurement. Second, confirmatory factor analysis (CFA) was used, by applying AMOS, to examine the extent to which the measured variables represent the constructs of the study. An initial CFA was first conducted and the items with poor loading coefficients (below the threshold value of 0.5) were eliminated. During this validation process, eight items were deleted from the political instability and uncertainty measures, two items were deleted from the stock market uncertainty measures and six items were deleted from the CSR measures to enhance the measurement model. In the final CFA, all standardized factor loadings (SFL) and average variance extracted (AVE) values exceeded the critical value of 0.5 showing convergent validity of the measures (Hair et al., 2014). The t-tests for the fit measured variables are all significant at the 0.001 level. Furthermore, all AVE values (from Table 1.5(B)) exceeded the squared correlation values of the constructs (from Table 1.6(B)). Hence, discriminant validity of the constructs is assumed (Hair et al., 2014).

Table 1.5(B): Construct Means, St. Deviation and Evaluation

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>SD</th>
<th>A</th>
<th>SFL</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Uncertainty and Instability</td>
<td>4.062</td>
<td>0.448</td>
<td>0.817</td>
<td>0.758</td>
<td>0.582</td>
</tr>
<tr>
<td>Financial Performance</td>
<td>3.401</td>
<td>0.917</td>
<td>0.916</td>
<td>0.872</td>
<td>0.760</td>
</tr>
<tr>
<td>Stock Market Uncertainty</td>
<td>4.190</td>
<td>0.492</td>
<td>0.780</td>
<td>0.708</td>
<td>0.503</td>
</tr>
<tr>
<td>Corporate Social Responsibility</td>
<td>4.025</td>
<td>0.489</td>
<td>0.891</td>
<td>0.784</td>
<td>0.625</td>
</tr>
</tbody>
</table>
After the exclusion of the insignificant items, the model fit indices are close to the threshold points, indicating a close-fit of the model. The normed chi-square is 2.135 lower than the critical value of 5 (Hair et al., 2014). Moreover, the values for the Tucker Lewis Index (TLI) and the Comparative Fit Index (CFI) are 0.764 and 0.793 respectively. According to Hair et al. (2014), the values for TLI and CFI range between 0 and 1 “with higher values indicating a better fit” (pp. 580). The root mean square residual (RMR) and the root mean square residual approximation (RMSEA) are 0.088 and 0.108 respectively. Those values represent the badness-of-fit indices whereas lower values indicate a better fit. There is no single agreeable threshold value for the RMSEA, while an RMR value above 0.1 is not recommended (Hair et al., 2014). Overall, based on construct validity and model fit indices, the measurement model is acceptable.

**Table 1.6(B): Correlation Matrix for Variables**

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Political Uncertainty and Instability</td>
<td>1</td>
<td>0.0088</td>
<td>0.21996</td>
<td>0.31472</td>
</tr>
<tr>
<td>(2) Financial Performance</td>
<td>0.094</td>
<td>1</td>
<td>0.01716</td>
<td>0.1681</td>
</tr>
<tr>
<td>(3) Stock Market Uncertainty</td>
<td>0.469**</td>
<td>0.131</td>
<td>1</td>
<td>0.38192</td>
</tr>
<tr>
<td>(4) Corporate Social Responsibility</td>
<td>0.561**</td>
<td>0.410**</td>
<td>0.618**</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: * Significant at 5%; ** significant at 1%.

Correlation values between constructs are shown below the diagonal and squared correlations are shown above the diagonal.

**1.5.4 Structural Model Analysis**

Structural equation modeling was performed using AMOS 18.0 to test the proposed structural model. An agglomerate structural model was conducted to examine the effect of political instability as well as financial performance and stock market uncertainty on the overall CSR practices of the sample Egyptian firms. As shown in Table 1.7(B), the goodness of fit indices ($\chi^2$/df = 0.951, GFI = 0.995, NFI = 0.991, CFI=1.00, RMR = 0.016, RMSEA = 0.00) show an acceptable model fit.
Table 1.7(B): Goodness of Fit Indices for Structural Model

<table>
<thead>
<tr>
<th></th>
<th>Results</th>
<th>Acceptable Fit Standards</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\chi^2$/df</td>
<td>0.951</td>
<td>&lt; 5</td>
</tr>
<tr>
<td>GFI</td>
<td>0.995</td>
<td>Close to 1</td>
</tr>
<tr>
<td>NFI</td>
<td>0.991</td>
<td>Close to 1</td>
</tr>
<tr>
<td>CFI</td>
<td>1.0</td>
<td>Close to 1</td>
</tr>
<tr>
<td>RMR</td>
<td>0.016</td>
<td>&lt; 0.1</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.00</td>
<td>&lt; 0.1</td>
</tr>
</tbody>
</table>

The results for the agglomerate structural model as well as the outcomes of the hypotheses’ tests are shown in Figure 1.1(B). Political uncertainty and instability is perceived to have a significant positive influence on the CSR practices of the sample firms ($\lambda = 0.338$, $p < 0.001$) providing support for H1. However, no significant influence of political uncertainty and instability was found on the financial performance of sample firms ($\lambda = 0.094$, $p > 0.05$). Hence, H2 is not supported. This finding is inconsistent with Ayyagari et al. (2006) and Petracco & Schweiger (2012) and it may indicate that the financial performance of Egyptian firms was only affected during the 2011 political turmoil, with stabilization following. However, it confirms our argument about the relative economic stability of Egypt after 2011. On the other hand, a significant positive impact of political uncertainty and instability on stock market uncertainty is perceived ($\lambda = 0.469$, $p < 0.001$) supporting H4. In terms of the effect of financial performance on CSR, a significant positive effect is perceived ($\lambda = 0.328$, $p < 0.001$), supporting H3. Finally, a positive and significant relationship between stock market uncertainty and CSR is perceived ($\lambda = 0.425$, $p < 0.001$). This finding supports H5 and is consistent with the results of Sengupta (1998) and Boesso & Kumar (2007). It provides evidence that high stock market uncertainty is associated with high levels of CSR practices of Egyptian firms. As shown in Figure 1.1(B), the predictive power of the structural model is adequate with the exception of financial performance.
(R² = 0.009). The model explained 22% and 56.9% of the variances of market uncertainty and CSR practices respectively.

**Figure 1.1(B): Summary of Structural Model and Results**

Overall, the findings suggest that although Egyptian companies were negatively affected by political uncertainty and instability after 2011 (as revealed by the stock market uncertainty results), the perceived overall engagement in CSR activities was intensified, even if not visible in the annual reports. This may reflect that corporate managers pursued and increased their CSR practices because they assumed direct social responsibility for their societies. However, the results may also reflect an opportunistic behavior of companies to increase profits by sustaining their reputation and ensuring their future legitimacy by investing in bonds with a variety of stakeholder groups that are potentially important for the future.

### 1.6 Summary and Conclusions

Our study adds to the CSR research in developing countries by examining whether political uncertainty and instability in Egypt affect the CSR practices of Egyptian firms. The study also
tests the effect of financial performance and market uncertainty in Egypt after 2011 on the CSR practices of Egyptian firms. Content analysis of annual reports and a comprehensive survey were used to achieve those objectives.

The results of the study are three-fold. First, the content analysis of the annual reports reveals that approximately 35% of Egyptian firms do not have CSR disclosure practices, indicating necessary efforts to improve CSR disclosures in Egypt. Across CSR categories, the analysis shows that a high concentration is placed on the community of CSR. Less emphasis is placed on the other dimensions of CSR, namely on employees, consumer and product service quality and the natural environment. This indicates that the philanthropic dimension of CSR is dominant among Egyptian firms. Further research is needed to analyze and explore the reasons behind the prioritization of the community/philanthropy dimension of CSR in Egypt.

Second, the structural analysis shows that political instability in Egypt directly and indirectly affects the CSR practices of Egyptian firms. However, emphasis is placed on some CSR categories over others. Our results indicate that the employment of CSR practices of Egyptian companies increased as a result of the political turbulence in 2011. There are a number of possible yet contrasting explanations for the involvement of local companies in Egypt in CSR in spite of the critical economic conditions created as a result of the 2011 revolution. The lack of empirical studies that explore managers’ motivations behind such involvement in Egypt, specifically in a post-revolution environment, urges the need for further research in this area.

Third, in spite of the significant effect of political instability on stock market uncertainty, no significant association has been found between political instability and the financial performance of firms. This interesting yet contradicting finding of the effect of political instability on economic-related variables requires further investigation. The study also shows that the overall effect of the financial performance of firms on the CSR practices of Egyptian firms is positive. Finally, stock market uncertainty is found to have a positive significant effect on CSR. This may show that Egyptian companies try to restore the trust of their internal and external stakeholders when their stock prices and returns are uncertain.
In summary, the results show that political instability has significant impacts on a wide range of business domains. CSR practices are often seen as luxury practices that are only employed when firms operate in stable business environments or when firms want to realize further profitable growth through engaging with critical stakeholder groups. However, our study provides evidence that CSR is a crucial issue even when political instability is high with the risk of spilling over into the business environment. Egyptian firms even increased CSR practices to ensure their legitimacy and to contribute to society. Nevertheless (even though it is not tested in our study), we believe that CSR practices will become less prominent when firms have to switch to a survival mode due to severe economic disturbances, forcing them to solve short-term problems.

The findings of this study are subject to several limitations. First, the study focuses on large Egyptian companies listed in the Egyptian stock exchange. Examining the determinants of CSR and the extent of CSR involvement in SMEs or MNCs operating in Egypt are other potential avenues for future research on CSR in developing countries. Second, the sample size of the survey is limited to 99 companies, which reduces the potential for transposing the results of the study to a larger scale. Small sample sizes also reduce the power of the statistical tests conducted and affect acceptable model values (Hair et al., 2014). This, however, is mainly due to difficulties in data collection that are common in developing countries. Third, the content analysis only focuses on the CSR disclosed in corporate annual reports. Future research may examine CSR disclosure practices in other information media such as the websites of companies. Finally, this research focuses on the effects of the political turmoil in Egypt on Egyptian companies. Future research could examine the political instability effect of other Arab countries to enable cross-country comparisons.

References


Positive and Negative CSR Practices in Egypt: Organizational Legitimacy, Stakeholder Concerns, or a Pursuit of Personal Benefits?

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2.1 Introduction

Corporate scandals that emerged in the 1970s through corporate responsibility practices (Post, 2012) have led to an increased interest in the concepts and drivers of corporate social responsibility (CSR) from academic scholars. While a large body of literature has focused on the development and determinants of social and ethical practices of corporations in Western countries, research studies examining CSR developments, practices, and trends in developing countries still lag behind. This study aims to reveal the motivations behind practicing CSR by examining the influence of a number of perceived drivers of CSR. The paper tests the effect of perceived corporate governance on CSR as an internal driver within management control as well as the perceived influence of external legal regulations and stakeholder pressure. The study is conducted in Egypt with it being one of the three African countries that dominate the economic activity of Africa (Rossouw, 2005). By analyzing the motivations behind CSR activities in developing economies such as that of Egypt, it helps us to understand how the role of CSR in the development of African, in particular Arab countries is perceived by corporate managers.

The different social, political and economic contexts of developing countries create different understandings and practices of CSR that call for more research. In this study, we argue that the CSR activities of firms operating in Egypt are mainly undertaken to increase corporate economic value. The substantial problems of developing economies lead companies to focus primarily on their economic growth (Ofori & Hinson, 2007). In the Arab region, the Arab spring created more corporate legitimacy challenges and intensified public expectations leading to the evolution of CSR trends (Avina, 2013). Economic challenges pose questions about the motivations of corporations to practice CSR. Windsor (2001) argues that it is difficult to distinguish between morally-driven business behavior and strategically-driven behavior that serve corporate reputational strategies disguised by moral eloquence.

Major concerns in developing countries question prominent CSR theories, such as stakeholder and legitimacy theories, mainly used in CSR literature that focuses on practices in Western countries. These concerns include the presence of ineffective institutional frameworks, the lack of transparency (Rossouw, 2005), bureaucracy and corruption (Dobers & Halme, 2009). In
management literature from the West, the idea of having stakeholders in corporations is “commonplace” (Donaldson & Preston, 1995, p. 65) and stakeholder engagement is often discussed in CSR best practices (Blowfield & Frynas, 2005). However, stakeholder engagement in developing countries comes with a number of challenges. The relatively low awareness and incomes of stakeholders in developing countries means less commitment to pressure corporations (Tang & Tang, 2012). A study focusing on China found that the environmental performance of SMEs was not affected by “customers-firm power difference” indicating that customers in China are more inclined to appreciate companies offering lower prices rather than those companies with a better environmental performance (Tang & Tang, 2012, p. 450).

Furthermore, a balanced stakeholder dialogue where the voices of the powerful stakeholders are heard is questionable in a developing country context. Blowfield & Frynas (2005) argue that although there is an underlying assumption that stakeholder engagement in CSR is neutral, the recognition of less powerful stakeholder groups in the decision making process of corporations operating in developing countries may not be considered since they do not represent a threat to their business.

In line with this argumentation, the application of the legitimacy theory on the macro level is also doubtful in a developing country context. From an organizational (legitimacy) theory standpoint, corporations would move towards socially responsible behavior to avoid further government restrictions (Davis, 1973). Yet, the absence of sufficient regulations that control and protect specific business-related aspects as well as the low enforcement of regulations in developing countries (Qu, 2007) may belittle the perceived role that governments can play in fostering CSR.

Using data from 110 locally-owned firms and multinational corporations (MNCs) operating in Egypt, the results of this study are examined against the prominent CSR theories to reveal which theories best explain the motivations behind practicing CSR in developing countries. The economic and socio-political contexts, that Egyptian firms and MNCs operating in Egypt are faced with, offer an interesting opportunity to investigate the different drivers and hidden motivations behind CSR practices in Egypt.
The remainder of the paper is organized into five sections. Section 2 provides a review of the literature, followed by the development of the research hypotheses which are provided in section 3. Section 4 then goes on to describe the data collection procedure and the measures used, whereas section 5 presents the findings of the study. Finally, section 6 concludes by discussing the results as well as their managerial and policy implications.

2.2 Literature Review

2.2.1 Defining the Corporate (IR) Responsibility Construct

Since the social responsibility of businesses has often been conceptualized as a multidimensional construct (Rowley & Berman, 2000), various corporate responsibility measures and scales have been utilized to measure it (Mattingly & Berman, 2006). However, the CSR literature tends to pay particular attention to the responsible behavior of firms while rarely discussing irresponsible corporate behavior (Lange & Washburn, 2012). This may imply that irresponsible corporate acts are merely “the failure to act responsibly” (Lange & Washburn, 2012, p. 300). However, Strike et al. (2006) argue that not all irresponsible corporate acts have comparable responsible acts. To clarify, treating employees violently is an irresponsible act, but not treating them violently is not a responsible act. The authors also argue that corporations can perform socially responsible activities, e.g. in the form of employee relations, while acting irresponsibly in other areas, e.g. corporate governance. Although some previous studies have performed compound ratings that combine positive and negative CSR, current empirical evidence suggests that those two dimensions of CSR are separate constructs (Arora & Dharwadkar, 2011).

Following Strike et al. (2006), corporate responsibility acts (positive CSR) are defined as “the set of corporate actions that positively affects an identifiable social stakeholder’s interests and does not violate the legitimate claims of another identifiable social stakeholder” while irresponsible corporate acts (negative CSR) are defined as “the set of corporate actions that negatively affects an identifiable social stakeholder’s legitimate claims” (p. 852). As a consequence, two separate CSR scales are used in this study that represent positive and negative CSR and each of these constructs will be tested as a dependent variable in separate regression models.
2.2.2 External Pressures and Prominent CSR Theories: A Critical Review

Several theoretical frameworks have been used for explaining causal relationships between the drivers of corporate social behavior and CSR practices. One of the most widely used theoretical frameworks is the stakeholder theory (McWilliams & Siegel, 2001). Freeman (1994) argues that stakeholder theory can provide a “better” alternative to the stockholder theory (p. 413). At its core, stakeholder theory suggests that the interests of all other stakeholder groups, besides stockholders, should be managed by corporations (Laplume et al., 2008). Yet, stakeholder management is confined by a number of factors that need to exist in order for it to be effective. This includes, for example, stakeholder power, legitimacy and how much pressure stakeholders can exercise on corporations (Jamali, 2008).

Previous literature has examined the effects of stakeholder pressures on various CSR activities (Brammer & Millington, 2004; Garce´s-Ayerbe et al., 2012; Kassinis & Vafeas, 2006; Sarkis et al., 2010). While a strong support for the stakeholder approach to CSR is provided, most studies on this were applied in a developed country context (Hoque et al., 2016). This may be due to the active stakeholder participation that has become commonplace in the corporate life in many developed countries (Rowley & Moldoveanu, 2003; Hoque et al., 2016). Reed (2002), however, argues that the context in which stakeholder theory is utilized may significantly influence its application. This raises the question as to whether the application of stakeholder theory is relevant in a different context such as that of developing countries.

The literature on adopting CSR suggests that companies are prone to pressures that are exerted on them by different stakeholder groups including governments, consumers and community groups (Delmas & Toffel, 2004). Governments and regulatory institutions are considered to be major external stakeholder bodies that exercise pressure on corporations, particularly in terms of environmental issues (Sarkis et al., 2010). Davis (1973) argues that corporations may adopt social responsibility practices to avoid the implementation of additional government regulations that may be costly to their business. This view is also consistent with the legitimacy theory, which is another prominently used theory for CSR and “consistent with a stakeholder understanding of the organization-society relationship” (Campbell, 2000, p. 80). According to this theory, corporations (re)act to the expectations of their (most influential) stakeholders based
on an implied social contract that legitimizes their actions and determines their existence (Guthrie & Parker, 1989; Campbell, 2000). By using this legitimacy-CSR link, corporations increase the flexibility of their decision-making and avoid costly government restrictions by practicing CSR (Davis, 1973).

The strength and effectiveness of (external) stakeholder action very much depends on the broader institutional context that either encourages or limits the likelihood of its occurrence (Rowley & Berman, 2000). The institutional environment in which the firm operates represents an essential context for the operationalization of the stakeholder approach and the implementation of CSR practices. In developing countries, ‘background institutions’ that represent formal regulatory systems are absent and informal institutions (such as family connections and informal government contracts) are heavily relied upon to support business transactions. The lack of a strong institutional framework and the presence of relationship-based behaviors tend to promote unethical yet sometimes necessary practices for corporate survival such as bribery payments to obtain licenses or payments to avoid environmental and safety regulations (Foo, 2007, p. 385). Moreover, family-run businesses that dominate many developing economies show little consideration for minority interest shareholder groups, meaning that their rights are insufficiently protected (Reed, 2002). Stakeholders’ rights are also not outlined by corporate regulations in many developing countries and do not encourage different actors, such as NGOs and civil society groups, to successfully influence companies to integrate the concerns of different stakeholders into corporate strategies (Rahim, 2012). These examples provide an alternative perspective to corporate actions that does not meet the underlying assumptions of prominently used CSR theories and thus questions their generalized applicability.

2.2.3 Internal Corporate Governance vis-à-vis Local Institutional Conditions

Previous research suggests that the increased interest in corporate governance, by professionals and academics, stemmed from the irresponsible behavior and lack of transparency of corporations that resulted in corporate scandals and financial crises (Chan et al., 2014; Claessens & Yurtoglu, 2013; Ho & Wong, 2001; Jo & Harjoto, 2011). Several approaches have been used to define the relationship between corporate governance and CSR. One approach that has been increasingly used in (Western) literature is the conflict-resolution approach (Jensen, 2002;
Harjoto & Jo, 2011; Jo & Harjoto, 2012). With this approach, reducing conflicts that arise with and between different stakeholders tends to be the main goal of practicing CSR and not the pursuit of personal benefits. This is consistent with the stakeholder theory that suggests that effective corporate governance can be used to reduce conflicts between stakeholders and managers (Jo & Harjoto, 2012). In that case, more effective corporate governance mechanisms increase the engagement of firms in positive CSR practices (Jiraporn & Chintrakarn, 2013; Jo & Harjoto, 2012), and reduce unethical behavior.

Although corporations in most developing countries in Africa adopt an inclusive corporate governance model and emphasize the application of business codes of ethics (Rossouw, 2005), the institutional conditions under which a firm operates influence how corporate governance is practiced (Jamali et al., 2008). While modern (Western) corporate governance mechanisms have been adopted by publicly listed companies in developing economies, informal institutions and concentrated family ownership found in developing countries highly affect the implementation of corporate governance mechanisms (Dahawy, 2007; Okeahalam & Akinboade, 2013; Peng & Heath 1996; Young et al., 2008). As a result, publicly-listed companies in developing countries often adopt the external image of corporate governance practices rather than the core substance (Peng, 2004). In Egypt, although the need for implementing corporate governance has recently been recognized by Egyptian businesses, the dominance of family- and government-owned companies, the lack of corporate governance awareness along with other factors hinder effective corporate governance in many firms in Egypt (Dahawy, 2007).

According to the agency theory, less effective corporate governance leads to more agency problems specifically in the absence of external investor pressures that redirect managers from pursuing personal objectives to focusing on firm value maximization (Harjoto & Jo, 2011). Under such circumstances, an (over)investment in CSR is mainly pursued by managers to reap private benefits (Jinaporn & Chintrakarn, 2013) even if it comes at the expense of shareholders’ interests (Jo & Harjoto, 2011). Accordingly, the different institutional environments, which many developing countries are faced with (including Egypt), raises questions about the effectiveness of corporate governance and whether the conflict resolution approach to CSR applies in such contexts.
2.3 Hypotheses Development

2.3.1 Internal Corporate Governance according to the Agency Theory

Prior research studies from developed country contexts show a positive relationship between corporate governance and corporate social and environmental practices, providing support for the conflict-resolution theory as opposed to the agency theory (Chan et al., 2014; Jizi et al., 2014; Jo & Harjoto, 2011; Jo & Harjoto, 2012; Latridis, 2013; Ionel-Alin et al., 2012). The contextual differences in corporate governance practices challenge these findings however. The weak institutional environment, a lack of external pressures and the dominance of family-owned businesses in a developing country such as Egypt are more likely to lead to less effective corporate governance practices, making agency problems more salient. According to the agency theory, top managers or CEOs tend to overinvest in CSR activities to enhance their reputation. If this theory holds true in our tested environment, more effective corporate governance mechanisms lead to less incentives from insiders to over-invest in CSR activities. At the same time, more effective corporate governance mechanisms lead to more effective monitoring which, in turn, reduces negative CSR practices to avoid the potential costs associated with bad publicity and legal penalties (Arora & Dharwadkar, 2011). Hence, more effective corporate governance in corporations operating in the Egyptian context is expected to lead to less positive CSR practices while reducing negative ones.

H1a: A higher level of effective corporate governance leads to a lower level of positive CSR practices.

H1b: A higher level of effective corporate governance leads to a lower level of negative CSR practices.

The “powerful insiders” in a corporation influence the level of corporate information in terms of transparency and fraud (Michelon & Parbonetti, 2012, p. 479), which in turn reflects the overall

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4 The authors tested the effect of managerial values and attitudes towards social responsibility as an independent CSR implementation. However since the construct had no significant influence on CSR and reduced the overall significance of the tested models, it was excluded from the analysis.

5 It is worth noting that some studies that have been applied in developing countries in Asia also support this view (see ex. Haniffa & Cooke, 2005; Sharif & Rashid, 2014).
effectiveness of the governance mechanisms employed. It is the board of directors (BOD) that defines corporate accountability that limits the occurrence of fraud and earnings management (Michelon & Parbonetti, 2012) and that promotes the business strategies that address the sustainability of the corporation’s operations and products (Jizi et al., 2014). Corporate directors also play an important role in ensuring that their corporations act in accordance with accepted corporate responsibility standards (Mackenzie, 2007). Previous literature supports the positive relationship between the effectiveness of the board and positive CSR practices (Haniffa & Cooke, 2005; Khan et al., 2013; Michelon & Parbonetti, 2012; Said et al. 2009). There is also support for a positive association between the effectiveness of the board (as represented by the board structure) and voluntary disclosures among listed companies in Egypt (Samaha et al., 2012; Samaha & Dahawy, 2010). The following is hypothesized accordingly.

**H2: A more effective BOD leads to a higher level of positive CSR practices**

Sarre et al (2001, p. 306) argue that corporations will move towards “strategic” corporate responsibility that ensures corporate (and social) long-term sustainability when a “culture” of CSR is first initiated and developed by corporate top management. By cultivating this kind of culture, irresponsible corporate practices can be reduced. According to the agency theory, board effectiveness should reduce agency costs because the board will tend to reduce management practices that are not aligned with shareholder interests. Some CSR policies however create a challenge to the BOD when management and shareholder interests are aligned against community interests. Kassinis & Vafeas (2002) argue that harmful environmental policies are more likely to be followed by independent directors who side with management and shareholder interests to maximize profits at the expense of the community. This highlights the self-serving and opportunistic nature of corporate executives and directors that is emphasized by agency-theorists (Daily et al., 2003). In this case, the interests of corporate management (shareholders) and non-financial stakeholders are not aligned. From a stakeholder perspective, corporate governance mechanisms should help bring the interests of both management and all stakeholders in line with each other or ensure that management will produce outcomes that are in the interests of their stakeholders. However, in a developing country context such as that of Egypt, economic challenges faced by corporations and the wide existence of informal institutional constraints,
such as the use of informal connections and bribery, represent barriers that may direct corporations to focus solely on increasing their economic efficiency.

In the absence of an organizational culture and an institutional environment that promotes sustainability, it can be inferred that corporate BODs in Egypt may compromise the ecological efficiency of their corporations to increase corporate economic efficiency. Even if such BODs are assumed to be “effective” according to (western) corporate governance standards, their effectiveness does not ensure a reduction in corporate irresponsible practices. Hence, we do not formulate a directional hypothesis explaining the relationship between board effectiveness and negative CSR practices.

### 2.3.2 External Pressures: The Role of Institutions & Stakeholders

Previous literature suggests that institutions and stakeholders can have tremendous influence on corporate practices (Lee, 2011; Clarkson, 1995; Roush et al., 2012; Valor, 2005). Formal and informal regulations are two interdependent dimensions that represent the macro- and micro-level incentive schemes that influence corporate social behavior (Lee, 2011). The informal kind of regulation can be “supported” by legal regulations to strengthen the legitimacy of stakeholder pressure (Dickson et al., 2012) and deepen its influence on the internal mechanisms of corporations (Cooper & Owen, 2007). At the same time, institutional forces can be nurtured and intensified through corporate stakeholders (Lee, 2011). Accordingly, those two external forces can work together to enhance corporate social and environmental behavior.

#### 2.3.2.1 Legal regulations

Recent corporate scandals have highlighted the drawbacks of corporate self-regulation and emphasized the limited ability of managers to incorporate organizational goals within larger societal objectives and fully encompass the effect of corporate actions on society (Qu, 2007). This highlights the importance of government regulations in promoting socially desirable outcomes. In line with the organizational legitimacy theory, corporations may practice more socially responsible behavior in order to avoid further government restrictions (Davis, 1973). Furthermore, an increasing number of companies would adopt CSR practices to maintain their legitimacy in the eyes of formal and informal institutions and norms that favor CSR (Lee, 2011).
The enforcement of laws and mechanisms leads corporations to reshape their practices and cultures to reach socially and environmentally desirable outcomes in a responsible manner, as opposed to simply complying with the law (Parker, 2007). Accordingly, the following is hypothesized:

**H3a:** A more (perceived) thorough implementation of legal regulations leads to a higher level of positive CSR practices.

**H3b:** A more (perceived) thorough implementation of legal regulations leads to a lower level of negative CSR practices.

2.3.2.2 Stakeholder Pressure

On the micro-level, Clarkson (1995) argues that stakeholders have the power to make corporations fail or at least create severe damage to their system if corporations are not able to satisfy the different stakeholder groups. Ideally, corporate behavior would move towards being more socially and environmentally responsible if societies placed greater value on ethics and reflected those values in their economic decisions (Valor, 2005). This kind of “civil regulation” can have the ability to improve corporate social behavior (Cooper & Owen, 2007, p. 659). In line with stakeholder theory, previous literature suggests that stakeholders can have significant influence on the social and environmental performance of corporations (Clarkson, 1995; Valor, 2005). Additionally, the findings of previous studies provide evidence that stakeholder pressure can have a positive influence on the CSR behavior of firms (Brammer & Millington, 2004; Garce´s-Ayerbe et al, 2012; Kassinis & Vafeas, 2006; Roush et al., 2012). Consequently, we come to the following hypotheses:

**H4a:** Higher perceived stakeholder pressure leads to a higher level of positive CSR practices.

**H4b:** Higher perceived stakeholder pressure leads to a lower level of negative CSR practices.
2.4 Methodology

2.4.1 Sample and Data Collection

A cross-sectional sampling design was used to collect data on the CSR practices of Egyptian firms as well as multinationals operating in Egypt. Egyptian companies represent listed companies in the Egyptian stock exchange (EGX 100) while multinational companies represent those companies without their headquarters in Egypt. Due to the nature of the constructs of the study, the sample is restricted to managers employed in firms operating or with ownership in Egypt. The sample size is selected based on a purposive criterion sampling method. Under this method, researchers search for “cases or individuals who meet a certain criteria” (Palys, 2008, p. 697). Sample companies were selected based on the following criteria: (1) Egyptian companies have to be large in size, employing more than fifty employees given that multinationals are classified as large organizations; (2) Companies with foreign subsidiaries in more than 3 countries without their headquarters in Egypt are considered to be multinational; and (3) Egyptian and multinational companies have to have social responsibility disclosure practices, either in annual reports or on their websites to ensure some awareness of the different social responsibilities. For this reason, the CSR practices of large companies listed in the Egyptian stock exchange were examined. Only companies that have some sort of CSR disclosures either on corporate websites or in annual reports were included in the sample. Based on that, a total of 54 listed Egyptian companies were chosen. At the same time, 56 multinational companies operating in Egypt were selected judgmentally based on whether they have social responsibility disclosure practices. As a result, a total of 110 companies were contacted, representing a wide range of industries, as shown in Table 2.1(B).

Table 2.1(B): Industrial Classification of the Sample Companies

<table>
<thead>
<tr>
<th>Industrial Sector</th>
<th>Number of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egyptian Oil and Gas</td>
<td>3</td>
</tr>
<tr>
<td>Industry</td>
<td>Count</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Construction and Real Estate</td>
<td>13</td>
</tr>
<tr>
<td>Mining and Metals</td>
<td>1</td>
</tr>
<tr>
<td>Financial Services</td>
<td>9</td>
</tr>
<tr>
<td>Food &amp; Beverages</td>
<td>9</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>4</td>
</tr>
<tr>
<td>Transportation</td>
<td>2</td>
</tr>
<tr>
<td>Chemicals and Industrial products</td>
<td>11</td>
</tr>
<tr>
<td>Power and Utilities</td>
<td>1</td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>54</td>
</tr>
</tbody>
</table>

**Multinational**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and Gas</td>
<td>6</td>
</tr>
<tr>
<td>Construction and Real Estate</td>
<td>2</td>
</tr>
<tr>
<td>Financial Services</td>
<td>6</td>
</tr>
<tr>
<td>Food &amp; Beverages</td>
<td>5</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>9</td>
</tr>
<tr>
<td>Information Technology</td>
<td>9</td>
</tr>
<tr>
<td>Transportation</td>
<td>6</td>
</tr>
</tbody>
</table>
In Egypt, the collection of data from companies is restricted to licensed data collectors. Therefore, a licensed data collector was assigned to obtain the information from sample companies. Data collectors have the privilege of being in the possession of entire company databases and having a wide circle of business contacts given that they are members in the stock exchange as well as in chambers that are authorized to sell the databases of companies operating in Egypt such as the Egyptian chamber of commerce and the industrial development authority. For quality assurance purposes, the data collector was trained beforehand and each questionnaire that was delivered was thoroughly revised. The final sample consisted of 54 Egyptian companies and 56 MNCs. Table 2.2(B) provides the characteristics of the participating managers.

Table 2.2(B): Demographic characteristics of participating managers

<table>
<thead>
<tr>
<th>Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Experience</strong></td>
<td></td>
</tr>
<tr>
<td>Less than 5 years</td>
<td>1.8</td>
</tr>
<tr>
<td>5 to 9 years</td>
<td>10</td>
</tr>
<tr>
<td>10 to 20 years</td>
<td>69.1</td>
</tr>
<tr>
<td>more than 20 years</td>
<td>19.1</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
</tr>
<tr>
<td>Age Group</td>
<td>Percentage</td>
</tr>
<tr>
<td>-----------</td>
<td>------------</td>
</tr>
<tr>
<td>25 to 34</td>
<td>5.5</td>
</tr>
<tr>
<td>35 to 44</td>
<td>34.5</td>
</tr>
<tr>
<td>45 to 55</td>
<td>53.6</td>
</tr>
<tr>
<td>over 55</td>
<td>6.4</td>
</tr>
</tbody>
</table>

**Education**

<table>
<thead>
<tr>
<th>Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bachelor</td>
<td>15.5</td>
</tr>
<tr>
<td>Masters</td>
<td>70.0</td>
</tr>
<tr>
<td>Doctoral</td>
<td>14.5</td>
</tr>
</tbody>
</table>

### 2.4.2 Measures

All constructs were measured using multi-item scales. For measuring positive CSR practices, we referred to the scale developed by Maignan & Ferrell (2000) which classifies CSR into economic, legal, ethical and discretionary. The scale is based on Carroll's (1979) CSR classification and tends to measure “the extent to which businesses meet the economic, legal, ethical, and discretionary responsibilities imposed on them by their stakeholders” (Maignan & Ferrell, 2000, p.284). The economic dimension of CSR includes the economic obligations of businesses to provide goods and services to society. The legal responsibilities represent the responsibility of businesses to fulfill their economic obligations within the framework of legal requirements. The ethical responsibilities imply that businesses should follow the ethical norms expected by society that range beyond legal requirements. Finally, discretionary responsibilities represent business voluntary activities that are neither mandated nor ethically required by society (Carroll, 1979, p. 500).

Negative CSR items were selected from a scale used by Hillman & Keim (2001) that is based on the commonly used Kinder-Lydenburg-Domini (KLD) index of corporate social performance. The scale includes concerns about corporate relations with its community and employees as well
as product and environmental concerns. Examples of areas of concern in community and employee relations include paying fines, civil penalties, having substantially underfunded pension plans or an inadequate benefits plan. Examples of areas of concern in product and environmental issues include facing major recent product safety controversies and being involved in major controversies over environmental degradation (Hillman & Keim, 2001, p. 138).

To measure corporate governance, we referred to Beiner et al. (2006) who classified corporate governance practices into 5 sub-constructs: corporate governance commitment, shareholders’ rights, transparency, board of directors (BOD) and executive management, and reporting and auditing. To measure the extent to which the organization effectively pursues corporate governance practices, the corporate governance commitment sub-construct is used. This includes the provision of written company-specific corporate governance guidelines and making such guidelines easily accessible to all stakeholders. To measure the effectiveness of top management, the BOD and executive management sub-construct measure is used. This construct measures the extent of the effective performance of the BOD and the executive board. Items such as whether company-specific rules exist that are related to possible BOD-executive board conflicts, BOD member structure and maximum terms for contracts are examined. However, some items were removed because they were either exclusively related to the Swiss code or did not apply to the Egyptian corporate governance code. For example, whether all independent members of the board of directors are Swiss nationals is a question that is not relevant for our study. Other items were added from local literature or from the Egyptian code to ensure a closer fit. For example, the statement “the managing directors and chairman duties are separated (CEO duality doesn’t exist)” was added from Hassouna (2014). In addition, the statement “the majority of the board of directors (BOD) are non-executive members” was added from the Egyptian code.

Perceived legal regulation was measured using five items. The first four items were adopted from Qu (2007) which measure the perception of managers regarding the effectiveness of governmental regulations in terms of consumer protection, product and service quality and competition laws that ensure fairness. The last item from Jorgensen & Soderstrom (2006) measures the level at which environmental reporting laws are applied.
Perceived stakeholders’ pressure was measured using items from Henriques & Sadorsky (1999) and González-Benito & González-Benito (2010). The scale measures the perceived importance of stakeholders as powerful promoters of CSR activities. Various stakeholder groups are considered including governments, customers and suppliers, community stakeholders such as social groups and non-government organizations (NGOs) and the media. Detailed questionnaire items used to test the constructs examined in this study can be found in Appendix B.

2.4.3 Research Model Specification

Multiple Regression analysis was used to examine the relationship between the explanatory variables of the study and CSR. After testing the validity of the constructs, a test of multicollinearity was first performed. We then calculated the following regression models:

\[ pCSR = \beta_0 + \beta_1 \text{commit} + \beta_2 \text{BOD} + \beta_3 \text{legreg} + \beta_4 \text{stpress} + \beta_5 \text{nation} + \beta_6 \text{indtype} + \epsilon \]  
\[ nCSR = \beta_0 + \beta_1 \text{commit} + \beta_2 \text{BOD} + \beta_3 \text{legreg} + \beta_4 \text{stpress} + \beta_5 \text{nation} + \beta_6 \text{indtype} + \epsilon \]  

where:

\( pCSR \) = positive CSR practices,

\( nCSR \) = negative CSR practices,

\( \text{commit} \) = corporate governance commitment,

\( \text{BOD} \) = board of directors and executive management,

\( \text{legreg} \) = legal government regulations,

\( \text{stpress} \) = stakeholder pressure,

\( \text{nation} \) = multinationality; dummy variable, 1 if the firm is an MNC and 0 if Egyptian,

\( \text{indtype} \) = industry type; dummy variable, 1 if the firm is a manufacturing firm and 0 if service.
2.5 Empirical Results and Discussion

2.5.1 Descriptive Statistics and Correlations

Table 2.3(B) displays the descriptive statistics and the internal consistency of the main constructs validated through the respective Cronbach’s Alphas. To improve the reliability of the scales used in this study, some items were deleted from internal corporate governance, stakeholders’ pressure, legal regulations and CSR scales. As shown in the table, final construct reliability values range from 0.713 to 0.789. Therefore, all constructs are above the critical value of 0.7 (Hair et al., 2014) revealing acceptable validity of the constructs’ measures. The average inter-total correlations of the constructs are also calculated since their scales contain a small number of items (less than 10) except for the positive CSR scale which contains 11 items. According to Pallant (2005), the values of Cronbach’s alpha can be small for scales with a number of items less than 10. In such situations, mean inter-item correlations can be calculated. The values of this reliability method should ideally range from 0.2 to 0.4. As shown in Table 2.3, the average values range from 0.1946 to 0.558 which can be considered acceptable. Furthermore, the item-total correlations varied from 0.278 to 0.582.

Table 2.3(B): Construct Means, St. Deviation and Evaluation

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
<th>Cronbach’s Alpha</th>
<th>Average Inter-item correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Governance</td>
<td>3.536</td>
<td>0.632</td>
<td>1.64</td>
<td>4.73</td>
<td>0.741</td>
<td>0.3743</td>
</tr>
<tr>
<td>- CG commitment</td>
<td>3.639</td>
<td>0.852</td>
<td>1.25</td>
<td>5.00</td>
<td>0.695</td>
<td>0.4798</td>
</tr>
<tr>
<td>- CG BOD</td>
<td>3.478</td>
<td>0.695</td>
<td>1.57</td>
<td>4.71</td>
<td>0.662</td>
<td>0.2278</td>
</tr>
<tr>
<td>Legal Regulations</td>
<td>4.094</td>
<td>0.495</td>
<td>3.33</td>
<td>5.00</td>
<td>0.713</td>
<td>0.558</td>
</tr>
<tr>
<td>- Stakeholder pressure</td>
<td>2.757</td>
<td>0.627</td>
<td>1.75</td>
<td>3.75</td>
<td>0.789</td>
<td>0.4748</td>
</tr>
<tr>
<td>- Positive CSR</td>
<td>3.429</td>
<td>0.775</td>
<td>1.75</td>
<td>4.75</td>
<td>0.715</td>
<td>0.1946</td>
</tr>
<tr>
<td>- Negative CSR</td>
<td>3.267</td>
<td>0.854</td>
<td>1.67</td>
<td>4.67</td>
<td>0.757</td>
<td>0.2622</td>
</tr>
</tbody>
</table>
A number of tests were also performed to check for multicollinearity and normality problems. As shown in Table 2.4(B), the highest correlation between any of the independent variables is 0.453 which is lower than the cut off value of 0.9. Furthermore, the highest variance inflation factor (VIF) value is 1.288 lower than the cut off value of 10 (Pallant, 2005). Hence, no serious multicollinearity problems exist between the independent variables. The standardized residuals of the two regression models of the study appear to be normally distributed according to the Kolmogorov–Smirnov normality test (z = 1.119; p = 0.163 for model (1) and z = 0.949; p = 0.329 for model (2)).

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) CG commitment</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(2) CG BOD</td>
<td>0.394***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(3) Legal Regulations</td>
<td>0.076</td>
<td>0.051</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(4) Stakeholder pressure</td>
<td>0.103</td>
<td>0.000</td>
<td>-0.453***</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Positive CSR</td>
<td>-0.056</td>
<td>0.311***</td>
<td>0.011</td>
<td>0.099</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(6) Negative CSR</td>
<td>0.020</td>
<td>0.307***</td>
<td>-0.178*</td>
<td>0.196**</td>
<td>0.657***</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: * significant at 10%; **significant at 5%; *** significant at 1%.

2.5.2 Multiple Regression analysis

The results of the regression models are shown in Table 2.5(B). As already described, the models test the effect of internal corporate governance, legal regulations and stakeholder pressure on the implementation of positive (Model 1) and negative (Model 2) CSR practices of firms operating in Egypt. The results of Model (1) indicate that positive CSR is negatively affected by corporate governance commitment (p = 0.026). Accordingly, H1a is supported. The results also show a positive relationship between positive CSR and effective BOD (p = 0.000), providing support for H2. On the other hand, no significant relationship was found between positive CSR and external pressures. Therefore, H3a and H4a are not supported. The results of Model (2) indicate that corporate governance commitment is perceived to have an insignificant influence on negative CSR (p = 0.273). Therefore, H1b is not supported. The results of the model also reveal a significant positive relationship between negative CSR and board effectiveness (p = 0.000).
Furthermore, insignificant influences of external pressures on negative CSR practices are perceived. Consequently, H3b and H4b are not supported. Even though it is not hypothesized, this indicates that effective BODs also lead to higher levels of negative CSR practices, providing additional support for the agency theory.

As for the control variables tested in this study, multinationality and industry type are perceived to have no significant influence on both positive and negative CSR. The insignificant effect of multinationality may indicate that the CSR environment of the host country prevails for all companies operating in that country – whether foreign or local. This supports the findings of Chapple & Moon (2005) who suggest that international companies tend to comply with the local CSR profiles of their host country rather than impose their own.

Table 2.5(B): Regression Analysis: Internal and External Factors

<table>
<thead>
<tr>
<th></th>
<th>Positive CSR</th>
<th>Model (1) Hypotheses (predicted sign)</th>
<th>Negative CSR</th>
<th>Model (2) Hypotheses (predicted sign)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>1.473</td>
<td></td>
<td>2.247</td>
<td></td>
</tr>
<tr>
<td>Test variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CG commitment</td>
<td>-0.209 (0.026)**</td>
<td>H1a (-)</td>
<td>-0.112(0.273)</td>
<td>H1b (-)</td>
</tr>
<tr>
<td>CG BOD</td>
<td>0.445(0.000)***</td>
<td>H2 (+)</td>
<td>0.441(0.000)***</td>
<td></td>
</tr>
<tr>
<td>Stakeholder pressure</td>
<td>0.202(0.114)</td>
<td>H3a (+)</td>
<td>0.219 (0.116)</td>
<td>H3b (-)</td>
</tr>
<tr>
<td>Legal Regulations</td>
<td>0.121(0.452)</td>
<td>H4a (+)</td>
<td>-0.214 (0.224)</td>
<td>H4b (-)</td>
</tr>
<tr>
<td>Nationality</td>
<td>0.090(0.523)</td>
<td></td>
<td>0.068(0.657)</td>
<td></td>
</tr>
<tr>
<td>Industry Type</td>
<td>0.115(0.433)</td>
<td></td>
<td>0.217 (0.175)</td>
<td></td>
</tr>
<tr>
<td>No. Of Observations</td>
<td>110</td>
<td></td>
<td>110</td>
<td></td>
</tr>
<tr>
<td>R-square</td>
<td>0.163</td>
<td></td>
<td>0.177</td>
<td></td>
</tr>
<tr>
<td>Adj-R-square</td>
<td>0.114</td>
<td></td>
<td>0.129</td>
<td></td>
</tr>
<tr>
<td>p-value</td>
<td>0.005***</td>
<td></td>
<td>0.002***</td>
<td></td>
</tr>
</tbody>
</table>

Notes: * significant at 10%; **significant at 5%; *** significant at 1%.
In line with agency theory, the findings of the study show that internal corporate governance is perceived to have a significant negative influence on the positive CSR practices of local and multinational firms operating in Egypt. That is, the more a company is committed to corporate governance, the less likely it is to engage in positive CSR practices. In the absence of effective corporate governance, agent managers act in their own self-interests and may overinvest in positive CSR in order to improve their reputation (Jo & Harjoto, 2011). As a result, effective and visible corporate governance practices would reduce insiders’ incentives to invest in positive CSR practices. On the other hand, the results show a perceived insignificant effect of corporate governance commitment on the negative CSR practices of firms. This is inconsistent with Arora & Dharwadkar’s (2011) argument that corporations are more likely to reduce their negative CSR practices in the presence of effective corporate governance practices to avoid penalties and bad publicity.

Consistent with previous literature (Haniffa & Cooke, 2005; Khan et al., 2013; Michelon & Parbonetti, 2012; Said et al. 2009), having an effective board of directors is perceived to have a positive influence on the positive CSR practices of firms in Egypt. On the other hand, the effect of board effectiveness is perceived to have a significant positive influence on negative CSR practices. This is consistent with Kassinis & Vafeas’s (2002) argument that control over negative CSR practices by independent board members may be tolerated to maximize profits.

The effects of external factors on positive and negative CSR are perceived to be insignificant. These results are inconsistent with prominent CSR theories (in particular stakeholder and legitimacy theories). While these theories emphasize the importance of stakeholder pressure and legal regulations in improving the CSR practices of firms, such theories originate from developed (mainly Western) business environments (Dobers & Halme, 2009). In the context of developing countries, as in our case, weak regulation enforcement (Dobers & Halme, 2009; Graham & Woods, 2006; Qu, 2007) and low awareness or demand for CSR (Amran & Devi, 2008; Naser et al., 2006) may provide an explanation for the perceived insignificant effect of external factors on CSR. Inconsistencies with regard to law enforcement, bureaucracy and corruption weaken the institutional environments of developing countries (Dobers & Halme, 2009). Consequently, the use of regulation as an instrument to promote and develop the CSR practices of firms in Egypt is perceived to be ineffective.
In spite of the increase in general public awareness following the Arab spring (Avina, 2013), perceived public demand for corporate accountability still appears to be limited. External stakeholder pressures may be confined to the efforts of some NGOs trying to promote CSR. While the NGO community grew rapidly after the revolution due to reduced legal restrictions for their formation, their current impact as corporate stakeholders may be questioned. If NGOs are not considered to be a powerful stakeholder group, then corporations are more likely to favor the concerns of those stakeholder groups that can expose more influence on corporate decision making. Given the fact that shareholders have claims towards corporations, they (still) constitute the most powerful stakeholder group and their concerns are given the highest priority even at the expense of other stakeholder groups (Cooper & Owen, 2007). Overall, the findings indicate that CSR practices may only be performed to serve the main interest of corporate shareholders.

### 2.6 Summary and Conclusion

This study demonstrates the motivations behind the CSR practices of firms operating in a developing country context. The results indicate that internal corporate governance is perceived to be a major driver of CSR in Egypt. However, it appears that corporate governance in local and multinational firms in Egypt is one-dimensional, representing corporate shareholders. The effect of corporate governance on CSR supports the agency theory and suggests that corporate managers act in their own self-interest and in the interest of shareholders to maximize profits. It also indicates that corporate insiders, including managers and directors, have a sense of responsibility towards achieving corporate goals – sometimes at the expense of achieving community goals and societal values. In summary, it can be argued that CSR is mainly used as a tool to increase corporate financial benefits.

In the presence of weak regulations and low awareness, some prominent CSR theories, such as the stakeholder and legitimacy theories, do not provide good (if at all) explanations for the CSR practices of firms in developing countries such as Egypt. The paper also highlights the lack of stakeholder power balance. In terms of corporate accountability, genuine social responsibility practices cannot possibly be pursued without having effective internal corporate governance mechanisms (Jamali et al., 2008). Cooper & Owen (2007, p. 664) argue: “For stakeholder
accountability to be established, a far more pluralistic form of corporate governance would be required. There would need to be a clear recognition that there are other normatively legitimate stakeholders than simply equity shareholders alone”.

On the other hand, raising awareness for corporate accountability amongst Egyptian consumers, employees and the general public would increase corporate incentives to improve their social and environmental performance. While the results of the study indicate a perceived absence of stakeholder demand for CSR, the apparent ineffectiveness of corporate self-regulation highlights the importance of external forms of regulations (whether civil or legal). This also presses the need for the effective enforcement of governmental laws and regulations to strengthen both institutional and stakeholder pressures and demands for socially responsible behavior.

On practical grounds, more governmental influence is needed to move CSR from being a totally self-regulated activity left to the discretion of management to reach a form of co-regulation where CSR practices are not detached from government regulations and policies (Steurer, 2010). There are several fields of action that governments can implement to reach that end. For example, regulatory authorities could enforce corporate governance acts that hold companies accountable for socially irresponsible practices such as environmental damage caused by corporate economic operations. This may stipulate the implementation of mandated environmental impact assessment policies, requiring companies to quantify the amount of waste and emissions generated from business operations (Rahim, 2012). Regulatory bodies can also raise awareness about CSR, foster socially responsible investment (SRI) and lead by example by, for instance, demanding public institutions to apply CSR management systems and report on their social and environmental performance (Steurer, 2010).

Legal regulations alone cannot prevent corporate irresponsible behavior. To become good corporate citizens, the concept of CSR must be cultivated by governments in the organizational culture. This includes “an assumption of individual responsibility for the consequences of one’s actions” (Sarre et al., 2001, p. 308). Accordingly, the consideration of corporate ethics and managerial values cannot be ignored if corporate accountability is sought. As stated by Godos-Diez et al. (2011, p. 531): “there cannot be socially responsible corporations without socially responsible managers who are occasionally willing to sacrifice corporate objectives, interests and
the needs of the firm in favour of socially responsible actions”. Both internal and external forces need to be aligned to drive CSR initiatives and practices to have effective impacts on businesses in developing countries.

In spite of the important implications of the study’s results, it is not without limitations. First, the structured survey design of the study only offers perceptions of CSR practices in Egypt rather than actual corporate performance. Therefore, empirical research should be conducted that explores the actual social and environmental practices and performance of firms and their impacts on societies. Second, the sample is limited to large publicly-traded local and multinational firms that only operate in one country. Accordingly, the results of the study present a preliminary investigation of the perceived drivers of CSR in the Arab world. Examining the drivers and perceptions of CSR in other types of companies, such as large non-listed companies or SMEs, and companies operating in other (Arab) countries would help to strengthen any generalizations made from the results of the current study and fine-tune them. Finally, although the cross-sectional design used in this study provides useful insights into how CSR is perceived and what drives it, the study does not explore the development of CSR over time. Future longitudinal studies would improve our understanding of CSR changes and developments in the Arab world and other developing countries.

References


Firm-specific Drivers of CSR Reporting: A Comparative Analysis between Top-listed Firms in Egypt, Germany and the US

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3.1 Introduction

Corporate social responsibility (CSR) reporting is becoming a common practice nowadays where thousands of companies worldwide issue CSR reports and their number is growing every year (Ernst & Young & Boston College Center for Corporate Citizenship, 2016). A wide range of factors have been identified that contribute to increasing corporate disclosures of CSR information including corporate governance practices (Chau & Gray, 2010; Ezat & El-Masry, 2008; Khan et al., 2013), industry characteristics (Young & Marais, 2012), diversity (Oliver, 1992), and stakeholder pressures (Cooper & Owen, 2007; Golob & Bartlett, 2007), among others. Yet, research studies have revealed wide variations in the extent of CSR reporting among companies ranging from limited disclosures to disclosing detailed information regarding the full CSR ‘status’ of the corporation (Chen & Bouvain, 2009). Disclosure variations across countries may be due to differences in underlying environments that include factors like the level of economic development, type of economy, and size and activity of stock markets (Adhikari & Tondkar, 1992). While corporate social engagement is spreading globally, the reasons behind such global spread may differ from country to country (Matten & Moon, 2008).

Cross-country heterogeneity of CSR (reporting) practices may be explained by differences in the institutional environments within which corporations operate. Neo-institutional theory indicates that the broad institutional framework in which corporations operate can have immense influences on their strategies (Doh & Guay, 2006). Such institutional framework not only includes formal regulations and laws but also informal social institutions that define societal norms and traditions. Accordingly, the CSR practices of firms operating in different contexts can be better understood considering their institutional framework (Brammer et al., 2012). Although institutional theory has its criticisms (Martinez & Dacin, 1999), Dacin et al. (2002, p. 45) argue that it is a “vibrant theory” that can powerfully explain organizational actions. Institutional theory highlights the contexts within which organizational structures and actions take place (Yang & Konrad, 2011). Accordingly, a better understanding of corporate actions becomes more likely when the institutional framework in which corporations operate is examined (Martinez & Dacin, 1999).
The institutional embeddedness of CSR in the societal fabric has great influences on the degree of embracement of social responsibility practices. Countries’ political, legal, economic, and cultural conditions create the ambience in which businesses operate which reflects on the “social roles” of the participants in the business cycle such as employers, employees, suppliers, etc. The inter-dynamics of macro-environmental factors and the business culture of a given nation can propel or confound the social responsibility agenda. For instance, societal standards regarding corporate citizenship and environmental sustainability can cascade down on firms operating on a micro level (Jones, 1999). In developing countries, where there are weak institutions and low awareness and demand on CSR, undergoing change in corporations operating in such environments may offer them new opportunities and incentives to adopt social responsibility practices.

Diversity in organizations could create new norms and expectations that could be a potent driving force for CSR practices in developing countries. Diversity encompasses new members with diverse experiences, viewpoints and backgrounds (Oliver, 1992). When new norms and practices are expected by new agents in the organization, legitimacy gaps may also occur (Oliver, 1992). Such new norms may pose pressures on organizations to carry out practices that ensure corporate accountability. Beside potential legitimacy gaps and threats that might occur from new agents in organizations, diversity can enhance other areas that can create a competitive advantage for organizations by enhancing creativity, system flexibility and better problem solving skills. Having a diversity of perspectives can produce better decisions and a more thorough analysis of issues that can directly lead organizations to achieve and enhance their social responsibility goals (Cox & Blake, 1991).

Previous literature in developing countries also provides evidence that corporate governance acts as a significant driving force for CSR disclosures (Siregar & Bachtiar, 2010; Haji, 2013; Chau & Gray, 2010; Khan et al., 2013; Saleh et al., 2010). Its mechanisms include the internal governance structure of organizations such as ownership structures, board composition and independence that can promote the social disclosure practices of corporations (Khan et al., 2013). In developing countries, corporate governance is increasingly viewed as a critical pillar for effective CSR implementation (Jamali et al., 2008). From reviewing previous literature on
developing countries, the composition of corporate boards and the ownership structure of corporations represent key variables in boosting organizational change with regard to CSR.

Taken from an institutional theory perspective, this paper explores the effects of organizational-level factors, specifically diversity and corporate governance structure, on the CSR reporting practices of corporations operating in developing and developed country contexts. Since developed countries are exposed to different settings, the paper argues that there is likely to be a difference in the drivers of CSR reporting in developed vs. developing countries. This paper thus addresses the following questions: (1) Can corporate governance structure and diversity promote the CSR reporting practices of firms operating in developing country contexts? (2) Do the examined organizational-level variables have significant influences on the CSR reporting practices of companies operating in developed country contexts?

The influence of diversity and corporate governance on CSR has been separately studied in the management literature. Yet, the potential effects of both variables on CSR have received limited attention. In addition, no study combining such explanatory variables of CSR was carried out in the specific context of developing Middle Eastern countries. Although organizational-level variables tend to be the main focus of the CSR literature in developing countries (Jamali & Karam, 2016), illustrating how institutional contexts can influence the dynamics of interaction between organizational-level variables and CSR is still understudied. This kind of multi-level research can help broaden our understanding of the drivers and practices of CSR in developing vs. developed countries that have distinct institutional environments.

Egypt is chosen as a representative developing country given its dominating economic activity in the African continent (Rossouw, 2005). On the other hand, the US and Germany are chosen as developed industrial countries. Germany is specifically chosen from Europe since, unlike other European countries, CSR information disclosure is voluntary and no specific legal regulations exist demanding companies to report on their CSR activities (Gamerschlag et al., 2011). While (institutional) differences exist between the US and Germany, as a European country (Doh & Guay, 2006), they represent two developed continents that are prominent in CSR practices.
Comparing differences in the CSR disclosure practices of Egypt with that of developed countries helps reduce the gap in the emerging markets literature. In addition, providing empirical evidence that interlinks diversity, governance and CSR would enrich the literature domains of both influencing factors and CSR.

The remainder of the paper is structured as follows: The paper starts with providing a literature review on CSR practices in developed versus developing countries. The paper then moves on to highlighting the organizational-level drivers for CSR with a focus on developing countries. Diversity and corporate governance are specifically tackled in relation to CSR reporting. This is followed by the research methodology, results, and conclusion.

### 3.2 Literature Review & Hypotheses Development

#### 3.2.1 CSR in Different Contexts: Developing vs. Developed Countries

The economic environment has particular influence on the level and maturity of CSR practices. In general terms, CSR represents the voluntary contributions of corporations to sustainable development (Gamerschlag et al., 2011). Unlike developed countries, both consumer and financial markets and market dynamics in developing countries are considered largely immature. This reverberates on indicators like higher presence of family businesses and higher unemployment. Developed countries are industrial economies whereas developing countries are “resource-based” (Reed, 2002). Such structures and conditions create varying influences on CSR practices. Developing countries are generally more focused on satisfying basic consumer needs rather than being focused on higher level issues of CSR and sustainability (Jones, 1999).

The economic environment in developed and developing countries also causes differences in the stringency of accounting standards, which in turn, causes differences in disclosure of information in general, and CSR information in specific. The accounting function matures in conjunction with the level of economic development. The richer economies of developed countries also make corporate expenditures on accounting regulations more justifiable. Whether countries’ wealth and economic wellbeing is based on agriculture or service or industry reflects on variations in sources of financing. For example, agricultural economies rely on governmental subsidies and
when they become industrial, the financial structure changes and diversifies toward external financing. A parallel increase in the infrastructural accounting system backing up external financing is observed as external parties look for better corporate disclosures and governance systems (Adhikari & Tondkar, 1992).

Just as an unhealthy economic environment impacts CSR negatively, on a more micro level, companies’ financial performance has been shown to have profound influence on their level of interest in CSR. Companies with lower financial performance opt against extensive CSR expenditures for resource constraint reasons. The more companies fear risking shareholder wealth, the less probable they are to spend considerable investments in CSR. Managers in this situation outweigh financial performance over socially responsible behavior (Lee et al., 2013).

Other institutional differences may lead to different practices of CSR between developing and developed countries. For instance, corporations are more likely to act responsibly when regulations are well-enforced and when effective self-regulatory systems and private independent organizations are present. The legal environment and the presence of legal regulations strongly influences firms’ propensity to become socially responsible especially when there was a participatory process in developing these regulations that involved the firms, the government, independent parties, etc. The presence of effective self-regulatory systems is also of major importance. The level of enforcement of these systems, including the potential of governmental intervention in case of lack of application, represents an important propeller for corporate CSR behavior (Campbell, 2007).

The presence of an enabling institutional environment also has profound impact on the implementation of CSR practices. These include private independent organizations that monitor corporate behavior (such as NGOs), an interested media, and a critical civil society that is able and powerful enough to scrutinize corporate behavior (Campbell, 2007). Parallel with economic development, the CSR enabling environment is more clear in developed rather than developing countries (Idemudia, 2011; Jamali & Mirshak, 2007).

In Germany, for instance, although legal regulations do not play a critical role in encouraging the implementation of CSR (Gamerschlag et al., 2011), corporate acknowledgement of international
guidelines and norms such as the OECD and Global Compact guidelines represents the self-
regulatory system that encourages CSR disclosures among German companies. It is also argued
that companies undertake the self-regulatory process in order to avoid potential government
regulatory intervention (Campbell, 2006). In their study on CSR disclosures in Germany,
Gamerschlag et al. (2011) concluded that German companies tend to engage in CSR disclosure
practices to reduce information asymmetries that may lead to the enactment of additional legal
regulations and taxes that may negatively affect firm value. The UK, on the other hand, has a
Minister of CSR yet the government has enacted tax laws to facilitate and stimulate CSR
(Idemudia, 2011). Conversely, in the US, the government plays a minor role in encouraging and
regulating corporate social practices. Environmental regulations set by the Environmental
Protection Agency (EPA) affect the CSR practices of firms in some industries. Nonetheless, the
US government promotes CSR behavior by leading a lot of CSR projects. Also, watchdog groups
such as Human Rights Watch and Corporate Watch are a source of pressure on US companies to
improve their social behavior (Griffin & Vivari, 2009).

The CSR literature is also largely originating from developed countries where the CSR practice
and vibrancy in such market economies fuels scholarly interest. The lack of stringency in the
regulatory system, the presence of corruption, and the lack of a general enabling environment in
developing countries give a different direction to CSR behavior, albeit escalating its importance
(Dobers and Halme, 2009; Idemudia, 2011; Jamali & Mirshak, 2007).

According to Jamali and Neville (2011), there are unique differences between the face of CSR in
developing versus developed countries where CSR in developing countries is less strategic and
less political. In developing countries, CSR is focused on fulfilling where “governments fall
short” (Jamali & Neville, 2011). The institutional drivers and infrastructure for CSR is weak in
developing countries where there is lack of pressure by different stakeholders including
governments and NGOs (Jamali et al., 2008).

Overall, since corporations operating in developed countries are exposed to different country
settings and pressures, it can be argued that there is likely to be a difference between the drivers
of CSR reporting in developing vs developed countries. As mentioned previously, this research
focuses on Egypt as an important developing country in transition, and Germany and the US as
developed countries that have well progressed in the CSR agenda. Accordingly, the following is hypothesized:

**H1: There is a significant difference between the drivers of CSR in USA/Germany and Egypt**

### 3.2.2 Firm-Level Influencers and Organizational Change: A Focus on Developing Countries

Hannan & Freeman (1984) argue that organizational change “reflects designed changes in strategy and structure of individual organizations in response to environmental changes, threats, and opportunities” (p. 150). International business literature suggests that diversity represents one factor that can play a role in fostering organizational change (Kondra & Hinings, 1998; Sako, 2006; Stevens et al., 2008). The degree of organizational internationalization is estimated based on three main attributes; performance, structure and attitude (Jaw & Lin, 2009). Diversity represents the attitudinal attribute which reflects the qualitative internationalization of organizations including the heterogeneous origin of board members and top management (Ruigrok & Wagner, 2003). Accordingly, when an organization is faced with a wide variety of origins of board members, executives and stakeholders, it is moving towards increased internationalization. Such internationalization may place pressures on organizations to adopt CSR practices that fit global demands.

Organizational structure can also play an important role in giving strategic importance to CSR issues (Husted & Allen, 2006). Internal governance structure, such as board and ownership structure, represents an internal corporate mechanism that helps ensure the alignments of manager-stakeholder interests (Young et al., 2008). While the adoption of effective international corporate governance codes is still questioned in developing countries (Dahawy, 2007; Jamali et al., 2008; Peng, 2004), corporate governance is increasingly viewed as an important “foundational pillar” for CSR in developing country contexts (Jamali et al., 2008, p. 455). Hence, the need for effective implementation of corporate governance practices to enhance the quality of corporate disclosures and stimulate the economy in developing countries is salient.
3.2.2.1 Diversity and CSR

The presence of a multinational board and shareholder structure may place pressures on organizations to integrate CSR issues in their organizational strategies. Actors with new social norms and practices may undermine prevailing organizational practice and cause internal legitimacy gaps (Oliver, 1992). To reduce such gaps, organizations are more likely to instill social issues in their organizational strategies if social actors within organizations have social norms and expectations that value social responsibility. Our conceptualization thus suggests that the more corporate norms empower CSR practices, the greater the pressures will be on corporations operating in a developing country setting to adopt CSR.

Previous research studies suggest a link between diversity and CSR practices (Muttakin et al., 2015; Ferrero-Ferrero et al., 2015). From a theoretical standpoint, the diversity of board members enhances the decision making process inside organizations as a result of diversified knowledge, perspectives and values which in turn improves corporate performance (Ferrero-Ferrero et al., 2015). In addition, stakeholders’ interests are taken into consideration by diversified board members and social practices are addressed more sensitively leading to improved social responsibility of organizations (Fernández Sánchez et al., 2011). A number of studies support the importance of diversity in developing country contexts. In their study, Muttakin et al. (2015) examined the effect of board diversity on the CSR disclosure practices of 116 listed Bangladeshi companies and found that foreign directorship has a positive influence on corporate CSR disclosures. Khan (2010) also argues that the CSR reporting strategies of corporations in Bangladesh are more likely supported by foreign directors. His study provides evidence on a significant positive relationship between the percentage of foreign origins on the board and level of CSR reporting of 30 commercial banks in Bangladesh. Accordingly, having more diversity of board members in developing countries may pressure corporations in developing countries to enhance their CSR disclosures.

Foreign shareholders may also exert pressures on corporations to adopt CSR practices. Young & Marias (2012) argue that shareholders’ priorities are also emphasized in CSR reports as an evidence of responsible management practices as a result of normative or mimetic pressures enforced on organizations. In a developing country context, the CSR reporting of corporations
may increase to reduce the perceived legitimacy gap between foreign shareholders and corporate management (Khan, 2010). It is also argued that foreign shareholders may demand more CSR disclosures from management given the geographic separation between them (Khan et al., 2013). Oh et al. (2011) examined the effect of ownership structure on the CSR practices of 118 large Korean firms and found a positive relationship between foreign ownership and CSR ratings. In the same vein, Khan et al. (2013) examined the effect of foreign ownership on the CSR disclosure practices using 580 firm-year observations in Bangladesh. Their study shows a significant positive influence of foreign ownership on CSR disclosures. Based on that, diversity of board members and shareholders represent (internal and external) organizational-level factors that are expected to have a positive effect on the CSR reporting practices of corporations operating in developing countries. Hence, the following is hypothesized:

**H2:** Foreign BOD has a positive influence on CSR disclosure practices in developing countries

**H3:** Foreign shareholders have a positive influence on CSR disclosure practices in developing countries

3.2.2.2 Corporate Governance Structure and CSR

Corporate governance represents internal and external sets of control that can help promote the CSR (reporting) practices of corporations. Internal governance structure, the main focus of this study, includes ownership structures, board composition, leadership and independence. The composition of corporate boards influences the degree to which corporations effectively manage CSR issues (Bear et al., 2010). From a theoretical standpoint, the key functions that the board offers to its corporations including advice, counsel and management monitoring (Bear et al., 2010) provides the rationale for the critical need of effective board members and board structure if sustainable CSR strategies are sought. Jaw & Lin (2009) also argue that corporate chief executives are the main agents responsible for strategic changes in organizations. The importance of the existence of effective corporate governance mechanisms that may drive change with regards to CSR is also highlighted by studies in developing countries. For, instance, the study of Jamali et al. (2008) shows that several managers operating in the Lebanese context, view strong corporate governance policies as necessary instruments for the proper
implementation of CSR programs. They further communicated that the way corporate governance is applied and structured in a corporation highly influences management emphasis on CSR goals and objectives (Jamali et al., 2008). In an environment where the economic structure is weak, awareness is low and corporate disclosures are not a common practice (Dahawy, 2007), the importance of internal governance mechanisms on enhancing the CSR (disclosure) practices of companies becomes most noticeable.

Empirical evidence exists on the significant influence of corporate board structure on voluntary and social disclosures of corporations operating in developing countries. This includes the negative influence of CEO duality, representing the unified leadership structure, (Haniffa & Cooke, 2005; Lattemann et al., 2009; Li et al., 2010), positive influence of board size (Ezat & El-Masry, 2008; Samaha et al., 2012(b); Siregar & Bachtar, 2010; Haji, 2013) and positive influence of board independence (Chau & Gray, 2010; Khan et al., 2013). Accordingly, the separation of CEO and chairman positions, number of board members and level of board independence will more likely lead to increased CSR reporting practices.

Previous studies also show a significant influence of ownership structure on corporate reporting practices (Johnson & Greening, 1999; Li & Zhang, 2010; Oh et al., 2011; Saleh et al., 2010; Samaha et al., 2012(a)). In a developing country context, Saleh et al (2010) explored the effect of institutional ownership on the CSR disclosures of publicly listed companies in Malaysia. Their results show a significant positive relationship between CSR disclosures and institutional ownership. Also, the results of a study conducted by Oh et al. (2011) show a significant positive influence of institutional ownership on the CSR ratings of 118 Korean companies. It can then be argued that internal corporate governance practices can be used as an (internal) organizational-level factor to enhance CSR disclosures in developing countries. Accordingly, the following is hypothesized:

**H4:** Corporate board size has a positive influence on CSR reporting practices in developing countries.

**H5:** CEO duality has a negative influence on CSR reporting practices in developing countries.
**H6:** The level of board independence has a positive influence on CSR reporting practices in developing countries.

**H7:** Corporate institutional ownership has a positive influence on CSR reporting practices in developing countries.

### 3.3 Methodology

#### 3.3.1 Sample Construction

The sample consists of companies listed on the Egyptian EGX 30 index, the German DAX 30 index and the US Dow Jones 30 index (as of January 1st, 2015). CSR reports were gathered from companies’ websites and annual reports were gathered from companies’ websites and the Thomson Reuters database. Two Egyptian companies had no reports available in year 2014 and were therefore excluded from the analysis. Based on that, the final sample companies examined is 88. All German companies offer their reports in the English language while only some Egyptian companies offer their reports in the English language. Details about the number of examined annual and CSR reports are shown in Table 3.1(B).

**Table 3.1(B): Sample Description: Total Number of Examined Reports**

<table>
<thead>
<tr>
<th>Egyptian reports for year 2014 (N = 28)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>English annual reports</td>
<td>6</td>
</tr>
<tr>
<td>Arabic annual reports</td>
<td>3</td>
</tr>
<tr>
<td>English financial reports</td>
<td>10</td>
</tr>
<tr>
<td>Arabic financial reports</td>
<td>9</td>
</tr>
<tr>
<td>CSR report(s)</td>
<td>1</td>
</tr>
<tr>
<td>Total sample reports examined in Egypt</td>
<td>29</td>
</tr>
</tbody>
</table>
German reports for year 2014 (N = 30)

<table>
<thead>
<tr>
<th>Report Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual reports</td>
<td>25</td>
</tr>
<tr>
<td>Integrated reports</td>
<td>5</td>
</tr>
<tr>
<td>CSR reports</td>
<td>23</td>
</tr>
</tbody>
</table>

Total sample reports examined in Germany: 53

US reports for year 2014 (N = 30)

<table>
<thead>
<tr>
<th>Report Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual reports</td>
<td>29</td>
</tr>
<tr>
<td>Financial report(s)</td>
<td>1</td>
</tr>
<tr>
<td>Integrated report(s)</td>
<td>1</td>
</tr>
<tr>
<td>CSR reports</td>
<td>26</td>
</tr>
</tbody>
</table>

Total sample reports examined in the U.S.: 57

Total sample reports examined: 139

### 3.3.2 Data Collection Procedures

Content analysis is used to analyze the CSR information communicated through the annual and CSR reports of Egyptian, German and US companies. Content analysis is “a method of analyzing written, verbal or visual communication messages” (Elo & Kyngas, 2008, p. 107) and assumes that the importance of the subject matter is indicated by how frequent it is mentioned (Guthrie et al., 2004). Words are used as the unit of analysis since specific term search yields reliable results and can be replicated easily compared to other forms of content analysis such as counting sentences or sections (Gamerschlag et al., 2011). Word count was performed using the software package MAXQDA. Using computer software programs to analyze qualitative data provide many advantages to the analysis process including enhanced systemization, transparency and speed (Crofts & Bisman, 2010). Keywords are used to identify the extent of CSR disclosures in companies. In line with previous comparative studies (Chen & Bouvain, 2009; Gamerschlag et
al., 2011; Guthrie & Farneti, 2008), the Global Reporting Initiative (GRI) guidelines are used for keyword identification since they represent global standards for voluntary CSR disclosures. However, manual keyword search was done for the reports of 19 Egyptian companies since such reports were unreadable by the program.

Following the coding framework of Gamerschlag et al. (2011), the keywords used reflect only core GRI environmental and social indicators since the majority of stakeholders have interest in them. Table 3.2(B) shows the social and environmental keywords used based on GRI. In the analysis, more than one keyword can be used for the same indicator to account for plural and singular forms as well as British and English differences (Gamerschlag et al., 2011). Also, MAXQDA searches for words that may not be exactly the same as the search string unless otherwise specified. For example, the search results for the word “spill” include spills, spillage and spillover. Also, the search for “discrimination” yields not only the word discrimination but also non-discrimination and anti-discrimination. However, the search for a keyword like “fines” was restricted to the same word to avoid counting a word like “de-fines”.

**Table 3.2(B): CSR Keywords based on GRI**

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycled</td>
<td>Employment</td>
</tr>
<tr>
<td>Energy consumption</td>
<td>Employee turnover</td>
</tr>
<tr>
<td>Biodiversity</td>
<td>Collective bargaining</td>
</tr>
<tr>
<td>Emissions</td>
<td>Collective agreements</td>
</tr>
<tr>
<td>Effluents</td>
<td>Occupational health</td>
</tr>
<tr>
<td>Waste</td>
<td>Occupational safety</td>
</tr>
<tr>
<td>Spills</td>
<td>Training</td>
</tr>
<tr>
<td>Environmental impacts</td>
<td></td>
</tr>
<tr>
<td>Diversity</td>
<td></td>
</tr>
<tr>
<td>--------------------</td>
<td></td>
</tr>
<tr>
<td>Equal opportunities</td>
<td></td>
</tr>
<tr>
<td>Human rights</td>
<td></td>
</tr>
<tr>
<td>Discrimination</td>
<td></td>
</tr>
<tr>
<td>Freedom of association</td>
<td></td>
</tr>
<tr>
<td>Child labor</td>
<td></td>
</tr>
<tr>
<td>Forced labor</td>
<td></td>
</tr>
<tr>
<td>Compulsory labor</td>
<td></td>
</tr>
<tr>
<td>Community</td>
<td></td>
</tr>
<tr>
<td>Corruption</td>
<td></td>
</tr>
<tr>
<td>Public policy</td>
<td></td>
</tr>
<tr>
<td>Compliance</td>
<td></td>
</tr>
<tr>
<td>Fines</td>
<td></td>
</tr>
<tr>
<td>Sanctions</td>
<td></td>
</tr>
<tr>
<td>Product responsibility</td>
<td></td>
</tr>
<tr>
<td>Customer health</td>
<td></td>
</tr>
<tr>
<td>Customer safety</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Gamerschlag et al., 2011)
Governance and diversity related data were gathered from multiple sources. Data on diversity variables for Egyptian corporations was mainly gathered from the General Authority for Investment (GAFI) as well as the BoardEx and Orbis databases. For German and American companies, Diversity related data was gathered from corporate websites, BoardEx and Orbis databases. Data on the corporate governance structures of all sample companies were gathered from corporate websites, BoardEx, Orbis databases as well as other internet sources.

3.3.3 Measures

The dependent variable in this study is the total quantity of disclosed CSR information. The CSR disclosure score is calculated by adding the number of disclosed social and environmental keywords in the reports of each company. For example, the CSR score of a company that issues a CSR report represents the total number of social and environmental hits disclosed in its annual as well as its CSR report.

Diversity is measured by the multi-nationalities of board members and shareholders (Haniffa & Cooke, 2005). The diversity of board members is calculated as the percentage of foreign members in the board of directors. The diversity of shareholders is calculated as the percentage of foreign shareholders in each company. Four proxies are used to measure corporate governance structure; CEO duality, board size, board independence, and institutional ownership structure. Consistent with previous studies (Haniffa and Cooke, 2005; Khan et al., 2013; Liao et al., 2015; Michelon & Parbonetti, 2012; Said et al., 2009; Samaha et al., 2012(b)), the number of board members acts as the board size measurement, CEO duality is measured as a dummy variable where a value of 1 is given if the CEO also serves as the chairman of the board and a value of 0 is assigned otherwise and board independence is measured as the percentage of independent members in the board. Following Saleh et al. (2010), institutional ownership is measured as the percentage of shares held by institutional investors.

A country dummy variable is measured by classifying companies operating in Egypt, a developing country, in one group and companies operating in developed countries in another group. 1 indicates that the company operates in a developing country (Egypt) and 0 otherwise (US and Germany). Also, firm size is used in this study as a control variable to represent industry
characteristics. Since larger firms are faced with greater pressures to legitimize their operations, they are expected to disclose more CSR information (Khan et al., 2013; Muttakin & Khan, 2014). Also firm size is likely to be positively correlated with board structure (Samaha et al., 2012(b)). Accordingly, firm size is included as a control variable and is measured as the log of total assets in the analysis year\(^6\) (Gamerschlag et al., 2011; Haniffa & Cooke, 2005).

### 3.3.4 Empirical Model

To examine the relationship between the explanatory variables tested in this study and corporate CSR disclosures, multiple regression analysis is used. A multicollinearity test was first performed to examine collinearity among variables. The core regression model is presented below.

\[
    CSRD = \beta_0 + \beta_1 \text{FBOD} + \beta_2 \text{FShare} + \beta_3 \text{duality} + \beta_4 \text{bsize} + \beta_5 \text{Bindep} + \beta_6 \text{Fsize} + \epsilon
\]

Where:

- \(CSRD\) = corporate social responsibility disclosure score index,
- \(FBOD\) = percentage of foreign board members,
- \(FShare\) = percentage of foreign shareholders
- \(\text{Duality}\) = dummy variable; 1 if CEO duality exists, 0 otherwise.
- \(\text{Bsize}\) = number of board members,
- \(\text{Bindep}\) = percentage of independent board members,
- \(\text{Fsize}\) = size of the firm represented by total number of employees,
- \(\epsilon\) = Error term.

\(^6\)The currencies of total asset values were unified to the Egyptian pound then the log of total assets was computed.
3.4 Results & Implications

3.4.1 Tests of Variances: CSR Disclosure Levels

Figure 3.1(B) presents a graphical representation of the environmental and social disclosures for the three countries analyzed in this study. As shown in the figure, differences between the CSR disclosure scores of Egypt, Germany and the US are apparent. To determine the statistical significance of the differences in the CSR scores of the three countries, a Kruskal Wallis non-parametric test is performed given the non-normality distribution of the data. The results reveal a statistically significant difference between the CSR disclosures of the three groups examined (H = 56.132, p < 0.01), with a mean rank of 15.21 for Egypt, 62.98 for Germany and 53.35 for the US.

German companies exhibit the highest CSR disclosures scores on both the environmental and social levels. This may be due to the high degree of corporate engagement with investors in Germany compared to the US (Campbell, 2006). Campbell (2006, p. 934) argues that “corporations will be more likely to act in socially responsible ways if they are engaged in institutionalized dialogue with unions, employees, community groups, investors, and other stakeholders”. This is also consistent with previous studies that revealed higher CSR disclosures in Europe than in the US (Meek et al., 1995; Saida, 2009; Michelon, 2011). Matten & Moon (2008) argue that the institutional reordering in Europe has increased European companies’ discretion in areas like education, health, energy and social services. However it should be noted that this mainly applies on large companies in Europe rather than on small and medium enterprises (SMEs). The CSR disclosure levels in Egypt are the lowest compared to that of Germany and the US. This may reflect the fact that Egypt is a developing country (GDP per capital $3,436.3 in 2014) compared to Germany (GDP per capita 47,627.4 in 2014) and the US (GDP per capita $54,629.5 in 2014) (The World Bank Group, 2015). This is consistent with previous literature that suggests that the social responsibility is practiced more by corporations operating in developed countries since such practices exceed the basic needs of developing societies that need to be fulfilled first (Jones, 1999).
Table 3.3(B) shows the detailed CSR reporting by category for each of the analyzed countries. In all three countries, social-related CSR disclosures combined are higher than environmental disclosures. However, as shown in the table, the social category does not only refer to “society” but also includes social aspects related to labor, human rights and product responsibility. Consistent with previous CSR studies in developing countries (Jamali & Mirshak, 2007; Amaeshi et al., 2006), the society category of CSR is the most disclosed among sample Egyptian companies representing around 63% of total Egyptian CSR disclosures. Yet, this finding is inconsistent with Hanafi (2006) who found that employee-related CSR disclosures were the highest among Egyptian companies in the period between 1998 and 2001. This may then indicate a recent shift in CSR initiatives related to community development. The labor practices category represents the second highly disclosed category (around 22%), yet still relatively low compared to the society category. Although regulations related to disclosures of employee-related CSR information are the highest as compared to other mandatory CSR disclosures in Egypt, compliance of Egyptian companies with all legally required employee information is highly deficient (Hanafi, 2006). Regulations are important institutional factors that influence the social behavior of companies (Campbell, 2006). However, the enforcement of such regulations depends on the level of economic development (Jones, 1999). Also, the little attention given to the environmental, human rights and product responsibility categories of CSR in Egypt may reflect
the weak institutional environment generally present in developing countries (Amaeshi et al., 2006).

In Germany, the highest percentage of CSR hits relates to the environmental category representing around 37% of total CSR hits found in sample German corporate reports. This is followed by the society category (around 30%) and labor practices (26%). These findings are close to the findings of Chen & Bouvain (2009) which showed that German companies placed high importance on social and environmental issues followed by employee-related issues. Accordingly, while environmental issues remain central, a clear emphasis is placed on the environment, society and labor categories of CSR disclosures among sample German companies. American companies show equal high emphasis for the environment and society categories with each representing around 35% of total CSR disclosures made by sample US companies. Labor practices are also central representing around 20% yet are still relatively less important than environment and society. This finding is partially consistent with Chen & Bouvain (2009) who found that US companies placed relatively higher emphasis on community and employee related issues. However, unlike the findings of this study, environmental issues were less focused on by American companies examined in their study.

Table 3.3(B): Corporate Reporting per CSR Category

<table>
<thead>
<tr>
<th>CSR category</th>
<th>Egypt</th>
<th>Germany</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hits</td>
<td>%</td>
<td>Hits</td>
</tr>
<tr>
<td>Environment</td>
<td>56</td>
<td>12</td>
<td>6258</td>
</tr>
<tr>
<td>Labor practices</td>
<td>101</td>
<td>22</td>
<td>4377</td>
</tr>
<tr>
<td>Human rights</td>
<td>13</td>
<td>3</td>
<td>1130</td>
</tr>
<tr>
<td>Society</td>
<td>288</td>
<td>63</td>
<td>4996</td>
</tr>
<tr>
<td>Product responsibility</td>
<td>0</td>
<td>0</td>
<td>101</td>
</tr>
<tr>
<td>Total Number of CSR hits</td>
<td>458</td>
<td>100</td>
<td>16862</td>
</tr>
</tbody>
</table>

Overall, although differences appear between the CSR practices of German and US companies, their CSR disclosure levels are adjacent compared to that of Egypt. This can be explained by the
presence of institutional factors such as non-government and other independent organizations and industry self-regulation that promote corporate social behavior in such countries.

### 3.4.2 Descriptive Statistics and Correlations

Table 3.4(B) displays the descriptive statistics of the variables for all sample companies as well as per country. As mentioned in the previous section, the CSR scores in Egypt are the lowest compared to Germany and the US. This is depicted by the mean scores for sample companies in each country. The Table also shows that some Egyptian companies do not have any CSR disclosures as represented by the minimum score value of zero.

The mean scores of the corporate governance structure variables also show differences between companies specifically in the percentage of independent board members. The table shows that sample Egyptian companies have the lowest percentage of independent board members (6.2%), followed by sample German companies (12%). Yet sample American companies exhibit a high level of board independence representing an average of 91%. Also, the leadership structures, as represented by CEO duality, are different between sample companies in the three countries. The percentage of unified leadership structures across the three groups reveals that all sample German companies experience no CEO duality while 60% of sample American companies and around 54% of sample Egyptian companies have unified leadership structures. The separate leadership structure found in all sample German companies can be explained by the two-tiered system in Germany that strictly separates between the tasks of the executive and supervisory boards (Veen & Albertsen, 2008). Also, the high concentration of CEO power in American companies has led the New York Stock Exchange to add in its listing standards, as a counterbalance, that independent board members should be a majority in listed companies (Aguilera et al., 2006). This is consistent with our findings that reveal a high percentage of board independence in sample American companies compared to Egyptian and German companies.
Table 3.4(B): Descriptive Statistics of Variables in Total and per Country

<table>
<thead>
<tr>
<th>Construct</th>
<th>All sample (n=88)</th>
<th>Egypt (n=28)</th>
<th>Germany (n=30)</th>
<th>USA (n=30)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>SD</td>
<td>Min</td>
<td>Max</td>
</tr>
<tr>
<td>CSR Score</td>
<td>347.78</td>
<td>359.36</td>
<td>0</td>
<td>206</td>
</tr>
<tr>
<td>Board Size</td>
<td>12.99</td>
<td>4.26</td>
<td>5</td>
<td>23</td>
</tr>
<tr>
<td>Board Independence</td>
<td>0.37</td>
<td>0.42</td>
<td>0</td>
<td>0.44</td>
</tr>
<tr>
<td>Foreign BOD</td>
<td>0.25</td>
<td>0.17</td>
<td>0</td>
<td>0.70</td>
</tr>
<tr>
<td>Foreign Shareholders</td>
<td>0.59</td>
<td>0.29</td>
<td>0</td>
<td>0.91</td>
</tr>
</tbody>
</table>

The mean scores of the diversity variables for sample companies in Egypt, Germany and the US are also provided. As shown in the table, sample companies in the three countries exhibit low levels of foreign board members. Yet, board diversity in sample Egyptian companies (35%) is higher than that of sample German (20%) and American (19%) companies although sample Egyptian companies have the lowest board size. This finding is inconsistent with previous studies that found that larger boards tend to have more board diversity (Brammer et al., 2007; Carter et al., 2003). On the other hand, the percentage of foreign shareholders is much lower for sample Egyptian companies (25%) compared to their counterparts in Germany (69%) and the US (82%). This may be due to the high multinationality of German and US companies as opposed to Egyptian ones.

---

7 This table does not include the CEO duality categorical variables. However, a brief description of the differences between sample countries regarding this variable is provided in this section.
Table 3.5(B): Correlation matrix for Constructs

<table>
<thead>
<tr>
<th></th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>-.3314***</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>.2162**</td>
<td>-.1275</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>-.2022*</td>
<td>.1536</td>
<td>-.2456**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>-.2009*</td>
<td>.5808***</td>
<td>.2636**</td>
<td>-.1216</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>-.1857*</td>
<td>.2541**</td>
<td>-.0464</td>
<td>.1206</td>
<td>.2676**</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>-.2716**</td>
<td>.6543***</td>
<td>-.0952</td>
<td>.2029*</td>
<td>.5806***</td>
<td>.3785***</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>.4218***</td>
<td>-.7983***</td>
<td>.2596**</td>
<td>-.3378***</td>
<td>-.5080***</td>
<td>-.3715***</td>
<td>.7770***</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>-.2982***</td>
<td>.4399***</td>
<td>-.2598**</td>
<td>.3293***</td>
<td>.2012*</td>
<td>.1532</td>
<td>.4837***</td>
<td>-.6335***</td>
<td>1</td>
</tr>
</tbody>
</table>

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%

Table 3.5(B) shows the correlations between the tested variables of the study. As shown in the table, the highest correlation between any of the main independent variables is 0.581 which is lower than the cut off value of 0.9. Also, the highest variance inflation factor (VIF) value is 2.414 lower than the cut off value of 10 (Pallant, 2005). Accordingly, no multicollinearity problems exist between the independent variables. The table also shows strong significant correlations between the control variable, country of origin, and the dependent and independent variables.

### 3.4.3 Regression Analyses

#### 3.4.3.1 A Comprehensive Regression Analysis of Examined CSR Drivers for All Sample Companies in Egypt, Germany and the US.

The first stage of data analysis involved combining Egyptian, German and US companies in one regression model and testing the effects of diversity and corporate governance variables on CSR reporting while controlling for country effects. As shown in Table 3.6(B), the results of Model 1 reveal insignificant effects of all explanatory variables examined on CSR reporting except for the

---

8 The standardized residuals of the comprehensive model are not normally distributed according to the Kolmogorov–Smirnov normality test ($z = 1.550; p = 0.016$)
country variable. This general analysis shows that the country variable is the only relevant variable explaining variations in the CSR disclosure scores of the three countries examined. This provides support for H1 and implies economic and institutional differences between developing and developed countries, specifically Egypt, Germany and the US. Accordingly, separate regression models were run for Egyptian and US/German companies.

Table 3.6(B): Regression Analysis: Comprehensive Model

<table>
<thead>
<tr>
<th></th>
<th>Model 1 (all countries)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>408.301</td>
</tr>
<tr>
<td>Foreign BOD</td>
<td>-70.188 (0.723)</td>
</tr>
<tr>
<td>Foreign Shareholders</td>
<td>-150.352 (0.417)</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>-29.514 (0.688)</td>
</tr>
<tr>
<td>Board Size</td>
<td>6.730 (0.411)</td>
</tr>
<tr>
<td>Board Independence</td>
<td>-77.649 (0.485)</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>-146.880 (0.283)</td>
</tr>
<tr>
<td>Firm Size</td>
<td>10.258 (0.573)</td>
</tr>
<tr>
<td>Country of Origin</td>
<td>-536.303 (0.000)***</td>
</tr>
<tr>
<td>No. Of Observations</td>
<td>88</td>
</tr>
<tr>
<td>R-square</td>
<td>0.4418</td>
</tr>
<tr>
<td>Adj-R-square</td>
<td>0.3853</td>
</tr>
<tr>
<td>p-value</td>
<td>0.000***</td>
</tr>
</tbody>
</table>

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%.
3.4.3.2 Test of Separate Models: Diversity and Corporate Governance Structure as drivers of CSR Reporting for German/US vs. Egyptian Companies

The results of the separate regression models are shown in Table 3.7(B). Model 2 examines the effects of the diversity and corporate governance variables on the CSR reporting of sample US and German companies. The results show insignificant influences of all explanatory variables on CSR reporting. This indicates that organizational-level factors, specifically diversity and corporate governance structure, may exhibit distinct roles in promoting CSR disclosures in different institutional contexts. In industrial countries, such as the US and Germany, these factors may play only a minor role (if at all) in influencing CSR disclosures in the presence of well-established institutional systems, strong economies and high levels of awareness. While the study done by Harjoto et al. (2015) shows that the diversity of board members of 1,489 U.S. companies increased their overall CSR performance, this variable played a role in reducing CSR concerns rather than increasing CSR strengths. Also, the findings of Boesso & Kumar (2007) support our corporate governance findings in US and Germany. Their study examined the influence of corporate governance structure on the voluntary disclosures of companies operating in Italy and the US and found that voluntary disclosures are not driven by internal governance mechanisms. Rather, corporate emphasis on stakeholder engagement represented the only within-company factor influencing voluntary reporting in both countries.

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9 The standardized residuals of the two separate regression models are normally distributed according to the Kolmogorov–Smirnov normality test (z = 1.195; p = 0.115 for Model 2 and z = 0.548; p = 0.925 for Model 3).
Table 3.7(B): Regression Analysis: Separate Models

<table>
<thead>
<tr>
<th></th>
<th>Pred. Sign</th>
<th>Model 2 (US/Germany)</th>
<th>Model 3 (Egypt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td></td>
<td>304.879</td>
<td>-205.619</td>
</tr>
<tr>
<td>Foreign BOD</td>
<td>H2 (+)</td>
<td>-135.348 (0.644)</td>
<td>147.743 (0.000)** ***</td>
</tr>
<tr>
<td>Foreign Shareholders</td>
<td>H3 (+)</td>
<td>-169.763 (0.580)</td>
<td>-36.515 (0.199)</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>H5 (+)</td>
<td>-52.066 (0.701)</td>
<td>12.993 (0.256)</td>
</tr>
<tr>
<td>Board Size</td>
<td>H4 (+)</td>
<td>12.173 (0.400)</td>
<td>-0.352 (0.753)</td>
</tr>
<tr>
<td>Board Independence</td>
<td>H6 (+)</td>
<td>-45.458 (0.783)</td>
<td>172.475 (0.001)** ***</td>
</tr>
<tr>
<td>Institutional Ownership</td>
<td>H7 (+)</td>
<td>-341.131 (0.237)</td>
<td>-49.138 (0.006)** ***</td>
</tr>
<tr>
<td>Firm Size</td>
<td></td>
<td>16.856 (0.599)</td>
<td>8.535 (0.002)** ***</td>
</tr>
<tr>
<td>No. Of Observations</td>
<td></td>
<td>60</td>
<td>28</td>
</tr>
<tr>
<td>R-square</td>
<td></td>
<td>0.093</td>
<td>0.738</td>
</tr>
<tr>
<td>Adj-R-square</td>
<td></td>
<td>-0.029</td>
<td>0.646</td>
</tr>
<tr>
<td>p-value</td>
<td></td>
<td>0.620</td>
<td>0.000***</td>
</tr>
</tbody>
</table>

Notes: * significant at 10%; ** significant at 5%; *** significant at 1%.

Model 3 tests the effects of diversity and corporate governance structure on the CSR reporting practices of Egyptian companies. As shown from Table 3.7(B), the explanatory power of Model 3 is high (adjusted $R^2 = 0.646$). This indicates that 64.6% of the variance in the CSR reporting practices of sample Egyptian companies can be explained by the model. The results of the model show insignificant influences of foreign shareholders, CEO duality and board size. Accordingly, H3, H4 and H5 are not supported. Yet, the results suggest that higher levels of board diversity, board independence and firm size lead to more CSR disclosures providing support for H2 and H6. Consistent with previous studies on board diversity and CSR (Muttakin et al., 2015; Khan, 2010), the results indicate that foreign directors can play an important role in supporting the CSR reporting strategies of companies operating in a developing country context. The results also support previous studies in developing countries that show significant positive influence of board independence (Chau & Gray, 2010; Khan et al., 2013). This may indicate that companies are more likely to emphasize societal interests when boards are dominated by independent directors.
(Khan et al., 2013; Haniffa & Cooke, 2005). The study also supports previous studies that show that larger firms tend to disclose more CSR information (Khan et al., 2013; Muttakin & Khan, 2014).

The results of Model 3 also show a significant negative influence of institutional ownership on CSR reporting in Egypt. This is inconsistent with previous studies in developing countries that suggest a positive association between both variables (Oh et al., 2011; Saleh et al., 2010). Yet, the institutional ownership variable includes not only the percentage of shares owned by banks, mutual & pension funds and financial companies but also corporate groups and the government. While, government equity holdings in sample Egyptian companies was mild, corporate groups acted as controlling or substantial shareholders of more than 50% of the Egyptian companies examined. Based on that, the institutional ownership variable was subdivided into two separate variables; one representing the institutional ownership of corporate groups and the government and the other representing the institutional ownership of the remaining institutions. When the regression model was run again, the effect of the ownership of corporate groups and the government remained significantly negative ($\lambda = -57.823$, $p = 0.007$) while the effect of the other institutions became insignificant ($\lambda = -37.680$, $p = 0.111$). This indicates that institutional ownership of corporate groups and the government drives the general significant negative influence of the institutional ownership variable while the effects of the other institutions are insignificant. In many developing countries, having companies with family dominance or controlling/substantial shareholders is common. Accordingly, the influence of other institutional investors is secondary and almost lacking (Khan et al., 2013; Reed, 2002). Such an institutional weakness may represent a potential restriction to genuine CSR reporting strategies in Egypt.

### 3.5 Summary and Conclusions

This study contributes to the CSR research field by comparing differences in the CSR disclosure practices and drivers of Egypt, as a developing country with that of developed countries, namely the US and Germany. Taken from an institutional perspective, the paper also examines the role of organizational-level factors, specifically diversity and corporate governance structure, in driving the CSR disclosure practices in a developing country context. The results are mostly
consistent with institutional theory where the effects of diversity and governance structure, observed mainly by foreign BOD, board independence and institutional ownership, are found to be significant on the CSR disclosure levels of Egyptian companies only. This indicates that the influence of organizational-level factors on CSR is highly dependent on the institutional context where companies operate.

Differences in the environmental and social disclosures of sample companies in the three analyzed countries are also compared. The test of variances shows a statistically significant difference in the level of CSR disclosures in Egypt, Germany and the US. The disclosure levels of sample Egyptian companies are found to be the lowest. This may reflect the weak economic and institutional conditions in Egypt compared to Germany and the US. A country’s level of economic development may influence the level of information disclosed in corporate reports as less CSR disclosures are expected when basic economic needs are not fulfilled. Also, the weak institutional environment represented through low enforcement of regulations, weak self-regulatory systems and the like hinder businesses in developing countries from actively pursuing social responsibility practices. German companies, on the other hand, exhibit the highest CSR disclosures scores.

The results of the comprehensive regression model (Model 1) show that corporate governance structures are driven by country effects. This may indicate differences in the organizational-level factors driving CSR reporting in developing vs. developed countries. The results of the separate models further support that argument and imply that corporate governance structure and board and shareholder diversity drive CSR (disclosure) practices in neither the US nor Germany (Model 2). On the other hand, the percentage of foreign board members, independent directors, institutional ownership and firm size were significant predictors of CSR disclosures of sample Egyptian companies (Model 3). It could then be argued that the level of Egyptian corporate social reporting can be enhanced by integrating more foreign and independent board members in corporate board structures and by reducing the percentage of corporate and government ownership.

This study has a number of limitations. First, the results of the study are based on a one-year observation of the governance and CSR disclosure practices of sample companies in Egypt,
Germany and the US. Longitudinal studies would provide more insight into how changes in diversity and governance structures may influence the development of CSR reporting over time. Second, the sample size of the study is limited, specifically for the separate models examined, and is mainly focused on large listed companies. A larger sample size can be considered in future research. Also, to improve the generalizability of the study, further research can explore cross-country differences in CSR disclosures of large and small and medium corporations. Third, although annual reports are considered as the main communication tool used by corporations, other corporate communication media, such as corporate websites, should be considered in future research. This is particularly important for developing countries, such as Egypt, where incidences of CSR disclosures on websites only have been found in sample Egyptian companies. This may indicate that corporate website in Egypt may be a major means of communicating corporate CSR information. Finally, the content analysis approach used in this study provides only quantities of CSR disclosures. A more detailed content analysis approach can be utilized by future research that determines not only the quantity but also the quality of CSR information disclosed including the nature of information and type of CSR news disclosed.

References


Muttakin, M., & Khan, A. (2014). Determinants of corporate social disclosure: Empirical evidence from Bangladesh. *Advances in Accounting, incorporating Advances in International Accounting, 30*(1), 168–175.


Appendices

Appendix A: Study 1 Questionnaire

*Perceived Political Instability and Uncertainty*

- Changes in laws and policies that materially affect a business are usually expected and easily predicted
- Changes in laws and policies, occurring after 2011, that materially affect a business are usually expected and easily predicted
- In case of important changes in laws or policies affecting business operations, the government takes the necessary actions to respond to the demands and concerns of businessmen and professionals in my country.
- After 2011, the government took the necessary actions to respond to the demands and concerns of businessmen and professionals in my country in case of important changes in laws or policies affecting business operations.
- The Egyptian government implements, to a great extent, announced economic policies.
- The Egyptian government implements, to a great extent, the economic policies that were announced after 2011.
- Frequent changes in ministries or governments are usually accompanied by large changes in rules and regulations that have an impact on the company’s business process
- Frequent changes in ministries or governments, occurring after 2011, are usually accompanied by large changes in rules and regulations that have an impact on the company’s business process
- The inconsistency in applying the same constitutional rules has a negative impact on the business activities of the company
The inconsistency in applying the same constitutional rules after 2011 has a negative impact on the business activities of the company.

A prevalent state of discontent and dissatisfaction may involve processes of political violence (such as demonstrations and strikes) which, in turn, negatively affects the business activities of the company.

A prevalent state of discontent and dissatisfaction after 2011 can involve processes of political violence (such as demonstrations and strikes) which, in turn, negatively affects the business activities of the company.

Perceived Financial Performance

Compared to the years before 2011, how would you compare the organizations performance over the last three years (starting 2011) in terms of….

- Profitability?
- Growth in Sales?
- Achieving planned goals?
- Market Share?

Perceived Stock Market Uncertainty

- Different stakeholders such as investors and regulators usually express their concerns about the level of stock market volatility in Egypt.
- Stakeholder concerns about the level of stock market volatility have been increased after 2011.
- Changes in stock prices are usually high in the Egyptian market.
- Changes in stock prices are particularly high after 2011
- The predictability of stock returns in the Egyptian stock market is weak.
After 2011, the unpredictability of stock returns in the Egyptian stock market has increased.

Corporate Social Responsibility

Community

- Our company provides financial and in-kind donations in the communities where it operates
- Our company supports education (financially or in-kind) in the communities where it operates
- Our company is committed to making all necessary efforts to eliminate social phenomena related to unemployment, poverty, illiteracy, corruption and the like
- Overall, our company’s contribution to local community development have been intensified after 2011

Natural Environment

- Our company incorporates environmental performance objectives in organisational plans by implementing special programs to minimize its negative impact on the natural environment.
- Our company supports or contributes environmental initiatives that aim at protecting and improving the natural environment
- Our company measures its environmental performance
- Our company is committed to disposing of process waste and damaged goods in legal ways
- The company is committed to using clean energy and is working on the use of environmentally-friendly technology
- Overall, our company’s efforts to improve our environmental performance have been intensified after 2011.
Employees

- Our company treats all employees fairly and respectfully, regardless of gender or religious affiliation
- Our company provides all employees with salaries that properly and fairly reward them for their work
- Our company supports all employees who want to pursue further education
- Our company helps all employees coordinate their private and professional lives
- Our company incorporates the interests of all employees into business decisions
- Our company has a work council that deals with matters such as improving job security and working conditions
- Our company provides medical and health care and social services such as social security services and a means of transportation to and from work
- Our company is keen on employing a certain percentage of disabled workers
- Overall, our company’s efforts to comply with labor rights have been intensified after 2011

Customers

- Our company provides all customers with the information needed to make sound purchasing decisions
- Our company satisfies the complaints of all customers and adapts products or services to enhance the level of customer satisfaction
- Our company is committed to honesty in all business dealings in ways that are clear and non-twisted
- Our company is always seeking to move away from misleading advertising to promote its products or services
- Overall, our company’s commitment to customer rights and satisfaction has increased after 2011

Government
• Managers are informed about relevant environmental laws.
• All our products meet legal standards
• Our company seeks to comply with all laws regarding hiring and employee benefits
• Our company is committed to paying all its taxes and has an honest disclosure of all accounts
• Overall, our company’s commitment to comply with legal regulations increased after 2011

Notes: a Five-point scale ranging from strongly disagree to strongly agree; b Five-point scale ranging from much worse to much better.
Appendix B: Study 2 Questionnaire

Internal Corporate Governance

Corporate Governance Commitment

- The annual financial statement explicitly refers to the company-specific corporate governance practices
- There are company-specific corporate governance guidelines in written form
- These corporate governance guidelines (if available) are easily accessible for all stakeholders (for example, via Internet)
- There is a corporate governance compliance officer who reports regularly to the board of directors.

Board of Directors and Executive Management

- There are company-specific rules in writing that deal with possible conflicts and own account trading of members of the board of directors and the executive board
- There are company-specific principles in writing for the remuneration of members of the board of directors and the executive management (including a relative performance benchmark, for example, an adequate sector index)
- The company discloses the content of clauses on changes of control in agreements and plans benefiting members of the board of directors and/or the executive board and/or other members of the cadre (for example, golden parachutes)
- There are company-specific criteria in writing to select members of the board of directors who represent the shareholders (for example, as regards to knowledge, expert experience, potential conflicts of interest, age)
- There is a sufficient number of committees of the board of directors to deal with complex matters and perform defined tasks (for example, audit, compensation, strategy)
- The managing directors and chairman duties are separated (CEO duality doesn't exist).
• The ordinary term of contract for an executive BOD does not exceed three years
• The majority of the BOD are non-executive members

*Stakeholders’ Pressure*

Please rate the importance of the following sources of pressure on your company to consider corporate social responsibility issues:

**Organizational**

• Governments and regulatory agents
• Customers/consumers
• Suppliers
• Employees/unions
• Shareholders
• Financial institutions

**Community**

• Communities and social groups
• Nongovernmental organizations
• Competitors

**Media**

• Media

*Legal Regulation*

• Our country has strict regulations to protect the consumers
• Our country has effective regulations to encourage companies to improve their product and services quality
• The current government regulations on the products and services standards is very complete
• There are complete laws and regulations to ensure fair competition
• Our country has government-mandated disclosure of environmental performance and pollutant release

*Corporate Social Responsibility*¹

Positive CSR

**Economic citizenship**

• We have been successful at maximizing our profits.
• We strive to lower our operating costs.
• We closely monitor employees' productivity.
• Top management establishes long-term strategies

**Legal citizenship**

• The managers of this organization try to comply with the law.
• Our company seeks to comply with all laws regulating hiring and employee benefits.
• We have programs that encourage the diversity of our workforce (in terms of age, gender, and race).
• Internal policies prevent discrimination in employees' compensation and promotion.

**Ethical citizenship**

• Our business has a comprehensive code of conduct.
• We are recognized as a trustworthy company.
• Fairness toward co-workers and business partners is an integral part of the employee evaluation process.
• A confidential procedure is in place for employees to report any misconduct at work
• Our salespersons and employees are required to provide full and accurate information to all customers.
Discretionary citizenship

- Our business supports employees who acquire additional education.
- Flexible company policies enable employees to better coordinate work and personal life.
- Our business gives adequate contributions to charities.
- A program is in place to reduce the amount of energy and materials wasted in our business.

Negative CSR

Community relations

- Our company in recent years has paid fines or civil penalties
- Our company has been involved in major litigation or controversies relating to a community in which it operates

Employee relations

- Our company has poor relations with its unions relative to others in its industry
- Our company has had recent lay-offs of more than 15 percent of employees in 1 year
- Our company has paid significant fines
- or penalties over employee safety or been involved in major safety controversies
- Our company has a substantially underfunded pension plan or an inadequate benefits plan.

Product Issues

- Our company faces major recent product safety controversies;
- Our company faces a major marketing controversy or has paid fines or penalties related to advertising practices, consumer fraud, or government contracting practices.
Environmental Issues

- Our company has recently paid significant fines or penalties, has a pattern of regulatory problems or has been involved in major controversies involving environmental degradation
- Our company's emissions are among the highest legal emissions of toxic chemicals in Egypt
- Our company is among the top producers of ozone-depleting chemicals
- Our company's legal emissions of toxic chemicals into the air and water are among the highest of the companies located in Egypt.

Notes: a Five-point scale ranging from strongly disagree to strongly agree; b Six-point scale ranging from not important/no pressure to very important/great pressure.