Corporate Social Responsibility and Foreign Ownership in The Gulf Cooperation Council Countries

Author: Nicole Nazeli Yacoubian
University of Twente
P.O. Box 217, 7500AE Enschede
The Netherlands

ABSTRACT,
This study examines the impact of foreign ownership on corporate social responsibility (CSR) performance across the environmental, social, and governance pillars within the Gulf Cooperation Council (GCC) region. Specifically, the research aims to uncover foreign shareholders' positive influence on CSR practices in light of the region's growing openness to foreign investment. The sample comprises 174 firms from various countries and industries, encompassing both public and private entities, for 2023. This study further uses multivariate regression analyses with ordinary least squares (OLS) to test three hypotheses with respect to three pillars. After controlling variables total assets and board size, the findings demonstrate an insignificant relationship between increased foreign ownership and CSR performance across all pillars, thus no support for theories of legitimacy, transparency, and the diverse tendencies of foreign shareholders.

Graduation Committee members: Xiaohong Huang; Laura Spierdijk

Keywords
Corporate Social Responsibility, Foreign Ownership, Gulf Cooperation Council

This is an open access article under the terms of the Creative Commons Attribution License, which permits use, distribution and reproduction in any medium, provided the original work is properly cited.

CC-BY-NC

1. INTRODUCTION

Since the 1920s, corporate social responsibility (CSR) has gained considerable recognition. It has attracted significant attention due to the evolving societal landscape, emphasizing ethical standards and environmental protection. Traditionally, companies focus primarily on profit maximization, but the changing expectations of stakeholders and shareholders have increased pressure on companies to prioritize CSR alongside economic goals and creating shareholder wealth (Menguc & Ozanna, 2005). The Triple Bottom Line (TBL) accounting framework, introduced by John Elkington in 1994, has played a pivotal role in shaping the importance of CSR for modern enterprises. This framework acknowledges the interconnectedness of economic, environmental, and social sustainability challenges, thus urging companies to consider the impact (Peloza & Shang, 2011). Consequently, CSR has become a global phenomenon, prompting developing countries to launch campaigns and regulate laws to emphasize its significance. In addition, various international organizations have introduced initiatives such as SA8000, the United Nations Global Compact, ISO26000, and numerous other agendas.

When shifting the focus on the developing economy of The Gulf Cooperation Council (GCC), notable events such as the EXPO 2020 in Dubai and the FIFA World Cup 2022 in Doha have significantly boosted the region's economy, attracting foreign investors. The region has thus been developing at its fastest pace, with a 3.6% growth, placing it second highest in gross domestic product (GDP) growth, after sub-Saharan Africa with a 3.7% growth (IMF, 2023). Considering GCC's emerging status, participation in global trade and investment liberalization trends, limitations on majority domestic ownership have gradually reduced and promoted greater accessibility to foreign investors (Bley & Saad, 2011). For instance, The United Arab Emirates (UAE) government amended the federal Commercial Companies Law (CCL) in 2021, granting foreign investors full ownership of specific businesses, proving investment is not limited to a maximum of 49% but up to 100% (United Nations, 2020) by foreign shareholders. According to Ball et al. (2002), activities also include the growing foreign attraction in varied sectors such as transport, tourism, and construction, which significantly drives the region's economy. Despite the challenges posed by the COVID-19 pandemic and the war in Ukraine, the GCC has managed to sustain its growth, primarily driven by oil prices, real estate, and tourism (United Nations, 2022) which shows not only the dynamics of production but also a profitable market while in return, foreign ownership fosters the stock market development and consequently GDP (Tsagkanos et al., 2019). Therefore, focusing on this region represents a practical approach for individuals and institutions interested in making informed decisions regarding settlement and investment activities by understanding the region's cultural and social dynamics.

Ultimately, this paper investigates *how the inflow of foreign investment affects CSR practices in the GCC region*.

Several existing academic contributions in the region have concentrated on examining variables such as CSR disclosure, overall firm performance, and financial performance. These investigations have consistently shown positive outcomes regarding CSR impact and vice-versa (Sharma et al., 2022; Oware et al., 2023; Ali et al., 2022). Furthermore, researchers have also explored the relationship between board composition and CSR performance (Arayassi et al., 2020), considering factors such as board gender diversity, board size, and CEO duality. Conversely, the implication of foreign diversity in this context needs to be adequately addressed, given the increasingly open economy in the GCC, which encourages the topic of this paper.

2. LITERATURE REVIEW

CSR encompasses various individuals and groups, including shareholders, stakeholders, employees, and the dynamic environmental landscape influenced by policymakers who shape market demands for continuous improvement. Examining CSR can be approached by focusing on stakeholder pressure as articulated by Donaldson and Preston (1995), where stakeholders actively engage and exert pressure for CSR adoption. This perspective recognizes that stakeholders hold legitimate interests in corporate activities. In line with the agency theory proposed by Jensen and Meckling (1976), firms that heavily invest in CSR initiatives are more likely to signal their long-term commitment and differentiate themselves from competitors (Dhaliwal et al., 2011). This is driven by both shareholder control and stakeholder influence, as well as supported by the profitability aspect, as indicated by Yuan et al. (2011). In the context of profitability and firm size, Singh and Ahuja (1983) and Ghazali (2007) conducted analyses revealing a positive relationship between profitability, age, and size (measured by total assets), and CSR. This finding aligns with Alregab's (2022) study, which further explores the positive correlation between foreign ownership and these variables. Likewise, attracting suitable investments for CSR from shareholders is essential in serving competitive advantage, given their influential interests. It extends beyond financial objectives and remains a top priority for upper management (Suzuki, 2010), establishing corporate governance's essence. To enhance comprehension of the correlation between shareholders and corporate governance, it is essential to familiarize with the OECD Principles of Corporate Governance, as explicated in the OECD/LEGAL/0413 document (2015) under Principle II.A. This principle emphasizes that shareholders possess the ultimate authority to actively participate and vote in general shareholder meetings, thereby strengthening their ability to engage in CSR protocols. Consequently, the composition of shareholders comprising the board significantly impacts the firm's output, as highlighted by Omet (2005).

As policymakers continually attract foreign shareholders, Kostova et al. (2008) reveal that the CSR practices of foreign-owned firms enter markets with resistance. These obstacles arise from the necessity to obtain approval within host countries when entering the regional market, which aligns with the legitimacy theory. The theory is supported by the fact that when firms enter a new market in a specific region, host countries often need more familiarity and information about these foreign entities to attain legitimacy. Consequently, these foreign-owned firms are subjected to higher standards of legitimacy than domestic firms operating in the same market. In addition, Kostova and Zaheer (1999) show that these firms invest in enhancing reputation through various means, such as actively promoting stakeholder welfare and engaging in environmental protection initiatives as they seek to establish themselves as responsible and trustworthy actors in the local business landscape, thus contributing to their legitimacy-building efforts.

Furthermore, according to Bansal and Roth (2000), foreign-owned firms are more likely to encounter societal boycotts, legal notices, costly penalties, and lawsuits which further motivate CSR engagement. Given such attacks, firms are also driven to voluntarily disclose more information (Kolk & Fortanier, 2010). In response to public pressure, firms may

adopt different approaches regarding their level of CSR disclosure. On one hand, some firms might seize the opportunity to reduce their level of CSR disclosure, which could make foreign-owned firms comparatively less appealing in profitable ventures. On the other hand, firms might choose to incorporate comprehensive and externally verified CSR disclosures as a strategic measure to establish themselves in a host country. This approach would then yield positive reputation effects. Watts and Zimmerman (1978) also argue that larger firms which handle more social activities are more visible in the public eyes and more politically sensitive to such attacks. Following this argument, foreign shareholders of larger companies may approach CSR activities as part of a strategy to manage or reduce such costs. Efforts in prioritizing transparency, as it minimizes any discrepancies in interest alignment and information precision (Schnackenberg & Tomlinson, 2016), would also promote trust and confidence among local institutions and foreign investors in efforts to increase legitimacy through governance procedures; thus, Dyduch and Krasodomska (2017) point out that companies with a low proportion of foreign owners are the least likely to disclose the impact of their business operations on CSR fully.

The diversity of CSR practices across countries, influenced by their unique environmental and cultural landscapes, highlights the varied approaches and priorities firms adopt. Kang et al. (2019) emphasize that foreign investors exhibit different CSR tendencies based on their practices, regulations, and societal values. To effectively enter a new market, foreign investors pay particular attention to the CSR practices of the host countries. This attention often involves monitoring social management practices and promoting long-term sustainable development within the enterprises (Shin & Park, 2020). Besides, by examining the source of foreign ownership within the sample, it is observed that most foreign investors are listed in North America and Europe. These regions generally exhibit a more substantial commitment to CSR engagement, which increases the likelihood of GCC countries adopting similar practices (Attig et al., 2016; Zhang & Luo, 2013). Furthermore, Gnyawali's theory (1996) and other studies (Panicker, 2017) suggest that individuals residing in countries with the highest GDP, such as the United States, China, Japan, Germany, United Kingdom, India, and France (The World Bank, 2021), exhibit more significant concern for environmental and social responsibility. Consequently, these individuals exert increased pressure on firms to demonstrate socially and environmentally responsible practices when investing abroad.

By investigating the impact of foreign ownership on CSR and considering the variation in ownership structure within corporate governance, tackling the attributes of CSR is a crucial step forward. Uyar et al. (2022) emphasize that one of the critical factors in establishing a solid foundation for CSR is the integration of environmental, social, and governance (ESG) dimensions within the corporate governance structure of firms. This integration enhances the implementation of CSR strategies and enables investors to make more informed financial decisions (Rodriguez-Fernandez et al., 2019). The ESG framework was established in 2015 as a collaborative effort among financial institutions under the United Nations. This framework allows CSR to be viewed as a criterion for assessing the performance and sustainability of companies (Ortas et al., 2015). The ESG framework encompasses various factors under three key sectors: environmental, social, and governance. Factors such as resource use, emission reduction efforts, and innovation in sustainable practices are considered within the environmental sector. The social sector encompasses workforce well-being, human rights, community engagement, and product responsibility. Lastly, the governance sector addresses issues related to management practices, shareholder rights, and the overall CSR strategy adopted by the company (Refinitiv, 2022). By incorporating these three dimensions into the corporate governance structure, companies can ensure a comprehensive approach to CSR and align their practices with international standards and expectations. This integration allows stakeholders, including investors and the wider public, to assess and evaluate the company's CSR performance more effectively. In line with Ortas (2015), this study adopts a similar approach to categorizing CSR performance into three groups. This method is anticipated to yield more accurate and specific results pertaining to each pillar. Furthermore, the study examines which of these three groups is influenced the greatest by foreign ownership. Hypothesis development is also supported given the aspects of the inflow of foreign investment and their rights in the process of influencing CSR, gathered evidence that explore expected legitimacy, pressured transparency, and the effects of differentiated CSR strategies.

Hypothesis 1A: Foreign ownership has a positive impact on the environmental score.
Hypothesis 1B: Foreign ownership has a positive impact on the social score.
Hypothesis 1C: Foreign ownership has a positive impact on the governance score.

3. METHODOLOGY

This study's methodology involves both descriptive statistics and ordinary least squares (OLS) multivariate regression analyses as conducted by Rodriguez-Fernandez et al. (2019). The normality and homoskedasticity assumptions were assessed to ensure the validity of the regression analysis conducted on the sample. Normality was evaluated through visual inspection of the residual histogram, which closely resembled a bell-shaped curve, and the Shapiro-Wilk test, which yielded a non-significant result ($p > 0.05$), indicating that the residuals followed a normal distribution. Homoskedasticity was examined using scatter plots of the residuals against the predicted values and the independent variable of OS, revealing a random scatter pattern without any trends. These findings affirm that the normality and homoskedasticity assumptions are upheld, strengthening the reliability of the regression analysis followed by t-testing.

The Thomson Reuters Database, specifically Refinitiv Eikon, is utilized to extract a sample, which is then combined with reported ESG score grades based on regional incorporation. Variables are then assigned to capture ownership structure and ESG dimensions, including distinguishing the breakdown of shareholder location into binary values and transforming the ESG score grades into scaled values ranging from 0 to 100. Control variables such as total assets and board size are also included to account for potential confounding factors. The natural log was applied to total assets to mitigate potential measurement and measurement scaling issues. Regression models are as follows:

$$EPS = \beta 0 + \beta 1(OS) + \beta 2(TA) + \beta 3(BS) + \varepsilon$$
$$SPS = \beta 0 + \beta 1(OS) + \beta 2(TA) + \beta 3(BS) + \varepsilon$$
$$GPS = \beta 0 + \beta 1(OS) + \beta 2(TA) + \beta 3(BS) + \varepsilon$$

3.1 Variables

The independent variable of interest is the proportion of equity, or the total stake held by foreign shareholders, serving as a proxy for foreign ownership as depicted in the studies by Schmalz (2021) and Kabir et al. (2021). As presented in Table 1, when this percentage exceeds 51%, a majority foreign

ownership or majority foreign-controlled company is established which enables more control in corporate governance and CSR influence as defined by OECD principles, rather than the count of foreign shareholders. As an illustration, the Saudi Investment Bank SJSC has 78 outside GCC investors. However, these investors contribute little to the overall control of the bank. The primary investor that holds the most influence in determining the bank's value is the Saudi Government, the only GCC investor in the firm.

To support the hypotheses, it is expected that the independent variable will exhibit a positive coefficient, indicating a positive relationship across all ESG pillars. Additionally, the associated p-value should exceed the chosen significance level of 0.05. The dependent variable is the ESG score grades which are divided into the three individual ESG pillars. This allows for further analysis to examine whether a specific pillar performs contrarily than others in the presence of foreign ownership.

Table 1. Variable description.

Environmental Pillar Score *EPS*, Dependent	A company's impact on living and non-living natural systems, including the air, land and water, as well as complete ecosystems. It reflects how well a company uses best management practices to avoid environmental risks and capitalize on environmental opportunities to generate long term shareholder value (Refinitiv Eikon, 2022).
Social Pillar Score *SPS*, Dependent	A company's capacity to generate trust and loyalty with its workforce, customers, and society, through its use of best management practices. It reflects the company's reputation and the health of its license to operate, which are key factors in determining its ability to generate long term shareholder value (Refinitiv Eikon, 2022).
Governance Pillar Score *GPS*, Dependent	A company's systems and processes, which ensure that its board members and executives act in the best interests of its long-term shareholders. It reflects a company's capacity, through its use of best management practices, to direct and control its rights and responsibilities through the creation of incentives, as well as checks and balances in order to generate long term shareholder value (Refinitiv Eikon, 2022).
Ownership Structure *OS*, Independent	The proportion of equity, or the total stake held (Schmalz, 2021; Kabir et al., 2021). Dummy variable which receives the value of 1 if the company has majority foreign shareholders owning stake (above 51%), 0 otherwise.
Board Size *BS*, Control	The total number of board members at the end of the fiscal year (Refinitiv Eikon, 2022).
Total Assets *TA*, Control	The total assets reported by a company (Refinitiv Eikon, 2022).

Ultimately, the study investigates the potential influence of company attributes and governance components on the level of CSR performance by integrating board size and total assets. Previous studies by Barakat et al. (2015), Isa & Muhammad (2016), Majeed et al. (2015), Oh et al. (2016), and Stuebs & Sun (2015) have also examined these variables concerning the CSR domain and corporate governance.

3.2 Data Description

The sample comprises companies listed in Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. Data availability is based on the transparency and accessibility of information, particularly concerning location breakdown statistics of shareholder identities. Considering that most regional firms are domestic, a filter is applied to limit the sample to those with top-ranking market capitalization. However, it is essential to note a limitation in the data. The 2021 amended law in the UAE allows foreign investors to own from 51% to 100% of mainland companies. Given that a significant number of firms in the sample come from the UAE, this policy change is a recent development and contributes to the limitation in the data available on foreign-owned companies. Given the UAE's prominent economic status and international significance in the Middle East (Mallakh, 2018), it is reasonable to expect that most firms in the sample originate from cities such as Abu Dhabi and Dubai. These cities have a strong presence in the experiment results due to their large sample size and attractiveness for businesses relocating to the country. The impact of privatization on the UAE's federal public sector (Mansour, 2008) further supports this notion, as it has attracted increased foreign attention enabled by amended laws.

When converting ESG score grades into quantitative forms, the conversion notes that a total of 12 grades from D- to A+ are available, which are then broken down to scale 100%, as referred to in Table 2. The score grades (SG) are then replaced with percentages, namely scaled values (SV). It can be inferred that the ESG scores on Refinitiv Eikon are derived from secondary rather than primary data. Refinitiv's ESG scores reflect a data-driven assessment of companies' relative ESG performance and capacity (Refinitiv, 2022), which are then based on the standardization of transparency of various ESG data points collected from multiple sources. Such sources include statements, peers, reports, and charts.

Table 2. Conversion of score grades into scaled values.

SG	D-	D	D+	C-	C	C+
SV	0	9.09	18.18	27.27	36.36	45.45
SG	B-	B	B+	A-	A	A+
SV	54.54	63.63	72.72	81.81	90.9	100

4. EMPIRICAL RESULTS

4.1 Descriptive Statistics

Table 3 provides descriptive statistics on the ESG scores based on ownership type, offering insights into the CSR performance of foreign-owned and domestically-owned firms. On average, foreign-owned firms exhibit higher ESG scores than domestically owned firms. This finding aligns with previous research by Shin & Park (2020), Attig et al. (2016), and Zhang & Luo (2013), which emphasizes the prioritization of CSR by foreign investors in host countries. These investors are influenced by their cultural tendencies and exert pressure on firms to demonstrate CSR practices. The higher standard deviation for foreign-owned firms in the ESG scores indicates the presence of diverse CSR standards across sectors and countries within the region. This diversity reflects the close alignment of foreign-owned firms with the CSR standards prevalent in their respective host countries, as highlighted by Kang et al. (2019).

Table 3. Descriptive statistics.

Panel A. Domestic Firms							
	Obs	Mean	Median	Mode	St. Dev	Min	Max
EPS	146	14.82	0	0	22.03	0	90.9
SPS	146	25.53	18.18	9.09	22.85	0	100
GPS	146	49.93	54.54	54.54	22.43	9.09	100
TA	146	17.3 bil. USD	2.8 bil. USD	-	43.1 bil. USD	33 mil. USD	324.4 bil. USD
BS	146	8.38	9	9	1.95	5	13
Panel B. Foreign-Owned Firms							
	Obs	Mean	Median	Mode	St. Dev	Min	Max
EPS	28	18.83	9.09	0	23.20	0	72.72
SPS	28	28.57	22.73	9.09	22.09	0	81.81
GPS	28	53.57	63.63	63.63	29.62	9.09	100
TA	28	17.1 bil. USD	1.8 bil. USD	-	45.1 bil. USD	49.2 mil. USD	202.9 bil. USD
BS	28	8.68	9	9	1.70	5	11

Moreover, the broader range of industries sectors in which foreign-owned firms operate is supported by the findings of Ball et al. (2002), suggesting that these firms engage in CSR practices across various sectors. In the Appendix, Figures 1 to 3 showcase the variations in performances across all pillars, demonstrating a consistent and balanced approach to governance practices across sectors. However, when it comes to environmental and social tendencies, there are notable differences across sectors, particularly with financial and leisure sectors, as well as a few industrial areas, displaying lower performances.

It is noteworthy that foreign-owned firms still exhibit low mode scores, particularly in the environmental and social pillars, with D- and D grades being the most frequent. It is essential to consider that the firms within this sample make up only 16.09% of the total data, which deviates from the overall pattern. This indicates that while foreign-owned firms generally perform better in ESG scores, there are still areas for improvement, particularly in the environmental and social dimensions. In contrast, domestically owned firms have the advantage of achieving two maximum A+ grades, but only in the governance pillar. It is worth noting that the governance pillar also exhibits the highest average score among both ownership structures. Jitmaneeroj (2016) highlights that the governance pillar has negligible influence on overall CSR performance. This suggests that domestically owned firms may need to enhance their performance in other dimensions, such as environmental and social, to achieve comprehensive CSR practices. Ultimately, control variables board size and total assets do not show significant differences amongst both structures. Considering the statistical findings and the recent amendment in the law aimed at increasing foreign shareholder participation, it is probable that GCC countries will adopt similar CSR practices, as indicated by previous studies (Attig et al., 2016; Zhang & Luo, 2013). However, researchers should exercise caution when integrating empirical results, as the scores range from a recently changed policy that fosters more significant attraction of scores from foreign-owned firms. Additionally, the low tolerance in domestic firms adopting similar CSR practices should be taken into account.

4.2 Multivariate Analyses

Table 4. Multivariate regression analyses.

	EPS Model	SPS Model	GPS Model
Intercept	-33.84 (-1.96) 0.05*	-20.64 (-1.17) 0.24	-11.71 (-0.64) 0.52
TA	4.47 (2.47) 0.01**	3.20 (1.73) 0.08	5.17 (2.71) 0.01**
BS	0.79 (0.89) 0.37	1.92 (2.13) 0.03*	1.57 (1.67) 0.10
OS	4.10 (0.91) 0.37	2.69 (0.58) 0.56	3.54 (0.74) 0.46
R^2	0.07	0.07	0.09
Adjusted R^2	0.05	0.05	0.07
Significance F	0.03	0.02	0.01
F-Statistic	2.95	3.24	4.31

4.2.1 Environmental Pillar Score

The analysis of the main independent variable OS (β = 4.10, t-statistics = 0.91, p > 0.05) suggests that firms predominantly owned by foreign investors tend to have higher environmental scores while rendering the relationship statistically insignificant. This suggests that the evidence does not provide a strong basis to conclude that foreign ownership has a positive impact on environmental scores. Furthermore, the regression results reveal a positive relationship with other control variables. TA exhibits a positive impact on environmental scores (β = 4.47, t-statistic = 2.47, p = 0.01), indicating that an increase in TA corresponds to a significant increase in environmental scores. Similarly, BS also shows a positive relationship (β = 0.79, t-statistic = 0.89, p = 0.37); though, since the p-value for BS is above the chosen significance level, the relationship between BS and environmental scores lacks statistical significance. Given the p-value for OS is above 0.05, the model explains a significant portion of the variation in the dependent variable. The obtained R-squared (R2) value of 0.07 suggests that approximately 7% of the variance in the dependent variable can be explained by the independent variables. Although this value may appear low, it is not uncommon in complex real-world phenomena where multiple factors influence the outcome of interest. It is important to consider the potential influence of various tendencies among foreign investors, potentially deviating from the region's ideal CSR practices and other unknown factors (Kang et al., 2019). Moreover, the low F-statistic (F-stat = 2.95) implies that the means of the variables are relatively close together, resulting in low variability.

4.2.2 Social Pillar Score

The independent variable OS (β = 2.69, t-statistic = 0.58, p > 0.05) displays a similarly positive relationship, suggesting a potential influence on social scores. However, the p-value associated with foreign ownership indicates statistical insignificance, concluding not enough evidence to reject the null hypothesis. While the coefficient is consistent to prior findings (Watts & Zimmerman, 1978; Shin & Park, 2020), the variable is still insignificant. The control variable TA demonstrates an insignificant positive correlation (β = 3.20, t-statistic = 1.73, p = 0.08), while suggesting that an increase in TA corresponds to higher scores in the social domain of CSR and confirms prior studies by Watts and Zimmerman (1978) though insignificant. This also implies that large firms (measured by total assets) align more closely with CSR on a social level. As noted previously by Dhaliwal et al. (2011), firms inclined toward long-term commitments and competitive advantage seek to allocate assets towards CSR, given the relationship and influence; therefore, this variable plays pivotal influence compared to other factors. Similarly, the coefficient for BS also displays positive associations (β = 1.92, t-statistic = 2.13, p = 0.03); nonetheless, indicating statistical significance. To assess the overall adequacy of the regression model, the R2 value of 0.07 suggests that approximately 7% of the dependent variable's variance can be accounted for, similarly to other pillars. This pattern is evident in other models for reasons such as prior studies considering other ownership dimensions (Ali et al., 2022; Arayssi et al., 2020; Sharma et al., 2022; Omet, 2005; Oware et al., 2023) within composition characteristics, diversified shareholder tendencies (Kang et al., 2019), and a delay in acquiring information (Kostova et al., 2008). Furthermore, the low F-statistic (F-stat = 3.24) suggests similarly limited variability, signifying statistical significance to conclude that the model is explained.

4.2.3 Governance Pillar Score

The analysis results indicate that the control variable TA (β = 5.17, t-statistic = 2.71, p = 0.01) demonstrates the most vital positive relationship with the dependent variable, similar to the findings of the other models examined and previous literature. Moreover, the p-value alone provides statistical significance. On the other hand, the coefficients for BS and OS also exhibit positive associations (BS: β = 1.57, t-statistic = 1.67, p = 0.10; OS: β = 3.54, t-statistic = 0.74, p > 0.05); nevertheless, p-values

for both variables failing to provide statistical significance. The overall fit of the regression model reveals that similarly to the other results, 9% of the variance in the dependent variable is explained. Along with prior findings, the governance pillar also consists of disclosure via transparency (Schnackenberg & Tomlinson, 2016; Dyduch & Krasodomska, 2017) which explains a low R2 considering disclosure level as a factor that plays a role and is not considered in this model. Additionally, the low F-statistic (F-stat = 4.31, Significance F = 0.01) suggests a limited amount of variability explained by the model.

5. DISCUSSION

The empirical analysis, employing descriptive statistics and regression analyses, offers valuable insights into the association between foreign ownership and CSR. The findings indicate a lack of sufficient evidence to reject the null hypothesis, suggesting an insignificant positive impact of foreign ownership on ESG pillar scores. Thus, no support for theories of legitimacy, transparency, and the diverse tendencies of foreign shareholders fully support the findings and may counteract given numerous other factors unexplored. Likewise, recent empirical research has produced inconclusive and mixed results concerning the link between foreign ownership and CSR performance when studying outside the GCC region, highlighting the varying effects of foreign involvement in ownership across different time periods and geographical regions, while simultaneously involving factors not considered in this study. For instance, Douma et al. (2006) conducted a comprehensive study considering diverse types of foreign corporate shareholders and institutions. Their analysis reveals that the positive relationship is driven by foreign ownership in firms displaying greater commitment, larger ownership stakes, and longer-term engagement, taking into account the maturity stage, foreign shareholder type, and the general ambitions of the firms which would otherwise prove insignificant. When considering the level of maturity, it is possible that the tendencies of shareholders and their focus on transparency do not align effectively given firms are faced with different CSR goals at each distinct development stage, and they show only various capabilities and interests of fulfilling social responsibility (Zhao & Xiao, 2019). Referring to previous research by Kang et al. (2019), it could be assumed that diversified shareholder tendencies prioritize the traditional aim of profit maximization over social and environmental concerns, while focusing on numerous other aims to establish legitimacy (Asogwa et al., 2020). Conversely, Phung and Le (2013) focused on listed firms on Vietnam's Ho Chi Minh Stock Exchange from 2008 to 2011, finding a negative impact of foreign ownership. They argue that the monitoring function of foreign ownership is less effective in emerging economies due to inadequate corporate governance practices and information imbalances, which is supported by Kostova et al. (2008). Additionally, industry characteristics, board composition, and the regulatory environment, such as the recently amended law in the UAE, are additional potential factors influencing the insignificant relationship between foreign ownership and ESG pillar scores (Ball, 2002; Arayassi et al., 2020). The results also highlight the significance of control variables, such as total assets in relation to environmental and governance scores, and board size in relation to social scores, as previously found by Alregab (2022), Arayassi et al. (2020), Ghazali (2007), Singh and Ahuja (1983), and Omet (2005).

6. CONCLUSION

The findings of this study show an insignificantly positive outcome between foreign ownership and CSR within the GCC region by employing descriptive statistics and OLS multivariate regression analyses across three key pillars: environment, social, and governance. The lack of a statistically significant relationship between foreign ownership and CSR does not negate the positive impact of foreign ownership on CSR practices. The influence of foreign owners from their origins play a crucial role in shaping CSR standards in the region (Gnyawali, 1996; Kang et al., 2019; Panicker, 2017). These foreign owners face specific requirements and expectations from international markets, which set higher CSR standards for CSR performance (Kostova, 2008), often referred to as legitimacy theory. Foreign shareholders invest in reputation enhancement through various means to establish themselves as responsible and trustworthy actors in the local business landscape. They actively promote stakeholder welfare and engage in initiatives focused on environmental protection, thus contributing to their efforts in building legitimacy (Kostova & Zaheer, 1999) and aligning with the positive coefficients found in this study. Furthermore, the relationship is strengthened by the ability of foreign shareholders to navigate societal boycotts, legal notices, costly penalties, and lawsuits (Bansal & Roth, 2000). To avoid such attacks, CSR becomes a strategic tool, leading to increased transparency in CSR disclosure and a focus on monitoring and promoting sustainability (Kolk & Fortainer, 2010; Schnackenberg & Tomlinson, 2016; Shin & Park, 2020; Watts & Zimmerman, 1978) which in return promotes pillar performance. The impact on policy is extensive, with a emphasis on encouraging CSR transparency and attracting foreign capital. Arayssi et al. (2020) demonstrates that when foreign investors enter a country, they prioritize transparent reporting on CSR issues. This prioritization leads to greater accountability and the implementation of regional policies to ensure transparency. As policies in the region evolve, the economy becomes more open, facilitating the accumulation of capital and fostering long-term GDP growth in host countries (Demir & Lee, 2022). However, there are instances where countries may enforce regulations and restrictions on attracting foreign investors to protect national interests, ensure security, or promote domestic industries. Research conducted in Indonesia suggests that such restrictions can negatively affect the productivity of regulated domestic firms. Consequently, foreign capital may shift from regulated to non-regulated firms operating within the same market (Genthner & Kis-Katos, 2022).

Nevertheless, the pursuit of foreign investment is a relatively recent development in the GCC, which consequently brings about a sense of uncertainty regarding its future which may explain the insignificant relationship between foreign ownership and CSR. Findings outside the region prove that by taking factors such as maturity stage, foreign shareholder type, the general ambitions of the firms, cultural interpretation in perceiving foreign inflow, and other underlying factors from theories of legitimacy, transparency, and diversified tendencies do not necessarily contribute to a positive relationship. Consequently, to gain a more comprehensive understanding of the factors that influence CSR practices in the region, it is important to consider additional factors and the wider spectrum of findings and future research should consider these implications and the ongoing changing landscape of the GCC region to gain a comprehensive understanding of the complex dynamics between foreign ownership structure and CSR practices.

7. REFERENCES

Alregab, H. (2022). The Role of Environmental, Social, and Governance Performance on Attracting Foreign Ownership: Evidence from Saudi Arabia. Sustainability, 14(23), 15626.

Arayssi, M., Jizi, M. and Tabaja, H.H. (2020). The impact of board composition on the level of ESG disclosures in GCC countries, Sustainability Accounting, Management and Policy Journal, Vol. 11 No. 1, pp. 137-161.

Asogwa, C. I., Ugwu, O. C., Okereke, G. K. O., Samuel, A., Igbinedion, A., Uzuagu, A. U., & Abolarinwa, S. I. (2020). Corporate social responsibility intensity: Shareholders' value adding or destroying? Cogent Business & Management, 7(1), 1826089.

Attig, N., Boubakri, N., El Ghoul, S., & Guedhami, O. (2016). Firm internationalization and corporate social responsibility. Journal of Business Ethics, 134(2), 171–197.

Ball, A. D., Wendell, H., McCulloch, Jr., Frantz, L. P., Geringer, J. M., Minor, S. M. (2002). International Business – The Challenge of Global Competition. International Edition, McGraw-Hill.

Bansal, P., & Roth, K. (2000). Why companies go green: A model of ecological responsiveness. Academy of Management Journal, 43(4), 717–736.

Barakat, F. S., Pérez, M. V. L., & Ariza, L. R. (2015). Corporate social responsibility disclosure (CSRD) determinants of listed companies in Palestine (PXE) and Jordan (ASE). Review of Managerial Science, 9(4), 681– 702.

Bley, J. and Saad, M. (2011). The Effect of Financial Liberalization on Stock Market Return Volatility in GCC Markets. Journal of International Financial Markets, Institutions, and Money, 21, 662-685.

Demir, F., & Lee, S. (2022). Foreign direct investment, capital accumulation, and growth: The rise of the Emerging South. International Review of Economics & Finance, 80, 779–794.

Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary Nonfinancial Disclosure And The Cost Of Equity Capital: The Initiation Of Corporate Social Responsibility Reporting. The Accounting Review, 86(1), 59–100.

Donaldson, T., & Preston, L. E. (1995). The Stakeholder Theory Of The Corporation: Concepts, Evidence, And Implications. The Academy Of Management Review, 20(1), 65–91.

Douma, S., George, R. and Kabir, R. (2006). Foreign and domestic ownership, business groups, and firm performance: evidence from a large emerging market, Strategic Management Journal, Vol. 27 No. 7, pp. 637-657.

Dyduch, J.; Krasodomska, J. (2017). Determinants of corporate social responsibility disclosure: An empirical study of Polish listed companies. Sustainability 2017, 9, 1934.

Elkington, J. (1997). Accounting for the Triple Bottom Line. Measuring Business Excellence, 2(3), 18–22.

Genthner, R., & Kis-Katos, K. (2022). Foreign investment regulation and firm productivity: Granular evidence from Indonesia. Journal of Comparative Economics.

Gnyawali, D. F. (1996). Corporate Social Performance: An International Perspective. Advances In International Comparative Management, 11, 251– 273.

International Monetary Fund. (2023). Retrieved From: https://www.imf.org/external/datamapper/ngdp_rpch@weo/oemdc/advec/weowor ld/apq/caq/meq/da/as5/ssa/meca

Isa, M. A., & Muhammad, S. (2016). The impact of board Characteristics on corporate social responsibility disclosure: Evidence from Nigerian food product firm. International Journal of Management Science and Business Administration, 1(12), 34– 45.

Jensen, M. C., & Meckling, W. H. (1976). Theory Of The Firm: Managerial Behavior, Agency Costs And Ownership Structure. Journal Of Financial Economics, 3(4), 305–360.

Jitmaneeroj, B. (2016). Reform priorities for corporate sustainability: Environmental, social, governance, or economic performance?, Management Decision, Vol. 54 No. 6, pp. 1497-1521.

Kabir, R., & Thai, H. M. (2020). Key factors determining corporate social responsibility practices of Vietnamese firms and the joint effects of foreign ownership. Journal of Multinational Financial Management, 59, 100676.

Kang, Y.S.; Huh, E.; Lim, M.H. (2019). Effects of foreign directors' Nationalities and director types on corporate philanthropic behaviour: Evidence from Korean firms. Sustainability 2019, 11, 3132.

Kolk, A., & Van Tulder, R. (2010). International business, corporate social responsibility and sustainable development. International Business Review, 19(2), 119–125.

Kostova, T., & Zaheer, S. (1999). Organizational legitimacy Under conditions of complexity: The case of the multinational enterprise. Academy of Management Review,24(1), 64–81.

Kostova, T., Roth, K., & Dacin, M. T. (2008). Institutional Theory in the study of multinational corporations: A critique and new directions. Academy of Management Review,33(4), 994–1006.

Majeed, S., Aziz, T., & Saleem, S. (2015). The effect of corporate governance elements on Corporate social responsibility (CSR) disclosure: An empirical evidence from listed companies at KSE Pakistan. International Journal of Financial Studies, 3(4), 530–556.

Mallakh, R. Al. (2018). The Economic Development Of The United Arab Emirates. In Google Books. Taylor & Francis Group.

Mansour, A. (2008). The Impact Of Privatization On The United Arab Emirates (UAE) Federal Public Sector. International Public Management Review. 9.

Menguc, B.; Ozanne, L.K. (2005). Challenges of the "green imperative": A natural resource-based approach to the environmental orientation–business performance relationship. J. Bus. Res. 2005, 58, 430–438.

Oh, W.-Y., Chang, Y. K., & Kim, T.-Y. (2016). Complementary or substitutive effects? Corporate governance mechanisms and corporate social responsibility. Journal of Management, 10(7), 1– 24.

Ortas, E., Álvarez, I., & Garayar, A. (2015). The Environmental, Social, Governance, And Financial Performance Effects On Companies That Adopt The United Nations Global Compact. Sustainability, 7(2), 1932–1956.

Panicker, V.S. (2017). Ownership and corporate social responsibility in Indian firms, Social Responsibility Journal, Vol. 13 No. 4, pp. 714–727.

Peloza, J.; Shang, J. (2011). How can corporate social responsibility activities create stakeholder value? A systematic review. J. Acad. Mark. Sci. 2011, 39, 117–135.

Phung, D.N. and Le, T.P.V. (2013). Foreign ownership, capital structure and firm performance: empirical evidence from Vietnamese listed firms, The IUP Journal of Corporate Governance, Vol. 12 No. 2, pp. 40-58.

Refinitiv Eikon. (2022). Environmental, Social And Governance Scores From Refinitiv.
Retrieved From:
https://www.refinitiv.com/content/dam/marketing/en_us/docuMents/methodology/refinitiv-esg-scores-methodology.pdf

Rodríguez-Fernández, M., Sánchez-Teba, E. M., López-Toro & Borrego-Domínguez, S. (2019). Influence of ESGC Indicators on Financial Performance of Listed Travel and Leisure Companies. Sustainability, 11(19), 5529.

Schmalz, M. C. (2021). Recent Studies on Common Ownership, Firm Behavior, and Market Outcomes. The Antitrust Bulletin, 66(1), 12–38.

Schnackenberg, A. K., & Tomlinson, E. C. (2016). Organizational transparency: A new perspective on managing trust in organization-stakeholder relationships. Journal of Management, 42(7), 1784–1810.

Shin, I.; Park, S. (2020). Role of foreign and domestic institutional investors in corporate sustainability: Focusing on R & D investment. Sustainability 2020, 12, 8745.

Stuebs, M., & Sun, L. (2015). Corporate governance and social responsibility. International Journal of Law and Management, 57(1), 38– 52.

Suzuki, K.; Tanimoto, K.; Kokko, A. (2010). Does Foreign Investment Matter? Effects Of Foreign Investment On The Institutionalisation Of Corporate Social Responsibility By Japanese Firms. Asian Bus. Manag. 2010, 9, 379–400.

The Organization For Economic Cooperation And Development. (2015). OECD Legal Instruments.
Retrieved From:
https://legalinstruments.oecd.org/en/instruments/oecd-legal-0413

Tsagkanos, A., Siriopoulos, C., & Vartholomatou, K. (2019). Foreign Direct Investment And Stock Market Development. Journal Of Economic Studies, 46(1), 55–70.

United Nations (2020). Amending Commercial Companies Law.
Retrieved From:
https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3617/amending-commercial-companies-law

United Nations Conference On Trade And Development. (2022). World Investment Report 2022. International Tax Reforms And Sustainable Investment.
Retrieved From: https://unctad.org/system/files/official-document/wir2022_en.pdf

Uyar, A., Kuzey, C., & Karaman, A. S. (2022). ESG Performance And CSR Awards: Does consistency matter? Finance Research Letters, 103276.

Watts, R.L. and Zimmerman, J.L. (1978). Towards a positive theory of the determination of accounting standards, The Accounting Review, Vol. 53 No. 1, pp. 112-43.

World Bank. (2021). GDP Data. Worldbank.Org; World Bank.
Retrieved From:
https://data.worldbank.org/indicator/ny.gdp.mktp.cd?most_recent_value_desc=true

Yuan, W., Bao, Y., & Verbeke, A. (2011). Integrating CSR Initiatives In Business: An Organizing Framework. Journal Of Business Ethics, 101(1), 75–92.

Zhang, J., & Luo, X. R. (2013). Dared To Care: Organizational vulnerability, institutional logics, and MNCs' social responsiveness in emerging markets. Organization Science, 24(6), 1742–1764.

Zhao, T., & Xiao, X. (2019). The impact of corporate social responsibility on financial constraints: Does the life cycle stage of a firm matter? International Review of Economics & Finance, 63, 76–93. https://doi.org/10.1016/j.iref.2018.08.010

8. APPENDIX

Figure 1. EPS differences on industry sectors

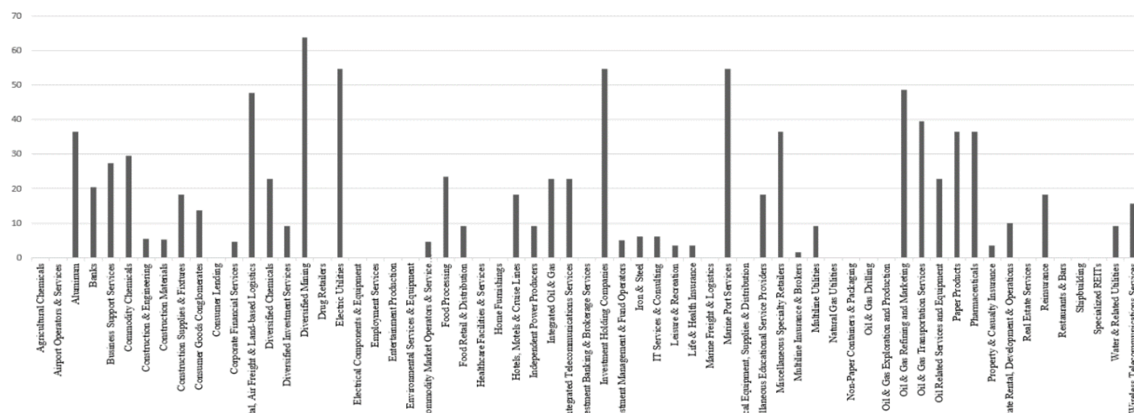

Figure 2. SPS differences on industry sectors

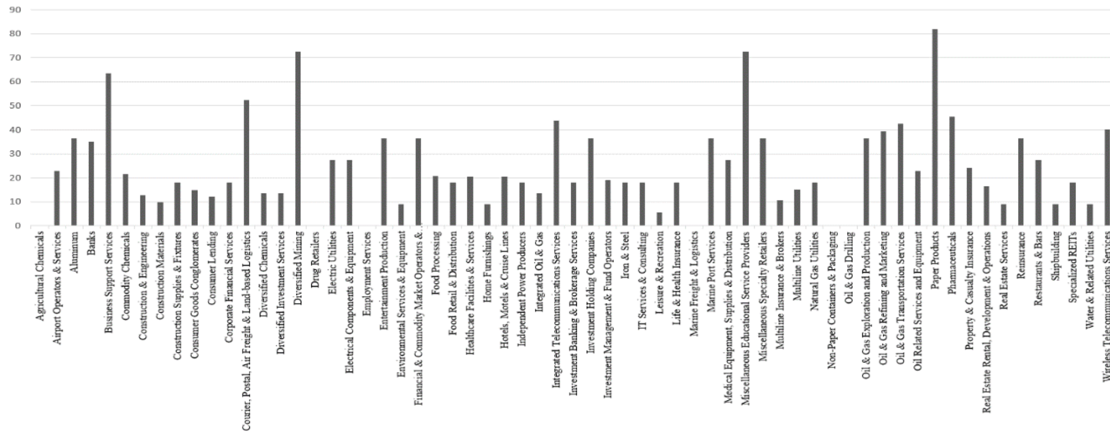

Figure 3. GPS differences on industry sectors