

Integrating Corporate Social Responsibility (CSR) into Corporate Governance Structure: The Effect of Board Diversity and Roles: Case Study of Saudi Arabia.

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ABSTRACT

Research Purpose: the purpose of this paper is to determine the board diversity characteristics that affects on board roles in order to improve the integration of Corporate Social Responsibility (CSR) into corporate Governance (CG) structure. This objective has been achieved by reviewing (CG) and (CSR) literature, and surveying various deliberations on offer at the first; second, by examining how the board diversity characteristics effect on their roles towards the adoption of CSR within case study context of two companies operating in Saudi Arabia.

Research Findings: A qualitative research method was adopted. In-depth interviews conducted with participants at various levels of board and management in the two Saudi companies. The findings suggesting (i) board diverse characteristics affect positively three board roles towards the integration of CSR in to governance structure ;(ii) that there were seven types of diverse characteristics emerged to be considered as important factors affecting on the board roles in integration of CSR governance structure; and (iii), we have developed a three theoretical propositions that can assist to direct further research on the topic, highly recommended that board diversity characteristics are an essential to improve the effectiveness of board roles (monitoring, services and strategic) which in turn effect on CSR adoption within the companies. These findings are important and motivating; indicating that recent concern of reforming CG Codes in emerging countries is starting to be balanced by some notice/attention to CSR, with growing of board of directors' role in protecting stakeholders.

Theoretical Implications: This study makes two important contributions. First, it contributes to our understanding of board diversity characteristics and roles that improve CG codes in the context of engaging within stakeholders. Second, the paper develop a number of theoretical propositions that can assist as the foundation for future research on this issue, particularly in emerging countries, given that the data and propositions are derived from emerging country settings.

Practical Implications: This study highlights the need for enhancing election criteria when it comes to appointing BODs, especially in the case of an organisational shift towards a socially responsible business. The implications for policy makers can be found in the need for regulatory and judicial systems' capacity improvements to enhance institutional pressures to increase CSR adoption rate via coercive and normative methods.

Keywords: Board diversity, Board roles, corporate social responsibility and corporate governance.

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Introduction

Over the recent years, the topic of Corporate Social Responsibility (CSR) has attracted a growing attention from researchers across several disciplines. CSR can be defined as the broader responsibility towards society of an organisation. In addition to the economic evaluations, both researchers and practitioners recognise the value of additional measures of corporate success (Carroll, 1979; Jamali *et al.*, 2008; Shahin and Zairi, 2007). Corporations are “no longer expected to be mere contributors to the global economy, but rather to reconcile and skilfully balance multiple bottom lines and manage the interests of multiple stakeholders” (Jamali *et al.*, 2008, p. 443). Despite the growing research interest in the topic of CSR, organisational performance in this domain is still found to be limited. One of the possible explanations for this gap can be found in the inadequate abilities of major decision makers and boards of directors in particular who drive companies’ CSR achievements (Kruger, 2009). In line with the underlying CSR concept, boards of directors are collectively accountable to a broad range of stakeholder groups. As a result, there is an urgent need for the examination of the relationship between board diversity characteristics and roles and CSR pursued.

Research Gap of knowledge

Existing body of research on board composition has predominantly focused on its impact on board effectiveness as measured via corporate financial performance. The influences of specific board attributes in the context of CSR are generally under-researched. Board diversity represents an emerging issue in the literature on board composition (Catanzariti and Lo, 2011). The general consensus suggests that board members’ diversity can be associated with a positive effect on financial performance (Carter *et al.*, 2003; Rose, 2007). Unfortunately, the question of whether this effect applies to non-financial performance (e.g. CSR) remains under-researched. The very few studies which examine the relationship between corporate responsibility and board diversity point out the positive effects on some of the CSR aspects using quantitative measures (Bear *et al.*, 2010; Post *et al.*, 2011; Wang and Coffey, 1992; Williams, 2003). This study focuses on two case study organisations operating in Saudi Arabia and examines the uncovered relationship from a qualitative standpoint. The presented paper aims to enhance the current understanding of the relationship between board diversity characteristics and board roles in integrating CSR practices within governance structures and thus fill the current gap in CG and CSR literature.

Literature review

Corporate Governance

The separation of ownership and management underpins the concept of corporate governance. This separation was first pointed out by Berle and Means (1932). Several decades of research have extended the definition of governance which now includes “good corporate citizenship, being accountable not only to shareholders, but also to other stakeholders and to the wider community within which they exist” (Ingley, 2008, p. 18). The variance of the definition of corporate governance stems from one’s perception of the world (Shahin and Zairi, 2007) and two broad categories of definitions can be distinguished. On one hand, some researchers adopting a narrow perspective, perceive corporate governance to represent a mechanism for the protection of owners / shareholders interests. This narrow definition emphasises the return on investment to parties providing financial resources, owners and shareholders in particular (Shleifer and Vishny, 1996), and the socio-environmental aspects are largely neglected (Saravanamuthu, 2004). On the other hand, the proponents of the broader perspective focus on various stakeholder groups which provide resources essential for the company’s survival, competitiveness and success (MacMillan *et al.*, 2004). These stakeholder groups include employees, supply chain partners, customers and communities (Jamali *et al.*, 2008).

Regardless of which perspective (stakeholder or shareholder) is adopted, the existing body of research focuses on internal corporate governance, boards of directors in particular, in the examination of the relationship between governance and corporate performance. The importance of the board's role in corporate governance can be explained with reference to a number of key theories depicted in the academic debate. The dominant theoretical perspectives revolve around agency theory, stewardship theory, resource dependent theory and stakeholder theory. The underlying theories can be used to explain a relationship between board's characteristics and corporate performance (Kiel and Nicholson, 2003). Example can be made of the agency theory which highlights the board's function in monitoring management on the shareholders' behalf (Fama and Jensen, 1983). The agency theory stipulates that effective control mechanisms are vital for the monitoring of management's actions. Board independence represents one of the key mechanisms. In 1990, a shift towards the stewardship theory has challenged the dominant position of the agency theory (Donaldson, 1990; Donaldson and Davis, 1991; Cuevas-Rodriguez, Gomez-Mejia & Wiseman, 2012).

Stewardship theory views managers as trustworthy individuals and suggests that they are good stewards of the resources entrusted to them. In the light of this theory, board monitoring of both management and board independence is not perceived as relevant. Conversely, the resource dependency theory (Salancik and Pfeffer, 1978) suggests that external units via which companies can exchange and acquire specific resources are essential for the business success (Terjesen *et al.*, 2009). From the resource dependency perspective, board of directors represents the link providing vital resources, such as legitimacy, advice and counsel (Hillman and Dalziel, 2003).

The final theory depicted in the academic debate, stakeholder theory, asserts the interdependent nature of the relationship between companies and society (Kiel and Nicholson, 2003). The implication of stakeholder theory for corporate governance is that the board of directors should be able to judge whether the interests of all stakeholders are being justly balanced (Kiel and Nicholson, 2003, p. 31). Overall, the underlying theoretical frameworks highlight the role of boards of directors in corporate governance and suggest that general improvements in corporate performance can be driven by boards of directors. In line with the broader concept of corporate governance, stakeholder theory challenges this view and suggests the wider responsibilities of the board and wider stakeholder accountability. The following section builds on this discussion and examines the relationship between board diversity, role and CSR in a more detail.

Board Diversity

The existing body of research suggests that diversity has a negative impact on group dynamics but has the potential to enhance group decision-making. Observable forms of diversity include gender, age, race and ethnicity; whilst the non-observable forms of diversity revolve around knowledge, education, values, perception, affection and personality. Given the practical difficulties in examining non-observable forms of diversity, the existing body of research on the effects of diversity on board performance revolves around observable diversity (Van Knippenberg *et al.*, 2004). Board performance and effectiveness is influenced by the diversity of the board. The level of diversity highlights differences between directors in terms of skills, knowledge and experience. Additional forms of diversity can be found in observable aspects, such as age and social status. Empirical body of research has associated diversity with improvements in knowledge base, creativity, decision making quality and innovation which stems from the diverse experiences of the individual group members (Watson *et al.*, 1993; Bilimoria and Wheeler, 2000). In the study conducted by Simons and Pelled (1999), the authors associated both educational level and cognitive diversity with positive impacts on the organisational performance.

The authors however pointed out the negative effect of experience diversity on return on investment as well as overall organisational performance stemming from the informal nature of the communication within top teams. Similar results can be expected for the boards of directors. From a critical perspective, Hambrick *et al.* (1996) provided empirical evidence that homogenous top-management teams in fact outperformed heterogenous teams. The analysis conducted by the authors revealed that homogenous teams were more effective in their actions and responses, whilst

heterogenous teams were more likely to respond to the approaches taken by competitors. The explanation provided by Hambrick *et al.* (1996) suggests a higher level of disagreement amongst heterogenous groups which impedes the team consensus. The extrapolation of these findings for boards of directors suggests that highly diverse boards' composition may not result in a positive outcome in terms of the board's effectiveness.

In terms of the relationship between board diversity and CSR, the few studies on the topic highlight the potential of board's diversity to influence social and environmental business aspects (Bear *et al.*, 2010, Coffey and Wang, 1998, Ibrahim and Angelidis, 2011, Krüger, 2009, Post *et al.*, 2011; Boulouta, 2013). The validity of these results is however limited. In a recent study, Post *et al.* (2011) revealed a positive impact of board diversity characteristics on environmental corporate social responsibility (ECSR). The findings concluded by the author suggests that firms with boards composed of three or more female directors, directors' average age closer to 56 and with a higher proportion of directors from Western Europe achieve better outcomes in ECSR. Contradictory findings have been however previously reported by Coffey and Wang (1998) in their study of the relationship between board diversity and corporate philanthropy. Insignificant results failed to support the argument in favour of board diversity. Furthermore, the OLS regression carried out by Bear *et al.* (2010) supported the gender composition hypothesis but failed to support the resource diversity hypothesis.

Research Methodology

Case study data collection relies on numerous sources of information including documentation, archival records, open-ended interviews, direct observation, participant-observation and physical artefacts which represent a key strength of this research method (Yin, 2013; Saunders, Lewis & Thornhill, 2011). The existing information on current system highlighted the obstacles in promoting user acceptance of systems development and implementation process. A triangulation process was developed in order to process information from numerous sources and thus provide a more complete picture of the studied phenomenon (Bryman, 2012).

Two particular companies have agreed to take part in the research project: a petrochemical company listed in Saudi stock exchange (coded as case study A) and agricultural company listed in Saudi stock exchange (coded as case study B). In order to critically investigate the level of integration of CSR into CG structure, board members and executive managers in various hierarchical levels of the CG structure have been invited to take part in the study. Table 1 below summarizes the participants' positions, educational qualifications and experience levels. The demographic data was collected very briefly as the respondents focused on their capacity of representatives of particular organisations. A coding system was used to identify participants throughout the study (e.g. case study A PCI 1, 2 and 3; case study B AFI, 1, 2 and 3). The underlying rationale for the use of this coding system can be found in the need for ensuring confidentiality and anonymity of the respondents.

Table 1: Profile of Participants interviewed

Participant Code	Demographic Data			
	Position	Experience (years)	Educational level	Functional Background
Case study of Petrochemical company				
PCI 1	Management level	13	Bac	Chemical Engineering
PCI 2	Management level	16	MA	Chemical Engineering
PCI 3	Board level	25	PhD	Accounting and Finance
PCI 5	Board level	25	MA	Law

PCI 6	Management level	20	MA	Accounting and Finance
Case study of Food and Agricultural company				
FAI 2	Board level	15	MA	Management
FAI 3	Management level	20	PhD	Management
FAI 7	Board level	15	MA	Accounting and Finance

Open-ended questions were used during the interviews (Yin, 2013) which allowed the researcher to provide a topic (see Table two) and gather respondents' opinions regarding the events. The reliability of the responses was enhanced via the use of a reasonable approach by verifying the validity of the responses with other sources of information (Yin, 2013). The participants were encouraged to share their insights and opinions on the issues which were consequently analysed together with opinions from other participants and additional sources of information. Given the potential negative effects on the scope of the study and the importance of data gathered, the researcher went beyond the use of a specific sequence of the guiding questions.

Table 2: Topics Addressed in Interviews

Corporate governance (CG)	I. Corporate Responsibility (CSR)	Social II. Board of directors (BOD)
<ul style="list-style-type: none"> • Concept Structure, committees • Governance Codes of conduct codes • Motives for good CG practice • CG requirement disclosure 	<ul style="list-style-type: none"> • CSR Conception • CSR practices • Strategic CSR, values, mission • Most important stakeholders • Measurement of CSR 	<ul style="list-style-type: none"> • Board of directors (BOD) • BOD Composition • BOD Roles and Responsibilities • Board size • Board independences

Research Findings

Case Study A

This case study concerns a petrochemical company listed on the Saudi stock exchange. The company has radically changed its business strategy by integrating CSR into its operational activities. This change led to the establishment of a separate CSR governance structure in 2009.

CSR governance structure

In early 2009, the company drastically altered its operational activities and management structure to become a more socially responsible business. This was achieved by establishing a separate internal CSR governance structure. This result in the foundation of new executives committees and departments specialized in overseeing company's CSR in accordance with its operational activities. The company founded this structure in order to have various managerial authorities among its NED, executive, senior managers and employees.

Nine NEDs are at the top of CSR governance structure supervisory and strategy-related duties. Other executive directors sit on relevant committees and head up departments. There are 15 executive directors, 6 of which head the various operational sectors of SBUs, while the rest head the various company functions. According to the company's strategic objective was set in 2007, highlights the integration of CSR within the operational activities is main objective. Therefore, the majority of the committees within this structure include executive members from SBUs.

The adoption of CSR is supported by CG structures and system. Ideally, a governance structure would be closely associated with a company's CSR strategy and corporate model so that the board of directors can deal with any challenges the firm faces. However, there is no such thing as a universal ideal governance structure, because such structures are constrained by various issues including

company laws and codes of conduct (Heidrick & Struggles, 2007a). A particular CG structure that meets the needs of one company's CSR practices might be inappropriate for others. Indeed, companies have widely varying governance structures due to different business models and stakeholder concerns. Nevertheless, adoption of the CG concept is essential if a company wants to become more socially and environmentally responsible. Participant (PCI 3) stated that building a CG structure which takes into account the interests of stakeholders would lead to ongoing business security:

Sound and effective CG is essential to our success. It ensures that the interests of all our stakeholders, including customers, employees, shareholders and the communities in which we operate, are safeguarded and promoted over the long term.

Participant (PCI 1) highlighted the importance of maintaining corporate control by improving the governance processes that encourage best corporate practices with regards to the environment, health, and employee security, as well as mitigating legal risks;

Our Corporate Control maintains and works to steadily to improve our CG processes, by building our capabilities and encouraging best practice throughout the company: Environment, Health, Safety and Security, Legal, Enterprise Risk Management, Internal Audit, and Business Process and Data Quality Governance.

Those participants confirmed that a CG structure is needed to meet the stakeholder expectations of thorough implementation of best practices in CSR. From the stakeholder perspective, CG is a safeguard for all company stakeholders, not only shareholders, which enable the company to maintain and control CSR practices. This represents a shift from a profit-centred model to a stakeholder centred-model.

Board Diversity characteristics

Previous researchers have argued that boards should include directors with different experiences, education, functional backgrounds and specific knowledge sectors to enable their companies to fully embrace socially responsible practices (Forbes & Milliken, 1999; Westphal & Milton, 2000; Leblanc, 2003; Levrau & Van den Berghe, 2007b). The following sections report on three characteristics found to be important in establishing the company's new CSR governance structure: board members' experiences, educational level and skills

Director's Experience.

Directors with experience in by a company's core business areas are valuable resources (Coulson-Thomas, 1992). Participant (PCI 2) stated that directors with having substantial experience in core business of industry have improved the integration of CSR into operational activities:

When we started this transition into responsible industry and environmentally-friendly operations in 2009, our basic principles included the integration of CSR into the activities of the company. We operate SBUs with high production capacities, so imagine the obstacles we face in this transition towards environmentally-friendly production taking into account quality, costs and time. We would not have passed these obstacles without the experience of some of the board directors who possess long experience in this industry as well as the executive directors who have practical field experience in diverse business units.

Participant (PCI 5) also spoke in similar terms about the value of a board with a mix of experience: assist director to monitor environmental risk through CSR governance structure:

Our company's BOD is characterized by expertise and experience in several aspects such as the economy, chemical engineering, and industrial, financial and petrochemical sectors. This multi-experience combination helped us to design a good organizational framework for CSR governance in order to manage and monitor environmental risks carried out by company operations.

This participant revealed two kinds of experience which helped the company through this transition: directors' practical experience of the petrochemical industry, and multi-disciplinary experience in various industries. In this context, the participant mentioned five reasons why such experience was needed within the board:

- To have a deep understanding of the company's activities;
- To be able to design and integrate CSR into operations;
- To perform their CSR roles effectively within governance structures;
- To appropriately monitor CSR activities;
- To contribute to boardroom forecasts of future risk and environmental hazards.

Director's Educational level

Directors' level of education is important to provide distinctive views and innovative CSR ideas to boards (Cox & Blake, 1991; Hilmer, 1998; Westphal & Milton, 2000). In Kingdom of Saudi Arabia, there are no detailed rules and guidelines about the importance of directors' educational level possessed within the board. In this Company, a number of several participants highlighted that importance of directors' education to adopting CSR practices. For example, two participants clarified that directors perform a variety of roles toward CSR adoption. They indicated that highly educated board members were able to:

- Create the appropriate environment of thinking and creativity;
- Analyse information from different perspectives;
- Make rational and strategic decisions about CSR integration.

Participant (PCI 5) also noted:

Since we are a 70% government-owned company, the majority of BOD members are appointed by Saudi government. The government takes educational level into account in considering candidates for the BOD. I believe that those directors have created the appropriate environment of thinking and creativity that assisted the company to integrate CSR into company operation structure.

This participant indicated that educational diversity within the board was a priority for BOD selection, and also for NEDs within the cabinet of ministers as it was the case for 5 previous non-executive directors. This highlights the importance of diversity in educational level seen by the government which owns 70% of the company's capital and its attempt to enrich the board with diverse educational levels in order to help the company in their shifting to socially and environmentally responsible business. Similarly, Participant (PCI 6) emphasised that the transition process towards CSR required multi-disciplinary analysis to develop multiple perspectives and assist in decision-making.

... from my experience in our company, when we decided to transit into more socially-responsible operation, we really needed people from diverse educational level to Analyse information integration and to make decisions that takes the strategic transition into account. ... Analysis and review of any matter is adequate when it is subject to discussion from many perspectives ... and this, in my opinion, is very important in the strategic transition process which was decided in 2009 in our company

Despite these views expressed by research participants, as shown in Table 4.2 (based on the company's annual report) a majority of the company's directors possess Master's degrees.

Director's Knowledge and Skills:

The participants identified three types of knowledge and skills as important for BODs more diverse and knowledgeable in CSR transition process:

- Specific knowledge of the company's operations;
- Skill in mitigating environmental and social risks;
- Skills in social accounting reporting.

Participant (PCI 6), SPE also asserted that having specialised knowledge of operational activities was crucial in developing a strategic planning process for CSR transition.

Disregarding experience and qualifications, the [board] member needs elevated knowledge in the industry. This allows the member to leverage his industry knowledge to participate in the strategic planning process within the transition to social and environmental responsibility.

I do not expect a [board] member to be specialised in the industry, but they should know about the operational activity of the company. For instance, our company operates in the petrochemicals sector, and hence, we need members with administrative background but also know the petrochemical aspects, its structure, and internal managerial details.

Participant (PCI 2) went on to discuss the importance of skill in mitigating environmental and social risks. This participant noted that this skill was possessed by executive directors who were responsible for the integration of CSR activities within the operational activities known as SBUs. This characteristic enriched the discussions within executive committees, and contributed to the successful integration of CSR into operational activities:

From my experience in executive management, I found the executives to have sufficient skill in identifying and mitigating environmental risks. This helped executive members within the CSR Council and steering committees to identify those risks caused by the operations and how to manage them...

However, not every director possesses such knowledge; Participant (PCI 3) also emphasised that directors should acquire skills in social accounting and reporting in order to monitor and review CSR activities.

My background is accounting; when I was appointed as a non-executive director, I wasn't aware of social accounting and the analysis of company social and financial information. So, I developed [my skills] in this area, [familiarising myself with] different item terminology according to specific operations.

Case study (B)

The group is one of the most successful multinational food groups in the Arabic Gulf and Middle East regions. It has a wide portfolio of businesses including foods, retail, and plastics. The group has a market capitalization of Saudi Riyal, 5,000,000,000 and is listed on the Saudi stock exchange. Its total workforce in Saudi Arabia and overseas is about 17,000.

Group's Corporate Governance Structure.

The group's BOD consists of 11 NEDs and 8 executive directors, including the Group's managing director. This complies with Article 12 of the CG regulation issued by Capital Market Authority. The Board is appointed by the general shareholders assembly for three years. The BOD's specializations are diverse includes administrative strategic planning, accounting, law, marketing, CG, HR, risk management, and mergers & acquisitions (Board Report 2011). The Group's CG structure includes six governance committees, with the membership of board directors includes; NEDs' specialists and executives. Group Board approved special charter for these committees in order to govern their responsibility and duties. In 2004 the group developed a CG code to describe the practices and rules of corporate management, including disclosure principles, transparency, conflict of interest, confidential internal information, and stakeholders' interests, as well as the BOD's responsibilities,

duties of the executive management including the managing director, and the boundaries of the group's levels of authority. Participant (FAI 2) noted that:

Our perception of CG is that it enhances corporate value by ensuring that the Group fulfills its commitment to shareholders, employees, communities, the environment and all other stakeholders through an effective and interactive CG framework.

The CG's conception may differ from one company to another, and usually depends on how the decision makers in the company view it. In this case, the adopted view of a CG conception focuses on stakeholder's model rather than profit model, which is mainly focus on the protection of the shareholders' interests. Therefore, the adoption of CG conception that protect all stakeholders' rights rather than the shareholders alone, this indicates that the basic requirements of CSR implementation are met within the group's governance structure. Participant (FAI 3) also commented that integration of CSR into governance structures enhanced the group's ability to conduct CSR practices:

There were managerial difficulties in monitoring, discussing and evaluating the performance of CSR activities. Let's say before 2004, the contributions of the group in CSR were limited to discrete charitable contributions to charities working in aged care and supporting orphans and widows who come to the group to get such financial aid, then our CSR ends on such point. Most of our board members were not satisfied with this; they argued that CSR activities must be sustainable. The integration of CSR into our CG structure made our CSR practice more precise, well organised and sustainable.

These comments revealed that before 2004 the group had not properly understood the concept of CSR. This misunderstanding made the CSR practices were limited to unorganized charity's collection, which does not enhance strategic concept of CSR activities that based on sustainability. Non-systematic CSR activities wasted money and effort. The group's shift to strategic CSR concept since 2004 led to CSR practices being formally integrated into overall CG structure, therefore, this lead to the organization of CSR activities through financial monitoring, discussion of CSR policies, strategic development; plans and goals, and evaluation of CSR performance by group's BODs.

Board Diverse Characteristics

Diverse BODs are effective. A mix of experience, backgrounds, knowledge and skills enables a team to question issues and challenge viewpoints so as to ensure that decisions benefit the organisation. Demb and Neubauer (1992) opined that Boards should contain:

a depth of understanding about the company and the industry, a breadth of perspective that brings the larger context into focus, involvement with and commitment to the objectives of the company's businesses, and a sense of detachment from any encumbering affiliation. (p. 101)

Functional background

As noted earlier, the group's BOD comprises 19 members – eight executives and eleven NEDs. The document analysis revealed that twelve of board members have different functional background. Participant (FAI 7) believed that board with diverse backgrounds ensures the company to continue and grow its CSR activities:

I think [the Board's] diversity is enough to ensure the growth and continuity of the company, especially in its CSR activity. Diverse backgrounds mean members enrich debates within board committees and in particular with regard to expansion in CSR activity through developing strategies and evaluation of its performance.

The board with possessing this diverse characteristic has a variety of perspectives, ideas and views that improve the interactive discussion within boardroom. This interaction can lead to improve the board roles in developing CSR strategies and assessing its activities' performance.

Director's Experience

Participant (FAI 7) asserted that directors with long industry experience use their specific knowledge of operational activities to understand the environmental risk relevant to operating activities. Hence, Participant (FAI 7) also believed BODs require a high degree of relevant experience in order to make good strategic decisions to avoid these risks:

...having a board with long experiences related our operating activates lead to our understanding of threaten environmental risks and helping us in making good strategic decisions to avoid these risks.

A CSR executive gave a different view:

The philosophy behind establishing the CSR department was to regulate CSR in institutional form; this initiative was introduced by NED in board with long experience in different industries. They saw that we should be committed to serving the community and the environment, especially as we are working in agricultural and food industries. This suggestion was approved, and as a result, we were able to organise our CSR activities and set up a clear strategy for this department.

It is worth mentioning that previous comments revealed that experience can be categorized into two types, namely; industrial experience and multi-industry experience. The analysing of company reports highlighted that there are eight executive directors have work experience relevant to the operational activity of this group, while the non-executives have experience in different industries. These two kinds of experience within the board may be required to deal with CSR. Therefore, the potential benefits in having an industrial experience within the board were highlighted by participant in this case:

0. Increased interaction between board members
0. Faster growth
0. Good strategic decisions
- Industry-specific knowledge
- Improved ability to take advantage of opportunities in the market
- Quick access to important networks
- Improved risk avoidance.

In contrast, board members who possess similar industrial experience will not be able to recognise non-traditional opportunities or unexpected threats. However, participants in this case confirmed that multi-industry experience directors can also help a company to make appropriate decisions and recognise the threats and opportunities from different perspective. This leads to better strategic decision-making, which will be reflected in the company's social, environmental and economic performance.

Case Studies Summary

The two case studies of a petrochemical company (A) and food and agricultural group (B) were involved in the qualitative investigation in this purpose of this paper. A case study of a petrochemical company (A) revealed that board was aware of the negative environmental impact of the company's

main activity; this awareness led the management to strategically priorities the integration of CSR into its operations in 2007. In order to achieve this objective, by the beginning of 2009, the company began radically altering its operational activities and management to become a more socially responsible business; this was achieved through establishing a new CSR governance structure, including:

- Founding new executive committees and departments specialised in overseeing the company's integration of CSR into its activities;
- Activating the board's role in integrating CSR into the six operational activities ;
- Providing sustainable CSR activities; and
- Providing more accountability to CSR practice at the board level.

However, a case of an agricultural and food group (B) was investigated with respect to the Board and management's views about the integration of CSR activities within the governance structure. The board perceived that the stakeholder governance concept was the foundation. The board was not satisfied by the group's formerly unsystematic CSR activities, and in 2004 adopted a strategic concept of CSR which made group contributions more organised and sustainable. This led to integration of CSR into governance by establishing a CSR committee. Management perceived that this committee activated the board members' in implementing and adopting CSR practice within the group. Interviews with participants involved in both case studies revealed seven significant board diversity characteristics that motivated board roles to integrate CSR into their governance structure. Table 3 summaries the most important diversity characteristics board roles that emerged from the data.

Competency	Case Study (A)	Case Study (B)	Potential Roles
Industry experience	Supported	Supported	<ul style="list-style-type: none"> • Deep understanding of company activities • Ability to design and integrate CSR into operations • To perform their roles effectively in designing CSR • To effectively monitor CSR activities • To contribute to boardroom discussions of environmental risks.
Education level	Supported	None	<ul style="list-style-type: none"> • Creating an appropriate environment of thinking and creativity • Analysing information from different perspectives and views • Rational and strategic decision-making about CSR integration
Specific knowledge of operations	Supported	None	<ul style="list-style-type: none"> • Developing a strategic planning process for CSR transition
Skill in mitigation of environmental and social risks	Supported	None	<ul style="list-style-type: none"> • Integrate CSR into operational activities • Enrich the discussions and debates within executives committee
Analytical skill of social accounting reporting	Supported	None	<ul style="list-style-type: none"> • Analysis of the company's social and financial information • Analysis of descriptive and quantitative data in CSR reporting • Monitoring and review of CSR activities
Multiple experience	Supported	Supported	<ul style="list-style-type: none"> • Use of different forms of knowledge • Improving CSR to be at professional and systemic levels • Organising CSR activities • Clear strategy for the CSR department.
Functional background	None	Supported	<ul style="list-style-type: none"> • Enrichment of debates regarding CSR within the board • Evaluating CSR performance • Developing strategies

Discussion of Findings and Theoretical Propositions

The participants have been involved in the two case studies demonstrated to require similar types of directors' diverse characteristics within their boards in order to perform its roles in integrating CSR within CG structure. The directors' diverse characteristics highlighted by participants namely: industry experience, multiple industry experiences, functional background educational level, analytical skill of social accounting reporting, skill in mitigation the environmental and social risk specific and finally knowledge of the company operations.

Concerning the importance of director's industry experience, the findings of both case studies have indicated that directors with industry experiences have deep understanding of company' operations activities, which allow them to perform their roles effectively especially in Monitoring CSR activities, Designing and integrating CSR into operation activities; Designing CSR within governance structures; Contributing in boardroom discussions in forecasting the future risk and environmental hazards; Understanding of threaten environmental risks; and Making good strategic decisions to avoid these risks.

A confirmation for the conclusions drawn by Coulson-Thomas (1992) has been uncovered. The UK-based study revealed that industry experience in business represents the crucial diverse characteristic required by the members of the board. Kor (2003) went even further and argued that industry experiences reflect the managerial skills and knowledge and thereby represent a source of expertise and managerial competence. Understanding how an industry operates and recognising market opportunities is dependent on the industry experience. Common industry threats can be identified early on with the use of previous industry experience. The expected benefits of the level of industry experience relate to the industry specific knowledge and expertise and the access to a contacts network in the industry (Cohen & Dean, 2005; Kor, 2003). Experienced directors are found to be more effective in addressing business challenges (Olfen & Boone, 1997; Peace & McMillan, 1983), in board decision-making as well as further roles of the board (Westphal & Milton, 2000; Mitchell, 1983). As a result, the presence of experienced board members can be associated with potential improvements in boards' effectiveness in Saudi companies. Consequent impacts of the presence of experience board members can be found in the improvement of CSR practices adoption and firm's value (e.g., Jie, 2008; Boone et al., 2004; Cohen & Dean, 2005; Ferrier, 2001; Kor, 2003; Pitcher & Smith, 2001).

Other diverse characteristics was highlighted by participant in the case study (B), is multi-industry experience, which enhanced directors' roles in use different knowledge and perspective , improving CSR to be at professional and systemic level, organize CSR activities, Set up plan assessment & Clear strategy for this CSR department. These finding confirmed Eisenhardt & Schoonhoven (1990) study, which indicated that having experienced directors within the board from different industries, they can recognize non-traditional threats and opportunities, have a broader knowledge base and different perspectives. In the same case study, the participants have revealed that director's functional background is an important diverse characteristic needed to their board in conducting its roles effectively in enrichment on debates regarding to CSR within the board; evaluating CSR performance and developing CSR strategies.

The study conducted by Hickson, Hinings, Lee, Schneck and Pennings (1971) revealed that functional background can become a source of power only if it helps in resolving major uncertainties faced by the team. These findings were confirmed in the study. In line with this proposition, expert power can be derived from the functional background when it encompasses a breadth of functional area in functions that are critical strategically (Finkelstein, 1992). Functional diversity has been recognised to represent a key asset since functional diversity within management teams enhances team innovation as it allows the team to generate alternative solutions (Bantel and Jackson, 1989; Joshi and Roh, 2009).

Other qualitative research results regarding board members' knowledge and skills found that three types of skills and knowledge, including : analytical skill of social accounting reporting, skill in

mitigation the environmental and social risk and specific knowledge of the company operations , are important for case study (A) board members in order to perform their board roles in adopting CSR practice. Based on these findings, it is appeared that analytical skill of social accounting reporting is an important directors' diverse characteristics that enhance the directors' monitoring roles in adopting CSR practices by considering: analysis of company social and financial information; analysis descriptive and quantitative data included in CSR reporting; and monitoring and review the CSR activities. In line with the conclusion drawn in previous studies (Vafeas, 2003; Conger & Ready, 2004; Radin, 2004), social accounting skill has been found to be the key skill for board members. As suggested by Vafeas (2003) and Conger and Ready (2004), the understanding of a company's non-financial statements allows the board to enhance the effectiveness of social, environmental and economic performance monitoring.

Moreover, the findings support previous research (Katz, 1974; Forbes & Milliken, 1999; Letendre, 2004; Carmeli, 2006; Jeanjean & Stolowy, 2008), which pointed out that board directors require to have additional kinds of knowledge and skills to develop and monitor short and long-term firm's strategies and to better understanding of business complexity and challenges. During the investigation in the case study (A), the director's skill in mitigation the environmental and social risk has been revealed to improve the director's roles in integration of CSR within the operational activities known as SBUs and enrich the discussions and debates in an effective manner within executive's committees in CSR governance structure in this case. While specific knowledge of the company operations has been identified to assist director's strategic roles in developing effective strategic planning for adopting CSR transition process. Board of directors with detailed knowledge enhances directors' level of understanding of company's operational activities. It involves specific knowledge of the company covering details and related information on the company's nature of industry, customers, environmental risk, etc.

The tacit nature of this knowledge needs to be acknowledged as well as the difficulties in substituting its utility. It represents a vital source of the board's aptitude to undertake different roles (Forbes and Milliken, 1999; Hillman and Dalziel, 2003). Fama and Jensen (1983) pointed out the competency of company's specific knowledge produce a valuable and distinctive resource which affects the board's ability to control roles over the management. The importance of company's specific knowledge is widely acknowledged in the existing debate. Charan (1998) associated this resource with board's ability to focus on appropriate decision alternatives and Forbes and Milliken (1999) argued that it allows the board to understand business operations as well as internal management issues.

Final qualitative findings from the case study (A) was educational levels as essential directors' diverse characteristics that enhance the directors' strategic roles by Creating the appropriate environment of thinking and creativity; analysing the information in different perspectives and views; making the rational and strategic decision and making in CSR integration into company operation activities. This finding confirmed Ingley & van der Walt, (2001) study, which stated that level of educational qualification will function as a strategic resource. It will also act as a mix of diverse characteristics that help in executing the governance function (Carpenter & Westphal, 2001). Therefore, our findings translating into three theoretical propositions

P1: The directors' diverse characteristics improve board monitoring roles in integrating CSR into the CG structure.

P2: The directors' diverse characteristics improve board services roles in integrating CSR into the CG structure.

P3: The directors' diverse characteristics improve board strategic roles in integrating CSR into the CG structure.

Research Conclusion

Following the aim of investigating the dynamics of CG-CSR relationship, the presented paper has reviewed the existing body of research on the topic and examined the board's characteristics influencing board roles and competencies based on two case study companies operating in Saudi Arabia. The general conclusion associates board diverse characteristics with three board roles in the integration of CSR to the governance structure. A total of seven types of diverse characteristics impacting on the board roles have been uncovered. Based on the outcomes of this study, three theoretical propositions to guide further research have been put forward. Overall, board diversity characteristics are essential for board role's effectiveness (monitoring, services and strategic) which consequently influence companies' CSR performance.

The wider implications of this study emphasise the direct effect of board diversity characteristics on three vital roles of the board based on the resource-based view of the firm and resource dependence theory: monitoring, service and strategic. In line with the resource-based view of the firm, board diverse characteristics result in a wider information pool which results in the board's ability to uncover innovative solutions (William and O'Reilly, 1998). Diversity in expertise and skills enhances the value of board capital and consequently strengthens the board's performance in service and controlling tasks (Hillman and Dalziel, 2003). The underlying rationale for the board's function in the provision of critical resources to the firm (legitimacy, advice and counsel) fostering collaboration with key stakeholder groups can be found in the resource dependence theory (Beckman and Haunschild, 2002; Hillman and Dalziel, 2003). Understanding and addressing the company's environment is based on these resources (Boyd, 1990) and allows the board to manage CSR issues more effectively. Additional benefit of diversity can be found in its enhancement of the monitoring management function. Board's expertise is enhanced with diversity characteristics as there is an increase in the range of professional experience (Hillman et al., 2002).

Despite the contribution of this paper into the current level of understanding of CG, BOD and CSR in the context of a developing country, a number of limitations can be associated with this study. First, a single-country investigation has been conducted. In addition to the small sample size of two companies only, the generalisation of the results may be limited and their applicability is considered more relevant in developing countries. Secondly, in line with the qualitative interpretive approach adopted and the reliance on self-reported evidence, the reliability of the findings can be impeded by a potential social desirability bias. Acknowledging the limitations of this study, we firmly believe that it represent a substantial contribution to the CG-BOD and CSR body of research. The study has explored a new ground of CG-BOD and CSR dynamics and their applications in the context of a developing country. CG-BOD and CSR are both found to be complementary pillars for a sustainable business development in the context of the contemporary globalised business environment.

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