Legal Status of Corporate Social Responsibility in GCC countries with special reference to Bahrain

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Abstract

Earlier the concept of corporate social responsibility (CSR) was based upon philanthropic approach but now has become an imperative subject matter in the business world. Countries adopt different measures to implement CSR. In many countries, CSR is self-regulated voluntary activity like in Gulf cooperation countries. In Gulf countries the concept of Zakat Tax is equivalent to CSR. Though there is no legal mandate for CSR implementation in Gulf countries still its filing and listing is mandatory. For the present study Doctrinal method is adopted by the researcher. The sources referred are primary as well as secondary for primary sources Status and Government notifications and reports of the Committees are referred and in secondary sources newspaper reports, scholarly research articles are referred. The present paper is analytical in nature as it analyses the concept of CSR in consonance with other aspects such as legal mandate under Business law. It further aims to study the implications of mandating CSR. The present study is about CSR in GCC with special reference to Bahrain.

Keywords: CSR, Mandate; GCC; Bahrain.

Introduction

The Cooperation Council for the Arab States of the Gulf (GCC)³ comprises six States: The Kingdom of Saudi Arabia (KSA), the United Arab Emirates (UAE), Oman, Bahrain, Kuwait, and Qatar⁴. CSR is broadly defined as the broader responsibility of businesses to society.⁵ Corporate governance (CG) in the Gulf Cooperation Council (GCC) countries is affecting all of business environment.⁶ CG was first addressed in the GCC states in 2002 when Oman issued the first CG code⁷ for listed companies⁸. Other Five GCC countries too have recently updated their Corporate Governance (CG) codes in accordance with recent developments in CG worldwide, in order to improve the attractiveness of their business environments for increasing inflows of FDI and for access to capital markets with low funding costs⁹. There are two chief forms of expressive corporate governance codes; the first is ‘principles-based’ approach and the ‘rules-based’ approach. In the GCC, corporate governance codes can be attributed to rules-based approach, as here specific instructions are provided, and a set of rules are explained for extorting observance¹⁰.

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³ Is a regional organisation formed in 1981.
⁵ CSR is broadly defined as the broader responsibility of businesses to society.
⁷ - The G20/OECD Principles of Corporate Governance help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to supporting economic efficiency, sustainable growth and financial stability. First published in 1999
However, it has been reported in Ted Arabia that CSR practices have improved over the past several years, but still needs improvements as the governance practices are generally weak in non-financial corporate in the GCC, because many of them are controlled by their origin families with partial financial lucidity\textsuperscript{11}. Lulu group won the Corporate Social Responsibility (CSR) Award in the ‘Best Company in the Private Sector’ category at the 8th CSR Awards this year for its "earnest efforts" towards ‘Social responsibility in facing Covid-19\textsuperscript{12}. In the year 2004, the Arabia CSR Network (ACSRN) is the first multi-stakeholder platform that engages small and large businesses and government institutions to strengthen their commitment to sustainable development across the Arab world. The Arabia CSR network also aims to bring into greater focus the local and regional efforts undertaken at the corporate and civil society levels to further the case of CSR in the Middle East. Working under the slogan “Building Partnerships for a Sustainable Future “. The Arabia CSR Network’s aim is to facilitate exchange of ideas and to forge lasting partnerships across sectors for an improved society based on UNGC’s ten principles for human rights, labor rights, the environment and anti-corruption.

Based in the UAE, ACSR aims to position the Arab region as a leader in Business Excellence and CSR by working in the areas of sustainability awards, research, training and more. Over the year it has grown into up to be one of the foremost CSR and sustainability related professional organizations in the Arab region.

Welcome to the 17th cycle of the Arabia CSR Awards. A homegrown platform that was instituted in 2008. The Arabia CSR Awards recognize and honors organizations in the Arab Region that demonstrate outstanding leadership and commitment to Corporate Social Responsibility and Sustainability. Hailed regionally and globally as the sustainability benchmark of the Arab Region, the award has grown and expanded its ambit considerably.

Since its inception, the Arabia CSR Awards’ credibility has earned it the trust and recognition of global and regional bodies such as the United Nations Global Compact, the United Nations Environment’s Program and the League of Arab States. This support has ensured that the Awards are well rooted in the region and that it is in sync with the local context and the changes that are undergoing all over the region. This is reflected in the continued and steadily growing interest of organizations from different sectors and sizes to participate from all over the Arab world each year.

Definition of Corporate Social Responsibility

Many authorities and institutions have defined Corporate Social Responsibility in their own fashion. Among them the prominent are the following:

1. In 1999, the World Business Council for Sustainable Development has defined Corporate Social Responsibility as “It is the commitment of Companies to achieve sustainable development of the economy and their commitment to their workers and their families”.

2. The European Union Commission has also defined Corporate Social Responsibility as “Corporate Social Responsibility is the responsibility of the companies to observe their activities and duties towards society voluntarily, these duties are to protect the environment and achieve social benefits.”

3. The World Bank has also defined Corporate Social Responsibility as “Obligation imposed on companies that contribute to sustainable economic development”. This is done through the cooperation with employees, their families, the local community and society as a whole to improve their standard of living in a way that is beneficial to corporate activity and economic development.

The Corporate Social Responsibility has a Moral Nature

The goals of businesses are not only to maximize profits but also to promote social


\textsuperscript{12} - Gulf times April 17, 2021, \url{https://www.gulf-times.com/story/689170/LuLu-Hypermarket-wins-8th-CSR-Award-for-Best-Company-in-Private-Sector}. 

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and economic justice\textsuperscript{13}.

Some believe that what demonstrates corporate social responsibility are the rules of ethics and human rights rules. In addition to both, we have in religion an aspect called takaful. Takaful is considered as an essential social instrument for addressing the problem of poverty in the Muslim community\textsuperscript{14}. The fundamental philosophy of Takaful is the same as that of the cooperative\textsuperscript{15}. According to this view, both companies and society have rights.

They have overlapping duties towards each other, due to and as a result of being part of society.

Due to their interrelated relationships with each other, companies have binding financial and ethical responsibilities. Regarding corporate responsibility and the economics of human rights, it is the responsibility of companies and thus holding companies accountable for unfairness and the spread of unfairness in society as well.

*Corporate Social Responsibility is of a Legally Binding Nature*

The Corporate Social Responsibility is legally binding. But in the United States of America, Corporate social responsibility is not binding. But however, recent research has shown that the perceived corporate social responsibility (CSR) image of a company influences customer purchase criteria\textsuperscript{16}.

However, there are countries where corporate social responsibility has become mandatory.

Such as India, China and Indonesia, as corporate laws in these countries require companies to...

Taking actions that take into account social responsibility, that is, engaging in social activities contributes to protecting the environment.

Corporate social responsibility takes many forms, including respecting the environment and contributing to its conservation when it comes to sourcing materials and processes. Another example is respect for human rights, whether by providing equal opportunities for different social groups or by providing fair pay and a safe working environment for all workers. Funding education and providing training opportunities for future generations of the workforce is a third example.

Corporate Social Responsibility is an idea with a business as a responsibility to the society around it. The Companies should adopt Corporate Social Responsibility in a typical manner, and they are socially responsible for it. It is a type of self-regulation that can be implemented on strategies depending upon the Companies goals.

**Key Components of Corporate Social Responsibility:**

1. **Environmental Responsibility**
   2. Philanthropic Responsibility

**Ethical Responsibility and Economic Responsibility**

**Environmental Responsibility**

Companies that adopt environmental responsibility can do it in the following manner.

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\textsuperscript{14} Yusuff Jelili Amuda, Prince Sultan University, Shafiqul Hassan, Prince Sultan University, Diversification of Motor Takaful Surplus for Socio-Economic Development of Less Privileged Inhabitants in Saudi Arabia, Journal of Legal, Ethical and Regulatory Issues (Print ISSN: 1544-0036; Online ISSN: 1544-0044) p.2.

\textsuperscript{15} (Shafiqul Hassan, College of Law, Prince Sultan University, Yusuff Jelili Amuda, College of Law, Prince Sultan University. MEASURES OF SUSTAINABLE EFFICIENCY OF DIVERSIFICATION OF MOTOR TAKĀFUL FOR LESS PRIVILEGED INHABITANTS IN SAUDI ARABIA, Academy of Accounting and Financial Studies Journal Volume 23, Issue 5, 2019, p.4.)

a) Reduce pollution, green-house gas emission, use of single-use plastic, water consumption and general waste.

b) Increasing release of renewable energy and recycled or partially recycled material.

c) Planting trees, funding research and donating the money to related causes.

Philontrophic Responsibility

Philontrophic responsibility refers to business’s aim to actively make world and society a better place. Companies even dedicate a portion of their profits to donate for charities and non-profit purpose.

Ethical Responsibility

Companies operate their business in a fair and ethical manner. Their main aim is to achieve good terms with the Stakeholders, investors, employees and customers.

Economic Responsibility

Economic responsibility is the practice of a company taking all its financial commitments for doing good in the areas listed above. Finally, its aim is not to maximise profits but there must be positive impact on the environment, people and society.

Corporate Social Responsibility in the Kingdom of Saudi Arabia:

There are many examples of companies and institutions in the Kingdom of Saudi Arabia that are strongly committed to their social responsibility. Let’s take a look at some of them:

• SABIC: The company supports women’s empowerment in an attempt to increase the percentage of women in the fields of science, technology, engineering, and mathematics. In 2019, it launched its scholarship program for Saudis to include female high school graduates, who now constitute 30% of the program’s scholarship recipients. This commitment to education is crucial to ensuring that future female graduates are able to pursue higher education and career opportunities in their chosen fields.

• Almarai Company: Almarai’s community participation focuses on supporting education and excellence through several initiatives such as the Almarai Award for Scientific Creativity, the Almarai Award for Academic Excellence for general education students in the Gulf Cooperation Council countries, and the Almarai Veterinarian Award.

• Al Rajhi Bank: In partnership with the Ministry of Health, Al Rajhi Bank established a cardiac catheterization centre within Al-Rass General Hospital, as well as establishing a centre for physical therapy, occupational therapy, and anti-smoking within Turaif General Hospital.

• SASREF: It is a company owned by Saudi Aramco. SASREF supported the Health Endowment Fund to combat the spread of the emerging Coronavirus (COVID-19), with an amount of 5 million Saudi riyals at the time of the pandemic.

• Saudi Aramco: Aramco supports cognitive enrichment and literacy through the famous national reading competition “Iqraa” and the creative enrichment season “Tanween”, which is organized over 17 days, with the aim of raising the scientific level in the fields of science, technology, engineering and mathematics through interactive and entertaining episodes.

Corporate social responsibility is not a new phenomenon in the field of business in the Kingdom of Saudi Arabia because the culture of giving and charitable work is not linked to development or external direction, but rather it is a culture and lifestyle that the grandparents inherited to their children. Whether the issue is poverty, famine, or a global pandemic, the Kingdom always has an honourable position in the international community regarding all humanitarian issues.

Saudi Arabia, United Arab Emirates Retained the Regional Corporate Social Responsibility Leadership among the GCC – Report.

According to the findings of the second edition of the MENA CSR Survey Report, Saudi Arabia and United Arab Emirates emerged as the Leaders for the second consecutive year for affecting Corporate Social
Responsibility practices. In this report it has been clearly mentioned that 90 per cent adopted that Corporate Social Responsibility will have positive effect on businesses.

The Report was prepared by Dubai-based Communication Consultancy Fir namely, Cicero & Bernays (C&B) in partnership with Global Research Centre Partner3Gem Research and Insights.

The survey of 263 CEOs from United Arab Emirates, Saudi Arabia, Qatar, Oman, Bahrain & Kuwait shows that 9 in 10 respondents from GCC feel that adopting CSR Practices will have positive effect on the Company’s business.

Similarly, Qatar’s Vision 2030 is fostering sustainability and community engagement. With government support and proactive private sectors, these countries lead by example in the region and beyond.

As an example, ConocoPhillips in Qatar is investing heavily in health and safety projects, among other CSR initiatives, for community members where the company operates. It also promotes a healthy lifestyle among its employees and engages its internal stakeholders regularly on workplace safety.

**Legal Status of CSR in Gulf Cooperation countries in general and specifically in Bahrain**

In Gulf countries CSR is a voluntary practice. But filling and listing is mandatory. The current Middle Eastern business arena has observed an explosion of CSR practices due to the impact of globalization. Businesses are now bestowed with accountability for their economic performance and even for their social responsibility and corporate citizenship as these concepts have become part and parcel of mainstream business practices across the region. The Saudi government passed a legislative requirement and it mandates firms to constitute audit committee consisting of minimum three non-executive directors and at least a financial and accounting director; this has resulted in positive impact on CSR disclosure with a higher number of companies registered after its application. Governmental and legislative factors including high bureaucracy, labour laws, corruption, legal systems, and investment regulations still remains as major challenges for implementation of CSR. Islamic religion that is practiced in the GCC countries regards corporate social responsibility as a pious religious obligation to be performed in the form of Zakat tax for business activities. The practice of Zakat tax was prevailing even before the emergence of the concept of CSR and is considered as only one of the secondary pillars of CSR practices which are philanthropic. Social responsibility is present in the GCC in Islamic financial institutions as well. Current CSR activities carried are being conducted by Islamic banks also in the GCC.

The United Arab Emirates has issued the CSR Law in 2018, and it obligates certain companies to report on their CSR activities. The corporate organisations are having discretion in deciding whether to get involved in CSR practices, including ethical work practices. Currently there is no legal binding to adopt CSR with exceptional regulations imposed for conducting business in the GCC region, as moral and ethical duty. In the Kingdom of Bahrain, the Ministry of Industry and Trade has established a technical committee to study the draft international standard of social responsibility. The specification includes a guide to the principles of social responsibility and partnership within enterprises of all kinds, including...

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18. Saudi corporate governance (CG) code
22. Ibid, note 9
governmental, private, industrial and commercial, to have the social relations between company and society, and the aspirations to extend the lines of communication between them at various levels.26

CSR Practices in GCC with Special Reference to Bahrain

Companies in the GCC usually believe that social responsibility and development is the primary goal of the state and not mandatory for businesses. In terms of Religion-CSR logics, the Islamic tradition of Zakat is salient across all GCC countries and has transformed to an institutional annual philanthropy tax.27 However, these practices are usually fragmented and unorganized; although they have set a fertile ground for CSR development as companies view social responsibilities as significant religious obligations, a structured and strategic approach that builds on these religion-CSR logics would enhance their application and effectiveness in contributing to local sustainable development.28 GCC region has reported that corporate environmental exposure is considerably and certainly related to a company’s worth.30 International Financial Reporting Standards (IFRS) compliance across the entire Gulf Cooperation Council (GCC) region by the non-financial listed are not complied with the disclosure requirements of IFRS31.

CSR practices in Bahrain32 Corporate Social Responsibility (CSR) has been rolled out as a mandatory subject in Bahrain’s high schools and universities33 Companies are sustainability reporting; publishing reports on their websites and these reports reflect substantial changes in the companies in terms of the quality of data presented in the reports, strategies, the role of related stakeholders, and reputation34 In the Kingdom of Bahrain, the Ministry of Industry and Trade has established a technical committee to study the draft international standard of social responsibility. The specification includes a guide to the principles of social responsibility and partnership within enterprises of all kinds, including governmental, private, industrial and commercial, to have the social relations between company and society, and the aspirations to extend the lines of communication between them at various levels.35 Bahrain gives humanitarian aid to diminish the impact of disasters and offers more than 600,000 permanent jobs for expatriates. Financial payment from Bahrain towards development and the alleviation of poverty in the home countries of expat workers amounted to BD 927 million (US $2.5 billion) in 2017.36

According to research by K. Ibrahim (2018) the overall CSR in Bahrain is 41% of the utilized score card index. The average sub-indices were 42% for social disclosure, 52% for corporate governance disclosure and 26% for environmental disclosure. Thus, the average CSR level is less than 50% of that anticipated as per the international sustainability standards37.

27. Ibid
29. Gulf Cooperation Council countries
35. Ibid, note 23.
37. Ibid, note 29.
In Bahrain B.S.C (“BCFC”) is a leader in Corporate Social Responsibility (“CSR”) and is one of the largest and most renowned corporations practicing CSR in its business model. In 2017, the Company gave the charity, by focussing on corroborations with community partnerships and active participation with officially-registered not-for-profit organizations, charity societies and other governmental entities that address the special requirements of Bahraini citizens and are actively involved in helping a larger segment of needy families in the society. Zain Bahrain is the most innovative operator in the Kingdom, which is committed to work with various NGO’s for supporting a variety of social, charitable and humanitarian initiatives under its Ramadan CSR Program, ‘Enrich Your Ramadan’.

Aluminium Bahrain (Alba), the Bahrain-based aluminium smelter, has been awarded with the ‘Bronze Medal’ 2020 in recognition of its commitment and performance in terms of corporate social responsibility (CSR) by the international rating platform Eco Vadis.

In the wake of Covid-19 pandemic the Bahraini start-ups are taking initiatives by paying back their communities via various initiatives which includes free services, awareness and safety campaigns, guidelines and tips from founders and more. The six start-ups that are leading the frontlines include Skiplino (virtual intelligent queueing app); Ge Baqala (grocery store delivery app), Weyak (digital pharmacy app) Haya-Tech (wellness technology platform); Springing (education cloud-based services for teachers and students) and Al-Rawi (an Arabic audio platform) used for increasing awareness and knowledge through reading.

In Bahrain there is a strong presence of organizational values, and most of the respondents perceive CSR as an important component in organizations. Business Organizations in the Kingdom of Bahrain has displayed through their corporate practice the manner in which the affected people can be helped.

Conclusion

The greater managerial ownership has affirmative impact on CSR revelation in GCC. The current CSR activities carried out by Islamic banks in the GCC may perhaps have a long-term impact on their financial performance. The concept of mandating CSR seems to compel companies to think beyond Profit and accept that they owe a duty towards the society from which they are gaining profits and return them their due share as a welfare measures.

The GCC countries though do not legally mandate CSR still the approach is inbuilt in their governance due to religious beliefs in the form of Zakat Tax. Bahrain has issued guiding principles to corporations for practicing CSR. Some organizations have voluntary undertaken the CSR activities in times of pandemic in Kingdom of Bahrain. This is noteworthy that in India though legally mandated all Companies do not abide the laws and yet another example is of GCC and Bahrain that despite being voluntary organization still pays back the society willingly. GCC countries will need time to evolve their corporate governance structures, in line with best practices from around the world. There is awareness of the need for patience to allow corporate governance systems to grow into maturity.

Recommendations

- GCC must make it mandatory to publish the reports of CSR spending so that it can inspire other countries and set an example that social cause can be fulfilled even without a legal mandate.

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38. The Bahrain Commercial Facilities Company.
40. Ibid
43. www.binfaqeeh.com- blog
45. S. Darwish &N. El Naggar the Effect of Covid-19 on Corporate Social Responsibility (CSR) Practices Reflections from the Kingdom of Bahrain Journal of Legal, Ethical and Regulatory Issues (Print ISSN: 1544-0036; Online ISSN: 1544-0044) Vol: 24 Issue: 1S
• Providing privileges to companies that excel in their performance in social responsibility and evaluating them as distinct from other companies.
• GCC needs to build a concrete structure for Corporate Governance so that the utilized funds and reserved funds can be accessed and can be spend in more systematic manner for poverty alleviation and educational purpose.
• Publish the names of companies contributing to social responsibility and mentioning their most important achievements in the social field with the aim of encouraging other companies to follow and reward them.
• CSR funds must be used for educational support as its concept is based upon Zakat in GCC from religious perspective and even gaining education is mandatory in Islam.

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