

**SUSTAINABILITY REPORTING IN THE FINANCIAL INDUSTRY:  
FURTHER EVIDENCE FROM SAUDI ARABIA**

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***Abstract***

*The paper examines the extent of sustainability in Saudi Financial Institutions, as communicated in their websites. As a result of the widespread interest in social responsibility in Saudi Arabia and its role in sustainability, companies and financial institutions in particular; have become increasingly convinced and face significant social and economic challenges. In fact, there is still uncertainty and insufficient knowledge on the part of individuals and companies, as a whole, of the concept of sustainability in the financial industry and its dimensions, as well as the extent of effectiveness and how to develop and benefit from them. In the light of this, a content analysis of financial institutions' websites was conducted, in order to measure the extent of sustainability reporting, made by these companies. The results revealed an average level of sustainability reporting, especially on the dimension of Customers and Employees. Finally, the paper advances the most important recommendations for the promotion of the social responsibility and sustainability initiatives in Saudi Financial Institutions.*

***Keywords:*** Sustainability, Reporting, CSR, and Saudi Financial Institutions

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## 1. Introduction:

### 1.1 General Overview

The recent financial crisis has seriously worsened the image and the climate of confidence of the financial industry among the people. This loss of credibility aggravates the climate of suspicion on the moralization of financial practices and a gap has been established between the impact of banking and financial crisis and the mode of governance of these companies. Social responsibility and sustainability have become a means of communication to restore good reputation, which is a necessary step to establish a climate of trust. The specter of the 2008 financial crisis still haunts the minds. Its economic and social repercussions have shaken the richest countries and exposed the fragility of a financial system, inscribed in the current capitalist world. Certain financial products have allowed banks to speculate excessively in high-risk markets, in order to favor maximum profit for shareholders in ever shorter time (**Hamilton-Hart, 2008**). The systemic consequences of this financial engineering, on the global economy, have been dramatic (**Paulet, et al., 2015**).

The choice of the bank industry is due to at least three reasons:

- ✓ As a tool for social mobilization, finance will help defend causes social.
- ✓ The periods of crises, as we have known them in recent years, call into question the legitimacy of banks, which can be a source of profound changes.
- ✓ The changing laws, reputation and trust, that banks depend on, also increase interest in ethical and social banks.

This study will try to examine the world of Saudi banks and their behavior with respect to sustainability. This choice comes from the

importance of Saudi Arabia as a Gulf country and a central country in the region, a country that has recently given great importance to CSR and sustainability (**Mahjoub, 2018**).

## 2. Review of Literature

### 2.1 Corporate Social Responsibility and Sustainability

Sustainability reporting helps organizations to set goals, measure performance and manage change, to increase the sustainability of their actions. The GRI guidelines set out the reporting principles, the required information elements and an implementation manual for the preparation of sustainability reports by organizations, regardless of size, sector or geographical location. The GRI Guidelines are also an international reference for anyone interested in information concerning the governance approach and the environmental, societal and economic performance and impact of organizations (**Cuadrado-Ballesteros, et al., 2016**).

The first ISO standard on social responsibility, ISO 26000, was published in November 2010, providing guidelines on the underlying principles of social responsibility, on the identification of social responsibility and on dialogue with stakeholders, on core issues and policy areas related to social responsibility as well as ways to integrate responsible behavior into the organization (**Hemphill, 2013**). It clarifies the concept of social responsibility, helps companies and organizations to translate the principles into concrete measures and allows the sharing of good practices of social responsibility between countries. Finally, ISO 26000 and the GRI guidelines address majority of common economic, environmental and societal themes and impact to be considered by organizations. However, while ISO 26000 aims to provide guidelines on actions and expectations so that

organizations take into account each of these themes, the GRI guidelines indicate on which field of study to report, for each of these themes specifically (Pulido, 2018).

## **2.2 Sustainability in Financial Institutions**

International Finance Corporation's sustainability framework identifies the institution's strategic commitment to sustainable development, which is an integral part of the institution's approach to risk management. The sustainability framework consists of the institution's policies and performance criteria for environmental and social sustainability, and its policy on access to information (Lagoarde-Segot, 2019). The policy on environmental and social sustainability describes the organization's obligations, roles and responsibilities for environmental and social sustainability. The policy ensures that the institution's access to information is committed to transparency and good governance in its operations, and clarifies its corporate disclosure obligations with regard to its investment and advisory services. The sustainability approach for financial institutions consists of considering the potential impact of each activity on its physical or human environment.

## **2.3 Saudi initiatives in the field of sustainability and CSR**

Saudi Arabia is one of the rapidly growing economic powers in the region. The Kingdom has responded to western nations' economic recommendations while upholding traditional and social systems. Since the last decades, the government has adopted complete economic plans, aimed at attaining economic and technological growth while mainstreaming its economy into the worldwide market (Elasrag, 2014). Previous plans had sought to intensify the growth rate in its gross domestic product,

and expand the economy (Aina, et al., 2019). Among the good initiatives related to sustainability in Saudi Arabia, a conference entitled "The Forum of Saudi Banks and Social Responsibility under the Vision of the Kingdom 2030", organized by the Saudi Center for Social Responsibility in partnership with the Saudi Arabian Monetary Authority (SAMA), On January 10, 2019, was a case in point.

## **3. Statement of the Problem**

It is clear that financial institutions have adopted a CSR strategy. The question addressed throughout this work is to determine whether what appears to be a change in these institutions towards greater sustainability is a real engagement of the latter or if it is simply a pure ritualism. Do the banks, that serve the citizens, have a concrete and profound desire to clean up the system in which they have been "misled" in the past, or will this be only superficial? What place is really given to ethical and social finance in banking industry? To answer these questions, this study presents a theoretical framework, to clarify the concepts of CSR and sustainability.

## **4. Need of the Study**

This paper does not pretend to lead to the proposal of an ideal banking and financial model to follow. Its main purpose is to explore the practices of various banks and help them to transition into a sustainable and socially responsible economy.

## **5. Objectives of the Study**

Showcase Saudi sustainability efforts, especially for the financial sector.

Measure the extent of sustainability reporting made by financial industry in Saudi Arabia.

This study examined Saudi specificities in the domain of CSR and the initiatives of this country in promoting the sustainability, in their financial institutions in the field. Based on a qualitative empirical analysis, the extent to which the banks demonstrate a willingness to adopt in their operation, the criteria previously targeted as specific to ethical and social banks, on the basis of their reporting in their websites of items related to sustainability were determined.

## 6. Hypotheses of the Study

In an exploratory phase, stakeholder theory describes a number of relationships between the organization and its environment, including the communication and dissemination of financial and/or non-financial information (**Ben Mahjoub, 2019**).

**Danastas and Gadenne (2006)** examined the use of corporate social and environmental information by Australian non-governmental organizations (NGOs). Their study indicated that this information was often not very credible and for these NGOs, the most often used media was no longer the annual report of the company. The website ranks second when one considers the percentage of users, just after the environmental report. National Commercial Bank conducted a study, in 2009, on CSR in Saudi Arabia and the Saudi society's view of this concept. This study showed the current level of awareness in Saudi Arabia about corporate social responsibility and how to deal with it. Sixty two percent of the respondents believed that the social services provided by the institution did contribute to the development of a stronger relationship between the institution and its customers while forty nine percent of respondents reported that companies, engaged in social services, adopted good business ethics (**Elasrag, 2014**).

**NH-1:** Saudi Financial institutions do not communicate about sustainability in their websites.

**NH-2:** There is no statistical difference in the mean between the dimensions of sustainability reporting, made by Saudi Financial Institutions.

## 7. Research Methodology

### 7.1 Sample Selection

The rating of the grid of items, related to sustainability reporting, was based on a score from zero to three. Three points were given for an item described monetarily or quantitatively, two when an item was described precisely, one for an item discussed in general, and zero for no information about the item. The sample consisted of 46 companies, 13 banks and 33 insurances and / or reinsurances.

### 7.2 Sources of Data

Content analysis of financial institutions' websites in Saudi Arabia, was undertaken. The grid analysis method was used, which was based on giving number to the corresponding item of sustainability, according to the extent of its existence in the website of the companies. This thematic approach was based on the grid, built on the standards of the Global Reporting Initiative (GRI), created in 1997 and the ISO 26000 standard, established in 2010 (**Appendix-1**).

### 7.3 Period of the Study

This research was carried out in 2018.

### 7.4 Variables Measurement and Statistical Tools Used

To measure the sustainability reporting index, the degree of institution communication on the website, by coding a grid of items relating to sustainability, assigning values from zero to four, dependent on the quantity or quality of reported information in the firm's website, was evaluated.

## 8. Data Analysis

### 8.1 Test of the hypothesis: Extent of Sustainability Reporting in Saudi Financial Institutions' websites

According to the results of "Sustainability Reporting Score" in **Table-1**, It was concluded that the Saudi financial institutions communicated more about employees and customers than on other dimensions. This was corroborated by the F statistic value and the p value (1.773) of significance, being bigger than five percent. Hence the **NH-1: Saudi financial institutions do not communicate about sustainability in their websites**, was rejected.

**Table-2** revealed the existence of correlation between majority of six dimensions of the sustainability, at the level of five percent. Sustainable development becomes synonymous with the ability of a system to regenerate, or a territory to reterritorialize virtuous relationships between sustainability in the social, environmental, economic, political and territorial. Hence, the **NH-2: There is no statistical difference in the mean between the dimensions of sustainability reporting made by Saudi Financial Institutions**, was rejected.

The paper revealed that Saudi financial institutions did have a broad understanding of sustainability. Consistent with common prospects, these organizations appear to be committed to meeting government regulations and rules. While manifesting the strictness of government regulations, the results reported a great degree of thoughtfulness and receptiveness of the CSR standards and sustainability. The practice of CSR and sustainability, reported by financial industry, was not far from what companies do, For example,

the study of **Habbash (2016)** found that the CSR disclosure average was 24 percent, higher than 15 percent in the study of **Al-Janadi, et al., (2013)** and 16 percent reported by **Macarulla and Talalweh (2012)**. On the other hand, it was revealed that the dimensions of customers and employees were within the social aspect of sustainability and the sample financial institutions could not focus more on the environmental side(**Cuadrado-Ballesteros et al., 2016**).

## 9. Findings of the Study

The objective of this research was to measure the level of disclosure on sustainability by the financial industry in Saudi Arabia and the study reported promising results. In all cases, adopting responsible and sustainable behavior was beneficial to these financial institutions. The leaders were led to engage more in the social rather than in the environmental, as this investment brought profitability for the firm in general and contributed to social welfare (**Robins, 2011**). The establishment of stable relationships with suppliers and especially the development of innovation potential for new products, new markets or new processes, the development of a stakeholder management capacity, enriched the skills of the company and provided it a competitive advantage. By integrating social and environmental standards, they could be ahead of new regulations and benefit from an advantage over competitors.

## 10. Suggestions

There is need for specialized departments of social responsibility within the financial institutions, to plan and implement programs and co-ordinate with the relevant authorities. They could transfer expertise and global experiences

and identify the strengths and weaknesses of applying best practices in the areas of social responsibility and sustainability. There is need for more legislation, to ensure transparency and disclosure by companies, implementing CSR and sustainability. Today there is a discernible trend towards the creation of green banks. For example, in the Netherlands, there are about ten “green” banks, whose subsidiary RABOBANK, is a leader with 52 percent of the market.

### 11. Conclusion

The objective of this research was to measure the level of disclosure on sustainability, by the financial industry in Saudi Arabia. The study found advantageous and promising results. In all cases, adopting responsible and sustainable behavior was found to be beneficial for these financial institutions. The leaders were led to engage more in the social rather than in environmental, as this investment yielded profitability for the firms in general and contributed to social welfare (Robins, 2011). The establishment of stable relationships with suppliers, and especially the development of innovation potential for new products, new markets or new processes, the development of a stakeholder management capacity, enriched the skills of the company and provided it a competitive advantage. By integrating social and environmental standards, they could be ahead of new regulations and benefit from an advantage over competitors.

### 12. Limitations of the Study

This study focused only on 46 companies, from bank and insurance sector, whereas other sector companies were ignored.

### 13. Scope for Further Research

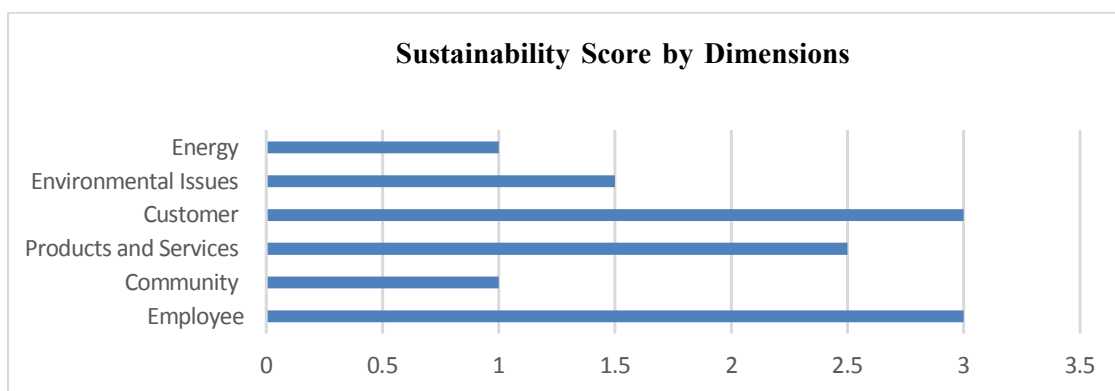
The model used in this study, focusing on Saudi Arabian companies, could be extended to other countries, with more number of samples.

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**Figure-1: Comparison between the Dimensions in the Extent of Sustainability Reporting**



Source: Computed by authors

**Table - 1: Results of Sustainability Reporting Score**

| <b>Dimensions</b>                     | <b>Minimum</b> | <b>Maximum</b> | <b>Mean</b> | <b>Standard Deviation</b> |
|---------------------------------------|----------------|----------------|-------------|---------------------------|
| Employee                              | 2.08           | 3              | 2.77        | 0.612                     |
| Community                             | 1.25           | 1.99           | 1.69        | 0.009                     |
| Products and Services                 | 1.87           | 2.43           | 2.05        | 0.326                     |
| Customer                              | 2.66           | 3              | 2.83        | 0.029                     |
| Environmental Issues                  | 1.09           | 2.07           | 1.85        | 0.067                     |
| Energy                                | 0.56           | 2.03           | 1.38        | 0.103                     |
| <b>Global score of Sustainability</b> | 1.59           | 2.42           | 2.095       | 0.574                     |
| F statistic value                     |                |                |             | 1.773                     |
| P value of significance               |                |                |             | 0.328                     |

Source: Computed by authors

**Table-2: Correlation between Sustainability Dimensions (Pearson Correlation)**

| <b>Dimensions</b>            | <b>Employee</b> | <b>Community</b> | <b>Products and Services</b> | <b>Customer</b> | <b>Environmental Issues</b> | <b>Energy</b> |
|------------------------------|-----------------|------------------|------------------------------|-----------------|-----------------------------|---------------|
| <b>Employee</b>              | 1               |                  |                              |                 |                             |               |
|                              |                 | 1                |                              |                 |                             |               |
| <b>Community</b>             | 0.337           | 0.069            |                              |                 |                             |               |
|                              | 0.000           | 0.257            | 1                            |                 |                             |               |
| <b>Products and Services</b> | 0.073           | 0.172            | 0.138                        |                 |                             |               |
|                              | 0.229           | 0.004            | 0.023                        | 1               |                             |               |
| <b>Customer</b>              | 0.111           | -0.119           | -0.0346                      | -0.229          |                             |               |
|                              | 0.039           | 0.048            | 0.000                        | 0.000           | 1                           |               |
| <b>Environmental Issues</b>  | 0.035           | 0.195            | -0.084                       | 0.106           |                             |               |
|                              | 0.568           | 0.001            | 0.167                        | 0.023           |                             |               |
| <b>Energy</b>                | 0.313           | 0.238            | 0.087                        | 0.125           | 0.165                       | 1             |
|                              | 0.000           | 0.000            | 0.004                        | 0.000           | 0.006                       |               |

Source: Computed by authors



**Appendix-1: Sustainability Index based on GRI Guidelines and ISO 26000 Core Subjects.**

|                                                                        |                                                    |
|------------------------------------------------------------------------|----------------------------------------------------|
| <b>1. Employee</b>                                                     | <b>4. Customer</b>                                 |
| Employee data                                                          | Commercial and marketing information               |
| Training & development                                                 | Meeting customers' needs                           |
| Employee benefits                                                      | Customer feedback                                  |
| Pension                                                                | Customer service                                   |
| Workplace                                                              | Customer satisfaction                              |
| <b>2. Community</b>                                                    | Existing certificated systems of quality           |
| Community investment                                                   | <b>5. Environmental Issues</b>                     |
| Contribution to national economy                                       | Environmental policy statement                     |
| Education                                                              | Designing facilities harmonious with environment   |
| Health and safety                                                      | Using recycling material                           |
| Social loan                                                            | Sponsoring environmental activities                |
| Social activities support                                              | Pollution                                          |
| Funding scholarship programmes                                         | Waste management                                   |
| Human rights                                                           | Conservation of natural resources                  |
| Charity, donations, Zakah, Hajj, for Quran and Ongoing Charity (WAGFF) | <b>6. Energy</b>                                   |
| Others disclosure related to Shariah activities                        | Disclosing the company's energy policies           |
| Volunteering                                                           | Conservation of energy                             |
| Establishing non-profit projects                                       | Disclosing increased energy efficiency of products |
| <b>3- Products and Services</b>                                        |                                                    |
| Developing & innovating new products                                   |                                                    |
| Product & service quality                                              |                                                    |
| ISO & other awards                                                     |                                                    |
| Guidance campaigns                                                     |                                                    |

*Source: Computed by authors*