Stakeholder Institutionalisation and Organisational Behaviour: Contextual factors in the Middle Eastern Countries for CSR Acceptance

Introduction

Organisations are composing actors of the natural environment and as such interact with contextual factors that are part of it (Hatch and Cunliffe, 2006). These factors – e. g. social, cultural, legal, political and financial, affect and interact with all of the actors in the natural environment. Following the institutional theory, the processes of interaction lead to institutionalisation of certain groups of influence, called stakeholders, giving them a particular status and ability to exert pressure over different members of the environment. The organisation, as part of the environment is one of the actors upon which stakeholders exercise influence and have the power to shape and control its behaviour (Johns, 2006). Therefore, the organisation has to behave in a manner compliant with stakeholder expectations in order to survive (Oliver, 1991). However, academic research has been predominantly concentrated on examining the relationship between context, stakeholders and the organisation with a particular focus on how the context directly impacts on organisational behaviour. Little emphasis is given on contextual factors and the way they exert pressure and indirectly affect the organisation by influencing its stakeholders (Johns, 2006). Moreover, stakeholder institutionalisation and pressure of contextual stimuli on organisational behaviour in developing countries are issues that to the best of our knowledge have not been sufficiently covered by scholars. This study aims to fill this gap in the literature with a particular focus on developing countries due to their increasing economic and geo-political importance.

1. Theoretical Framework

1.1. Stakeholder Institutionalisation

Early versions of institutional theory focused on institutional rules and beliefs on the process by which organisations obtain social meaning and value (Oliver, 1991) while more recent studies examine how these processes impact on stakeholder dynamics and characteristics of organisations (Butterfield, Reed and Lemak, 2004; Hoffman, 2001). Rowley and Moldoveanu (2003) stated that the interest-based view (Frederick et al., 1992) for stakeholder mobilisation does not explain an adequate range of stakeholder groups and their behaviour as not all of them would mobilize. Scholars also believed that the identity-based view (Ashforth and Kreiner, 1999; della Porta and Diani, 1999) and feelings of duty and responsibility, legal and economic issues can serve as basis of forming collaborative actions (Butterfield et al., 2004). Although scholars have attempted to answer when stakeholders institutionalise they did not consider contextual factors as a motive for institutionalisation.

1.2.Socially Responsible Corporate Behaviour

Scholars found direct relationship between socially responsible corporate behaviour and contextual factors such as tax law (Campbell, 2004), presence of normative or cultural factors (Jones, 1999; Galaskiewicz, 1991), regulatory institutions, non-governmental and independent organisations (Campbell (2007) and governmental support (Arya and Zhang, 2009; Crouch, 2006). However, these factors are not static and they differ among countries (Avetisyan and Ferrary, 2013; Wartick and Cochran, 1985).

1.3.Developing Countries

Scholars argued that tendencies toward socially responsible behaviour (Campbell, 2007), stakeholder institutionalisation (Crane and Matten, 2010) and contextual pressures (Jamali and Mirshak, 2007) vary across countries and that much more research is required. This is not

surprising since the main conceptual frameworks and theories in our study – stakeholder theory, CSR and institutional theory have been introduced to rationalise the debate of stakeholder and socially responsible practices that reflect the Western countries' contexts and the Anglo-American managerial capitalism as they do not necessarily comply with contextual specifications of developing world.

That incompatibility is particularly evident in regards to the Middle East, where according to the literature only one stakeholder group is considered as influential – shareholders (Jamali, 2007; Baughn and McIntosh, 2007; Jamali and Mirshak, 2007), whereas civil society, NGOs and non-traditional stakeholders such as communities and environment are given minimum importance (Jamali, 2008). Therefore, the study aims to examine how and which contextual factors and specification of developing countries lead to institutionalisation of different stakeholders and acceptance of socially responsible organisational behaviour.

2. Methodology

We collected 63 interviews from representatives of the public, private and non-governmental sector of Saudi Arabia, the UAE and Oman as the data was analysed by applying standard Grounded Theory tools (Charmaz, 2014).

3. Results

3.1. Contextual Factors

Based on the interview data analysis, we found that the Middle Eastern companies operate in a complex and unique context driven by exogenous dynamics and particular social actors having their own impact and importance.

3.1.1. Political context

Income inequalities, weak governmental support and social imbalance became reasons for the outbreak of the Arab Spring in some of the Middle Eastern countries driven by political factors that led to mobilisation of community as SA1 stated: *"In the Middle East they start to think now about the social perspective, or social issue, when they are doing business. And I think that Arab spring has an effect or factor that people now think differently about business."* (SA1)

In order to equalise social inequality and to prevent future conflicts caused by factors similar to the ones initiated the Arab Spring, governments aim to provide opportunities for social development and growth known as Emiratisation, Saudisation and Omanisation that aim to replace foreign workers and ensure employability for local citizens. On the other hand, we also found that the absence of political dynamics is an important factor too, like in the case of the UAE where an outcome similar to their neighbouring countries was achieved. That was achieved by encouraging local business to involve in philanthropic form of CSR: *"I think there is definitely that influence and I think that is coming from the government that we are having that responsibility as an organisation."* (EM2)

Governments also serve as a channel for CSR-inspired programs for local companies. That impact is particularly evident in state-owned enterprises that use governmental vision for CSR as a platform for CSR activity.

3.1.2. Social Context

3.1.2.1.Demographic, Educational and Unemployment Factors

The events of the Arab Spring highlighted one of the defining characteristics of contemporary Arab societies – their large and expanding youth population. From a demographic point of

view young people under the age of 30 represent 60% of Gulf population which makes it one of the most youthful regions in the world (Murphy, 2011).That creates social, educational, employment and financial demands that if the country is not able to satisfy, will result in weak human capital, high illiteracy levels and low-qualified workers. Weak educational system of the Gulf countries creates an enormous reliance on foreign intellectual capital, knowledge and expertise - 90% of the work places in the Saudi Arabian private sector are filled by foreign workers (Murphy, 2011), 80% of total Emirati population are immigrants as this percentage for Oman is 30% (IndexMundi, 2014a; 2014b). This heavy reliance on foreign intellectual capital was justified by EM3 as driven by the strong lack of appropriate preparation and skilfulness of locals to respond on industrial needs.

3.1.2.2.Human Rights

Dynamics in political and social environment in the Middle East create foundation upon which local community might experience lack of protection and security. Local war conflicts and riots lead to instable regional environment and circumstances for increased social inequality, injustice and suppression. Refugees and victims of regional conflicts create communities that experience heavy need from support and protection: *"So, it's a big risk in some of regions in world we particularly operate, particularly here in the Gulf region. So we try to really, really focus those policies and our program management in this region here against some of the risk that encounter."* (EM16)

3.2.Stakeholder Institutionalisation

The data analysis reveals that the Middle Eastern organisations have a different notion for 'stakeholder institutionalisation'. The conventional understanding of stakeholder institutionalisation and mobilisation is usually associated with the group's ability to influence

the firm positively or negatively (Rowley and Moldoveanu, 2003; Clarkson, 1995; Carroll, 1979), while in the Middle Eastern organisations give also importance on another power-related criterion – ability of a specific group to impact on *country stability*.

3.2.1. Demographic Factors

The group that drives the changes in the Middle East is the group of young people. As was discussed above, Middle Eastern companies pay special attention on youth and their needs: *"…our main stakeholder is youth, but why youth? Because those are the most important and valuable resource that any country has and if you look at the current demographic situation in Oman, you will see that almost half of the nation are below the age of 30 and probably 75% are below the age of 40 and this is a huge in fact potential for the nation…"* (OM1)

That represents a significant potential and opportunities for economic and social growth for the country but it also requires a careful examination of their needs for intellectual and social development.

3.2.2. Political Factors

The demographic dominance of youth is giving them a significant power as a group. Their importance is recognised by local governments that try to be more effective in their social efforts. In order to provide opportunities for better future they launch employability programs, educational initiatives and entrepreneurship development programs. Therefore it is not surprising that a prevailing part of CSR practices of local companies are pro-community oriented and focused on enhancing opportunities for youth. First, this is part of national vision and national development projects. Second, as was stated above, youth have very strong demographic, socio-cultural and even political prerequisites to become the main stakeholder group of interest for local CSR practices and that inevitably affect business in its CSR endeavours. Third, youth's prosperity as citizens determines the country stability. That

was summarised by OM4: "*Because youth in Oman now they are driving all the changes in the country. And I think that applies not only to Oman but it applies to most of the Arab countries. So if you get your social licence to operate from youth, then you have a very sustainable business in Oman.*" (OM4).

4. Discussion and Contributions

By using institutional theory lenses (Powell and DiMaggio, 1991; Meyer and Rowan, 1977), we found that the political and social context of the Middle East leads to institutionalisation of community (youth) as a stakeholder group with a particular importance and power for public and private sector. We found that the mix of demographic advantage, political and social processes give community (youth) the status of a highly influential and powerful group that affect governmental and private sector decisions. We add to institutional theory literature by identifying that stakeholder institutionalisation and mobilisation occurs not only on a firm level (e.g. Rowley and Moldoveanu, 2008) but also on a country level. Indirectly, this form of institutionalisation has an impact on organisational behaviour by centralising community (especially youth in this case) as the core of its CSR commitment. Thus we contradict Gugler and Shi (2009) who stated that stakeholders in developing countries have been the object of CSR initiatives rather than an active subject driving organisational CSR agenda.

Our findings contradict CSR literature for the Western countries and more precisely studies that aimed to find why companies adopt socially responsible corporate behaviour. With regard to the Middle East, we found that the Campbell's (2007) proposition is not valid, because as demonstrated above, weak economic environment was actually one of the reasons for the outbreak of the Arab Spring and for initiation of socially-inspired practices (on a governmental and private business level) in order to improve well-being of local

communities: *"In Oman we observe increase in CSR activity after the Arab Spring; business turns its focus on community needs."* (OM11).

Second, Campbell (2007) also proposes that competition could play a role in CSR commitment. We did not identify any information that would dis/prove his proposition, maybe because reasons for involving in CSR in the Middle East are not directly related to economic or market positioning of the firm. Third, Campbell (2007:955) proposed that organisations are "more likely to act in socially responsible ways if there are strong and well enforced state regulations in place to ensure such behaviour". However, CSR is not institutionalised or legally required form of corporate behaviour in the Middle East.

Fourth Campbell (2007:956:958) developed two more propositions according to which organisations are more likely "to act in socially responsible ways if there is a system of well-organized and effective industrial self-regulation in place to ensure such behaviour" and "to act in socially responsible ways if there are private, independent organizations, including NGOs, social movement organizations, institutional investors, and the press, in their environment who monitor their behaviour and, when necessary, mobilize to change it". The findings of our study discarded these two as well. Media is not an independent institution in the Middle East and although NGOs are undoubtedly important component of the Middle Eastern CSR practices, NGOs in the region have mainly social functions as explained above and as such differ significantly from the Western understanding for a NGO.

We contradict Jones (1999) for institutional prerequisite and conditions upon which the concept of social responsibility could be manifested in the practice of stakeholder management. He hypothesised that stakeholder management with regard to CSR occurs

differently among different industries (primary, secondary, tertiary sector) and is more likely to be observed in consumer goods industries, high profile industries, in industries with higher degrees of competitive rivalry or in younger industries. Moreover, he hypothesised that primary, secondary and tertiary sectors would focus on different stakeholder groups as part of their stakeholder and CSR related management. Our findings identified that community is the primary stakeholder group as part of companies CSR commitment. They could also direct their efforts to NGOs and government but the ultimate goal is to help local communities. CSR management of stakeholder groups such as shareholders, creditors, and partners are rather exception than a rule. Institutional power of community is evident regardless of the industrial sector and is the primary beneficent and stakeholder group of importance for the organisational CSR commitment.

Moreover Jones (1999) stated that non-instrumental CSR is more likely to occur in small businesses as big companies enter the field for instrumental reasons. Our interviews collected from representatives of various industrial sectors and companies different by size and scope of operations demonstrated the opposite. Middle Eastern PLCs with global activities enter the CSR field due to altruistic reasons and genuine desire to be a part of the social and economic dynamics in the region. PLCs and SMEs in our sample differ in the systematic manner applied for execution of their CSR agenda but we did not identify any direct persuade of instrumental objectives.

We also contradict Jamali (2008; 2007), Baughn and McIntosh (2007), Jamali and Mirshak (2007) by identifying the high importance of community as a stakeholder group of primary importance for CSR commitment in the region and a group that influences internal contextual dynamics. Moreover, we also found that NGOs and government inspired CSR practices are

directed towards community development which demonstrates further the importance of community as a stakeholder group. Its institutionalised status should not be underestimated. We couldn't identify any importance given to shareholder by the interviewees.

We also add to the literature examining contextual factors by identifying contextual stimuli of developing countries that lead to stakeholder mobilisation as well as to contextual elements that influence socially responsible corporate behaviour.

5. Conclusion

Developing countries represent a vast area for empirical research due to their unique contextual dynamic, characteristic and historic process of development. This point was clearly identified in the study by demonstrating serious discrepancies between the way organisations respond to changes of local environment between developed and developing countries.

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