Saudi Arabia: An Overview of Executive Compensation, Board Structure, and Sustainability

Bryan Hill
Michael Lunn
William Morrison
Jonathan Mueller
Caitlin Robertson
Drake University

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The Kingdom of Saudi Arabia is the second largest Arab country by land area and borders both the Red Sea and the Persian Gulf. Ports along the shores provide the means for Saudi Arabia to transport their oil supply globally. Being the leading exporter of oil in the world, Saudi Arabia has become a critical worldwide power and maintains their seat as a member of the top twenty worldwide economies. Saudi Arabia’s cultural customs focus around Islam and many of their laws and social norms stem from the religion. A market capitalization that focuses on oil and a culture centered on Islam has influenced every aspect of Saudi Arabian corporate governance.

Saudi Arabia and Executive Compensation

Saudi Arabia has been facing serious long-term economic challenges for nearly two decades. Having a heaving budget and a trade deficit has resulted in high rates of unemployment, one of the world’s fastest population growth rates, and the consequent need for increased government spending. The government has taken steps to promote growth in the private sector by privatizing industries such as power and telecommunications. Saudi Arabia launched six new economic cities along its western coast to create a more expansive economy.

One of the weaknesses in corporate governance research globally is there are few, if any, statistics on corporate ownership in Saudi Arabia. The leading research on the topic by Claessens (2002), Barca and Becht (2001), and La Porta (1999) did not cover Saudi Arabia or the region as a whole.

The World Bank Equity Markets Report identifies that Saudi Arabia has 77 listed companies. The market capitalization concentration in the top 10 listed companies is eighty percent. Bank financing and retained earnings are an important source of funds for Saudi Arabian companies. This procedure is the result of companies enjoying relatively easy access to capital from banks. Additionally, lending covenants are relatively weak.

As far as disclosure and transparency goes, the Middle East and North Africa (MENA) region fails to meet an acceptable standard. However, Saudi Arabia was given a rating of 4.5 out of 5 for transparency in 2006 by the Institute of International Finance Inc. and Hawkamah.

The World Bank records the effective tax that a company must pay and the administrative costs of doing so. The three factors, in no particular order, are the number of tax payments, time, and
total tax rate. Saudi Arabia has one of the lowest numbers of payments required in the MENA region. Saudi Arabia has relatively high times required to pay taxes in the MENA region. The total tax rate is the sum of all the different taxes payable after accounting for various deductions and exemptions. Saudi Arabia has one of the lowest total tax rates in the MENA region at 14.5%.

In an article by Fay Hansen, it is hypothesized that employers in emerging markets will capture a large share of the global pool of managerial talent as employee mobility and relative pay levels rise. Further, executives and managers alike can double their disposable income by relocating from the United States, which ranks 24th out of 46 countries in Hay’s report on managerial pay, to Saudi Arabia or Hong Kong – which rank 1st and 3rd, respectively.

For a Saudi executive to gain compensation, a path similar to that of the United States is followed. In both the United States and Saudi Arabia, it is typical for the company to have a remuneration committee made of board members who decide the compensation and any packages for the executives. For an executive, the remuneration typically consists of up to 80% base pay and guaranteed allowances for the executive, while in the United States the base pay is just 30% with the focus on long-term incentives accounting for the rest of the pay.

The average total cash compensation for managers adjusted for taxes and cost of living, in US dollars – 2007, for Saudi Arabia is $229,325. Comparatively, the United States average total cash compensation for managers was $104,905. A “manager” is defined as an employee at a level comparable to the head of a function or department. For an individual working in Saudi Arabia, they can expect a salary growth of 6% in 2014, which is a 0.2% increase from 2013. This growth represents confidence in the economy and the growing business sector of Saudi Arabia. Compared to the United States, where the expected salary growth rate is 3.0% for 2014 and is representative of an improving economy with a decrease in unemployment across the states. The difference in growth can be signified by the massive amount of government spending in Saudi Arabia and the fact that foreign expatriates who work there would have a higher compensation rate than their local counterparts.

In 2013, a survey was released showing executive pay in the Gulf Cooperation Council for the Arab States of the Gulf (CCG). The CCG is a political and economic union of Arab states bordering the Persian Gulf: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

In the 2013 survey, it was revealed that Qatar ranked as the best country in the Gulf to earn the highest salary in a CEO position for Asian and Arab expatriates, while Saudi Arabia was the best country for Western Chief Executive Officers. Saudi Arabian CEOs earn an average of $35,294 a month. In Saudi Arabia, overall pay and salary increases continue to be more than any other GCC nation, mostly due to the impetus on construction and government spending along with the government’s investment policies to diversify the economy to become less reliant on the oil and gas industry.

CEOs and managing directors of multinational companies receive significantly higher salaries than their counterparts of local companies in Saudi Arabia. These two occupations earn the second-highest wages in the entire GCC according to Aarti Nagraj. A multinational CEO made on average $33,021.60 in 2013, while the CEOs of a local company made $25,343. It has been opined that 2012 saw a substantial government program. Coupling the governmental program with the continued high price of oil resulted in a trickle-down effect for employers. Nataqat, the
governmental spending program, had a detrimental effect on small to medium sized employers, but the highest ranking companies continued to expand their recruitment requirements.

Western expatriates bring home the biggest paycheck in Saudi Arabia, as compared to other GCC nations, by working in banking, advertising, or construction. Foreign expatriates saturate the overall workforce in Saudi Arabia, with up to 50% of the workforce comprising of them. This high number of foreign expatriates is a direct result of lack of talent in Saudi Arabia, especially in the areas comprising of executives.

Issues Related to Boards of Directors in Saudi Arabia and the United States

Saudi Arabia informally founded its system of corporate governance with The Companies Law of 1965. The Companies Law primarily imposed restrictions on foreign ownership and management of Saudi companies. Formalized corporate governance standards were adopted in 1985 when the Saudi Ministry of Commerce and Industry issued the Disclosure and Transparency standard. This standard introduced accounting and reporting practices that helped increase the previously very low disclosure requirements (Al-Janadi, et al. 2013). In 2003, the King of Saudi Arabia issued a royal decree to institute the Capital Market Law in order to regulate the Saudi capital markets. This law also established the Capital Market Authority (CMA), a body similar to the United States’ SEC. The CMA is much more powerful than the SEC and is able to serve as the legislative, executive, and judicial branches of the Saudi stock exchange (Gouda 2012).

More recent developments in Saudi Arabian corporate governance standards can be linked to the 2006 crash of the Saudi Stock Market, the Tadawul. The Tadawul All Share Index lost 66% of its value, dropping from its peak closing price on February 25, 2006 of 20,634.86 to its lowest closing price on January 29, 2007 of 6,916.85. The stock market crash spurred the CMA to suspend the trading of two Saudi firms. The crash also created serious questions about the effectiveness of the established monitoring systems presumed to protect investors’ interests in Saudi Arabia. The Capital Market Authority then issued its first Corporate Governance Regulations in 2006 and later revised them in 2009. These regulations require all listed companies in Saudi Arabia to detail their compliance with the regulations and to disclose and justify non-conformities, commonly referred to as a ‘comply or explain’ policy.

As a member of the G20 and the world’s largest producer of oil, Saudi Arabia has a major influence on the global economy. As its businesses continue to become more globalized, foreign investments are seen as being an integral component of further economic growth. Since the adoption of the 2006 Corporate Governance Regulations, foreigners are now allowed to invest in Saudi investment funds. Furthermore, investors within countries represented by the Gulf Cooperation Council are allowed to directly invest into Saudi firms. However, Saudi Arabia’s relative inexperience employing corporate governance to protect shareholders’ rights coupled with its long history restricting foreign ownership of Saudi companies has caused roadblocks to capturing foreign investments. As such, foreign trading only accounted for 2% of the total trading volume during 2009 (Bernetta and Berg 2009).

Corporate governance in Saudi Arabia is largely influenced by the Anglo-American model, which focuses on maximizing shareholders’ wealth. Saudi Arabian Corporate Governance Codes are highly comparable to accepted corporate governance practices in the United States which are based on the principles of agency theory. As in the United States, Saudi firms’ highest governing body is the Board of Directors, members of which are elected and dismissed by the firm’s shareholders at the annual shareholders’ meeting. In order to be a nominee eligible for
directorship, the candidate must own 10,000 SAR (about $2,666 USD) worth of that firm's shares. The minimum board size is two directors with a typical board size of eight directors. The maximum term for a board member with renewal is three years (Bernetta and Berg 2009). In a voluntary financial disclosure study conducted by Al-Janadi et al. across 87 Saudi companies, the smallest board in the sample had four directors and the largest had 13, with an average of 8.4 directors (2013).

The role of the directors in the Saudi Arabian corporate governance system is still maturing. Bernetta and Berg noted that on the aggregate, directors are still learning their duties and obligations. There are almost no lawsuits filed against directors, which implies that shareholders are also learning alongside the directorship. In a study examining the perception of governance principles conducted by Robertson et al., the authors noted that “as more controls and expectations are placed on board members... shareholders will hold boards more accountable at many levels” (2012). Currently, directors are required to disclose material interests in matters affecting the corporation, and cannot maintain those interests without consent provided annually at the shareholders’ meeting. Board member compensation is to be reported, along with the top five executives and financial manager, on the annual board report and cannot exceed 10% of the net profits.

Saudi Arabian firms’ committee structures are also very similar to US firms’ committee structures. The Corporate Governance Requirements call for mandatory Audit and Remuneration committees. Other committees are recommended to be appointed, as is suitable, for each individual firm. The only participation requirements are for the Audit committee: it must have three members, one of which must be a financial or accounting specialist (Bernetta and Berg 2009). In the 87 firms surveyed in Al-Janadi et al.’s study, there were on average 3.2 members on each audit committee (with a minimum of two and a maximum of six). The study also measured the independence of the audit committee members, and found that 94% of the members of audit committees were independent, despite the CMA not having a formal independence requirement. This behavior can be explained with the Institutional Theory wherein Saudi firms take up mimetic, isomorphic behaviors in order to appear as legitimate as their United States and global counterparts.

Saudi Arabia’s basis in Islam has a unique impact on its deployment of corporate finance. Firms operating in Islamic nations must abide by Islamic Sharia, which promotes a certain code of behavior described by the Qur'an and Sunnah. Sharia, in part, focuses on distributive or social justice and participation with others in decision-making that concerns them. These concepts are related to the stakeholder view more common in German or Japanese corporate governance models than in the United States. While the Anglo-American model is primarily rooted in maximizing shareholders’ wealth, firms in Islamic cultures must balance the goal of maximizing shareholders’ wealth with Sharia.

Like the United States, Saudi companies tend to rely more on equity financing than on debt financing (Fallatah and Dickens 2012). The emphasis on internal sources of financing (shareholders’ equity) may explain why the Saudi corporate governance model is based on the Anglo-American model with its emphasis on enhancing shareholders’ wealth. With the emphasis on equity financing, monitoring and controlling by the board become more critical to protect shareholders’ investments.

From the agency theory perspective, corporate governance codes in Saudi Arabia have some strength regarding the transparency of information in an effort to protect shareholders’ rights. Another strength lies in the structure of leadership on boards. The chairman is generally not
permitted to also serve as CEO, resulting in reduced rates of CEO duality within Saudi Arabian corporations. Although the ‘comply-or-explain’ policy allows for exceptions to the regulation, the prohibition on CEO duality is one of the major differentiating factors between Saudi Arabia and United States corporate governance practices. The majority of publicly traded firms in the United States are governed under CEO duality, a concept that contradicts the separation of principal and agent founded in agency theory. The study by Al-Janedi et al. included a boolean independent variable that measured if a firm’s CEO and Chairman position were separated. This variable was found to be significant negatively correlated to voluntary disclosure. In other words, a firm operating under CEO duality would be more likely to voluntarily disclose its financial results. The authors attributed this to the stewardship theory, implying that a dilution of power may reduce the ability of a CEO to act in a firm’s best interest by voluntarily disclosing financials.

From an agency theory perspective, a primary weakness of Saudi corporate governance codes involves the definition of independence. While Saudi corporate governance codes require that the greater of two members or one-third of total members must be independent, the definition of independence raises concerns. Independence in Saudi Arabia, similar to the United States, is defined as a director who 1) holds less than five percent of the company’s shares, 2) is not a representative of a person who holds five percent or more of company shares, 3) not a current or former senior executive, 4) not a relative of any board member, 5) not a relative of any senior executive, 6) not a board member of any affiliated company, and 7) not an employee of the company or affiliated company. The weakness in defining independence lies in the definition of a relative.

The corporate governance codes in Saudi Arabia define “relative” as a first-degree relative, which includes father, mother, spouse, or child. This definition omits other closely related family members such as siblings, uncles, aunts, or cousins. Family relationships are strong in Saudi Arabia, resulting in corporations that still look like family businesses. Relatives serving concurrently on boards or committees of the board may affect decision-making or lead to conflicts of interest.

**Corporate Governance and Firm Performance**

In general, strong corporate governance is thought to enhance firm performance by ensuring appropriate controls and monitoring are in place to mitigate the agency problem and conflicts of interest. Several recent studies examine if strong corporate governance results in positive firm performance in Saudi Arabia, which is a relatively new participant in corporate governance.

Prompted by a gap in studies about the relationship between corporate governance and firm performance, Ghabayen examined the relationship between board mechanisms and firm performance (2012). The weaknesses in corporate governance codes in Saudi Arabia coupled with Saudi Arabia’s relative inexperience in regulating corporate governance in the face of a weak regulatory environment and political instability have undermined investor confidence, which generally leads to economic growth.

Ghabayen examines the impact of corporate governance on firm performance in terms of return on assets (ROA) in the context of audit committee size, audit committee composition, board size, and board composition. Ultimately, the author found no significant relationship between ROA and audit committee composition, and board size; however, board composition (independence) is significantly negatively related to firm performance, which was contrary to the preliminary hypothesis. The study hypothesized a relationship between board
composition and firm performance. Based on the principles of agency theory, the greater the number of independent directors, the better the controlling and monitoring activities by the board, supporting better firm performance. In empirical studies prior to this article, results have been mixed with regard to board independence and firm performance. Results of the study on independence on Saudi Arabian boards suggest a greater number of independent directors are linked to lower firm performance in terms of ROA.

A second similar study, Al-Matari, et al. (2012) examined the relationship between internal corporate governance mechanisms related to board of directors and audit committee characteristics on firm performance, defined by market value of equity plus total debt divided by book value of total assets, or “Tobin’s Q”. The variables included board composition (independence), CEO duality, board size, audit committee independence, audit committee activity (number of meetings held), and audit committee size. The study hypothesized a positive relationship between firm performance and board composition, audit committee independence, audit committee activity, and audit committee size; and a negative relationship between firm performance and CEO duality and board size. Ultimately, the study found the associations were as expected but insignificantly related with respect to all variables except audit committee activity. The frequency of audit committee meetings was found to have a significant negative effect on firm performance.

The results of the study suggest that good corporate governance according to agency theory does not ensure positive firm performance. The authors propose the results may be evaluated in terms of institution theory. Companies might adopt practices or regulations as a result of coercion from a legislator intending to improve organizational effectiveness; however, there is no prediction that adoption of these regulations will improve organizational effectiveness. In other words, strong corporate governance exists in Saudi firms because of coercive isomorphism. The adoption of strong corporate governance principles, however, has no apparent effect on firm performance.

In a third related study, Fallatah and Dickens examine the effects of corporate governance on firm performance (measured as ROA) and value (measured as Tobin’s Q and market value of equity) (Fallatah and Dickens 2012). Like the study by Ghabayen, this study found no relationship between overall corporate governance and ROA. Unlike the study by Al-Matari et al., this study did find a positive relationship between corporate governance and firm value as measured by Tobin’s Q. The positive relationship, however, was not totally conclusive. The authors suggested the possibility that firms with high market values may create strong governance structures, rather than strong governance structures causing high market value.

In conclusion, the three studies suggest little to no effect of corporate governance on Saudi firm performance or market value. While other studies on firms of other nations have resulted in mixed results, the general consensus is that strong corporate governance is associated with better firm performance. The different impacts on Saudi firms, as suggested by Fallatah et al., may be attributed to country-specific factors such as emphasis on equity financing, as opposed to other developing nations’ reliance on debt financing, or its adherence to Sharia while operating under a shareholders’ view of corporate governance.

**Gender Diversity on Boards in Saudi Arabia, the United States, and Globally**

The role of women on boards of directors is gaining increased global attention. Several academic research papers have cited a general lack of empirical studies on the effects of women, suggesting there is still much to understand about the impact of gender diversity on
boards. Globally, a number of research studies and surveys report low participation of women on corporate boards. According to a 2014 Catalyst report about women on boards, out of 44 countries studied, Norway reported the highest proportion of women holding seats on corporate boards at 40.9 percent. This proportion significantly exceeds countries in the second and third rankings - Sweden at 27.0 percent and Finland at 26.8 percent. It is important to note that Norway introduced a ground-breaking quota on women on boards, aiming to increase the proportion of women on boards of nearly 500 firms to 40.0 percent. The United States falls even shorter with 16.9 percent of board seats held by women; however, this results in the United States ranking 9th out of the 44 countries. The United States is very closely in line with The Netherlands (17.0 percent), South Africa (17.1 percent), Denmark (17.2 percent) and the United Kingdom (17.3 percent). Saudi Arabia ranks at the very bottom of the list - 44th out of 44 countries - with 0.1 percent of board seats held by women.

There have been many suggested reasons for the low representation of women on corporate boards, ranging from role perception (social skills) to limited industry experience (technical skills). Some barriers, such as those related to role perception in a male dominated field, are difficult to overcome and may require enormous cultural shifts to eradicate. Other barriers, particularly those related to limited industry experience, may be more easily broken as more and more women are obtaining the educational and the industry backgrounds, far surpassing the professional backgrounds of women from previous generations. Despite the low representation of women on boards, the benefits of having female representation in the board room has received considerable attention and investigation in recent years. Many studies have contributed to the belief that women in the board room offer greater innovation through diversity of thought, a focus on social philanthropy of firms’ activities, and development of the board through a keen focus on performance results.

As the leading nation in terms of women serving on boards, Norway can offer insight into the benefits a firm may derive from female directorships. Nielsen and Huse (2010) studied the contributions of women on Norwegian boards, and while the authors acknowledge the possibility that their sample of Norwegian firms may be unique when compared to other nations, they found relationships between women directors and improved board strategic control, increased board development activities, and decreased level of conflict. These results are attributed primarily to leadership styles more prominent in female leaders, which can be translated to other cultures.

Branson (2012) outlines several benefits to corporations from an increase of women directors in his article in the Journal of Corporation Law. First, the presence of women on boards results in positive role models for women in the middle and lower ranks of organizations. Second, boardroom diversity aids in avoidance of “groupthink,” or the phenomenon where a desire for harmony or conformity in the group results in an irrational or dysfunctional decision-making outcome. Third, “market reciprocity” relates to positive signals the company sends to its target customers. Companies whose target markets include women may see higher performance as a result of women on their boards. Fourth, corporations increasingly function in a diverse world; their board makeup should reflect this diversity of market. Fifth, female representation on boards is in line with international laws and conventions promoting equal employment opportunities for men and women. Generally speaking, the author suggests women bring broader perspectives to board service, make better use of interpersonal skills to promote collaboration, and help expand the context of board discussions.

Kang & Payal (2012), in their literature review of women on corporate boards, suggest reasons for globally low representation on corporate boards and outline the benefits corporations may
experience from greater proportion of women holding board seats. Summarizing research articles through the years, the authors cited role perception, both on the part of male and female board members and executives, male dominance in the board rooms, and the possible perception of female board members as “token” directors as barriers for women being elected to boards or succeeding on boards. Corporations with female representation on boards, however, experience many benefits. It is suggested women directors contribute to boards by providing diversity of ideas, greater awareness for social philanthropy, less incidences of sexual harassment, and motivation for female employees. The authors acknowledge the mixed research findings on the effects of female board composition on firm performance, but they suggest their belief that corporations with women on their boards may demonstrate better performance. They state “business organizations must realize that employing more women and having an optimum mix of workforce is a good economic proposition rather than a social obligation.”

Kang & Payal conclude the article by stating “societies and various stakeholders have to rethink their approach towards women and the contributions women can make as board members.” But in a society with deeply rooted gender inequities such as Saudi Arabia, it is unlikely that corporations will begin to rethink their approach to adding women to boards when it would go against the cultural and religious customs of the nation.

The status of women is primarily determined by traditional and religious practices in Saudi Arabia that are often sanctioned by law. Generally speaking, women are subservient to men, and restrictions applied to Saudi women curtail their way of life. These curtailments are often cited as requirements under Islamic law; however, the Quran and other sources of Islamic law do not necessarily support the interpretations applied by Saudi authorities.

The main problem with Saudi law is not its basis on Sharia but rather that it is subject to interpretation, and this interpretation is left to government appointed individuals, often with agendas to suppress women’s rights (Mtango 2004). In 1992, Saudi Arabia enacted the Basic Law, which resembles a constitution by providing powers and duties of the State and enumerating certain rights of individuals. The actual constitution of Saudi Arabia, however, is the Sharia (Islamic law), from which all other laws are based. The Basic Law contains a chapter entitled “Rights and Duties” which stipulates the general right of Saudis to work, obtain education, welfare, and access to healthcare; however, the Basic Law is silent on women’s rights. The Basic Law provides that the State shall protect human rights according to Sharia. Framing human rights in reference to the Sharia is difficult due to the ambiguity of Sharia and the fact that it is subject to interpretation by the Council of Senior Ulama. The Council, as the ultimate source for interpreting laws of the Kingdom, consists of 18 members all appointed by the King.

Of the many restrictions on women in Saudi Arabia, the most obstructive, in terms of increasing gender diversity on Saudi boards, is gender segregation and restrictions on education and employment. Saudi Arabia has an elaborate system of sex-segregation. By the age of seven, boys and girls are separated into strictly divided worlds of men and women. Public facilities are segregated as a matter of law, which often means men and women have different access to services, often to the detriment of women. In terms of education, this segregation takes the form of distinctly separate schools and universities or separate classrooms for men and women. Women’s facilities are substantially inferior to men’s: class sizes are larger, teachers receive inferior training or hold lower degrees, and access to university libraries is limited. At times, men may teach women’s classes, but instruction is done via closed-circuit television so the teacher and students never meet face to face. Women are further restricted by areas of study.
According to former Superintendent General Muhammed bid Adwah, “it is essential that female students be steered toward feminine disciplines. There is no need for women to compete with men in disciplines that are not suited to their nature” (Mtango 2004). This attitude toward education of females, coupled with the general inequalities of educational quality for women, is a tremendous barrier to women obtaining appropriate training to eventually rise to the ranks of board members later in life.

In terms of employment, women were historically forbidden from working in an environment where they would be in the company of men. As part of the sex-segregation policy, a woman is only permitted to be in the company of her husband or men who are immediate relatives. Further, a woman’s role at work is limited since she cannot become a manager based on the notion her nature does not allow her to have independent thoughts and decisions and cannot be in a position to give orders to men. While under current Saudi law, a woman is theoretically permitted to hold any profession, her profession is still limited to one in which she will service other women exclusively. Therefore, the most prominent female professions in Saudi Arabia are doctors, teachers, and hairdressers. While these professions do not necessarily prevent a female from ultimately serving on a board of directors, the limited nature of professions result in a theoretical limit on firms where women may serve. The general attitude that it is “against her nature” to give orders to men is an almost certain barrier for women to obtain board membership. Assuming a woman can obtain a seat on a Saudi corporate board, it can be almost guaranteed that the top management team is exclusively comprised of men; a female board member would not be permitted to evaluate executives’ performance due to the need to exercise independent thought and give direction to men.

While women on boards in the United States is tremendously more favorable than in Saudi Arabia, as the most recent Catalyst report shows, the United States’ record of women representation on boards is substantially inferior to many other nations. Ranking 9th out of 44 countries represented in the Catalyst report, the United States falls significantly short of the three Scandinavian countries leading the study. With less than 17 percent of board seats occupied by women, there is still a sizeable gender gap on corporate boards. Several theories have been proposed for this disparity, but they typically boil down to a male-dominated network in corporate governance and a misconception that female board candidates lack the qualifications (Green 2012). According to Green’s article in Business Week, 45 percent of male directors state the reason the number of women on boards has not changed is due to the lack of qualified candidates; only 18 percent of female directors agree. Fifty-one percent of women directors support mandates such as gender quotas and corporate governance codes approved in several European nations. These female directors view mandates as a means to increase the diversity of the pool of candidates, which would lead to better governance.

However, once women gain positions on boards of directors, they often continue to face obstacles to becoming effective board members. According to a study by Groysberg & Bell (2013), women cited four main obstacles: 21 percent say their thoughts are not heard or listened to, 20 percent feel they are not accepted as equal or as part of the group, 20 percent say they are unable to establish credibility among male counterparts, and 5 percent feel they are stereotyped by expectations of women’s behavior. Women feel men are unaware they may create hostile board cultures and fail to listen to female directors or accept them as equals. The authors also explored how men view the obstacles women board members face, which resulted in a different perception. Of the men who acknowledged obstacles for female board members, 33 percent cited women’s weaker networks and the presence of the “old boys’ club,” 28 percent cited lack of experience and industry knowledge, 22 percent cited bias and prejudice, and 14 percent said women have to work harder to prove themselves.
Sustainability in Saudi Arabia

Business sustainability is often defined as managing the triple bottom line: a process by which companies manage their financial, social and environmental risks, obligations and opportunities. These three impacts are sometimes referred to as profits, people and planet. Nordberg poses this question: “How do corporations balance the competing demands of profitability for shareholders, social justice for the people with which they work and the environmental consequences for the planet?” (Nordberg 2011) The answer to these questions yields a sustainable business that meets the needs of future generations.

Saudi Arabia is currently going through a transitional period when it comes to economic sustainability. Their far-and-away most important business and resource is oil. Oil was discovered in Saudi Arabia during the 1930’s and since Saudi has grown into the world’s largest producer and exporter of petroleum. Over 75% of all Saudi Arabia’s revenues are generated from oil & gas exports. This natural resource is expected to be depleted within the next 20 years. Dependency on a business based around an expiring natural resource has led to a push for more diversification in the Saudi Arabian economy. The government recognizes this and was able to come up with a plan to help push the economy forward.

The Ninth Development plan, implemented in 2010, set goals for annual GDP growth of 5.2% using the non-oil private sector to promote diversification (Thompson et al. 2012). They allocated great amounts of money towards the building of community colleges and career training institutes. These types of spending initiatives will ensure the availability of a highly skilled and motivated work force in the future. However, the entrepreneurial mindset must be used now to shift the economy towards sustainability. They have begun trying to do this through brands and franchises from the United States, such as fast food and clothing outlets. However, the Ninth Development Plan’s objective of a diverse economy is not being met this way. True entrepreneurship is the only way to achieve this economic diversification, and Saudi Arabia is still looking for more ideas to catch fire.

Saudi Arabia is also going through a transitional period when it comes to corporate social responsibility, or the duty of a corporation to create wealth in ways that avoid harm to, protect, or enhance societal assets, such as people and the planet. Ways to do this include being involved in building local communities, communicating with them regarding the consequences of policies and products, investing in social infrastructure, and contributing towards a cleaner environment. Saudi Arabia maintains a good base because of the Islamic views of this region. It teaches individuals to be responsible in life and business as well, and prescribes what is good and what is forbidden, haram. It also informs how businesses should be run and prohibits certain businesses. Ethics and religion go hand in hand in Islam. It expects the game should be played strictly in accordance with the rules of religion for the purpose of maximizing ‘values’ instead of ‘profits’. A socially responsible business is required to spend money, and excessive accumulation of wealth should not be the objective of a Muslim.

Islam has greatly influenced CSR practices in Middle Eastern countries with positive outcomes. Saudi Aramco continues to be a leader in creating a sustainable social and economic opportunities for many in Saudi Arabia. The company goal is to be a global citizen minimizing harm and maximizing opportunities. It has invested billions of dollars in more than 100 ventures to create thousands of jobs. The company supports more than 150 charities both inside Saudi Arabia and abroad, which serve a wide range of causes. Being a national oil company, its profit goes to the government, which in turns supports the citizens. National Commercial Bank is another Saudi Arabian company that has adopted corporate social responsibility. They have
identified a specific agenda for social responsibility in the form of strategic goals. These goals include contributions to ensure job opportunities, support the health and education sector, and adopt various social programs to help the needy and promote the concept of volunteerism in the community (Khan 2013). These companies do a lot to help the community in which they do business.

Corporate social responsibility in Saudi Arabia is looked at differently and is in the early stage of development. Saudi Arabia tends to view CSR as philanthropic or altruistic rather than having strategic orientation. This view reflects the economic infancy and that the country is in the early stage of private sector development. Companies like Saudi Aramco and NCB are a couple examples of companies who are pursuing their CSR goals strategically and improving their CSR efforts continuously. These companies define their CSR agenda and pursue its CSR activities seriously. However, CSR is in its infancy in Saudi Arabia and very few companies understand its true meaning and relevance.

Saudi Arabia is also going through a transitional period when it comes to the planet. Talks of environmental sustainability are taking root all across the planet, but Saudi Arabia actively works to slow international policy requiring cleaner oil emissions from exporters. Considering 75% of Saudi Arabia’s GDP originates from oil, it is no wonder they have become defensive when measures are being pushed on them to clean up oil emissions before exportation, as this will cut into their bottom line. In 2005, Saudi Arabia acceded to the Kyoto Protocol to reduce emissions. The Minister of Petroleum and Mineral Resources predicted that by 2010 Saudi Arabia will have lost $19 billion in revenue due to adoption of the Kyoto Protocol (Depledge 2008).

Not only has Saudi Arabia been dragging their feet on adopting low emission policies, they have also been taking a positive stance on climate change predictions. They have continued to adopt the view that predictions on global warming are uncertain. If Saudi Arabia does take a stance on climate change, they favor the conservative view and downplay the possible harmful effects of emissions on the environment (Depledge 2008). Saudi Arabia’s hesitancy towards adopting more strict international environmental policy is understandable given their current economic profile. They are not limiting their power by stalling climate change policy in Saudi Arabia. OPEC companies have been working with lobbyists in other countries, mainly the United States and Australia, to delay the adoption of international environmental policy. Evidence of OPEC’s relationship with the United States was seen after a meeting between the United States and Saudi Arabian delegations convened. Following the meeting, the United States delegation stalled when approving the Kyoto Protocol. Saudi Arabia is taking a proactive role to ensure that they can maximize profits for as long as possible, even if that means continued destruction of the environment.

With low prices of domestic fuel, Saudi Arabia’s oil consumption has risen from approximately 1.5 million barrels per day in 2000 to 2.8 million barrels per day in 2010 (Bahgat 2013). A continued increase in domestic oil consumption would diminish the amount of oil available for exportation and decrease the country’s main source of income. To combat this trend, Saudi Arabia has begun to diversify their energy portfolio to include nuclear and renewable power sources. In 2011, Saudi Arabia signed three nuclear pacts with France, Argentina and South Korea to have 16 nuclear power plants running by the year 2030. Since these pacts, Saudi Arabia has also signed an agreement with China and negotiated assistance from the United States and Russia. These steps have proven that Saudi Arabia is serious about their desire for nuclear power and is working to achieve their goal.
Renewable power is another area of energy production where Saudi Arabia is looking to become a major player. In 1977, they helped pioneer solar energy in the Middle East with a three village pilot project. However, since the project in 1977, Saudi Arabia has done little to capitalize on their abundant resource. By 2020, Saudi Arabia has a goal for 50% of the country’s power to come from the sun. They are not looking at solar power only as a way to decrease the domestic consumption of oil, but also as a means to become a supplier of solar energy globally. Saudi Arabia’s interest in nuclear and renewable power may be grounded in their need to reduce domestic oil consumption and to continue their energy prowess across the globe, but they are still investing in cleaner and greener technology.

Conclusion
Cultural limitations and a developing, diversifying economic system have necessitated Saudi Arabia taking a different approach to the way in which companies and executives operate as compared to the rest of the world. Saudi Arabia currently hosts millions of expatriates working for locally owned companies with very minimal foreign investment. Boards of directors are composed of many of the same committees as the rest of the world. Besides the limited presence of women on boards in Saudi Arabia, directors hold many of the same characteristics as well. Saudi Arabia is also working towards sustainability of their communities and the environment, much the same as other countries around the world. By mimicking global powers and trying to find practices that work for them, Saudi Arabia is working on reforming their corporate governance structures to continue to hold their position as one of the top twenty worldwide economies.

Works Cited


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