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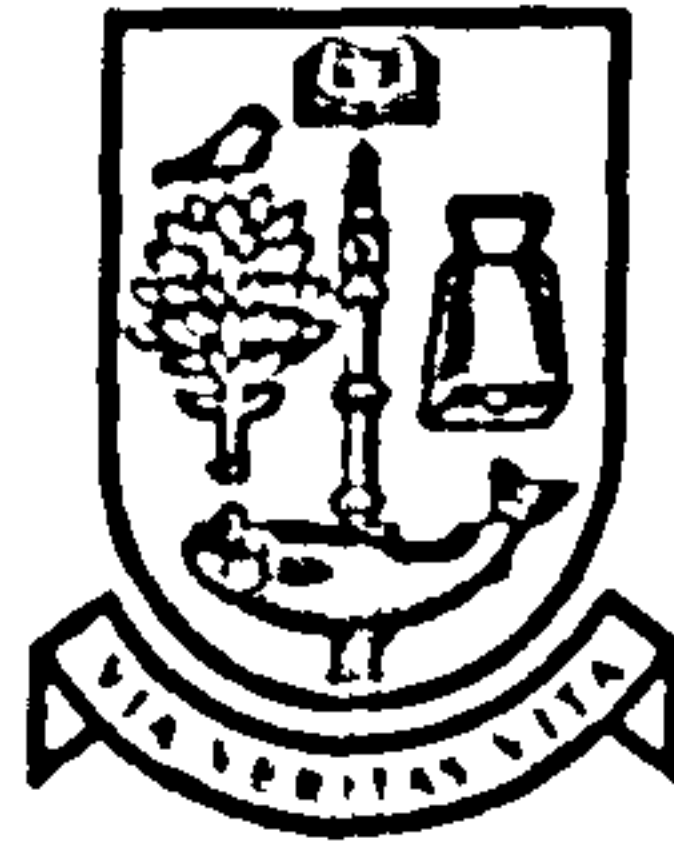
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**UNIVERSITY**  
*of*  
**GLASGOW**

**AN EXPLORATION OF CORPORATE  
SOCIAL AND ENVIRONMENTAL  
DISCLOSURE IN EGYPT AND THE UK: A  
COMPARATIVE STUDY**

**RASHA ABDALLA HANAFI**

**A THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY IN  
ACCOUNTING AT THE UNIVERSITY OF GLASGOW**

**2006**

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## ABSTRACT

The main objective of this study is to explore CSD practice in annual reports in Egypt. As this is the first comprehensive study of CSD in Egypt, to the best of our knowledge, it is primarily exploratory in nature. Using the lens of the international accounting differences as suggested by Mathews and Perera (Hofstede-Gray framework) as well as the SEA theories, the study examines the motivations behind the CSD practices witnessed and interprets any explanations provided. In investigating the above, a content analysis of Egyptian corporate annual reports is made in order to describe CSD practices undertaken by Egyptian companies. The sample of reports analysed comprises 279 annual reports for 82 top listed companies over four years. General comparisons with UK practices are also carried out. In addition, 12 semi-structured interviews with Egyptian corporate managers were undertaken to investigate their perceptions of CSD in Egypt. Data collection difficulties and accessibility problems entailed seeking personal connections and contacts to get the sample.

The results from the study show that there is corporate social disclosure in Egypt. However, it is patchy, low in level and quality. Levels are also lower than that of the UK. Nevertheless, the general patterns are similar; for example, the dominance of employee-related information, followed by environmental and community involvement disclosures while consumer information ranked the last. Specifics of disclosure categories differ between both countries mainly due to differences in mandatory and voluntary disclosure requirements. In addition, it was found that partial or non-compliance with legislation is common in Egypt contrary to the case in the UK.

The findings from the interviews revealed that there are a number of conflicting motives behind, and explanations for, the witnessed CSD practices in Egypt. In addition, SEA theories provided some support to CSD practice in Egypt. More important, both endogenous and exogenous factors played a role in shaping the practice. This deemed contextual analysis very important. Managers hold their local culture and at the same time are influenced by the Western capitalism. Egyptian culture and Islamic principles were found helpful and important in explaining CSD practices. However, the status of the country development level in addition to the absolute corporate size (and industry sector) are found to be more powerful explanations. We also concluded that it appears that the notion of “disclosure” differs from one place to another. In Egypt, the difficulties faced during data collection, the conservatism in the interviewees’ speeches as well as partial (or non-) compliance with mandatory disclosure requirements would make us suggest that the very notion of disclosure – Western social disclosure – is going to be notably contested in a different context like that of Egypt.

Based on this evidence, the study concludes by suggesting a number of implications and potential future research avenues which would investigate what channels of accountability are there in Egypt if these exist at all.



# LIST OF ABBREVIATIONS AND ACRONYMS

A priori	From The Cause To The Effect
A.R.E.	Arab Republic Of Egypt
ACBE	Advisory Committee On Business And The Environment
ACCA	The Association Of Chartered Certified Accountants
Ad hoc	For That Purpose
AICPA	American Institute Of Certified Public Accountants
AIESEC	Association Internationale Des Etudiants En Sciences Economiques Et Commerciales (International Association Of Students In Economics And Business Management)
APIRA	Asia Pacific Interdisciplinary Research In Accounting
B.C.	Before Christ
CAO	Central Auditing Organisation
CAPMAS	Central Agency For Public Mobilization And Statistics
CASE	Cairo Alexandria Stock Exchange
CFC	Chlorofluorocarbon
CFO	Chief Financial Officer
CIA	Central Intelligence Agency
CIMA	Chartered Institute of Management Accountants
CMA	Capital Market Authority
Co.	Company
COSHH	Control Of Substances Hazard To Health Regulation
CPA	Certified Public Accountant
CSEAR	Centre for Social and Environmental Accounting Research
CSR (CSD)	Corporate Social Disclosure and Reporting
Ditto	The Like
E.g.	Exempli Gratia (Latin: For Example)
E32	IASC Exposure Draft 'Comparability of Financial Statements'
ECES	Egyptian Centre For Economic Studies
Ed.	Edition
EEAA	Egyptian Environmental Affairs Agency
EFG	Egyptian Financial Group
EIA	Environmental Impact Assessment
IASM	European Institute for Advanced Studies in Management
EMAS	Eco-Management And Audit Scheme
EMS	Environmental Management System
ENGO	Environmental Nongovernmental Organisation
EPAP	Egyptian Pollution Abatement Project
ESIS	Egypt State Information Service
ESOP	Employee Share Option Plans
Et al.	Et Alii/Alia (Latin: And Others)
Et seq.	Et Sequens (Latin: And The Following)
Etc.	Et Cetera (Latin: And So Forth, And The Rest, And So On)
ETUF	Egyptian Trade Union Federation

EU	European Union
FS	Financial Statements
GATT	General Agreement On Tariffs And Trade
GDP	Gross Domestic Product
GDR	Global Depository Receipt
GMP	Good Manufacturing Production
HDI	Human Development Index
I.e.	Id Est (Latin: That is)
IAS	International Accounting Standard
IASC	International Accounting Standards Committee
IBM	International Business Machines Corporation
ICAEW	Institute Of Chartered Accountants In England And Wales
IMF	International Monetary Fund
Inc.	Incorporation
Inter alia	Latin: Among Other Things
ISO	International Organization for Standardization
KfW	The German Bank for Reconstruction (Development) (Kreditanstalt Fur Wiederaufbau)
KPMG	Klynveld Peat Marwick Goerdeler (accounting firm)
L.E.	Livre Egyptienne (Egyptian Pound)
LDCs	Lesser Developed Countries
LoC	Library Of Congress
Ltd.	Limited
MBA	Master Of Business Administration
Mg/m <sup>3</sup>	Milligram Per Cubic Meter
Mm	Millimetre
MNC	Multinational Corporation
MNE	Multinational Enterprise
MOE	Ministry Of Economy
MOEFT	Ministry Of Economic and Foreign Trade
MOFT	Ministry Of Foreign Trade
MSEA	Ministry Of State For Environmental Affairs
N. J.	New Jersey
NBE	National Bank Of Egypt
NEAP	National Environmental Action Plan
NGO	Nongovernmental Organization
NY	New York
OECD	Organisation for Economic Co-Operation and Development
Per	By Means Of, According To
PhD	Philosophiae Doctor (doctor of philosophy)
PR	Public Relations
PWI	Price Waterhouse International
SEA	Social and Environmental Accounting
SFD	Social Fund For Development
Sq km	Square Kilometres (km <sup>2</sup> )
TV	Television
UAS	Uniform Accounting System
UK	United Kingdom
UN	United Nations

UNCED	United Nations Conference On Environment And Development
UNCTAD	United Nations Committee For Trade And Development
UNDP	United Nations Development Projects (Programme)
USA (US)	United States Of America
USAID	United States Agency For International Development
VAS	Value Added Statement
Via	By Way Of, Lit. Road
Vice versa	The Position Being Reversed
Viz	Videlicet (Latin: By Substitution; That is; Namely)



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# *PART A*

## *INTRODUCTION AND RESEARCH QUESTION*



# CHAPTER ONE

## INTRODUCTION AND BACKGROUND TO THE STUDY

### 1.1 INTRODUCTION

Over the last 30 or 40 years, there has been a steady increase in concern expressed about, and the information produced by, large organizations in relation to their social and environmental impacts (Gray et al., 1996; Hall, 2002). This has arisen for a range of reasons including the growth of corporations in size, power and responsibility change, and corresponding increases in impacts on the societies where organisations are permitted to operate (Gray, 2002b). Calls for the accountability of organisations with regard to their social and environmental activities have also risen considerably.

These calls for accountability have typically focused upon what is often referred to as social accounting or social disclosure. Social disclosure is to do primarily with reporting on the interactions between organizations and society (Gray et al., 1996, 1995a; Adams et al., 1998). Gray et al. (1996:3) define CSR<sup>1</sup> as:

*“the process of communicating the social and environmental effects of organizations’ economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organisations (particularly companies), beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders”<sup>2</sup>.*

From the literature, CSD usually involves disclosing financial and non-financial, quantitative and qualitative information on how corporate activities impact on issues such as: the community, the ecological environment, human

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<sup>1</sup> CSD and CSR are used synonymously in this thesis. They refer to corporate social disclosure and reporting unless otherwise stated, in which case the term will be written in full. The term ‘Social’ is used to mean and include social as well as environmental issues.

<sup>2</sup> This assumption; that corporations’ wider responsibilities extend beyond those owed to investors; contrasts with the classical view of the free market economy (see, Friedman, 1970).

resources, and consumers. The phenomenon of social disclosure is worldwide; however, it is generally speaking in the developed countries that it is more prevalent (see Chapter 8).

Although a growing body of empirical research has focused on CSD related issues, most of these studies, with few exceptions, have focused primarily on disclosure issues of developed countries. Relatively little empirical research, however, has been done on CSD issues in developing countries in general and on Arab countries in particular (see Chapter 8). Such an international interest provides a basis for studying CSD issues in Egyptian society.

As is so often the case in international accounting and reporting, practice in the (so called) lesser developed and developing countries tends to lag that of the Western developed economies (Belkaoui, 1988). This appears to be as true in social accounting as it is in conventional financial accounting<sup>3</sup> (see, for example, Sahay, 2004; de Villiers, 1998).

The reasons for this are not yet fully documented (see, for example, Mathews and Perera, 1996) and do not appear to be simply that, as is sometimes claimed for conventional financial accounting (see, for example, Larson and Kenny, 1995; Briston and El-Ashker, 1984), the professional and institutional frameworks are not as developed. This is because social accounting is governed only at the margins by any legislation (Gray, 2000) and its adoption is certainly not supported by interests as powerful as those driving the adoption and “development” of conventional financial accounting (Radebaugh and Gray, 2002; Lawrence, 1996; Belkaoui, 1988). Thus, not only can no assumptions be made about the level, incidence or form of social accounting but, more explicitly, it must, in most cases, be assumed to be a principally voluntary activity.

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<sup>3</sup> The term ‘conventional accounting’ refers to “the accounting that is typically practised by accountants, defined and defended by professional accountancy bodies [i.e., standards] and/or taught through mainstream textbooks in accounting and finance qualifications” (Gray, 2002a:688).



It might be, for example, that we are to see social accounting as just a manifestation of the more sophisticated and developed economies which, having passed into mature growth phases, can “afford” social accounting (See, for example, Gambling (1977)).

More persuasively, it may simply be that formal at-a-distance reporting mechanisms (see, for example, Robson, 1992; Meyer, 1986) are much less important in such economies where reputation, word of mouth and trust play a much bigger role in corporate and economic communication.

Equally, it does appear that there has tended to be a lower level of public awareness and/or acknowledgement of social and environmental issues and the resultant need for social and environmental accountability<sup>4</sup>. This, linked with the alleged much lower demands placed on both local and multi-national companies in lesser developed countries (see, for example, Bailey et al., 1994), could potentially help explain why social accounting is both less apparent as a practice and less a matter for concern on political agendas in LDCs. (But see UN, 1974; Scherer and Smid, 2000).

And yet, it is far from clear that the a priori – as opposed to the political – case for social accounting is any less important in LDCs than in the developed economies. Indeed, for reasons including social injustice, environmental degradation, extraction of primary resources and the disparities between rich and poor (Samuels, 1990), authors such as Maunders et al. (1990), Gray and Kouhy (1993) and Perera (1989b) have argued that social accounting is more essential in LDCs than in the West (Samuels, 1990).

Whatever the reasons, (and this thesis will seek to explore at least some of them), there appears to be a strong a priori argument that social accounting in

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<sup>4</sup> This statement begs a great number of questions. The most obvious is that the poor and the dispossessed are part of the “public” and are clearly more aware than comfortable middle-class westerners about social and environmental ills. There is, therefore the question of who or what needs to suffer and who or what needs to be aware of the suffering before the issue becomes “public” - or rather publicly acknowledged and therefore subject to political demands for accountability.

LCDs will not be similar to – and may learn less from – studies in the developed world. To the extent that social accounting matters, this warrants further exploration. It is this concern – to explore social accounting in a lesser-developed country context and, in particular Egypt – that is at the heart of the thesis.

My interest is to see the extent of whether CSD is applicable in my own country Egypt. Egypt is considered an Arab and developing country that has undergone rapid and serious social and economic changes in the past decade or two (see Chapter 2). Egypt's accounting and economic policies are highly influenced by the World Bank and the International Monetary Fund (IMF)<sup>5</sup> promoting a free market capitalist ideology and encouraging foreign investment; as is the case with most developing countries (or less developed countries; LDCs). Wallace (1990:3) defined developing countries as:

*“an amorphous and heterogeneous group of countries mostly found in Africa, Asia, Latin America, the Middle East and Oceania. Most of these countries gained independence from the late 1950s when decolonisation became a global phenomenon. A common characteristic of this group is the presence of poverty but there are wide disparities in the levels and rate of development which each country has experienced and is experiencing. The countries which conventionally fit into this setting can be viewed as lined up, more or less equally, at the threshold of economic growth. They have a future, but few have a past at least in an accounting context”.*

Although developing countries *“have very little in common with each other [, what they have in common is that] ... they do not share the economic and social characteristics of the ‘developed’ world”*<sup>6</sup> (Bebbington, 2001:129). Thus, they have – amongst themselves – similar levels of economic

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<sup>5</sup> The Egyptian economy is dependent on foreign aid – mainly from international institutions such as the World Bank and the International Monetary Fund (IMF). Due to disparities in power, Egypt (like all dependent developing countries) has to follow the instructions of the lending bodies regarding economic policies. The World Bank has forced many developing countries towards the move to open market based economies. This includes liberalising trade, privatising state companies, deregulating capital markets, as well as encouraging foreign investment through providing privileged treatment in banking and services activities. Despite subsequent changes in accounting practices, the predicted (by the World Bank and IMF) development benefits were not produced in developing countries (Annisette, 2004). See also Uddin and Hopper (2003).

<sup>6</sup> “The ‘developed’ world is used primarily to describe the United States, Canada, Western Europe, Scandinavia, New Zealand, Australia and Japan” (Bebbington, 2001:129).



development and social organisation. This study is mainly concerned with exploring CSD in Egypt taking into consideration the Egyptian context and its influence on social accounting. This thesis is guided by and employs – as a heuristic – an international accounting framework, as suggested by Perera and Mathews (1990); making use of Hofstede-Gray model of international differences. In addition, this thesis draws from Western CSD theories. This study is mainly a response to calls to make use of the international accounting literature by linking it to social accounting, which in turn contributes to both areas of accounting research. The point was to link my interest in social accounting, with my background in international accounting to the issue of concern.

As argued by Perera and Mathews (1990:241); Mathews (1993:126), and Perera (1994:281):

*“the application of the work of Hofstede and others to the field of international accounting differences is worthy of a further extension to the social accounting field and should not be ignored by social accountants working in both empirical and normative-deductive domains”. “This is an area of research which has a potential to make a significant contribution to the development of accounting at the international level, particularly from a public accountability point of view”.*

This introductory chapter is concerned with providing an overview of the arguments that motivated undertaking the current research. It starts by outlining the wider background for the study and delineates the motivations that led to the pursuit of the current research. It argues that studying CSD in less developed countries is not lower in importance than investigating the practices in the developed world. It, thus, covers the importance of CSD to developing countries in general – Egypt in particular – and the extent to which there is a need for social accounting and corporate disclosure on social and environmental issues to the public in the Egyptian context. The core research questions addressed in the study are then outlined along with a depiction of the methodological assumptions and choices underpinning this study and the methods employed to undertake the study. A justification for the pursuit of the

study is then provided by outlining its importance. Finally, the organisation of the thesis is provided.

## 1.2 MOTIVATION FOR THE STUDY

As stated before, the significant growth in social and environmental disclosures by (principally) companies is a world wide phenomenon, (see, for example, Gray et al., 1996). This apparent observation of widespread practices brings with it a considerable complication and confusion associated with uncertainty about the phenomenon and its explanations. From Gray et al.'s (1995a) review, a number of studies seem to indicate that the country in which the company reports affects the theme of CSD (see also, Guthrie and Parker, 1990). Evidence also suggests that the amount of disclosure differs across countries (Adams and Kuasirikun, 2000).

In line with the above, Kisenyi and Gray (1998:16) made the following observations in a study on social disclosures in Uganda:

*“Whilst we are steadily learning more about social and environmental accounting and disclosure practices in the English-speaking and European countries, we still know too little about practices in ex-colonial, smaller and/or emerging countries. Learning about these countries is not only valuable for the stimulation it offers to the jaded palettes of western scholars but, more importantly; it can provide vivid challenges to the presuppositional baggage with which western researchers typically approach issues”*

Gray et al. (1996) call for more exploration of corporate social reporting issues in a lesser-developed country. Wallace (1990) also calls for research in social accounting in Third World Countries. This study has been designed to explore social reporting within the context of a developing country. In addition, the study encompasses the purpose to provide additional evidence on the factors behind firms' disclosure with an emphasis on the possibility of a contextual influence.

The following sections will discuss the interest in social accounting to developing countries; in particular Egypt. As suggested by Bebbington (2001),



the debate for the argument in favour of social accounting starts with setting down the environmental and social problems and concerns. Accordingly, the following subsections will discuss the socio-economic conflicts faced as well as the failure of conventional accounting in taking into account the corporate social and environmental impacts; hence, the need for social accounting. These debates have motivated this research.

### **1.2.1 Socio-Economic Tension**

As will be more elaborated in Chapter 2, Egypt as a developing country faces – as is the case with most LDCs (see Annisette, 2004) – many social and environmental problems and issues. An increase in general public awareness<sup>7</sup> of such social nuisances (mostly through firsthand experiences) has triggered a growing consciousness and has increased the general level of concern about such matters.

As will also be explained in Chapter 2, these apparent social and environmental problems include environmental pollution levels<sup>8</sup>, scarcity of water, population density issues, labour matters, conflicts over scarce resources, competing for the use of environmental space, etc. Although these social and environmental concerns are spread worldwide, they “are far more pressing in terms of the quality of life and indeed survival in developing countries” (Bebbington, 2001:134).

These concerns, which mainly relate to social and environmental impacts of corporate activities, have become things that matter in addition to economic issues. Hence, business operations become a major point of emphasis, as they are associated with economic activities (Bebbington, 2001). Business is directly linked to capitalism, which is centred on and directed towards economic growth and profit generation/maximisation for their owners. These

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<sup>7</sup> Although awareness of such issues is low, it is increasing (McDonnel, 2000).

<sup>8</sup> McDonnel (2000) revealed that the growth of public awareness of the environment is beyond doubt in Egypt. He cited the increasing number of newspapers and television programmes as well as ENGOs (environmental non-governmental organisations) that provided broad coverage of the environmental issues.



goals are “incommensurable with fulfilling diverse social needs” (Cooper et al., 2005:955), thus, business must typically ignore social and environmental issues except insofar as it affects profit.

But, this rapid economic growth – coupled with the pursuit of a higher return on invested capital – has lead to a corresponding increase in social disparities and has exacerbated the pressure on the environment which in turn creates a dilemma (Saravanamuthu, 2004) in bringing forth a clearly evident *socio-economic tension*. A consequence is an inherent conflict between the socio-environmental agenda and the economic capitalist agenda. A natural consequence of this conflict is the failure to take social and environmental concerns on board representing an apparent conundrum that needs to be resolved (Annisette, 2004). Although this tension or conflict is also present in Western developed nations, it is more acute in developing countries<sup>9</sup> (Gray et al., 1996; Samuels, 1990).

As argued by Annisette (2004:316), “*it has become increasingly clear that objectives of poverty reduction and sustainable development cannot be successfully tackled within a capitalistic framework*”. This is because these objectives are inherently contrary to the logic of capitalist definition of development. From the point of view of an accountant, there are specific issues that contribute to this tension and which make the situation of importance to us. I deal with these now.

### **1.2.2 Failure Of The Traditional Financial Accounting Framework**

As far as accounting is concerned, it is the tool for controlling business activities and publicising the effects of these activities (Bebbington, 2001). It is widely recognised that there are many limitations in conventional financial

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<sup>9</sup> In addition, international lending bodies, such as the World Bank and IMF, have a desire to pass more lenient social and environmental control regulations in developing countries for the sake of economic goals (Samuels, 1990). With particular reference to environmental degradation, Samuels (1990) remarks that, in their pursuit of advancement in the socio-economic living conditions of their people, there is a huge amount of pressure on developing countries to over-exploit their natural resources. He adds that this requires the concerned governments to mandate relevant reporting in fear of the international world taking advantage of these lenient laws not available in developed countries.

accounting and reporting (Samuels, 1990). These limitations are acute when considering such issues concerning social and environmental aspects of corporate activity. Most especially, conventional financial accounting seems to be based on the assumption that economic growth and interest is the path to a better world (Cooper et al., 2003; see also Sowers, 1999). The existing traditional accounting assumptions and concepts tend to favour economic growth and interests over all other competing ones (Saravanamuthu, 2004) by concentrating on economic performance manifested in the drive for profit maximisation. The accounts are deemed to provide a '*fair*' view of the business activities if the financial performance reported satisfies the above performance standard (Saravanamuthu, 2004).

Saravanamuthu (2004) used the World Bank as a test case of the failure of conventional accounting standards. She argued that the failure of the World Bank in maintaining a balance between the economic and the social is attributed to the conventional financial accounting framework standards that are used to evaluate the Bank's performance. She further argues that if a 'socially responsible'<sup>10</sup> institution such as the World Bank cannot reconcile socio-environmental objectives with the economic ones, how can the business organisations (but see, Annisette, 2004 who says that the choice of the World Bank is misguided<sup>11</sup>).

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<sup>10</sup> The World Bank and IMF consider themselves as a formal representative of social interests and promote social issues (Graham and Neu, 2003). They claim a broader social significance with announcements of working for the development of poor countries by setting targets for, inter alia, the elimination or reduction of disease and poverty (Annisette, 2004).

<sup>11</sup> Badow (1990) considers the World Bank as an American institution as the bank's president is chosen by the United States. Annisette (2004) mentions that the choice of the World Bank to illustrate the tensions faced is inappropriate. She argues that the true nature of the World Bank; from its history and financial structure as a capitalist institution, entails its bias against the interests of the poor reflecting the desires of the richest countries of the world since, with IMF, the World Bank was designed to secure capitalist growth and monetary stability in the international capitalist system since its inception. Thus, "peripheralizing its well-touted socio-environmental goals" (Annisette, 2004:304). Annisette (2004:316) describes the World Bank as "an explicitly capitalistic institution designed by capitalist states for the advancement of capitalist causes". The World Bank true nature and failure to fulfil its claimed role of helping the poor is thoroughly discussed in Annisette (2004).



So, conventional accounting models – that developed in Western countries<sup>12</sup> – along with international accounting standards, fail to directly and systematically address or take into consideration social and environmental concerns; and so they fail to serve and reflect the needs of the developing countries where these issues are more sensitive (Samuels, 1990) but are rather based on an economic rationale (Saravanamuthu, 2004). Accordingly, these models failed to promote efforts that balance different competing and interdependent needs of various stakeholders, i.e., economic growth against social and environmental needs (Saravanamuthu, 2004). They tend to prioritise economic goals and jeopardize any attempt to promote socio-economic goals. Thus, according to Saravanamuthu (2004:301):

*“The existing accounting framework is justified in the interest of raising the standard of living of citizens through international trade, and improved accountability. This assertion does not hold as the returns themselves are not in the interest of all stakeholders. Financial accounts cannot possibly reflect a “fair” view of an organization’s activities when it merely caters to a section of stakeholders”.*

Moreover, conventional accounting based on capitalist ideas encourages market competition which in turn means more pressure on labour and resource exploitation, especially in developing countries, for the survival of the capitalist entity (Cooper et al., 2005). Thus, as argued by Graham and Neu (2003:456), accounting standards “may be complicit in maintaining international social inequities”, reducing access of the poor to economic achievements, threatening people’s health, and “breaking down the life support system required for future generations” (Cooper et al., 2003:363). Conventional accounting is just seeking to make investors and owners more rich and business organisations more profitable (Bebbington et al., 1999). This

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<sup>12</sup> Western accounting and reporting practices are imposed on and diffused to developing countries through colonialism, globalisation by means of international accounting firms, foreign investors or operations of MNCs, and by international funding bodies such as the World Bank and the IMF (Baydoun and Willett, 1995; Hove, 1996; Haniffa and Cooke, 2002; Belkaoui, 1988; Mathews and Perera, 1996). Some have argued that the practices are more harmful than useful to developing countries (see, for example, Briston, 1978; Perera, 1989b; Hove, 1986, 1996; Samuels and Oliga, 1982). All anti-harmonisation studies argue that accounting has to take into consideration societal and cultural aspects and needs of these countries (see, Hove, 1996). Equally, CSD theories and conceptions have not to be taken as granted from the Western literature but have to be adapted to suit LDCs contexts (but see Naser and Abu Baker, 1999).



is exactly what is wrong with the capitalist economic development (Gray, 2002b) and with all the accounting frameworks regulated by “the most powerful institution[s] in the management of the contemporary global capitalist system” (Annisette, 2004:306) – the World Bank and IMF<sup>13</sup> – that explicitly ignore or fail to take into consideration these same social issues.

Thus, there is in certain quotes an overall dissatisfaction with the craft of conventional accounting and its practices due to that the application of the accounting techniques results in unfavourable broader social and environmental consequences (Bebbington, 1997). Conventional accounting framework is not an appropriate technique in guiding corporate management towards a balance between economic growth and socio-environmental objectives (Saravanamuthu, 2004).

This in turn gives more importance and motivation to the adoption of social accounting in LDCs to address social and environmental problems due to the significance of these issues and its prevalence in developing countries (Samuels, 1990). In agreement with Saravanamuthu (2004), accounting has to prioritise social and environmental interests and concerns on par with the economic ones rather than privileging the latter over the former.

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<sup>13</sup> These organisations are so powerful (or at least are perceived to be so powerful) that nations have no choice other than to accept these organisations dictates if they are to benefit from their aid (Uddin and Hopper, 2003) and to be in a position to participate globally (Graham and Neu, 2003). It is argued that political and economic power frames accounting standards (Saravanamuthu, 2004). As noted by Bandow (1990:4) “*the World Bank and the IMF have been proclaiming their commitment to international growth and development. Yet the result of their lending is massive impoverishment and indebtedness around the globe*”. This is argued to be the case as they emphasize narrow market-oriented accounting policies that may have the effect of hindering growth and impeding development (Bandow, 1990) – that would otherwise have been achieved under broader policies – and thus contradicting their stated goals of encouraging economic development along sustainable lines (Saravanamuthu, 2004; Annisette, 2004). The World Bank and IMF sacrifice “social and environmental needs in the interest of ensuring prompt loan repayment by borrower nations” (Saravanamuthu, 2004:299). There is an obvious tension between the social goals sought and the requirements to meet strict financial criteria by these lending institutions. The World Bank imposes accounting practices that are designed to serve its own legitimation needs as well as suit foreign investors by the limited use of social accounting (Rahaman et al., 2004). Ironically, as expressed by Rahaman et al. (2004), whilst policy is orientated towards sustainable development, reporting practices produce inequalities and continuing poverty for the people.

### **1.2.3 The Need For Social Accounting**

From the above discussion, it is clear that the present form of economic development promoting economic progress is questioned as to its capability of producing “the best of all possible worlds” (Gray, 2002b:375) due to its failure to eliminate or reduce poverty, its failure to promote social justice, its failure to prevent negative influences on local communities, and its failure to promote environmentally friendly development to all people of the world (Bebbington, 2001).

In other words, and with particular relevance to the developing countries, in a world of increasing poverty and inequality (of which Egypt is a part) with high unemployment rates, malnutrition, over exploitation of natural resources, degradation of natural environment, injustices in the society, and returning epidemics (Cooper et al., 2003; Bebbington et al., 1999); a concern for reducing such social and environmental problems would mean questioning the continuing focus on industrialisation and product development which have its main aim of profit maximisation. A more balanced and broader concept of development is needed (Bebbington, 2001).

There is dissatisfaction with the way things are, a concern for social and environmental issues, and a desire for a social change (Gray, 1992; Gray et al., 1988, 1995a, 1997a; Bebbington, 2001). At the heart of all this lies accounting whose role “involves exploring not only how [to] account but also what [to] account [for] and why” (Cooper et al., 2003:363). A new form of accounting is needed to solve current problems towards more social welfare and development (Bebbington et al., 1999) as well as to challenge the ‘capitalist hegemony’ (Gray, 2002a). Thus, the ‘rules of the game’ need to be changed (Gray and Bebbington, 1996); i.e., “the current nature and purpose of accounting” (Gray and Collison, 2002) has to be changed, where the main aim of corporate activity is no longer confined to the pursuit of profit maximisation or economic growth (Bebbington, 2001).



Everett (2003:416)<sup>14</sup> suggests an ‘alternative’ vista of accounting, one that:

*“concerns itself with these [i.e., social and environmental] effects and with the people suffering from them ... one that sees accounting as social and transformative [not only as market-driven and functional practice], that pays heed to those voices arguing for greater social and environmental justice”.*

Taking the viewpoint of the ability of information to induce a change in the behaviour of companies through the ‘information inductance’ effect (Hamil, 1999; Prakash and Rappaport, 1977), social accounting could be a solution to – or at least a means which could help reduce – social and environmental problems. By providing information, corporate managers are urged – or tend – to improve their behaviour and performance in areas that they publicly disclose. Where there is a desire for a fairer and more just society, there is a need for social accounting.

Bebbington (1997) suggests that one of the concerns at the core of social and environmental accounting research activity has been the exploration and development “of new forms of accounting which are more socially and environmentally benign [,] which have the potential to create a *fairer more just society*” (Bebbington, 1997:365, *emphasis added*) and which at its heart is seeking “to serve the *public interest*” (Gray and Collison, 2002:797, *emphasis added*, see also, Gray, 2002b).

*“Social and environmental accounting ... is surely an attempt to deconstruct conventional accounting, expose some of its more unpleasant characteristics and offer new accountings predicated on values wider than making rich managers and shareholders even richer”* (Bebbington et al., 1999:47). It “*is an enabling, empowering and emancipating form of accounting in that it provides both a critique of existing practice and develops alternative accounting practices*” (Bebbington, 1997:365).

As alluded to above (and from discussions in the next Chapter) that given the existence of widespread poverty, social injustice and environmental degradation in Egypt; it is apparent that there is an urgent need for social

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<sup>14</sup> Everett (2003), in his arguments, is mainly referring to the globalisation framework. Neu et al. (2002) equates globalisation with colonialism in effect. See also Perkins (2006).



accounting and corporate social reporting in Egypt to the society. Social accounting and reporting would be a means of contributing to a further understanding and addressing of such social and environmental concerns and to a probable working out of social and environmental problems in cooperation between the society and corporations. Social accounting has the aptitude to promote social justice, transparency, and equality by holding corporations accountable. Thus, the study is of particular import to the Egyptian context due to the enormity of socio-economic conflicts and concerns.

One passionately would like to see Egypt as a better place with an observed reduction in the social and environmental problems. One wishes to see corporations show evidence of greater responsibility for their impacts on the society and the environment. One wishes that the business needs do not surpass the society needs despite the prevailing capitalistic structures. This leads me to consider that business organisations in Egypt would change their behaviour and would not act irresponsibly towards the wider society if they engage in social accounting or provide true and fair information concerning their social and environmental influences. By disclosing information, there is a potential to press for changes in corporate socially detrimental activities. CSD is expected to control and guide organisational behaviour on the path towards enhancing and serving the public interest. This, in turn, means, directing companies towards preventing adverse social impacts or at least minimising undesirable social impacts emanating from the business organisation's core activities. It is thus apparent how desperate Egypt is for social accounting and social disclosure. CSD is both desirable and beneficial in that it will also contribute to enhancing the principles stated in the Egyptian Constitution regarding, inter alia, equality and social justice, citizens' liberty and rights, democracy, and moral and ethical values, especially those prescribed in the teachings of Islam.

*“Only by breaking silence and counter-posing corporate values with alternatives can we hope to free mankind from the limitations of profit*

*maximisation and promote a world in which peace, happiness, respect for diversity etc. take precedence to capital accumulation*” (Chwastiak and Young, 2003:533) or else injustices will continue and “the planet will no longer be able to sustain life” (Chwastiak and Young, 2003:536). Perera and Mathews’ (1990) call provides the departure point towards an investigation, which might lead towards some evolution on the path of diminishing the socio-economic tensions in Egypt.

### **1.3 TOWARDS THE RESEARCH QUESTIONS**

Social accounting is not a mainstream practice in any country; it varies from country to country and sector to sector; and – as we shall see later – it is not convincingly predicted by either theory or empirical study<sup>15</sup>. It serves different purposes but, like financial accounting (Perera, 1989b), appears to be driven by Western developed nations. It seems likely that social accounting practice in Egypt, will exhibit different emphases and different motivations - although it is still far from clear what these might be.

This is the state of play towards which this thesis is directed. It should be obvious – or at least understandable – therefore why a study such as this may be advised to be explicitly and purely exploratory in nature. As we shall see later, I have been unable to identify any single prior study of Egyptian social accounting examining CSD practice in Egypt and it is not obvious that prior studies of “conventional” accounting are especially insightful in this context for those interested in social accounting (Gray et al., 1996). So, one had to begin at the beginning.

The aim behind undertaking this first attempt – to the best of my knowledge – at a detailed description of the state of CSD practice to be undertaken in the Egyptian context is to, firstly, provide an initial record of CSD practice in the Egyptian context by describing current disclosure of social and environmental issues as carried out by Egyptian corporations in their annual reports and

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<sup>15</sup> See Chapters 4 and 8 on relevant literature review.



compared to UK corporations<sup>16</sup>. An attempt is then made to understand and explain the evidence of CSD practice (or non-practice) in Egypt by seeking the perspectives and perceptions of a sample of corporate managers who are involved in corporate reporting regarding the nature, need and importance of CSD in Egypt. This is done by undertaking semi-structured face-to-face interviews.

This is further interpreted using the international accounting framework, as suggested by Perera and Mathews (see Chapter 3), in addition to CSD theories (see Chapter 4) to determine what influences the corporate attitude towards – and the practice of – CSD in Egypt. This, in turn, will help us explore whether Western notions of CSD make any sense and are appropriate in an Egyptian context, which represents a different cultural context. Moreover, we will be able to see to what extent a comparison of Egyptian and UK CSD practices will shed light on either country. In addition, we will be in a position to explore the extent to which it might be possible to lay down some basic elements for CSD research in Egypt/Arab culture/LDCs.

The intention of the study is, thus, to attempt to answer the following main research question:

To what extent is CSD undertaken by Egyptian companies? What explanations can be offered for this situation? To what extent are these explanations comparable with - and supported by - those offered by the international accounting and the Western social accounting literature?

Casting light on and exploring the following operational research questions will perform this:

1. What are the patterns and levels of CSD in the annual reports of Egyptian corporations?

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<sup>16</sup> Depending on that, one would have iterated to a more analytical approach. The sample is a problem (see Chapter 6). To follow this up we did interviews (see Chapter 9). The intention had also been through the research design to have explored this in much more detail and to examine it longitudinally. As it would transpire, obtaining detailed persuasive sample proves to be a very difficult task indeed (see Chapter 6). But it provides us with a basis from which we can then go and do an interview.



2. How are these different from CSD experienced in Western contexts, in particular, the UK?
3. What explanations are offered by corporate managers to (or not to) undertake CSD in Egypt?
4. To what extent can employing the lens of international differences offered by international accounting and the Western social accounting theories support the CSD practices witnessed and the explanations put forward for these practices in Egypt?

Providing answers to the above questions will fill a gap and deficiency in the literature, as most studies published on CSR tend to concentrate on practices in developed economies (Campbell, 2000) with very few studies undertaken in the context of LDCs despite that – and as argued before – social accounting is even more important to be studied from the context of developing countries (Gray et al., 1996; Samuels, 1990). Moreover, this study, as suggested by Adams and Harte (1998), takes into consideration the relation between the content of CSD and the context in which they are made by understanding CSD from an international accounting perspective as suggested by Perera and Mathews (1990) using Hofstede-Gray model of international differences (see Chapter 3). In addition, possible explanations offered by CSD theories are investigated. This, however, will be without adopting a specific CSD theory, which might, if it was the case, result in loss of important explanations of motivations or reasons for CSD (Adams and Harte, 1998). This will be achieved through content analysis of corporate annual reports and interviewing a sample of Egyptian corporate managers, which will provide more insights as to potential explanations for CSD practices experienced.

## **1.4 RESEARCH SCOPE AND METHODOLOGY**

This study is primarily informed by a middle-range methodology (Laughlin, 1995). Thus, the current research makes use of both qualitative and quantitative methods and methodologies (see Chapter 5<sup>17</sup>). The choice of a

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<sup>17</sup> Chapter 5 also discusses the strengths and weaknesses of both approaches.

combined methodology is justified on the basis of the researcher's philosophical assumptions regarding ontology, epistemology, and human nature (Section 5.2.2). The study's position, thus, falls between the nomothetic objective and the ideographic subjective methodologies where both quantitative and qualitative research methods are made use of, which brings great richness and depth in the collection and analysis of the data. This choice of methodological assumptions lead the researcher towards seeking a description and understanding of CSD in Egypt by using two means of exploration without necessarily seeking any generalisable findings (Section 5.2.1).

This study, consequently, makes use of two research methods. These are the relatively objective content analysis method and the subjective interview method. In order to understand CSD practice in Egypt, it was necessary to obtain a description of the extent of the current CSD practices by the Egyptian companies. Following the vast majority of the prior CSD research, this study makes use of the content analysis method (Section 6.6<sup>18</sup>) to quantitatively measure CSD in the annual reports of a sample of publicly listed Egyptian companies and comparing it with UK practices.

An understanding of the recorded CSD practice was sought by gaining the perspectives of a sample of twelve Egyptian corporate managers in ten Egyptian Corporations (Section 9.5). This was undertaken by using semi-structured interviews that explored the managers' viewpoints concerning CSD (Section 9.8).

## **1.5 THE IMPORTANCE AND INTEREST OF THE STUDY**

The main interest in this study and the most important point about it is that it is conducted to fill a gap in the CSD literature. As outlined before, the main

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<sup>18</sup> The process of collection of Egyptian annual reports, industries represented by the sample of companies, number of companies sampled per year and industry, data collection difficulties, and the difficulties and explanation of the content analysis method made use of are described and discussed in details in Chapter 6 with sufficient elaborations.



purpose of the current research is to explore the extent of social and environmental reporting by larger Egyptian companies, to seek some initial insights into the reason for such disclosure and to draw out key issues for future research by a comparison with Western (and, in particular UK) reporting practices and theories.

Samuels (1990) emphasized the importance and relevance of CSD to the social and economic development problems in developing countries when he stated that social responsibility<sup>19</sup> information would provide relevant information to the understanding of problems. In this way, he established the relationship between accounting and the problems that developing countries experience.

As will be detailed in Chapter 8 (Section 8.2), there is an array of studies comprehensively investigating and reporting on CSD practices in Western and developed countries. There are also a number of studies, though limited in number, which explored the extent of CSD practice in developing countries (Section 8.3). However, despite three decades of empirical research investigating CSD practices worldwide in general and developing countries in particular, there has been no single prior study, of which I am aware, which investigated CSD practice in Egypt. Even in the international accounting literature and accounting studies in general, very little is known about accounting practices and regulations in Egypt (see, Abd-Elsalam and Weetman, 2003; Hassabelnaby et al., 2003; Dahawy et al., 2002; Abd-Elsalam, 2002; Kantor et al., 1995; Ibrahim and Kim, 1994; Dahmash, 1992; Briston and El-Ashker, 1984). Thus, the current study aims to fill this gap and to expand knowledge in this area of research by providing an account of and an understanding of CSD practice in corporate annual reports in Egypt over a

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<sup>19</sup> Social responsibility is a complex matter and has been the subject of mainstream debate for over 40 years (Frederick, 1986). Despite this complex and long-running debate regarding the exact nature of corporate social responsibility (see, Carroll, 1979, 1991; Davis, 1973; Jones, 1980; Zenisek, 1979; Wood, 1991a, b; Frederick, 1986; Wartick and Cochran, 1985; Swanson, 1995), the conclusion that can be drawn is that responsibility is a very difficult issue on which single definition is not possible and the concept remained fairly elusive (Clarkson, 1995; Buchholz, 1991; Frederick, 1986; Wartick and Cochran, 1985).



four year period and comparing it with UK CSD practice. Gray et al. (1996) maintain that the need for CSD studies is acute in developing countries. It is also expected that the study will shed light on CSD practices in Arab countries. This study thus adds to the social accounting literature and, to a lesser degree, to the international accounting literature. As such work has not been previously undertaken in Egypt and it is scarce in the Arab world in general, the work is deliberately exploratory.

Moreover, the methodology pursued in this study combines both quantitative and qualitative approaches and thus provides a potentially richer understanding of CSD in Egypt. The study does not confine itself only to the content analysis measuring the volume of social disclosures, as was the case in many previous CSD studies but also explores motivations of managers behind undertaking such (non-) disclosures in Egypt<sup>20</sup>. In addition, this research, again contrary to most of CSD studies, does not attempt to understand or interpret CSD practices by concentrating on a particular and single theoretical perspective, but rather seeks the perspectives of the companies that produce (or chose not to produce) CSD in their annual reports. This is done by interviewing corporate managers using a series of semi-structured interviews. Respondents are requested to comment upon such matters as why their organization reports what it does, why it does not report on other issues and what prospect respondents see for the future directions of reporting in the country. Moreover, in interpreting CSD practices, the particular Egyptian context is taken into consideration by examining CSD through the international differences lens offered by the international accounting literature – and as suggested by Perera and Mathews – and through the CSD theories.

Gaining the viewpoints of those involved in reporting might facilitate any practical consideration of the future development of CSD in Egypt by the accounting regulatory authorities and institutions in Egypt. Thus, this study has the potential of attracting the attention of those concerned about corporate

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<sup>20</sup> Other examples of studies that sought managerial perspectives in efforts to understand CSD include: O'Donovan (1999, 2002), O'Dwyer (2002), Adams (2002) and Buhr (1998).

accounting and who may be interested in using its findings regarding CSD practice in order to inform any potential future endeavour to guide Egyptian companies in the area of CSD.

## **1.6 STRUCTURE OF THE STUDY**

The thesis is organised into twelve chapters as follows. In the first, introductory, chapter, the background for the study is delineated along with the principal motivation behind the decision to undertake the current study with an interest in the comparison of CSD in UK and Egypt. Chapter One also outlines the importance of CSD in developing countries in general and Egypt in particular by sketching out the socio-economic tensions experienced in the country in addition to the failure of traditional financial accounting systems. The research objectives and the research questions are then established. This is followed by an explanation and discussion of the research methodology and methods adopted to investigate the research questions. A justification for pursuing the current study is also expressed and described in terms of the importance of the research questions and the addition that this research would make to the international and social accounting literature.

Chapter Two provides the contextual background. It presents a detailed description of the Egyptian context, which is the main focus of the study. It broadly outlines the social, environmental, political, legal, and economic conditions and developments in Egypt. It also casts light on the accounting and disclosure regulations that the Egyptian companies are required to follow. The chapter points out some of the socio-economic and environmental problems experienced in Egypt and, hence, the importance of CSD in Egypt. Discussing the context of Egypt will help to interpret the findings of the study from the appropriate contextual perspective.

The broad theoretical framework for interpreting data obtained in this research is presented in Chapters Three and Four. Chapter Three is concerned with providing the backbone of the theoretical framework on which the study will be based and where the discussion will be located. The chapter also presents



the first part of the literature review<sup>21</sup>. It reviews the international accounting framework focusing on the international differences (including cultural) influence on accounting in general and social accounting in particular. It outlines and summarises attempts made at investigating contextual influence on CSD differences. Detailed explanation of Hofstede-Gray model – on which the interpretation of the findings will be based following Perera and Mathews – is also provided along with the position of both the UK and Egypt along Hofstede's (1980) cultural dimensions and Gray's (1988) related accounting values.

Chapter Four explores and reviews the three main socio-political CSD theories (namely, Stakeholder theory, Legitimacy theory, and Political Economy theory), which along with Chapter Three provide the foundation on which the study is constructed and will guide our interpretation of the findings in Chapters Seven and Ten. The chapter presents the CSD theoretical explanations as providing different, but not competing, interpretations and suggestions as to reasons for and motivations behind the (non-) practice of social disclosure by corporations worldwide and across different cultures.

In Chapter Five, the research methodology, primarily qualitative approach, employed in the study is discussed. The philosophical assumptions adopted by the researcher are outlined along with an explanation of how these assumptions justify the use of triangulation by making use of both quantitative and qualitative research methods to undertake the study. The research methods employed in the current study, namely content analysis and interviews, are also briefly introduced and described.

Chapter Six details the use of content analysis of corporate annual reports which is the research method applied to undertake the first empirical investigation of the current research. The development of the research instrument used for the content analysis is detailed along with the description

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<sup>21</sup> Chapters 4 and 8 provide additional reviews.

of the modifications applied to Gray et al.'s (1995b) instrument to suit the Egyptian context. A description of how it is used to collect data on CSD practice is also detailed. The chapter also explains in details the procedures undertaken to collect the annual reports of Egyptian companies with all the difficulties confronted in this process. The population, the final sample, and the sample selection criteria are also outlined.

Chapter Seven reports the results of the content analysis of Egyptian corporate annual reports from 1998 to 2001. It provides a detailed description of the main trends and patterns of CSD issues in both the incidence and volume of CSD practice over the four-year period, including comparison with UK trends and patterns. Illustrations of the empirical findings of CSD are also provided.

Chapter Eight presents an overview of prior and most recent worldwide CSD practices through a review of empirical literature on CSD. The chapter covers CSD research studies in both developed and developing countries. It starts by an examination of CSD evidence from Western developed countries. This is followed by a broad review of CSD practices in less developed countries. The main role of this chapter is to outline how the findings of the content analysis of the annual reports in this study compare to the findings of prior research. The findings of Chapter Seven are thus discussed in light of the recent international evidence outlined including consideration of the impact of company size and industry sector on disclosure levels.

Chapter Nine details the use of semi-structured interviews. It considers the difficulties of gaining access to Egyptian companies, details the procedures followed until the interviews are actually conducted along with an outline of the limitations of undertaking the second empirical investigation through the interviews. The chapter also concentrates on revealing the process of analysis of the interview data.

In Chapter Ten, the perceptions of the Egyptian corporate managers regarding CSD practice by Egyptian companies, and emanating from the interviews



conducted, are presented. These include the predominant standpoints of the interviewees perceiving CSD in a negative light in addition to the perspectives of the interviewees as to why CSD may be undertaken either generally or in their own companies (where relevant). The chapter also covers the main themes of social responsibility as expressed by the interviewees.

The research findings are summarised in Chapter Eleven. The chapter presents potential explanations for CSD practices reported in Chapter Seven, based on the interview findings in Chapter Ten, using the framework of international accounting as suggested by Perera and Mathews. It then attempts to explain and interpret some of the CSR trends through present social accounting theories documented in Chapter Four.

The thesis is concluded in Chapter Twelve. The chapter brings together a conclusion on and summarisation of the research principal findings providing some potential implications on how to develop CSD practice in Egypt. It also casts light on the contributions added by the current research to CSD literature and international accounting literature as well as offers some suggestions and opportunities for potential future research. Limitations of the study are also identified.

## **1.7 SUMMARY**

This chapter provides a snapshot of the study as well as a foundation for it. It sets out a detailed description of the relevant background for the study outlining the motivations that triggered the researcher to undertake such research in CSD practice. The principal research questions are then presented. To answer these questions, the study proceeds with, initially, a description of CSD practice by a large sample of Egyptian largest and publicly listed companies over a four year period. This is compared to CSD practice provided by UK largest listed companies over the same period of time. Then, the study proceeds with seeking an explanation for the observed practice by eliciting the perspectives of a sample of Egyptian corporate managers on CSD.

The methodological choices underpinning the current study were then described. The chapter also outlines the basis of the empirical interpretation of the CSD practices as displayed in the current study. A justification for the pursuit of the study was subsequently presented. The penultimate section provided the organisation of the study.

The following four chapters provide the contextual, theoretical, and methodological background for the study. The next chapter reviews the context of Egypt as the main focus of the study. Chapters 3 and 4 cover the literature review which discusses the theoretical framework upon which the current study is founded – and upon which interpretation of the current research findings will be based – while Chapter 5 describes the methodological position for undertaking this research.



# *PART B*

## *CONTEXTUAL, THEORETICAL AND METHODOLOGICAL BACKGROUND*

# **CHAPTER 2**

## **THE EGYPTIAN CONTEXT**

### **2.1 INTRODUCTION**

In this chapter, the context of Egypt is outlined. The chapter provides an overview of the recent history of Egypt and how this provides a background for this study. Corporate disclosure in general and Corporate Social Disclosure (CSD) in particular is influenced by the social, political, cultural, legal and economic factors to a great extent (Tsang, 1998; Perera and Mathews, 1990; Mathews, 1993). Therefore, before looking at the Corporate Social Reporting (CSR) practices in Egypt, it may be worthwhile to look at these environmental factors. The discussion of some of the Egyptian context distinctive features will help in providing a better understanding of CSD in Egypt. In particular, addressing such issues will assist in enhancing our analysis and interpretation of the findings in Chapters 7 and 10. The following sections, hence, cover the political, historical, socio-cultural, geographical, environmental, economic and regulatory contexts of Egypt. The chapter also highlights some of the concerns over the social and environmental performance of the Egyptian business.

### **2.2 POLITICAL AND HISTORICAL CONTEXT**

Egypt is a sovereign republic known as the Arab Republic of Egypt. It is a constitutional<sup>22</sup> democracy based on the principle of separation of powers between the legislative, the executive and the judicial branches. The Constitution is the supreme law of the nation. However, although Egypt is a democracy<sup>23</sup>, the government is highly centralized; with the president of the country having extensive executive powers. This, in reality, is typical of the Egyptian political system<sup>24</sup> as a whole, where leadership figures dominate the

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<sup>22</sup> Based on the Constitution of 11/09/1971 as amended by the referendum of 22/05/1980.

<sup>23</sup> The 1971 Constitution proclaimed Egypt to be “a democratic socialist state”.

<sup>24</sup> The political structure that exists in contemporary Egypt is pyramidal in shape. At the top of the political hierarchy directs the president. Next in line is the prime minister who leads the cabinet of ministers and is appointed by the president. At the bottom of this structure rest the people, represented by the Advisory (Shura) Council and the People’s Assembly (parliament). The function of the Advisory Council is to review laws and reports before they are passed



upper hand in decision-making. Egypt is one of the most centralized political systems with highly complex bureaucracy (Brewer and Teeter, 1999).

Egypt's political history goes back 7000 years when life began to settle along the banks of the River Nile. Egypt has continued as a unified state despite being occupied by the Persian, Greek, Roman, Turkish, Arab, Mameluke, Ottoman, French, and British troops. Egypt's recent political history can be tracked back to 1914 when Britain declared an official protectorate over Egypt, which was a part of the British Empire at that time, in order to secure its interests during World War One. Britain declared independence of Egypt, under the increasing nationalism and national resistance, in 28 February 1922. However, it was a partial and nominal independence due to that the British military and economic control over the country remained until the end of the Second World War by placing King Fouad – the First – in power who was pro-British. This guaranteed the British access to the Suez Canal.

The Kingdom of Egypt, which lasted until the revolution of 1952, was a constitutional monarchy with the first constitution adopted in 1923. During this post-independence period, three political forces competed with one another: the King, the Wafd (a broadly based nationalist political party opposed to British influence) and the British, who were determined to maintain control over the Suez Canal. During this period, and after the creation of the State of Israel in 1948, Egypt, together with Iraq, Jordan and Syria, engaged in the first of four wars with Israel.

By the end of World War II, Egypt was in an unstable condition. The King was highly unpopular among the Egyptians, and despite that Egypt provided facilities for the British during the world war, Egyptian anti-British feeling and

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onto the People's Assembly for discussion and debate. The Advisory Council functions only in a consultative role. The Advisory Council and the People's Assembly serve as the legislative authority. There are 264 members on the Advisory Council (176 are elected by popular vote and 88 appointed by the president) and 454 on the People's Assembly (444 filled by popular vote taking place every 5 years, and 10 are appointees) (EFG-Hermes, 2001).

hatred of foreign economic control grew. In 23<sup>rd</sup> July 1952<sup>25</sup>, a group of army officers, known as “the free officers”, led by Colonel Gamal Abdel Nasser (Nasser), overthrew the monarchy in a revolution and the King was forced to leave the country. Egypt acquired its political independence in 1952. As a result, Mohamed Naguib became the first president of Egypt. The 1923 constitution was lifted in 1953 and Egypt was declared a republic.

When Naguib quit office in 1954, Nasser became president. Nasser (1954-1970) launched an ambitious program of domestic transformation, attempting to break the economic and political power of the land-owning elite, remove what's left of British control and achieve a more even distribution of wealth. This socialist era began by Nasser nationalizing the privately owned Suez Canal Company – controlled by the British and French interests – in mid-1956 when the United States and the World Bank withdrew their offer to help finance the building of the Aswan High Dam, marking the commencement of an extensive nationalization program. Politically, this move was immensely popular throughout the Arab world (Eun and Resnick, 1998)<sup>26</sup>.

In an attempt to regain control – by the British – of the Suez Canal after its nationalisation, Egypt, under Nasser, was forced into the Suez War in 1956 following the joint British, French and Israeli invasion. However, with almost universal condemnation, the invading forces were compelled to leave and Egypt regained control of the canal<sup>27</sup>. After the Suez War of 1956, the Egyptian government took possession of British and French properties and businesses. Subsequently, Egypt entered into the third war with Israel in 1967, resulting in Israeli occupation of the Gaza Strip and Sinai, in addition to the Golan Heights and the West Bank.

Gamal Abdel Nasser died in 1970 and was succeeded by the vice-president at that time; Anwar El Sadat (1970-1981). When Sadat took over, geopolitical

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<sup>25</sup> This day is of significant national importance and is an annual national holiday.

<sup>26</sup> Nasser evolved into a charismatic leader of Egypt and of the Arab world as a whole.

<sup>27</sup> The Suez crisis made Nasser a hero of the Arab world.



instability persisted and Egypt entered into another war with Israel in October 1973. In an attempt to improve relations with Israel and the United States, Sadat rapidly reversed the pro-Soviet policies of Nasser, terminating close ties with the Soviet Union and developing a closer relationship with the United States. He also involved his country in various negotiations with Israel and signed the Camp David peace agreements of 1978<sup>28</sup>, which took place after the fourth war with Israel in 6<sup>th</sup> October 1973. On October 6, 1981, members of a group of religious extremists assassinated Sadat. Hosni Mubarak, who was the vice-president under Sadat, took over.

Mubarak proved to be a moderate leader who was able to repair Egypt's relationships with the Arab nations<sup>29</sup> and lead the process of modernization of the Egyptian economy. Egypt maintains diplomatic relations with substantially all of the countries, which are members of the United Nations, and plays a prominent diplomatic role in the Middle East<sup>30</sup> (EFG-Hermes, 2001). In 1989, the last part of Sinai (Taba) was returned by Israel by an International Justice Court verdict. With the end of President Sadat's rule and the take over by Hosni Mubarak (1981-present), there was a gradual liberalization of the political climate<sup>31</sup> in Egypt with more opposition political parties — citizens began to experience more freedom of expression, and the judiciary has demonstrated greater independence from the executive and legislative branches of parliament in addition to new (albeit minor) freedom of print media and press (Noreng, 1997).

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<sup>28</sup> The accords provided for a return of the Sinai Peninsula, which had been captured by the Israelis in 1967, to Egypt in May 1982. Sadat was accordingly awarded the Nobel Peace Prize in 1978. While his attempts to reconcile with Israel made Sadat a hero in Europe and the United States with solid relationship with the Western World being one of the most important strategic allies, it alienated Egypt from other Arab states and Egypt became an Arab outsider.

<sup>29</sup> Egypt was readmitted to the Arab League in May 1989, and the Arab League headquarters were returned to Cairo from Tunisia.

<sup>30</sup> The most obvious case in point is its involvement in the Middle East Peace Process (Hatem, 1994). Egypt has, historically, occupied a unique position in the Arab and Islamic World (Issawi, 1947).

<sup>31</sup> Recently, in March 2005, President Hosni Mubarak announced the beginning of a new era of political reform, starting with an amendment of the 1971 constitution to allow more than one candidate to compete for presidential elections for the first time in Egypt (Mustafa, 2005).

## **2.3 SOCIO-CULTURAL CONTEXT**

### **2.3.1 Language**

The official and dominant language in Egypt is Arabic<sup>32</sup>, although English and, to a lesser extent, French, are widely understood and spoken, particularly in international business centres and dealings, tourist areas, and by educated classes. The use of English (the second official language) underpins delivery of the private education system. Many official government websites are also in English besides being in Arabic. The Company Law, however, requires that all the annual financial statements and filings for the Egyptian companies be prepared in Arabic. Nevertheless, some companies have the corporate annual reports and other reports published in English in addition to in Arabic.

### **2.3.2 Religion**

Religion is considered one of the important cultural variables in the life of the Egyptian society (Ahmed et al., 2003; Hassan, 1990) with the Egyptian people being generally religious (Rice, 1999). It is argued that religion has actually shaped the country's cultural background (Issawi, 1947). Egypt is a predominantly Muslim country (Rice, 2006). The majority of the Egyptian population is Sunni Muslims (more than 90 percent of the whole population), and the remaining minor fraction (about 6%) is principally Christians (mostly Coptic Christians) (CIA, 2006).

The Egyptian Constitution of 11<sup>th</sup> September 1971, as amended by the referendum of May 22 1980, states in its second article that Islam is the religion of the country and that Islamic Law (rules and principles) is the basis and the primary source of all country legislation and laws<sup>33</sup>. Though Islamic law has many rules and regulations, it does indeed respect individual freedom, liberty, and rights. Islamic rules also call for social justice and equality. In Egypt, Islam has affected most of the civil laws and family relationships.

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<sup>32</sup> The 1971 Constitution states that Arabic is the national language of Egypt.

<sup>33</sup> Laws issued prior to 1980 need not comply with this provision, but new regulations are checked for conformity with Islamic Law. Egypt's legal system is based on and can be traced to three major sources. The judicial code combines elements from the Islamic law (Shari'ah), the French Civil Code, upon which the Egyptian civil code is largely based, and the English common law.



However, despite that Islamic law is the basis of all jurisdictions; matters that involve personal status such as marriage, inheritance, and divorce are the only issues that are made subject to Islamic Law (Rice, 1999)<sup>34</sup>. Commercial and business regulations are not subject to Islamic regulations. Islam does not affect stock exchange listing regulations or disclosure requirements. Islamic law is also not forced upon non-Muslims in Egypt who have their own courts to settle marriage and family matters.

### **2.3.3 People And Demographics**

Egypt is the most populous country in the Arab world (World Bank, 1996) and the second most populous country on the African continent, with a total estimated population of 77.5 million<sup>35</sup> (July 2005 estimate) growing annually by about 1.78% (CIA, 2006) and occupying only 4% of the total land surface area<sup>36</sup> (total area is 1,001,450 sq km). It is one of the highest densities in the developing world (World Bank, 1996). The overwhelming majority of the population (approximately 25%) lives in greater Cairo, which is the main business and tourist centre. Alexandria and areas along the Nile Banks, Nile Delta, and the Suez Canal represent the most populated areas in Egypt after Cairo<sup>37</sup> (EFG-Hermes, 2001, World Bank, 1996).

The Egyptians are fairly homogeneous, with 99% of the population coming from an Eastern Hamitic origin (Egyptian, Bedouins and Berbers). The remaining one per cent is made up of people of Greek, Nubian, Armenian, and other European (primarily French and Italian) origin.

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<sup>34</sup> It is clear from the laws and practices in economic and political areas that Islam is not the dominant ideology and is accordingly absent. This is evident in the established stock market where it is basically a Western style market whose practices do not comply with Islamic principles (Naughton and Naughton, 2000). Moreover, social and environment relevant Islamic principles are rarely promoted in Egypt (Rice, 2006). However, a number of banks have been established in Egypt based on the principles of Islamic Law which are mainly operating on an interest-free banking basis and have gained much popularity in quite a short period of time.

<sup>35</sup> The Egyptian population has increased almost 6 times in the 19<sup>th</sup> century and 3 times since 1950 (CAPMAS, 2004). It is expected to reach 125.9 million in 2050 (Population Reference Bureau, 2005b). Continued population growth represents an acute problem for Egypt.

<sup>36</sup> This is due to the fact that the rest of the land is desert and thus 95% of Egyptians concentrate around the principal source of water; the River Nile (EFG-Hermes, 2001).

<sup>37</sup> Smaller communities are found throughout the deserts all over Egypt, mostly clustered around oases and historic trade and transportation routes.

According to 2005 estimate, 50.5% of the population are men and 49.5 are women (CIA, 2006). The overall literacy is estimated for 2003 at 68.3% for men and 46.9% for women (a total of 57.6%). Life expectancy has increased since 1960 reaching 68 years for men and 73 years for women in 2005 (CIA, 2006; CAPMAS, 2004)<sup>38</sup>. With a population of nearly 78 million, Egypt's workforce which is close to 21.34 million (according to 2005 estimate) is the source of semi-skilled and skilled labour (CIA, 2006). It is also the largest labour force in the Arab region. In 2001, 32% of the employment is provided by the agricultural sector, with 17% in industrial sectors and 51% in services (CIA, 2006).

The Egyptian society has gone through a variety of endogenous and exogenous influences manifested in an array of economic and political changes over time. These challenges have made a significant impact upon the characteristics of the Egyptian society as well as on the Egyptian mentality (El-Badaina, 1999). Throughout these different challenges, the Egyptians might have given the impression of being passive as they are generally characterised by having the values of patience, waiting, and believing in fate. However, there have been events that proved them being active and challenging evident from the revolutions that took place throughout their colonization period (Ahmed, 1982).

The Egyptian society is also historically characterized by being an integrated society with all the fundamentals and essentials from land, people and culture. However, it has been a dependent society and thus, was subject to foreign predominance and hegemony and the inability to control its own resources. It is also considered a poor society with a remarkable gap between the poor and the rich. All the sufferings that the Egyptian people have gone through due to foreign colonisation and poverty led to the construction of strong group values

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<sup>38</sup> There is a general improvement in public health, manifested in the increase in life expectancy, the dramatic decline in child death rates and the increase in average daily caloric intakes (EFG-Hermes, 2001; CAPMAS, 1996).



concerning giving generously, thinking about others, importance of kinship (LoC, 1991), caring for public utility, being loyal to and proud of the country which is revealed in the youth volunteering to protect the land and country as well as voluntarily sharing in social projects (Ahmed, 1982).

All social and personal relations and interactions are characterized by intimacy and pity; being informal, and intermediaries represent a very essential element in everybody's life (El-Badaina, 1999). In spite of the stream of foreign influences, a feature that typifies the Egyptian mentality is to accept what suits them and to ignore what does not. Hence, the old and the new, what is Western and Eastern, Arabic and African, Christian and Islamic co-exist simultaneously. Competing ideologies crystallized, which obtained their elements from heritage (tradition) and from the Western thought to which Egypt was opened (Ahmed, 1982). Some of the Egyptian society standards that are based on folkloric and religious heritage and are to an extent generalized to the whole society, change by time and one can realize an exaggeration in the form imitation takes place where Egyptian society standards are ignored. This led to the spread of certain types of behaviour, which are strange to the Egyptian society (Hassan, 1990).

#### *Personal Connections:*

As stated in the Egyptian Constitution, the *Family* is the core of the society. This is manifested in the form of close family relationships. Family and personal connections are very important in Egypt. Personal contacts through family or friends are, sometimes, the only means of getting things done in Egypt making it widely accepted (Dahawy et al., 2002). These personal contacts and close family relations can sometimes lead to nepotism and favouritism (Slackman et al., 2006). Here, acquaintances are treated on the basis of uneven conditions as well as unfair and exceptional terms. As a result, citizens are tempted to bend the rules and to initiate as well as tolerate corruptions, dishonesty, negligence, and carelessness (Ibrahim and Ibrahim, 2003; Gharthey, 1985) in return for favourable treatment. This can also lead to the encouragement and concealment of inappropriate behaviour (Sowers,



1999) and, in return, widespread fraud and embezzlement (see, for example, Essam El-Din, 2005; Harb, 2004). Therefore, wrongdoers escape accountability on unethical and illegal activities. Favouritism, along with the resultant corruptions, is described as the invisible hand behind most disasters that take place in Egypt (Attia, 2006; Ibrahim and Ibrahim, 2003).

#### **2.3.4 Gender Equality**

Although the 1971 Constitution promotes and guarantees gender equality in general rights and obligations, regarding political, social, cultural, and economic aspects – subject to Islamic principles, the status of women in Egypt is still generally inferior to that of men. Diverse socio-economic and political indicators support this statement. For example, as outlined before, adult illiteracy rate in 2003 is higher for women than for men (men 31.7% - women 53.1%); only 31% of the total labour force in 2003 are females (World Bank, 2006), percent of unemployed female labour force is 22.7 % (overall unemployment is around 9% of total labour force) (World Bank, 2006) and 2.5 times that of men in 1999 (Ibrahim and Ibrahim, 2003). Moreover, seats in the People's Assembly occupied by women were 9 seats (out of 454, 2%) in 1995 as well as in 2005 elections (Population Reference Bureau, 2005a). In addition, by and large, females in Egypt have less access to education compared to men (World Bank, 2006).

Historically, the number of women actually in the workforce is relatively low, particularly in higher management positions. Women mainly engage in agricultural and household activities. On the whole, the role of the majority of Egyptian women especially in villages, although to a lesser degree than before, is still defined by the traditional cultural values of a patriarchal society. A woman's main duty is still that of a housewife and mother, taking care of her household and raising the children (Ibrahim and Ibrahim, 2003) in a male dominated society. However, women role in the society is increasing with 30% of the Egyptian households in 2005 headed and financially supported by women (World Bank, 2006) illustrating one of the transformations in the traditional roles of mother and housewife. Moreover, the Government is

paying more attention towards improving women status within the society, upgrading their skills, increasing their participation in development, and increasing protection of their rights (Social Fund for Development, 2000). Indeed, with the regulatory change accompanying the economic reform (discussed later), the gender roles in the society have also changed. Nowadays, women also occupy greater and higher level managerial positions of power in the public and private sectors.

### **2.3.5 Poverty**

Poverty is prevailing in Egypt. It is also one of the long-standing problems of Egypt. The move towards the liberalisation of the economy in the 1970s and 1980s aggravated inflation and unemployment in Egypt, sharpened social and wealth disparities (Noreng, 1997) and enlarged the class of dispossessed and disaffected (Ibrahim and Ibrahim, 2003). According to the World Bank (2005b), the percentage of people living below the national poverty line in Egypt was 17% in 2004. Despite that the objective of the economic reform program introduced in the 1990s was towards development, it has increased social ills in terms of increase in unemployment in line with the increase in the labour force due to privatisation which in turn increased poverty. The Government of Egypt has put the objective of poverty alleviation in Egypt as one of its highest priorities through increasing expenditures on education and social programs. Moreover, in cooperation with NGOs, the Government, through the Social Fund for Development, embarked on programs and projects that aimed at eradicating poverty and illiteracy, improving the quality of life by providing economic and social basic infrastructure services, and improving living standards (Social Fund For Development, 2000). Nevertheless, the country still relies heavily on foreign aid and assistance for national survival to cope with the constant population growth despite increase in economic growth due to economic reform (Ahmed et al., 2003). Foreign aid contributes to Egypt's economic development<sup>39</sup>.

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<sup>39</sup> Egypt has been on the IMF dole continuously since 1959 (Bandow, 1990:6).



## 2.4 GEOGRAPHIC AND ENVIRONMENTAL CONTEXT

Egypt is situated in the north-eastern corner of the African continent and the south-west corner of Asia. It is bordered by the Mediterranean Sea to the North and by the Red Sea to the east. In addition to the Mediterranean Sea and the Red Sea, the country has two further water barriers, which are the Gulf of Suez and Gulf of Aqaba (Egypt State Information Service, 2006). In spite of the vastness of total land surface area of Egypt (1,001,450 square kilometres)<sup>40</sup>, less than 4% (approximately 35,000 km<sup>2</sup>) of the area is arable<sup>41</sup> and can sustain cultivation and life (Ibrahim and Ibrahim, 2003). Most of Egypt's land surface (more than 96% of the area) is thus predominantly uninhabited desert. Agricultural land is currently being lost due to increasing urbanization (EFG-Hermes, 2001; Ikram, 1980) and windblown sands, although some land is being reclaimed through irrigation. There are limited fresh water resources other than the River Nile, which is the main resource of the country serving as waterway and source of irrigation and the only permanent water source in Egypt (Issawi, 1947). The country is totally dependent on the Nile River to support the water needs of the population, its agriculture and its industry<sup>42</sup>.

The climate in Egypt is hot and uniformly dry. Even in the wettest months (mostly in winter month December) only an average of 50 mm of rainfall is recorded (EEAA, 2002) with an average annual rainfall for the entire country of 10 millimetres (Brewer and Teeter, 1999). In Egypt, as elsewhere, the physical environment provided the opportunities and challenges from which civilisation developed, and civilisation in turn shaped and altered the environment (as discussed below).

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<sup>40</sup> This is just over four times the United Kingdom's area.

<sup>41</sup> The arable land is mostly restricted to the Nile Valley and Delta (Abd El-Aziz, 1999).

<sup>42</sup> Egypt's water needs are growing because of an ambitious land reclamation program, increasing population, an expansion of the industrial sector, rural development, and urbanization (Khouzam, 1996).

Egypt, as all countries in the region and all other countries of the world, has long confronted the challenges of environmental degradation and the threat that it represent for the health of the population and the development process (Ibrahim and Ibrahim, 2003; World Bank, 2002). Industrialization in Egypt started to clearly appear, on a massive scale, in 1950s and 1960s, which resulted in the growth of urban areas in the country namely, Cairo, Alexandria and Suez. And because the government owned most of these industries, this gave it some kind of exemption from being questioned about its environmental pollution excess and without getting rid of its waste (Sowers, 1999). The economic activities growth caused environmental imbalance, which gave rise to environmental pollution problems in its different forms and types<sup>43</sup>; some of which are severe (Rice, 2006). This, in addition to the rapid expansion of urban areas and rapid growth of population, mainly during the past two decades, have led to many of industrial facilities becoming located within, or nearby, residential areas. Such a situation resulted, mostly, in considerable adverse impacts on the environment and the residing population (Abdrabo, 2001). The progressive economic development Egypt has undergone, coupled with increasing population density gave rise to environmental challenges<sup>44</sup>.

Environmental awareness among the members of the Egyptian public has been cultivated more through negative environmental experiences rather than through educational awareness campaigns carried out by hard-working environmental movement activists (McDonnel, 2000). There have also been studies that have revealed the seriousness of the environmental degradation and pollution problems in Egypt. The most important of which are the setting up of the National Environmental Action Plan (NEAP) in 1992 with bank

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<sup>43</sup> The major environmental pollution problems are air and water pollution, soil erosion, solid waste and noise pollution (Abd El-Aziz, 1999).

<sup>44</sup> There is a growing recognition in Egypt that economic activity and population growth have brought with them rapid environmental depletion and degradation of natural resources. This has led to an increasing concern about integrating these neglected environmental considerations into national development decision-making, planning and policy analysis in Egypt (Abd El-Aziz, 1999). Awareness of the environmental impact of industrialization has also increased recently and is a subject of regular attention in the country's more responsible media (McDonnel, 2000) and in public discussion (Rice, 2006). To thwart the adverse effect on the environment, a plethora of laws has been enacted but their enforcement is poor, as will be discussed later.



assistance, and the World Bank studies. NEAP 1992 report documented in details the condition of the physical environment in Egypt and gave evidence of the high levels of pollution and its effect on health. It gave a comprehensive evaluation of the present environmental situation and the fields that require urgent action and response<sup>45</sup> (Abd El-Aziz, 1999). The purpose was to show to what extent the past development programs have contributed to the depletion and degradation of the environmental and natural resources base on the grounds of achieving economic development and growth, and to decide upon areas in need of priority actions. The damage costs<sup>46</sup> of environmental degradation in Egypt in 1999 is estimated, by a World Bank study, at L.E. (Livre Egyptienne, Egyptian Pound) 10-19 billion per year, or 3.2-6.4 % of GDP, with a mean estimate of L.E. 14.5 billion or 4.8% of GDP<sup>47</sup> (World Bank, 2002).

Gad El-Karim (1990) adds that Egypt suffers from biological pollution problems as a result of some economic and social retardation conditions such as: water sewage problems, and waste accumulation and spreading. Industrial pollution increases from the problem as a result of getting rid of poisonous and injurious waste. The River Nile, on which Egypt relies heavily as the main source of fresh water, suffered most from untreated industrial waste discharged by the industrial factories located on the banks of the river. Moreover, there is the 'black cloud' that covers the sky of, particularly, Cairo every year each October<sup>48</sup> (Bakr, 2004, Ibrahim and Ibrahim, 2003). Osman (2001) confirms the deteriorating environmental situation in Egypt, especially

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<sup>45</sup> In addition to highlighting the potential as well as the present problem environmental areas, it discussed, at an institutional level, who should be responsible for the monitoring of the overall situation. It was presumed that the Egyptian Environmental Affairs Agency (EEAA) would undertake the task.

<sup>46</sup> These costs include: impact on human health and on the quality of life (morbidity, mortality, loss in recreational value, etc.) and impact on natural resources (e.g., impact on ecosystem, deforestation). These costs are estimated for 5 environmental categories: water pollution and scarcity; air pollution (indoor and outdoor); land degradation, deforestation, loss of biodiversity; waste management; and coastal zone management.

<sup>47</sup> This is considered, by the World Bank, substantial and is two times higher than in high-income countries.

<sup>48</sup> This smoke cloud is produced by the burning of the rice straw in the fields in the nearby Nile Delta.



Cairo<sup>49</sup>, by stating that the Helwan area<sup>50</sup> has converted to a 100% polluted area as a result of factories – especially cement factories – which lack filters and distillers. This has resulted in the air being always polluted by fine cement dust. The studies, which have been done in the Helwan district in Cairo since 1967 until the present, reveal that the pollution problems are increasing year after year and that the purity of air in the area is continuously weakening. This increase in pollution reflects the widening of industrial and service activities in these areas without any precautions or preventive procedures as to controlling pollution sources (Ibrahim and Ibrahim, 2003; El-Banna, 2002).

From the above it is clear that industrial pollution is one of the major causes of environmental degradation in Egypt. However, hardly ever are these industrial units been penalised or brought to justice for their environmental malpractices. In the face of the rapidly deteriorating environmental conditions, as outlined above, concerns are being raised that if quick solutions for many of the fundamental environmental problems are not found, continuity of life in the polluted areas is jeopardised (Osman, 2001).

The calls for development, increases in competition, and the openness in international investments entailed the increase in official consideration for environmental protection (Radhi, 2001; El-Sabagh, 1997) and the environmental protection policy became of high priority and concern at the country political level<sup>51</sup> (El-Sabagh, 1997). International conferences were

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<sup>49</sup> Cairo is the capital of Egypt, is Egypt's largest metropolis (Rice, 2006) and is one of the world's mega cities that are experiencing rapid population (25% of Egypt's population) and industrial growth. It has experienced an increase in air pollution and the accompanying adverse effects on human health. This is in addition to other forms of industrial pollution. All residents of Cairo are living in very bad environmental conditions and inhale a poisonous mixture of dust, smoke and chemicals. With more than one million vehicles on the streets, mobile emissions are one of the major sources of air pollution in Greater Cairo. Vehicle emissions of fine particulate matter and other pollutants are significant. Lead Smelters are also very polluting to the Cairo ecological environment (Ibrahim and Ibrahim, 2003; EEAA, 2000, 2001).

<sup>50</sup> This is a district in Southern Cairo, which is characterised by the many Cement factories established there. Cement factories dust emissions is one of the major pollutants in Egypt (Bakr, 2004) and the most visible air pollution in urbanised areas (Sowers, 1999).

<sup>51</sup> There were different reasons cited as to why the Egyptian government decided to prioritize the environment as a policy area. The fact that foreign donors were willing to donate funds to developing countries that showed an explicit interest in an environmental agenda and which



convened, global and regional agreements were signed (EEAA, 2001), technical projects (World Bank, 2002) were implemented in close collaboration with national and international development partners (EEAA, 2000, 2001; El-Banna, 2002). Domestic legislations that reflected such interest were issued (EPAP, 2000). Moreover, the Egyptian Environmental Affairs Agency (EEAA) was restructured as a more active and effective agency with the passage of Environmental Law No. 4/1994<sup>52</sup> and the creation of a new ministry – the Ministry of Environmental Affairs – in 1997 (Radhi, 2001) strengthened Egypt's handling of environmental problems. In addition, the public were encouraged to participate through NGOs<sup>53</sup> (Khouzam, 1996). However, in Egypt, the situation did not reach the extent of existence of direct pressure (Radhi, 2001) and the approach seemed passive with concentration on temporary solutions only (Rice, 2006).

All the above reveals that there has been extra consideration for the environmental issues from the theoretical and official governmental side<sup>54</sup> but none from the practical side as there aren't any published reports that give a

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are recognized by the International Community as an environmentally aware nation was one incentive (Sowers, 1999; McDonnel, 2000; Rice, 2006). Moreover, Egypt also desired to be a role model for developing and surrounding countries in the field of environment, and maintain a position of leadership in the Arab world by following the international community in its environmental concern (McDonnel, 2000). In addition, more rigid international standards have to be met if Egypt wishes to sell abroad according to the GATT agreement which set commercial constraints on the exports of developing countries if the latter did not comply with the adequate environmental policies (an informal interview with EEAA personnel; Sowers, 1999; Eid, 1991). Furthermore, Egypt's competitiveness in tourism markets may be damaged by a poor reputation on environmental issues. Unless environmental issues are resolved, Egypt's exports and tourism will suffer (Khouzam, 1996).

<sup>52</sup> The passing of Law No. 4 was a political and legal landmark (EPAP, 2000) in that it was the first law in Egypt to be passed with the word *Environment* in its title and placed Egypt amongst the civilized nations. This law imposes internationally accepted pollution standards, mandates environmental impact studies for new projects, and regulates disposal of waste. The EEAA has the authority to enforce the law, make sure that all companies and establishments comply with the law. The EEAA also reviews the environmental records of every organization and compares it against actual performance. The EEAA presents the executive arm of the Ministry of State for Environmental Affairs.

<sup>53</sup> Article 103 of the Law No. 4 of 1994 states that every citizen or an NGO concerned with the environment protection shall have the right to report any violation of the Law No. 4/1994. This is a call from the legislator to the citizens and the NGOs concerned with the environment to assume an effective and positive role in putting the provisions of this law into execution and in assuming their role in protecting the environment against pollution.

<sup>54</sup> However, during the recent parliamentary elections, none of the candidates included environmental issues in their campaigns (Yaacoub, 2005). Rice (2006) argues that governments are perceived as being more part of the problem than the solution.



view of the level of pollution caused by business organizations<sup>55</sup>. Although all these endeavours presented pressure on companies to care for the environment, it is still not enough pressure (El-Sabagh, 1997). Moreover, despite that since the promulgation of the law in 1994, industrial and urban pollution control and mitigation has taken place on a significant scale, challenges still remain and affect health and natural resources (Ibrahim and Ibrahim, 2003), besides many fields that suffer from continuous environmental degradation (World Bank, 2002). Recent reports indicate that the objectives have not been achieved (Khouzam, 1996). The EEAA does not comprehensively perform its role in protecting the environment<sup>56</sup>. The current status of Egypt's environment shows that the regulatory mechanism has failed to control industrial pollution. This is because the policies and institutions controlling pollution and degradation of the resource base are weak. Pollution is rising rapidly with economic growth and has already reached dangerous levels.

## **2.5 ECONOMIC AND BUSINESS CONTEXT**

Egypt is a nation at the commencement of its switch to a market-based economy (HassabElnaby and Mosebach, 2005). It is generally classified as a middle-income developing country (EFG-Hermes, 2001; Kantor et al., 1995). Egypt's well-diversified economy is the second largest in the Arab World after Saudi Arabia and the largest in North Africa (World Bank, 1996).

From the 1880s until 1952, Egypt's economy was based on agriculture in general – and the export of cotton in particular –, large private enterprise

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<sup>55</sup> This has been attributed to: lack of sufficient environmental awareness by the people, the managerial structure of most business organizations does not include a separate department for dealing with environmental issues; the concepts of environmental responsibility, environmental enforcement and environmental audit have not crystallized yet (El-Sabagh, 1997); and limited access to information in Egypt where citizens are denied the right to be informed about the influence that various projects have on their environment (Rice, 2006). However, at a very general level one can observe the increasing prominence given to environmental management systems (most notably ISO 14001) in Egyptian companies.

<sup>56</sup> Polluters are exempted from fines either on grounds of financial hardship or because the violators wield undue political influence. Perhaps the most pervasive problem is that, even when fines are levied, they are frequently so low in real terms that they have little if any deterrent value. In very few cases, businessmen were taken to court for violations, however, the penalties levied were almost negligible and sanctions are weak (Sowers, 1999).



ownership, free trade and a moderate-size public sector. Most industrial projects were connected to the cotton industry. There was not much foreign investment directly involved in the production of cotton. Foreign capital was heavily committed to the banking and exporting operations concerned with cotton (Davies, 1984). Development policies were driven, mainly, by export promotion through public investment in agriculture since 1930, limited protection for industry, and a few agricultural products (Hansen, 1991). In this period, the private sector dominated economic activity. State intervention was limited to the provision of finance or equity participation. Investment policies were liberal and investment laws were enacted to attract foreign capital. By the 1920s and 1930s Egypt had a flourishing Capital Market. In the 1940s and 1950s, the Egyptian Stock Exchange was reputed to be the fifth most active market in the world (EFG-Hermes, 1999).

The 1952 revolution was a key turning point in modern Egyptian economic history. In an effort to dissolve all ties with the colonial domination of the past, successive governments appointed by Nasser, between 1954 and 1970, adopted socialist oriented policies<sup>57</sup> to make the Egyptian economy independent of Western hegemony (Ibrahim and Ibrahim, 2003). An economic policy of state capitalism was adopted (Ahmed et al., 2003). These policies aimed at nationalising (Egyptianising) the ownership of the large-scale private land and capital, and reducing foreign influence (UN, 1988), which was held to be responsible for the enormous inequalities in Egyptian society. This in turn resulted in an increase in public sector (state-owned), major trade restrictions, import substitution, and domestic economic policies predominated (EFG-Hermes, 2000, 2001). The Government became primarily responsible

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<sup>57</sup> The transition to a socialist economy had two principal effects of relevance to accounting. First, there was a reduction in the number and the influence of the accounting professionals in Egypt (El-Hennawy, 1986). Second, to a notable degree, external disclosure of accounting information was neglected because of the dominance of the public sector on most aspects of economic activity coupled with the government's privileged access to the books and accounts of principal companies (Amer, 1969). Public sector companies were totally owned by the government and, thus, there was no external financial analysis or demand for external disclosure. Reports prepared were mostly managerial reports presented to governmental agencies for control purposes, and to determine the company's taxes, distributions to the government, and distribution to employees (Dahawy et al., 2002). Socialism undermined the accounting profession (Alhashim, 1977).

for industrial development in Egypt and, in adhering to the socialist objectives, acquired control of approximately 80% of the economic resources through the nationalisation decrees (Alhashim, 1977). Egypt entered a period of economic management based on central planning<sup>58</sup> and nationalization. The Egyptian economy transferred into a command economy with the state having full control over economic resources. The size of the state-owned sector became significant and emerged as the dominant force in the economy. Industrial units were organised under large public (state-owned) corporation. The role of the private sector became negligible and dissolved. The activities of the Cairo and Alexandria Stock Exchanges came to a virtual standstill due to a strong reduction in activity<sup>59</sup>. As the Government's role in the economy grew, inefficiencies accumulated, quality and innovation suffered, and enterprises became overstaffed which resulted in poor financial results and productivity suffered owing to bureaucratic intrusion (Fattah and Mahmoud, 2000, Hansen, 1991), mismanagement, and corruption (Ahmed et al., 2003; Ibrahim and Ibrahim, 2003).

In the 1970s; the era of President Anwar El-Sadat, the public sector and domestic market subsidies represented a predominant share of the economy. However, the first tentative steps at liberalisation occurred with the adoption of a law to encourage the oil-producing Arab States to place a portion of their surplus funds in Egypt. This law had little impact owing to the unsteady geopolitical situation in the region and the slow upsurge of foreign business confidence (UN, 1988). From 1973 onwards, following October War, important and again dramatic economic changes took place in Egypt due to the economic liberalization achieved through an adopted "Open-Door Policy"<sup>60</sup> in

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<sup>58</sup> Central planning of the economy required standardised data which triggered the issuance of the Unified Accounting System (UAS) in 1966 (Samuels and Oliga, 1982; Dahmash, 1992; Osman, 1989; Briston and El-Ashker, 1984) to be applied obligatorily by all state-owned companies other than banks and insurance companies (Amer, 1969). UAS is designed to serve the macroeconomic planners and to assist in preparing the national accounts (Dahmash, 1992; Alhashim and Arpan, 1992).

<sup>59</sup> The Stock Exchange remained dormant between 1961 and 1992.

<sup>60</sup> As a consequence of this economic policy, the base of accounting information users widened including in addition to users at the local level, investors, creditors and managerial people at the international level who are concerned with the contents of the Financial Statements of the foreign companies. The rise of new pressure groups was featured (Samuels



1974, a relaxed government control over the economy, and the encouragement of private investment<sup>61</sup>. With this “opening up” of the economy, international trade and foreign business were assigned increasing importance<sup>62</sup> (World Bank, 2000; Samuels and Oliga, 1982). Slowly the influence of the private sector increased in importance. Part of the open-door policy program was reactivating Cairo Alexandria Stock Exchange (CASE). However, compliance with listing regulations was not sufficient and the volume of trade remained low (EFG-Hermes, 1999).

Despite these policies, foreign companies remained generally reluctant to invest in Egypt. The government’s continuing domination of industry and the accumulation of bureaucratic regulation only left room for the emerging of import trade (EFG-Hermes, 2000, 2001). Emphasis on import substitution rather than exports, combined with a growing population, led to the rapid accumulation of external debt, which Egypt found increasingly difficult to service. Other factors that added to these debts are rising food subsidy costs, the inefficiencies of a centrally controlled economy and the collapse of oil prices in the mid-1980s. The budget deficit, inflation and unemployment grew rapidly, while the economic growth rate declined.

In an attempt to alleviate these problems, in the era of President Hosni Mubarak, the Government of Egypt was oriented towards reforming the domestic and foreign distortions of the past. The country embarked on a broad and comprehensive economic reform program gradually towards full economic liberalization in response to a deteriorating financial condition.

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and Oliga, 1982). A new stock exchange was to be introduced in Egypt, and accepted standards for external reporting which it was believed would improve the allocation of resources through the exchange. The adoption of International Accounting Standards was followed mainly for multinational companies. The “Open-Door Policy” toward foreign investment provided tax holidays of up to eight years for foreign companies starting industrial operations in Egypt (Asheghian and Ebrahimi, 1990).

<sup>61</sup> However, foreign investment were only allowed in export-oriented projects capable of earning foreign exchange or projects that encourage tourism, or reduce the need to import basic commodities (IMF, 1985).

<sup>62</sup> During the decade following the introduction of the Open Door Policy (1974-1982), the Egyptian economy grew rapidly. The average annual rate of growth of real GDP was 8.77% over this period. Development in other economic growth indicators was also realised, for example, the investment rate, and both exports and imports.

From the 1990s, Egypt adopted a more aggressive policy of liberal reform and restructuring, encouraging private ownership through privatization and encouraging foreign and Arabic investments. The main aim was to liberate the public sector from the many rigid controls of the government (Badran, 1993) and to overcome the financial losses that are incurred by the state-owned enterprises (Abdel Hameed, 1990). In 1991, the privatisation program<sup>63</sup> officially started with the passage and application of its basic legislation Law No. 203/1991 for Public Business Sector Companies. Egypt's decision to embark on privatising state-owned companies<sup>64</sup> was initiated as a part of a process of economic reform (Hendy, 1995); a more comprehensive movement towards capitalism and widespread stock ownership throughout the world (Dahawy et al., 2002) rather than just a transformation of ownership from the state to the private sector. This includes "replacing the centrally planned [command] economy model with a market-oriented [private sector dominated] economy model" (Fattah and Mahmoud, 2000:325).

Although the actual privatisation of public sector companies has been slow (Rice, 1999) but steady (EFG-Hermes, 2001), the role of the private sector in the Egyptian economy is expanding and the share of private sector activity in GDP has steadily increased to reach 73 percent in 2002/2003 (MOFT, 2004). Moreover, reforms in the 1990s created a revival of Cairo Alexandria Stock Exchange (CASE)<sup>65</sup> with a great deal to improve public disclosure through the passage of the Capital Market Law No. 95/1992. Since June 1993, the stock market has been growing steadily, significantly contributing to Egypt's economic reform program (Kompas, 1999). In addition, the process of deregulation and accelerating the pace of privatisation since 1996, has

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<sup>63</sup> This led to change in the role expected of accounting, different users and challenges, which required, amongst other things, the disclosure of more social information (Abdel Rahman, 1996). Both the USAID and EU program provided technical assistance in privatisation and restructuring (MOFT, 2004).

<sup>64</sup> The form of privatisation that applied in Egypt is central privatisation, which refers to the fact that the responsibility for privatising state enterprises was assigned to the Cabinet (Fattah and Mahmoud, 2000).

<sup>65</sup> The Egyptian stock exchange is regulated by Capital Market Law No. 95/1992, which streamlined all pre-existing capital market regulations. This law empowered the Capital Market Authority (CMA), which is a regulatory body in charge of enforcing, regulating and ensuring compliance as well as observing market performance.



stimulated activity in the stock market and contributed to the rapid growth of the stock market<sup>66</sup>.

By the end of December 2002, 1151 companies were listed on the stock exchange with a total market capitalization of L.E. 120 billion equivalent of 31.1% of GDP compared to 656 companies listed in 1992 with a market capitalization of L.E. 10.8 billion<sup>67</sup>. The top 100 listed companies accounted for almost 93% of the value traded, 84% of the volume traded and 96% of the number of transactions for stocks in the first six months of 2002. During the first six months of 2002, the value traded on the exchange amounted to L.E. 13.6 billion of which foreign participation represented approximately 21.5%. (MOFT, 2004)

Economic reform has also produced considerable growth in the overall economy; inflation decreased from 27.1% in 1990 to 2.8% in 2000 (EFG-Hermes, 2000, 2001). Since 1995, the Egyptian economy grew at a rapid rate and positive real economic growth ranged between 5% and 6.1% annually until 2000. Over the same period, unemployment declined from 9.2% in fiscal year ending 1996 to 7.7% in fiscal year ending 2000. These positive trends reflect the success of the stabilization and economic reform program implemented by successive Governments since 1991. However, major events like 11<sup>th</sup> of September<sup>68</sup>, flotation of the Egyptian pound<sup>69</sup> and the war on Iraq, had their effect on Egypt and its economy leading to sluggish economic

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<sup>66</sup> Egypt was also pinpointed as best emerging market option in 2000 (EFG-Hermes, 2001; CMA, 2002).

<sup>67</sup> See Appendix 2.1 for information on number of companies listed and market capitalisation during the period 1991-2004.

<sup>68</sup> Beginning in fiscal year 1997/98, despite the Government aiming for faster economic growth, the Egyptian economy faced some less favourable conditions, caused by partial outflow of portfolio investments following the Asian crisis, a decline in tourism income after the Luxor incident and the deterioration of international oil prices. Adding to this, the September 11<sup>th</sup> tragedy has deeply affected Egypt's economy.

<sup>69</sup> With a view to restoring macroeconomic balances, the Central Bank of Egypt announced in January 2003 full domestic convertibility of the Egyptian pound. The flotation of the pound contributed to an increase in the consumer price index. Inflation rates reversed their downward trend of the past years, reaching 5.2% in October 2003, compared with 2.8% in October 2002.

performance<sup>70</sup>. As a result of these events, tourism income and Suez Canal revenues were cut dramatically, and a parallel foreign exchange market re-emerged.

Egypt enjoys a well-diversified economy despite the Egyptian economy being historically based on agriculture. Although less than 4% of the land area is arable, it is highly productive, and has the potential for three crops a year (World Bank, 1996). The agricultural sector plays a major role in the structure of, and is a major contributor to, the Egyptian economy. It provides employment for nearly a third of the workforce<sup>71</sup> and income for the majority of the population (Kompas, 1999). Agriculture is also an important foreign-exchange earner and contributes with about 17% to Egypt's GDP in 1997, although this percentage is steadily falling<sup>72</sup> reflecting faster growth in other sectors of the economy<sup>73</sup>. The primary agricultural products are cotton (the leading cash crop), rice, wheat, beans and sugar cane<sup>74</sup>. The impact of agriculture on the economy is also reflected in the industrial sector, which includes food processing and textiles.

Although primarily an agrarian country, the industrial sector is continually growing and now makes a significant contribution to the Egyptian economy. Though some sort of industrialization endeavours had already started in Egypt in the early years of the 19<sup>th</sup> century, it is only since the end of World War II, after the 1952 revolution, and with the special attention given by Nasser, that the industrial sector began to play an important role in the Egyptian economy. After 1973, and as a consequence of liberation and open-door policies, major

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<sup>70</sup> See Appendix 2.2 for key economic indicators during the period 1996-2003.

<sup>71</sup> The agricultural sector is a major source of employment, particularly in the rural areas and smaller towns.

<sup>72</sup> The share of agriculture in total GDP fell from 25.6% in the 1985/86 year to only 19.7% in 1990/91. The structure of the gross domestic product (GDP) during the period 1955/56-1991/92 shows that agriculture was the major sector in the 1950s and 1960s.

<sup>73</sup> See Appendix 2.3 for the share (as a percentage of GDP) of the different sectors of the Egyptian Economy.

<sup>74</sup> Husbandry (cattle, sheep) and fishing are also important activities. Until very recently, agriculture was strictly controlled and regulated by government dictates with farmers being required to produce according to government monopolies and to sell their crops to government monopolies at fixed prices. This is still the case with cotton production and marketing.



changes to the GDP structure occurred with apparent growth in petroleum, Suez Canal, tourism, and trade sectors. Nevertheless, most of the industrial investment during the 1970s was in the consumer goods industry such as food, beverages, textiles, cigarettes, and essential intermediate goods such as building materials, petroleum products, fertilizers, chemicals, and paper. The capital goods industry such as machinery, tools and implements was small. Following the Government's privatization program, the private sector's role has expanded in industries such as metals (including aluminium, iron and steel), cement production, automotive assembly, consumer electronics and pharmaceuticals, in addition to chemicals and textiles. (Kompass, 1999; CAPMAS, 2004)

Services, including public administration, remain Egypt's most important economic sector; its share in GDP in fiscal year ending 2004 is estimated at 52.4% (World Bank, 2005a)<sup>75</sup>. Next in importance is industry and manufacturing, including petroleum and gas, which accounts for 32.1% of GDP in 2004 with agriculture accounting for 15.5% (World Bank, 2005a). The industry, manufacturing and mining sector (which excludes petroleum and related products) accounted for 26.4% of Egypt's GDP in fiscal year ending 2002. Egypt's largest industries are food processing and textiles, which benefit from Egypt's comparative advantage in these sectors.

While the Government is always dedicated towards the aspiration for faster economic growth, there are several challenges confronting the Egyptian economy. These are: meeting foreign exchange requirements for payment of debts; providing for the basic needs of the growing population; reducing deficit in the balance of payments; and reducing unemployment, especially that of university graduates. Although the country's industrial base increased considerably in the 20th century, the economy has been severely strained by Egypt's very limited, inefficiently managed and rapidly depleted natural

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<sup>75</sup> Transport and tourism play a major role. The Egyptian tourism industry is one of the most important sectors in the economy, in terms of high employment and incoming foreign currency

resources, in addition to, limited farmland and its large and rapidly growing population. This rapidly growing population, in addition to, the limited arable land, the dependence on the only source of water; the River Nile, and the limited critical resource; energy, all continue to overtax resources and stress society.

## 2.6 REGULATORY CONTEXT

The current regulatory framework that governs corporate disclosure practices consists of a set of laws and rules which are highly influenced by the British laws<sup>76</sup>. All companies in Egypt have to comply with the Company Law No. 159/1981, and its executive regulations, which govern accounting disclosure. In case of publicly listed companies, Capital Market Law No. 95/1992 and its executive regulations have to be complied with in addition to the Company Law No. 159/1981. Besides the above two laws, 'Public Business Sector Companies'<sup>77</sup> are required to comply with Public Business Sector Companies Law No. 203/1991<sup>78</sup> in the preparation and presentation of their financial reports (EFG-Hermes, 2001).

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<sup>76</sup> Egypt was a British colony for 75 years. The principal influence on the accounting system, regulation, organisation, and training was that of the UK up until 1956; the period of transition to the socialist model. The Company Law of 1954 and the Charter of Accounting and Auditing Profession of 1958 were affected by the British Companies Act of 1948 (Briston and El-Ashker, 1984; Samuels and Oliga, 1982). Even after independence, it became difficult to modify the existing accounting system due to that the existing qualified accountants were not permitted to admit that what they learned is irrelevant and they created a monopolistic professional body (see, Briston (1978), Abd-Elsalam (2002) and HassabElnaby et al. (2003) for other forms of Anglo-American influence on both accounting education and practice). The French; who came to Egypt in 1798, also influenced corporate regulations to an extent. Most of the legal system (e.g., the commercial codes) is based on the French regulations and system (Abd-Elsalam, 2002). The British influence on the Egyptian Company Laws in addition to Anglo-American influence on the IASs resulted in similarities in the disclosure requirements (Abd-Elsalam and Weetman, 2003). Egypt in turn has influenced accounting in other Arab countries (see, Kantor et al., 1995).

<sup>77</sup> These companies were state-owned but are now listed in the process of privatization. When 51% or more of the share capital of a company is privatised, then the company will no longer be subject to the provisions of Law 203/1991, but will be subject to the Companies Law No. 159/1981 (Abd-Elsalam, 2002).

<sup>78</sup> Also called the Privatisation Law No. 203 of 1991.



In addition, the Company Law No. 159/1981 as well as the Capital Market Law No. 95/1992 require the use of Egyptian Accounting standards<sup>79</sup> in the preparation of the financial reports, which follow International Accounting Standards (IASs) and are translations of IASs to a great extent with few exceptions (El-Meligy, 1999). According to Capital Market Law No.95/1992, when there are no Egyptian standards, companies must refer to the International Accounting Standards on matters that the Capital Market Law No. 95/1992 is silent about (CMA, 2002; Abd-Elsalam, 2002; El-Banna, 2002).

According to the Company Law No. 159/1981 and the Capital Market Law No. 95/1992, publicly owned (i.e., listed) companies are required to publish the annual financial statements<sup>80</sup> and a compendium of the Board of Directors report, which provides an overview of the company's activities during the year – along with the audit report – in two daily morning widely circulated newspapers at least one of which is in Arabic to ensure wide distribution of information. This has to be within three months of the fiscal year end and before the General Meeting by at least two weeks (EFG-Hermes, 2001; CMA, 2002). Alternatively, copies of the above can be sent directly to every shareholder by registered post without the need to publish it in newspapers if that is feasible and allowable under the company system. A copy is also to be sent to the Capital Market Authority (CMA). Moreover, listed companies are obliged to file with the CMA and Cairo Alexandria Stock Exchange (CASE) quarterly and semi-annual reports of its activities. The CMA and CASE must also receive a copy of the annual report<sup>81</sup> at least one month before the date set

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<sup>79</sup> These standards include 22 standards none of which deals with social disclosure. But there are two standards that discuss disclosure in general. These are Standard No. 1 relating to disclosing accounting policies followed in preparing financial statements and Standard No. 3 relating to the information that is to be disclosed in the financial statements.

<sup>80</sup> This includes the Balance Sheet, the Income Statement, the Cash flow Statement, the Profit Appropriation Statement, the Value Added Statement, the Owners' Equity Change Statement, and the Notes to the Financial Statements.

<sup>81</sup> This includes the financial statements and the notes to the financial statement, the board of directors' report, the auditor report as a minimum. It can also include any other complementary clarifications.

for the General Meeting, which must be held within 6 months of the end of the financial year.

The Company Law No. 159/1981 and the Capital Market Law No. 95/1992 include provisions for some social disclosure such as:

Employees:

- Number of employees and total salaries (Company Law No. 159/1981)
- Pension fund and social security costs (Capital Market Law No. 95/1992)
- Employees profit share (Company Law No. 159/1981 and Capital Market Law No. 95/1992)
- Provision for employee benefits costs (Capital Market Law No. 95/1992)
- Cash payments to employees (Capital Market Law No. 95/1992)
- Value added statement (Capital Market Law No. 95/1992)

Charity/Community:

- Donations (two year comparison list) (Company Law No. 159/1981)

Directors:

- Board Of Directors Remuneration (Company Law No. 159/1981 and Capital Market Law No. 95/1992)
- Salaries and Attendance/Transport Allowances of Board Of Directors (Company Law No. 159/1981 and Capital Market Law No. 95/1992)
- Any monetary transactions with Directors (Capital Market Law No. 95/1992)
- Any Debit or Credit Accounts for Board Of Directors and Managers (Capital Market Law No. 95/1992)

Moreover, as Egyptian companies have to follow International Accounting Standards where the Egyptian Accounting Standards are quiet then accordingly, the Egyptian companies have to comply with IAS 10 which entails that the company discloses any expected environmental loss or liability if it is probable that the subsequent events lead to loss of an asset or incurring



a liability at the financial statements date. These laws and standards would suggest that Egyptian companies need to have an environmental policy, an environmental system and measurable environmental performance (Radhi, 2001).

In addition, Minister of Economy Decree No. 503/1997 amended by Decree No. 256/1998 and Decree No. 345/2002 (Accounting Standard No. 1) also states that it is preferable to provide extra information such as: environmental reports especially for environmentally-sensitive industries. This is to be disclosed whenever deemed important for the users of the financial reports in making economic decisions<sup>82</sup>.

The important institutions which play an important role in implementing the above rules and regulations are the Capital Market Authority (CMA), the Cairo Alexandria Stock Exchange (CASE), the Central Auditing Organisation (CAO), and the Companies Administration Department.

In addition to the above laws, there are a number of laws, rules and regulations that govern the social and environmental activities and performance of the business organisations; none of which call for adequate disclosure of compliance with their detailed provisions or have any implications for accounting or reporting practice.

Environmental Law No. 4/1994<sup>83</sup>, which is to be followed by all companies, is the main law relating to environmental matters and is action-oriented. This law specifies different types of environmental pollution, limits of pollutants in different areas, penalties in case of exceeding pollution limits or for non-compliance with any article of the law, standards for the discharge of different pollutants along with guidelines for the control and alleviation of

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<sup>82</sup> During undertaking one of the interviews undertaken early 2004, I was informed that there is a new regulation about to be passed which will require that environmental items be shown separately in the financial statements from the fiscal year ending 2005. To the best of my knowledge, this has not happened until the time of finishing writing up this thesis.

<sup>83</sup> Over the past four decades the government has enacted a set of laws that addresses environmental issues. See Hamza (1997) on environmental regulation in Egypt.

environmental pollution. It requires no public disclosure requirements in annual reports or elsewhere (UNCTAD, 1996)<sup>84</sup>. The only requirement is to keep an up-to-date environmental record of the impact of the organization's activities on the environment, which will be inspected occasionally and compared with on-site tests by EEAA<sup>85</sup>. Moreover, the Environmental Law No. 4/1994 puts forward the conditions that have to be followed by business organizations during construction and operation. Furthermore, under this law, all new factories are required to submit an Environmental Impact Assessment (EIA). Old factories have to make enormous efforts to comply with the law. The law provides incentives for complying companies as well as penalties for those not complying. The enforcement of environmental laws and monitoring the overall environmental situation is mainly the responsibility of the Ministry of State for Environmental Affairs (MSEA) in cooperation with the Egyptian Environmental Affairs Agency (EEAA), which follows the ministry.

In relation to employees, the Labour Law No. 137/1981 (and amended by Labour Law No. 12/2003) regulates the social welfare of the employees and workers in business companies. The legislator in Egypt gave special importance and care to employees. This is reflected by the obligations stipulated by the Labour Law that business organisations have to fulfil. For example, companies have to secure convenient communal transportation means, suitable houses and food, health care and pension payments, social and cultural services, care for disabled and involving them in society, employing 2% from disabled, nursery for children of working women, religious care and paid pilgrimage leave, development of national loyalty, encouragement of research and studies, and employees occupational health and safety means. Moreover, there are specified working conditions that have to be prevailing and under which employees are to be hired. For example, employees are not to

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<sup>84</sup> It is argued that the more comprehensive environmental protection laws that were introduced may probably lead to new environmental accounting regulation (UNCTAD, 1996); for example, the Minister of Economy Decree No. 503/1997 amended by Decrees No. 256/1998 and 345/2002 which recommends publishing an environmental report.

<sup>85</sup> The law also provides, within its executive regulations, a model of this record and the information to be included in the environmental record. It includes the level of different types of emissions and waste, the results of periodical tests, any precautions taken ... etc.



be asked to work more than maximum hours specified by law unless under existence of specific urgent conditions or emergencies and they have to be compensated accordingly. Employees are also entitled to annual holidays and sick leave, and they cannot be dismissed for no reason. They have the right for association but there is no requirement or obligation for joining trade unions<sup>86</sup>. Forced or compulsory labour is absolutely prohibited. As to the right to strike, the labour law – as recently amended in 2003 – provides statutory permission for engaging in collective bargaining<sup>87</sup> and the right to strike within restrictions and limits such as not to affect the national security of the country as this is considered a form of public disturbance.

Moreover, in 1996, the People's Assembly (the Parliament) adopted a comprehensive 'Child Law'<sup>88</sup>. This law specifies the minimum age of employment at 14 years in non-agricultural work<sup>89</sup>. The Labour Law No. 137/1981 (amended by Labour Law No. 12/2003) also specified hours during which children can work<sup>90</sup> and the conditions under which they can be employed. Women employment is also regulated by the Labour Law stipulating the conditions under which they should not be employed in fields that jeopardise their health and safety. In addition, the importance of employees in Egypt as one group of stakeholders of a company is evident from the laws that state their rights in sharing in the management of the company and in their right to get a share of the profits achieved<sup>91</sup> (Abdel

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<sup>86</sup> There are 27 industrial trade unions in Egypt that are registered with the Egyptian Trade Union Federation (ETUF), the sole legally recognized labour federation. About 27%, of the labour force, are members of trade unions.

<sup>87</sup> Collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, leaving few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

<sup>88</sup> This law was drafted by the National Council for Childhood and Motherhood.

<sup>89</sup> Provincial governors, with the approval of the Minister of Agriculture, can authorize seasonal agricultural work for children between the ages of 12 and 14, provided that duties are not hazardous and do not interfere with schooling.

<sup>90</sup> Child workers are also required to obtain medical certificates and work permits before they are employed.

<sup>91</sup> Company Law No. 159/1981 and Public Business Sector Law No. 203/1991 stipulate that employees have a share in profits incurred by the company and their share should not be less than 10% of Net Profit. Moreover, employees also have a share in management of the company. The Constitution of Egypt of 1971 also stipulates that employees have a right towards sharing in the profit and in the management of their companies.



Hameed, 1986). Implementing labour rules and regulations is the chief responsibility of the Ministry of Manpower.

From the above, it appears that there is extensive legislation to control the social and environmental behaviour of business organisations; however, these regulations are rarely or selectively enforced. This, in turn, results in a gap between laws and practice (Sowers, 1999). It is known and observed that many companies are not complying with laws; they usually get away with it because of corrupt, weak and ineffective enforcing bodies. Enforcement and inspection is uneven. Despite the Egyptian Trade Union Federation (ETUF) leadership assertion that it actively promotes worker interests and despite it being semiautonomous, it generally avoids public challenges to government policies (Bureau of Economic and Business Affairs, 2001).

Poverty and high unemployment rates accompanied by rapidly increasing population can also prohibit enforcing laws. For example, penalising companies by closure of factories due to pollution or health and safety issues can be unaffordable due to the necessity to then cease operations and production which in turn could lead to laying off employees which will increase unemployment, poverty, instability ... etc.<sup>92</sup> Another example, is the fact that child labour still exists in Egypt despite the attempt to enforce certain legislation to end it<sup>93</sup>. One of the major factors contributing to the failure of this legislation is increasing poverty, as well as parents' lack of awareness of child labour drawbacks due to their poor educational and occupational levels. The government and NGOs<sup>94</sup> are working to alleviate some aspects, but

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<sup>92</sup> The Labour Law specifies that in case of temporary closure or ceasing of operations, employees are entitled to earn their full salaries.

<sup>93</sup> Statistical data is uncertain, but the phenomenon is widespread, especially in rural areas. Recent estimates by the Egyptian government put the number of child labourers at 2.5 million children below the age of 15 work in Egypt, most in seasonal agricultural activities (Zahran, 2006).

<sup>94</sup> The number of registered NGOs in Egypt (including civil and community development associations, professional syndicates, mosque- (or church-) based associations and development organisations) grew noticeably after political and economic liberalisation of the 1990s reaching more than 14,000 (an estimate of 20,000 in 2005; 4,000 of which are environmental NGOs). All of them come under the control of the Ministry of Social Affairs. Some are even considered creations of the government and are not independent. Although



stubborn and persistent poverty is likely to continue to back up the problem. These are all limitations on the enforcing bodies.

## **2.7 SOME MAJOR SOCIETAL CONCERNS OVER THE SOCIAL AND ENVIRONMENTAL PERFORMANCE OF EGYPTIAN BUSINESS**

From all of the above and in broad terms, Egypt has experienced a turbulent history and has, in recent years passed from a basically agrarian economy, through a period of “socialization” to the present period of increasing liberalization. All of this has been experienced against a background of French, British and now wider Arab influence. With the increasing emphasis on industrialization, the encouragement of foreign investment and the growing significance of the stock market, Egypt is set on a path towards a relatively traditional form of (Western) “economic development”. The economic growth has brought with it social benefits – in terms of increasing liberalization, improving literacy and reducing child morbidity but, inevitably, there have been environmental and social costs to this expansion.

The Egyptian government, NGOs and certain portions of academe<sup>95</sup> – if not business, the media or the public in general (Rice, 2006; Sowers, 1999) – are beginning to act in response to these costs from the economic success of recent years. However, there is not enough pressure to eradicate the social and environmental ills created by the Egyptian corporations’ practices.

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NGOs provide social welfare and charity to the poor, acting as social networks where the government fails to give support, they are ineffective in terms of being a powerful pressure group and are sometimes circumscribed by formal limitations on their activities (Sowers, 1999). For example, regarding the French Carrier; Clemenceau, whose body was contaminated with asbestos as well as other toxic material and was on its way, through Suez Canal, to India to be dismantled; none of the ENGOs was able to stop it from crossing the Suez Canal. (El-Ghitany, 2006)

<sup>95</sup> Within the Egyptian academe, there is an amount of commentary on corporate social responsibility and disclosure. However, these studies are not internationally published or recognised. See Appendix 2.4 for a summary and discussion of studies done in Egypt concerning what is currently known (and thought) about the development of social and environmental accounting and reporting in Egypt. These research pieces are published nationally in Egypt and/or regionally in the Arab Middle East.

The importance of taking the social dimension into account in the Egyptian corporate environment is attributed in the first state to that privatisation of formerly state-owned companies may lead these companies to forgo social objectives and incline towards maximizing profit which is in contradiction with social objectives. In the absence of any obligatory legislation, privatised companies are enticed to crystallize their objectives around absolute economic aims while social objectives are only limited to what the government puts as a minimum legal requirements (Abdel Rahman, 1996).

Privatisation is a double-edged sword. Although the government was able to get rid of the economic losses, privatisation created other social losses, namely and most importantly, unemployment, due to the fact that the owners of the now-privatised companies resort to redundancy of the previously severely overstaffed organisations (EFG-Hermes, 2001, 2000) which resulted in large number of employees losing their jobs (Ibrahim and Ibrahim, 2003). The government declared its intention to preserve the full rights of workers in companies sold to the private sector and an optional early retirement scheme was launched in March 1997 funded by the proceeds of privatization sales. However, the problem is still not resolved.

The government also embarked on a social sector reform program to minimise the negative impacts of the economic reform measures on the poor. A Social Fund for Development was established in March 1991 directed towards reforms in human resources development<sup>96</sup>, poverty alleviation and social safety through developments in education, health, municipal services, and elimination of unemployment by creating job opportunities (World Bank, 1996).

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<sup>96</sup> Egypt ranks 119<sup>th</sup> out of 174 in the United Nations Development Programme's (UNDP) Human Development Index (HDI), placing the country in the medium human development category far behind other Middle-Eastern countries such as Lebanon (82) and Iran (97) (Ibrahim and Ibrahim, 2003). The HDI is composed of a basket of indicators including life expectancy at birth, adult literacy, school enrolment and GDP per capita.



Regarding environmental degradation, a concern is being voiced in Egypt about some of the undesirable environmental outcomes of unregulated development. There is evidence of such industrial negativities such as a polluted environment, ecological problems and the indiscriminate depletion of scarce natural resources. In particular, and as mentioned before, two issues are of major concern in Egypt, namely, untreated industrial waste and effluents discharged in the River Nile; the only permanent source of water in Egypt, in addition to, the excessive air pollution and environmental hazards caused specifically by the dust from cement factories in Helwan district in Greater Cairo. In spite of repeated notices from the Ministry State of Environmental Affairs (MSEA) and from the Egyptian Environmental Affairs Agency (EEAA) to the defaulters, things remain unchanged and industrial pollution remains uncontrolled.

In relation to consumer rights and protecting their interests, consumers in Egypt are often exposed to substandard and adulterated products, inadequacy of information on product packages, exaggeration in advertisements to entice consumer to purchase their products, exaggeration in prices, breach of product quality specifications by companies, ... etc. This also includes services not only goods. Although the Government of Egypt has tried to secure consumer rights through its different authorities but the Egyptian consumer still does not possess as good rights as that of consumers in the developed countries. This is the case because, as stated by Allahlah and Sahbal (1998), there is lack of coordination among the efforts of different authorities, and lack of awareness by consumers of their rights and procedures to be undertaken when needed. This exists despite the need for consumer rights protection in Egypt due to lack of resources, population increase, and scarcity of some products. However, little effective role is exerted in controlling malpractice.

To sum up, despite governmental efforts to alleviate those concerns, efforts of governmental agencies are deemed to failure concerning making any real change on the ground or exercising proper control over business in the public interest. As discussed before, laws are not enforced due to corrupt and

ineffective enforcing bodies, in addition to poverty and over-population. Moreover, corporate responses towards the above social concerns and their ethical stances remain unclear because of non-disclosure. Business corporations seem to be powerful in ensuring their uninterrupted operations in the pursuit of their self-interest. They believe that one should do whatever one can to get ahead in business as long as one is not caught; ignoring the public, the environment and just getting on with business. They are ready to exploit situations, bend rules, and manipulate laws. This in turn leads one to question the integrity (and social responsibility) of many of the top business people in the country. A number of business leaders' strong ability to influence the political arena in the business interest corroborates this fact. It does seem that regulatory enforcement and institutional difficulties are severely reducing the effectiveness of the legislation.

## **2.8 CONCLUSION**

This chapter has laid out a basic introduction to the geographic, economic, political, legal and social aspects of Egypt. Egypt is, inevitably, a complex country that cannot be captured in just a few pages. It has also had a complex and often turbulent history that has, in various ways, provided the context for what we now see in Egypt. This chapter has only skimmed the surface of such concerns.

The principal issues of relevance to this thesis probably relate to the economic and social developments of recent years. In particular, the range of companies and their ownership structures has changed enormously in recent years with the on-going privatisation of corporations and an increasing emphasis on joint-stock ownership through the stock exchange (see Section 2.5). The economic and political reforms that have enabled these changes to take place have been successful in their aim of liberalising the country, attracting increasing volumes of overseas investment and providing a typical capitalistic engine for economic growth. In this regard –as, perhaps, in many others – Egypt is embracing Western notions of progress and development. These developments have, in turn, brought with them the inevitable social disruption and



environmental degradation that appears to be the essential accompaniment of economic development.

Egypt has historically suffered from a substantial level of poverty and illiteracy and this level has seemingly worsened in the recent stages of economic development. Government policies have yet to fully address these issues but companies are charged by the state to undertake significant strands of “socially responsible” activity. First, the employee is explicitly recognised as a crucial stakeholder in the society as in the companies. There is substantial law (Labour Law No. 137/1981 amended by Labour Law No. 12/2003), which governs and protects employees and encourages a safe and improving employment condition for increasing numbers of the Egyptian workforce. This bank of law is increasing and places a significant (although admirable and proper, in my judgement) burden on the corporations. At the same time, government policy has increased the explicit recognition of the role that companies play in providing the infrastructure of the society through the payment of taxes, the provision of employment and the undertaking of legitimate economic activities that contribute to infrastructure provision. From our point of view within this thesis, it is apparent that employment and community/government interactions are a significant part of company economic activity and may, therefore, be expected (a priori at least) to influence corporate attitudes and perhaps even corporate disclosure.

Similarly, there is sufficient (if growing) awareness of the significant environmental difficulties that Egypt faces to expect this to be influencing corporate thinking and possibly even corporate disclosure. Egypt has a basically hostile geography, faces potential crises over water and is in the throes of exploring and seeking to deal with the fall-out from rapid industrial development and expansion. Such concerns make environmental impacts and degradation more than an abstract whim and this; together with a steady increase in environment-related law (see Environmental Law No. 4/1994 and Section 2.6) make environmental concern a matter of increasing significance to the nation as to the corporate sector. However, the absolute enforcement of

the above – and other – laws in Egypt is still questionable. Most laws seem to exist on paper only (Ibrahim and Ibrahim, 2003).

Chapter 3 starts a discussion of the theoretical background for this study. The chapter covers the first part of the literature review relating to the influence of the international contextual differences on accounting in general and social accounting in particular.



# **CHAPTER 3**

## **INSIGHTS THAT INTERNATIONAL ACCOUNTING HAS FOR SOCIAL ACCOUNTING**

### **3.1 INTRODUCTION**

The previous chapter covered the contextual background for the present study. Chapter 2 considered the description of the context of Egypt, which is the main focus of the current study. It included a detailed discussion of historical, political, economic, social, and legal aspects of the Egyptian context, which may facilitate an understanding of CSD in this particular context.

This chapter commences a discussion of the theoretical background of the study. The objective of the literature review in Chapters 3 and 4 is to identify the gap in the literature as a justification for undertaking this study and to set the base for the broad theoretical framework under which the current study will be undertaken and upon which the analysis of the emerging data will depend. This broad framework will be made use of in trying to make sense of the data, i.e., employed as a heuristic.

This chapter deals principally with insights that the main literature on international accounting classification attempts might have for social accounting and corporate social disclosure. The chapter starts by highlighting that the international differences among accounting systems and practices is attributed in the international accounting literature to many societal and environmental factors. ‘Culture’ is often a commonly cited factor in explaining differences in accounting systems of different countries with most of the literature making use of Hofstede-Gray model.

The chapter gives a definition of culture with an emphasis on Hofstede’s culture theory. It also discusses and explains the various dimensions of cultural values as per Hofstede. A comparison of cultural values and the

relative positions on a cultural dimensions continuum for both Egypt and the UK follows. A further section goes on to presenting literature on cultural influence on accounting; mainly Gray's (1988) model. Differences between Egypt and the UK based on Gray's model are also provided.

As the main theme of this study is corporate social disclosure, this chapter is also concerned with providing a brief review of societal influence on corporate social reporting. This is undertaken via a discussion of the relatively scarce literature on this aspect together with a more detailed discussion of those studies which directly relate international accounting differences – in particular culture (as defined by Hofstede and Gray) – to social disclosure. Finally, the chapter concludes by outlining how the current study will be undertaken.

### **3.2 INTERNATIONAL ACCOUNTING AND ENVIRONMENTAL INFLUENCES**

There have been many attempts and investigations in the area of international accounting that sought to cluster countries according to similarities and/or differences in characteristics of the financial accounting systems and practices (Mathews and Perera, 1996). Comparative and international classification studies in this vein go back to the 1960s, and have identified great and consistent diversity in accounting systems internationally (Doupnik and Salter, 1995) in terms of patterns of practices; disclosure and measurements, as well as accounting development and regulation (see, e.g., Frank, 1979; Nair and Frank, 1980; Nobes, 1983, 1984; Radebaugh, 1975; Mueller, 1968)<sup>97</sup>.

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<sup>97</sup> Roberts (1995) is critical of classification studies because some are not clear about what they are actually classifying. Roberts (1995) is very critical of Nobes (1983) classification model. He argues that it is not clear at all what Nobes is classifying. Roberts (1995) shows that classifications cannot be considered either right or wrong but useful or less useful in relation to specific research questions. d'Arcy (2001) adds that it is apparent that every classification criterion will present inevitable methodological problems and limitations. Consistent with Roberts (1995), she adds that the author's own prejudice about the discipline is usually reflected in such groupings. As to Nair and Frank (1980) study and other studies using Price Waterhouse data, Nobes (1992) found mistakes in the way responses are elicited and, in turn, in the data of databases of PWI (Price Waterhouse International) (1973, 1975, 1979 all as cited in Roberts (1995)) as these surveys report the attitudes and opinions of PWI partners on what 'ought to be practice' if rules were obeyed rather than the 'actual practice' in the subject countries (Cooke and Wallace, 1990; Wallace, 1990; Nobes,



These international differences led, in turn, to a conclusion of the influence that environmental factors have on moulding accounting systems and their development internationally (Mathews and Perera, 1996). We now see a considerable amount of research in international accounting concerned with the enumeration and investigation of: (a) the environmental factors which influence accounting and disclosure practices and (b) the relationship between both accounting and its environment (Gerhardy, 2003; HassabElnaby et al., 2003).

Evidence suggests that these environmental factors, that affect and may explain differences over different parts of the world regarding financial reporting practices and accounting development, include: social, economic (including equity markets, economic development, inflation levels), political, legal and cultural diversity factors (see, e.g., Frank, 1979; Nair and Frank, 1980; Mueller, 1968; Radebaugh, 1975; Nobes, 1983, 1984; Adhikari and Tondkar, 1992; Meek et al., 1995; Douppnik and Salter, 1995; Perera, 1989a; Nobes, 1998; Salter, 1998; HassabElnaby et al., 2003; Cooke and Wallace, 1990; Pourjalali and Meek, 1995; Gray, 1988; Salter and Niswander, 1995; Saudagaran and Biddle, 1992; Ndubizu, 1992; Larson and Kenny, 1995). Thus, existing research suggests that the country of origin is a significant determinant in explaining the variations in accounting practice across national boundaries. Hence, arguably, as noted by HassabElnaby et al. (2003:274):

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1983) and that there are some misleading answers (Radebaugh and Gray, 2002), in addition to the possibility that the reports from non-representative enterprises are included. Moreover, the data collected is not suitable for statistical classification purposes because the information is qualitative, sometimes ambiguous, and not weighted so that important questions in determining measurement and disclosure practices were swamped by rather trivial ones (d'Arcy, 2001; Wallace, 1990). It is thus argued that there are apparent flaws and inadequacies of the data for research purposes (Wallace, 1990). Additionally, the problem of exaggerating the differences between the US, UK and other companies arises principally because, it is argued, the compilers of the survey questions are most familiar with the accounting system in these countries (Nobes, 1983, 1992). Perhaps most pertinently, Price Waterhouse collected the data used for a purpose different than that of using the data to statistically cluster groups according to similarity in corporate reporting (Nobes, 1983; Cooke and Wallace, 1990). See Perera (1989a) for more examples of such comparative and classification studies.

*“accounting does not develop in a vacuum but reflects the particular environment in which it is developed. This explains why accounting systems, practices and disclosure differ from one country to another”.*

The above mentioned research efforts are useful in that they empirically establish some connection between the environment and accounting practices. Although these attempts might be thought of as still rather primitive and do not seem to have advanced much for a long period of time, they provide us with a better understanding in respect of the importance of the influence that environmental factors might have on accounting systems (Radebaugh and Gray, 2002; Mathews and Perera, 1996). There is, therefore, an implicit underlying theory, as suggested by evidence, that the reporting practices of each country are contingent on certain societal and environmental variables.

Despite that not all earlier studies of comparative accounting and classifications research use culture explicitly – but rather, cultural variables tend to be neglected – as a determinant of international accounting differences due to the considerable difficulties involved in defining culture (d’Arcy, 2001), it is implicitly (or as it might be assumed to be embroiled in other societal and environmental factors) alluded to as a criterion for classification efforts and as an important explanatory factor for differences and/or similarities in accounting systems and practices<sup>98</sup>.

Culture has also been often cited, by a large body of more recent research, as an important influential factor impacting on the accounting system within a country (Mathews and Perera, 1996; Mathews, 1993) and explaining accounting differences among countries.

*“The argument here is that because accounting is a socio-technical activity it involves dealing with both human and nonhuman resources or techniques as well as with the interaction between the two. Although the technical aspect of accounting is less culture-dependent than the human aspect, since*

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<sup>98</sup> For example, Nair and Frank (1980) included language; as a proxy for culture. However, the hypothesis that cultural factors are related to accounting disclosure patterns was not supported in that work. This is inconsistent with Frank (1979) where it was supported.



*the two interact, accounting cannot be culture-free. It has also been argued that accounting is in fact culturally determined” (Perera and Mathews, 1990:221).*

Culture has often been referred to as one environmental factor of considerable weight. Cultural influences on disclosure practices have been given much concern in the literature with a consensus that accounting needs to be studied in the context in which it operates (Dahawy et al., 2002). Perera and Mathews (1990:221) defined national culture as “the sum of the shared values of members of a nation” where members “share social meanings, understandings, values, beliefs, and symbols” which are manifested in the way they behave and react. Most studies focusing on culture rely on Hofstede’s (1980, 2001) definition and explanation of culture (HassabElnaby et al., 2003).

### **3.3 INTERNATIONAL DIFFERENCES AS PER HOFSTEDÉ’S CULTURAL THEORY**

In his main landmark and extensive cross-cultural work, Hofstede (1980:25) defined culture as “the collective programming of the mind which distinguishes the members of one human group from another”<sup>99</sup>. Although within any culture there are several subcultures, however, common characteristics are shared among subcultures of the same culture (Hofstede, 1980). What distinguishes different national social systems is the set of values shared by the majority of a particular nation. Hofstede (1980:19) defined values as “a broad tendency to prefer certain states of affairs over others”.

Hofstede (1980) categorized values along four dimensions, each being a continuum of two extreme poles (or ends) that describe the cultures that make

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<sup>99</sup> Jaggi (1975) offers a slightly different construction of culture. He quoted Kluckhohn’s (1951:86 as quoted by Jaggi, 1975:78) definition of culture as being “the distinctive way of life of a group of people, their complete design for living”. Jaggi (1975) classifies different societal cultures into one of two value orientation categories: Universalism; or Particularism. Universalism, he argues, is usually predominant in developed countries and societies, where people are expected to be loyal to the firm and respect their obligations to the society. On the other hand, a Particularistic society, Jaggi (1975) argues, is more usually associated with developing or less-developed countries and is one in which personal relations are the means of evaluating an individual with minimal recognition of obligations towards society. Jaggi’s (1975) Universalism and Particularism correspond to Hofstede’s Individualism and Collectivism respectively (Perera and Mathews, 1990).

up our world and along which countries can be positioned. The values that he identified he labelled as: Individualism; Power Distance; Uncertainty Avoidance; and Masculinity. Hofstede (1984) explains these as follows:

- Strong versus Weak Uncertainty Avoidance: This deals mainly with the degree to which individuals feel comfortable, and secure, with ambiguity and uncertainty<sup>100</sup>.
- Large versus Small Power Distance: This basically relates to the degree (or extent) to which society members accept an unequal, hierarchical distribution of power.
- Individualism versus Collectivism: The main theme here is the extent of interdependence among individuals within a society. This is reflected in people's self-conception of "I" as opposed to "WE". It describes the degree of integration among members of a society.
- Masculinity versus Femininity: this dimension measures how a society allocates social roles between genders. This relates to preference for achievement, assertiveness and material success in 'masculine' societies whereas 'feminine' societies prefer caring for the weak, modesty, and quality of life. Members of 'masculine' societies have clearly distinct social roles while in 'feminine' societies traditional gender roles overlap.<sup>101</sup>

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<sup>100</sup> Hofstede (1983c) argues that security can be created through any of: technology, law, or religion. Bakhtari (1995) adds that religion has a tremendous impact on the culture with Christie et al. (2003:269) supporting by stating "Religion and culture are interrelated constructs. Like culture, religion also affects the value system of its adherents". Religiosity has been also argued to influence social and humanistic orientation as well as ethical behaviour (Senger, 1970; Weaver and Agle, 2002; Christie et al., 2003; Conroy and Emerson, 2004).

<sup>101</sup> These four dimensions extended to five in Hofstede (1991, 2001). As there were concerns and criticisms of Hofstede culture theory being established by a Western researcher which is subject to Western mind bias, in 1988 Hofstede and Bond (a Chinese researcher) found that Confucian dynamism is an important dimension of culture (Hofstede and Bond, 1988 as cited in Hofstede, 1991). Later, Hofstede (1991, 2001) termed this a 'Short-Term versus Long-Term orientation'. This fifth dimension "Short-Term versus Long-Term orientation" distinguishes between, on the one hand, the respect for tradition; social and status obligations regardless of cost; a concern for quick results, appearances and truth; and, on the other hand, the adaptation of traditions to meet modern needs with a concern for a virtuous approach of life aiming for gradual results with a readiness to subordinate one's interests to achieve purpose (Hofstede, 2001; Radebaugh and Gray, 2002).



There is a global relationship, it is argued (Mathews and Perera, 1996), between Power Distance and Collectivism. Collectivist countries always show large Power Distance, but Individualist countries do not always show small Power Distance. From Hofstede (1983c), it can be noticed that poor countries are Collectivists with large Power Distance<sup>102</sup> (Mathews and Perera, 1996).

Hofstede's (1980) seminal work, in addition, divided different countries and regions into groups according to his classifications. He aimed at pinpointing elements of culture that have a significant influence on the individual behaviour within work situations in organizations (work-related values). His study was conducted by collecting data from employees of IBM Multinational Corporation on "values" employing the survey method<sup>103</sup>. Using statistical and cluster analyses of scores calculated from the questionnaires, Hofstede (1980) grouped countries into cultural areas. Egypt, the principal focus of this study, was (unsurprisingly) placed by Hofstede (1983a as cited in Gray (1988); Hofstede, 1983c, 1991, 2001) in the "Arab Countries" group.

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<sup>102</sup> Hofstede (1991) found, with some exceptions, a relationship between national wealth in terms of GDP and degree of 'Individualism versus Collectivism' maintained in a society. The higher the national wealth, the more individualistic societies are. This, he argues, is explained by that individuals having more access to resources makes them financially secure and become more independent and less reliant on assistance from others including the family members. Thus, it can be argued that industrialized wealthy nations tend to be more individualistic compared to developing countries. This is consistent with Bloom and Naciri (1989) who mention that culture and economic factors are likely to be linked together with the economic environment being a component of a nation's culture. Some studies (e.g., Mueller, 1968; Cooke and Wallace, 1990; Doupnik and Salter, 1995) suggest that the level of economic development (which is presumably included in culture) has an influence on country's accounting and reporting practices. This also suggests that national culture changes with economic development (HassabElnaby and Mosebach, 2005). Hofstede (1980, 1991) also proclaims that the wealth of the nations is one of the predictors of the variance in Power Distance between nations.

<sup>103</sup> Hofstede's (2001) dimensions showed significant correlations with, and were determined by, environmental factors including geographic, economic, demographic, and political national indicators. The survey took place in two rounds during the period 1967-1973 producing more than 116,000 questionnaires from 72 countries in 20 languages. The study of 1980 (Hofstede, 1980) relied only on responses from participants of 40 countries, which extended to 50 countries and three multi-country regions (64 countries in total) in Hofstede (2001). The remaining eight countries remained outside the scope of analysis due to deficiency in responses received.

### 3.4 INTERNATIONAL DIFFERENCES BETWEEN EGYPT AND UK (WITH REFERENCE TO HOFSTEDE'S DIMENSIONS)

Developing countries generally and Arab countries (including Egypt) in particular were presented along the cultural dimensions of Hofstede (1980) as countries with strong Uncertainty Avoidance, large Power Distance, and portrayed as a Collectivist society with high Masculinity (Kantor et al., 1995).

In addition, Hofstede's survey demonstrates significant cultural differences between Great Britain and Egypt (as an Arab country) – indeed the UK is located at the opposite end of the continuum on the above dimensions.

Hofstede (1984) reports that Egypt (as included within the Arab countries group) has strong Uncertainty Avoidance when compared to the UK (almost double the index level for the UK). He also reports Egypt as having a very large Power Distance relationship when compared to the UK. Hofstede found that the Power Distance index level reported in Egypt is more than double the Power Distance index level that is reported in the UK. On the Individualism dimension, Hofstede found that Egypt has a significantly lower Individualism level than the UK (less than half the index level of the UK). However, in relation to the Masculinity dimension, it was found that Egypt and the UK have very close index level<sup>104</sup>. More discussion of the above dimensions follows.

#### *Uncertainty Avoidance:*

In high Uncertainty Avoidance cultures, 'law and order' are important symbols in such a formal society to create security and avoid risk where people are not comfortable when there are no rules. High Uncertainty avoidant

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<sup>104</sup> Egypt and UK were presented in Hofstede (2001) as having the following scores (of 100) for Uncertainty Avoidance (68 compared to 35 for UK), Power Distance (80 compared to 35 for UK), Individualism (38 compared to 89 for UK), and Masculinity (53 compared to 66 for UK) dimensions respectively. Concerning long-term orientation it was 25 for the UK but the figure was not available for Egypt. However, Barkema and Vermeulen (1997) argue that long-term orientation societies tend to be collectivist (e.g., Egypt) and thus, we can assume the vice versa, i.e., Egypt tends to be a long-term oriented society.



society tends to consider itself threatened by and feel uncomfortable with uncertain situations. Formalisation and standardisation are apparent in these cultures with lower tolerance for new ideas and for deviance for fear of possible failure. Hence, Egyptian society tends not to be comfortable with ambiguous situations while the UK culture is more easily tolerant of uncertain and ambiguous situations. Perera and Mathews (1990) explains that religion plays a vital role in strong Uncertainty Avoidance cultures in creating security<sup>105</sup>.

#### *Power Distance:*

In large Power Distance societies, status differences are expressed and thus subordinates are expected to obey their superiors with no expectation of subordinate consultation. As there is also acceptance and respect for hierarchy, subordinates always wait for instructions and messages from their superiors but do not take the initiative themselves (Hofstede, 1991). On the other hand, small Power Distance societies seek power equalisation and explanation for inequality if any. This means that Egyptian society tends to accept the presence of a strong hierarchical system (Dahawy et al., 2002) and is more willing to accept unequal distribution of power (HassabElnaby and Mosebach, 2005). In the UK, on the other hand, inequalities among people are equalised and justification for power inequities is demanded.

#### *Collectivism:*

Hofstede (1984) noted that in countries nearer to the Collectivism end of the Individualism-Collectivism scale (e.g., Egypt); the assumption that each individual is motivated by self-interest is culturally untenable as members of the society maintain a high degree of interdependence among a strong interconnected group. In a collectivist culture (like that of Egypt), the

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<sup>105</sup> As referred to before, this is in line with Hofstede (1983c) who argues that religion relieves uncertainty and creates a feel of security. It also supports arguments that culture and religion are interrelated and that religion influence culture. In Egypt, Islam is the dominating religion. Islam, rather than only being a personal religion, it is also a social institution as it organises dealings and behaviour of individuals within a society (Tinker, 2004). Ahmed et al. (2003) argues that religion plays a vital role in Egypt in relation to social development. Moreover, Islam prohibits transactions that involve uncertainty (e.g., speculation) (Hamid et al., 1993).

individual is motivated by group interest. Self-interest is not the ultimate motive but rather collective interest and achievement. Therefore, a collectivist society calls for care for society and the environment (Hofstede, 2001). In addition, in more collectivist culture, the relationship between, for example, the employee and employer has a moral component where there are mutual traditional obligations: on the side of the employer, protection of the employee, almost regardless of the latter's performance; on the side of the employee, loyalty toward the employer. Changing employers is often socially disapproved of which is in contrast to individualistic societies when either party can terminate the relationship at any time. In individualistic societies (e.g., UK), individuals care for themselves. Hofstede (1983c) found a close relationship between Collectivism and large Power Distance with collectivist countries always showing large power distance.

#### *Masculinity:*

The cultural dimension of Masculinity (versus Femininity) refers to societal preference for assertiveness, high achievement, heroism and material (or financial) success, which means that business institutions would be much stronger in these societies, and individuals will value the achievement of goals.

### **3.5 CRITICISM OF HOFSTEDE'S CULTURAL THEORY**

It is worth mentioning at this point that Hofstede's international culture theory (1980, 2001), its methodology, and its dimensions of value have come under increasing scrutiny, criticism, and was strongly refuted and discredited by some researchers for a number of reasons. See, for example, McSweeney 2002a, b; Baskerville, 2003; Baskerville-Morley, 2005; Hope, 2003 for examples of recent critical appraisals of Hofstede's model; see also Hofstede's (2002, 2003) replies to such criticism.

These condemnations included the following: national boundaries may not exactly coincide with cultures (i.e., cultures do not necessarily equate to nations) and thus culture can not be measured or defined (d'Arcy, 2001) – no



universally accepted definition of national culture exists (HassabElnaby and Mosebach, 2005). Baskerville (2003) argued that sociology and anthropology rejected Hofstede's dimensions because it has been suggested that, given the proxies used, Hofstede was measuring socio-economic make-up of a nation rather than culture. Besides, the study undertaken in the late 1960s early 1970s might render the developed values dated as states are considered to be dynamic. Further, the responses being from only one multinational corporation (IBM) may not be considered representative and thus might not reflect the national average. Moreover, sufficiency and exhaustiveness of the theory was questionable. Despite that Hofstede's work proclaims to measure national culture along a number of dimensions, it is not obvious the extents to which Hofstede's five cultural variables capture and describe the complexity of national cultures (Ahrens, 1996). In addition, the study was criticized for being functional.

However, on the other hand, there have been studies that applauded Hofstede's work and argued that its validation rests mainly in it being widely accepted and continuously given considerable attention by researchers and academics in various areas including the international cross-cultural business and accounting field, with dimensions repeatedly empirically tested and validated over time through different replications<sup>106</sup>. It is often perceived as valid and has become one of the most cited in international business studies<sup>107</sup>. Replies to criticisms have also mentioned that cultures may change slowly over time but are in essence stable over long periods of time with no convergence evident but rather global shifts, even in the face of technological, economic, or political disturbance. These external factors, as argued, are likely to affect all countries without necessarily affecting their relative rankings.

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<sup>106</sup> However, some authors view Hofstede's cultural measures as vague and indirect in explaining differences in financial reporting practices. See, for example, Nobes and Parker (2006).

<sup>107</sup> Moreover, laudatory studies have argued that the quantity of data (the scope of the study covering 64 nations), the detail of the work, and the sophistication of the statistical analysis are impressive and thus provide distinctive classification of cultures that has never been done before.



Many subsequent studies as well have replicated and supported the validity and reliability of Hofstede's classifications and measures (e.g., Hofstede, 1983c; Harrison, 1993 as cited in Margerison and Moizer, 1996; Harrison et al., 1994; Cohen et al., 1996; Margerison and Moizer, 1996; Barkema and Vermeulen, 1997; Roxas and Stoneback, 1997; Hofstede, 2001, 2002, 2003; Christie et al., 2003; Hope, 2003; Cherry et al., 2003; Doupnik and Richter, 2004). Moreover, Baskerville (2003:3) suggests that although the "mainstream social sciences" have abandoned dependence on Hofstede's work, "...it fulfils a particular need in the areas where it is used". One of these areas is accounting. Baskerville (2003:3) also adds that "... to utilize Hofstede's 'dimensions of culture' allows accounting researchers ... to isolate the impact of the social environment",<sup>108 109</sup>.

As long as culture can be defined as simply as societal values that differ among different societies and that have an influence on every aspect of behaviours as Hofstede (1980) suggests, we may reasonably infer that culture, similarly, can have an influence on accounting practices (see, for example, Gray, 1988; Nobes, 1998; etc.). Equally, there seems no a prior reason why

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<sup>108</sup> Hofstede's cultural theory has also been consistently applied over the years in areas other than in accounting. Support has also been provided for continuing potential of heuristic employment of Hofstede's analysis. Examples from various fields of study include: organizational design, and management planning and control systems (Harrison et al., 1994); technology alliance formation (Steensma et al., 2000); auditor independence (McKinnon, 1984); employee benefits in the form of pension plan choices (Cravens and Oliver, 2000); auditor licensing (Margerison and Moizer, 1996); impediments to international data flow (Johns et al., 2003); auditors' ethical reasoning (Tsui and Windsor, 2001); business ethical attitudes and decision-making (Thorne and Saunders, 2002; Tavakoli et al., 2003; Sims and Gegez, 2004; Roxas and Stoneback, 1997; Robertson and Fadil, 1999; Christie et al., 2003); and informal corporate face-to-face information sharing (Chow et al., 1999).

<sup>109</sup> In the current study, therefore, bearing in mind and being aware of such criticisms directed to Hofstede's work and the questioning of its validity, as well as that Hofstede's concept of the "five cultural dimensions" has brought about lengthy and controversial debate, Hofstede's culture dimensions will be referred to approvingly assuming its validity and reliability are taken for granted, especially that they were used to a large degree in accounting research as will be demonstrated in the next section. Nevertheless, we do not deny that Hofstede's approach to understanding culture is not the only means available to investigate accounting environment influence on accounting practices (Willett et al., 1997a). Hofstede's cultural dimensions are used as a way of looking into the link between international accounting and social accounting following Perera and Mathews (1990), and Mathews and Reynolds (2001) and as a response to their call for further research on the mentioned link. It is thus applied as part of the framework to guide interpretation of empirical investigation findings.



such culture should not also influence social and environmental reporting. In this similar vein, culture can be expected to influence CSD. The next section is mainly concerned with discussing Gray's (1988) accounting values model, which is considered to be the first study to apply Hofstede's work directly to accounting.

### **3.6 CULTURE AND ACCOUNTING**

As mentioned before, a number of studies were concerned with studying the influence of national culture on accounting standards and practices (e.g., Jaggi, 1975; Gray, 1988; Perera, 1989a; Perera and Mathews, 1990; Douppnik and Salter, 1995; Zarzeski, 1996) as it is argued that accounting systems are usually considered as manifestations and a reflection of culture (Hofstede, 1991), in addition to other socio-economic and political variables. "It is hypothesized that culture has a significant influence on accounting, implying that cultural groupings correlate with national accounting systems classifications" (d'Arcy, 2001:329). Ample evidence exists in the accounting literature to suggest that behaviour in accounting cannot be culture free and may be nation-specific (Perera, 1989a). In effect, as argued by HassabElnaby et al. (2003), the association between culture and accounting development has been elaborated by accounting researchers (e.g., Gray, 1988). Jaggi (1975) also argued that the cultural environments of a country would have a strong influence on disclosures by firms in that country.

Moreover, Douppnik and Salter (1995) examined whether cultural values would explain the differences in accounting systems of different countries. Their findings show that cultural values, *inter alia*, play an important role in identifying the clusters of countries with similar types of accounting systems. Thus, it may be inferred that the relationship between accounting and culture (Alhashim and Arpan, 1992) is a substantive one and that studying national cultural differences and its effect on accounting systems is a worthwhile occupation (Salter and Niswander, 1995).

The seminal work of Gray (1988) is usually considered to be the first study to directly attribute accounting differences to cultural values using the work of Hofstede (1980). He claimed that cultural factors had not been adequately considered as an explanation for differences in patterns of accounting that takes place internationally and he sought to link accounting values established by him to Hofstede's (1980, 1983a as cited in Gray, 1988) cultural values. He argues that the influence of culture results in a categorization of countries that can be used in studying these countries' accounting systems and exploring differences and similarities across countries within the same group as well as comparing that to other groups of countries.

Thus, differences in cultural factors can, Gray (1988) argues, explain and help predict international accounting systems differences. In complementing the work of Harrison and McKinnon (1986) which, based on Japan, projected a framework that investigates whether culture, being incorporated, can help in analysing developments that take place in corporate financial reporting regulations on a national level, Gray proposed a framework which explores the extent to which Hofstede's (1980, 1983a as cited in Gray, 1988) cultural dimensions could explain differences in accounting systems across different nations and how this can have an effect on the development of the accounting systems.

In doing so, Gray (1988) identified four distinguishable accounting values<sup>110</sup>, which he argues as being strongly connected to Hofstede's (1983a as cited in Gray, 1988) cultural societal values and defined them as follows:

*“Professionalism versus Statutory Control — a preference for the exercise of individual professional judgment and the maintenance of professional self-regulation as opposed to compliance with prescriptive legal requirements and statutory control.*

*Uniformity versus Flexibility — a preference for the enforcement of uniform accounting practices between companies and for the consistent use of such practices over time as opposed to flexibility in accordance with the perceived circumstances of individual companies.*

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<sup>110</sup> Gray (1988) derived these accounting values from a review of accounting literature and practice.



*Conservatism versus Optimism — a preference for a cautious approach to measurement so as to cope with the uncertainty of future events as opposed to a more optimistic, laissez-faire, risk-taking approach.*

*Secrecy versus Transparency — a preference for confidentiality and the restriction of disclosure of information about the business only to those who are closely involved with its management and financing as opposed to a more transparent, open and publicly accountable approach.” (Gray, 1988:8)*

Gray (1988) goes on to developing hypotheses that explains how his accounting attitudes are linked to Hofstede’s (1980) cultural values and how this will have an effect on accounting systems developed internationally<sup>111</sup>.

Gray (1988) formulated four links, which are:

- A country that is high in terms of Individualism and low in both Uncertainty Avoidance and Power Distance is more likely to be high in Professionalism.
- A country that is high in Uncertainty Avoidance and Power Distance but low in Individualism tends to be high in Uniformity.
- A country that is high in Uncertainty Avoidance and low in both Individualism and Masculinity is more probable to be ranked as high in Conservatism.
- A country that is high in Uncertainty Avoidance and Power Distance but low in Individualism and Masculinity is likely to be high in Secrecy.

Gray’s (1988) influential study, hypothesized that financial disclosures in different countries would be influenced negatively by cultural dimensions of Uncertainty Avoidance and Power Distance and positively by Individualism and Masculinity<sup>112</sup>. He concludes that the most important societal values are Uncertainty Avoidance and Individualism with Masculinity of least importance<sup>113</sup>.

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<sup>111</sup> Radebaugh and Gray (2002) incorporate long-term orientation into these hypotheses.

<sup>112</sup> That is to say, less financial disclosures would be expected in high Uncertainty Avoidance and high Power Distance societies while more financial disclosures would be expected in high Individualism and high Masculinity societies.

<sup>113</sup> Radebaugh and Gray (2002) added the observation that long-term orientation links positively to secrecy, conservatism and statutory control.

Gray (1988) also distinguishes between the authority for accounting systems and their enforcement, and that of measurement and disclosure of accounting information. He argues that Professionalism versus Statutory Control and Uniformity versus Flexibility are more relevant to authority and enforcement of accounting systems while Conservatism versus Optimism and Secrecy versus Transparency are more relevant to disclosure and measurement of accounting information. Accordingly, classifications of country groupings are hypothesised. Gray (1988) notes the lack of empirical verification in his study but he acknowledges the contribution of the paper towards providing a better understanding of the effect of culture on accounting practices and systems development across the world. Likewise, social accounting practices and developments may be similarly affected.

Gray's model gained different levels of acceptance and support by many studies with empirical findings generally supporting the hypotheses underlying his theoretical framework (see, for example, Perera, 1989a; Salter and Niswander, 1995; Gray and Vint, 1995<sup>114</sup>; Williams, 2004). Salter and Niswander (1995) found Gray's hypothesis to have statistically significant explanatory power for financial reporting practices and they contend that:

*"Gray appears to have provided a workable theory to explain cross-national differences in accounting structure and practice, which is particularly strong in explaining differential financial reporting practices"* (Salter and Niswander, 1995:394).

In addition, Pourjalali and Meek (1995) provided analytical evidence consistent with Gray's cultural value theory through associating observed changes in accounting values with the changes in the cultural values. Moreover, Roxas and Stoneback (1997) study lends some support to Gray's hypothesis that the higher the Individualism and the lower the Uncertainty Avoidance, the higher the professionalism. It also indicates, it is argued, that

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<sup>114</sup> Gray and Vint (1995) utilized a comprehensive database of disclosure practices covering 27 countries. The topics covered included a wide variety of issues amongst which was 'social information'.



accounting systems have a strong cultural derivation. More recently, Chanchani and Willett (2004), in their attempt to operationalise and evaluate the empirical usefulness of Gray's accounting sub-cultural value constructs of professionalism, uniformity, conservatism, and secrecy, provide support for the usefulness of Hofstede-Gray framework approach in evaluating the cultural relevance hypothesis in accounting (see also, Baydoun and Willett, 1995; Willett et al., 1997b; Nobes, 1998)<sup>115</sup>.

MacArthur (1996, 1999), as a test of the link of cultural factors to the structure of the standard setting process, reports a further test of Gray's hypothesized linkages between accounting values and the cultural values identified by Hofstede. Through content analysing the comment letters on E32 (IASC Exposure Draft 'Comparability of Financial Statements') which are sent by accounting member bodies to the IASC<sup>116</sup>, his study provided results that were consistent with the Power Distance and Individualism hypotheses but only partly supported the Femininity/Masculinity and Uncertainty Avoidance hypotheses<sup>117</sup>.

Overall, Gray's (1988) model, despite the inconsistent support for it, is argued to have made a significant and important contribution to describe the impact of Hofstede's (1980) cultural values on the measurement and disclosure dimensions of accounting systems in different countries. This theory has been used by several research studies to examine international accounting issues (e.g., Perera, 1989a; Doupnik and Salter, 1995; Salter and Niswander, 1995; Zarzeski 1996; Archambault and Archambault, 2003), which suggest a significant association between culture and disclosure practices. The many studies that have tried to relate accounting to culture have provided some

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<sup>115</sup> However, Willett et al. (1997b) and Nobes (1998) suggested that simpler explanations could be provided through colonialism and institutional needs of users.

<sup>116</sup> The corporate comment letters on E32 were read to identify statements that indicate the cultural values identified by Hofstede (1980, 1983a as cited in MacArthur, 1996) and the related accounting sub-cultural values suggested by Gray (1988).

<sup>117</sup> It has to be noted, however, that support for Gray's (1988) model was inconsistent, with some of his propositions supported in some studies but not in others. See more detail in Appendix 3.1.

remarkable results. As noted by Mathews (1993:52) “The effect of culture on accounting appears to be considerable...”.

It is clear from the above discussions that many researchers have based their arguments upon the fact that different nations have different cultures and thus, different accounting systems are the outcome (Harrison and McKinnon, 1986; Gray, 1988). These studies reveal that culture is an important factor in explaining differences in practices and accounting systems among countries (Mathews and Perera, 1996). Many as well (see, for example, Gray, 1988; Perera and Mathews, 1990) have used Hofstede’s theory of culture as the basis for their investigation and study. Hofstede (1985 as cited in Perera and Mathews, 1990) argues that culture manifested in national history and traditions, has an influence on financial statements disclosure. Archambault and Archambault (2003:192), in their study of 33 countries, mention that the disclosure decision for a company is complex and “influenced by a broad set of factors” including national culture<sup>118</sup>.

To summarize, from the above review, it can be concluded that overall, culture strongly influences corporate disclosure. Thus, as put by Hope (2003:241), one can ascertain that *“it is too early to dismiss culture as an explanatory variable for firms’ disclosure choices. This does not imply that there are not other factors that are important - or even more important - than culture, but based on the evidence presented here there is no support for the contention that culture is unimportant”* but rather “In accounting, the importance of culture ... is now increasingly being recognized” (Radebaugh and Gray, 2002:42).

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<sup>118</sup> They included education and religion, in addition to Hofstede’s (1991) cultural dimensions, as a measure of culture arguing that religious beliefs greatly influence the cultural fabric of a country (Bakhtari, 1995; Christie et al., 2003). The coefficient on Islam is positive, which is inconsistent with Hamid et al. (1993) who argue for lower disclosure levels in Islamic countries.



### 3.7 INTERNATIONAL ACCOUNTING RESEARCH AS IT APPLIES TO THE UK AND EGYPT

In developing countries of which Egypt is one, culture (as we have seen) is argued to play an important and vital role in the generation of reliable information (Baydoun and Willett, 1995; Radebaugh, 1975; Hamid et al., 1993; Haniffa and Cooke, 2002; Hofstede, 2001; Jaggi, 1975; Willett et al., 1997b). In the following paragraphs, light will be shed on the implications that Hofstede's cultural dimensions have regarding corporate disclosure. Emphasis will be placed on Egypt as compared to the UK.

The cultural dimensions of Uncertainty Avoidance, being an indicator of the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity, is associated with lower disclosure of financial information (Gray, 1988). In Gray's (1988) model of accounting values linked to Hofstede's (1980) societal values, managers in countries with strong Uncertainty Avoidance are expected to be more secretive, which would imply a negative relation between Uncertainty Avoidance and disclosure.

As to the cultural dimension of Power Distance, it suggests that high Power Distance societies are secretive and do not encourage information sharing (Zarzeski, 1996), which means that a negative association can be expected between Power Distance and public disclosures.

With regard to the cultural dimension of Individualism, individualism encourages competitive environments, which suggests that these societies would be less secretive. Thus, there would be an expectation of a positive association between Individualism and financial disclosures (Jaggi and Low, 2000). On the other hand, collective societies are more secretive.<sup>119</sup>

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<sup>119</sup> According to Jaggi (1975), universalistic (which corresponds with individualistic) individuals are expected to publish more reliable information as compared to particularistic (which corresponds with collectivistic) individuals who don't feel an obligation to do so. Managers with universalistic value orientation are likely to be deeply committed to disclosing relatively more and better quality information compared with those with a particularistic value orientation. Jaggi (1975) did not himself perform any kind of empirical investigations. His

Concerning Masculinity, a positive association can be expected between Masculinity and financial disclosures with high Masculinity countries more likely to disclose a higher level of information, as such societies will be more business orientated (see Section 3.4) and individuals will value the achievements of goals (Jaggi and Low, 2000 but see, Gray, 1988; Hope, 2003).

Applying Gray's (1988) model to Egypt, as opposed to the UK, positions it as having more:

- statutory control rather than professionalism,
- uniformity (compliance rather than disclosure) rather than flexibility,
- conservatism (prudence rather than disclosure) rather than optimism and ;
- secrecy rather than transparency.

This classification, of course, has an expected effect on disclosure of accounting information in general and corporate social information in particular. In relation to disclosure, Egypt's cultural dimensions are strongly related to secrecy and, in turn, unreliable information. Thus, based on a Hofstede-Gray framework, Egyptians may be expected to be relatively more secretive compared to UK counterparts, and high secrecy implies lower disclosure.

*"A preference for secrecy is consistent with strong uncertainty avoidance following from a need to restrict information disclosures so as to avoid conflict and competition and to preserve security. A close relationship with power distance also seems likely in that high power-distance societies are likely to be characterised by the restriction of information to preserve power inequalities. Secrecy is also consistent with a preference for collectivism, as opposed to individualism, with its concern for those closely involved with the firm rather than external parties" (Gray, 1988:11)<sup>120</sup>.*

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arguments are based on observations of previous studies (see, for example, Mahon, 1965; Singhvi, 1968; Seidler, 1967).

<sup>120</sup> Dahawy et al. (2002) argued that in Egypt there was a high incidence of national non-compliance and selective implementation of officially adopted IASs. Standards that were in conflict with Egyptian socioeconomic cultural factors were not implemented. Dahawy et al. (2002) attributed the lower levels of disclosure than that required by the IASs to the secretive



Thus, moving towards the collectivist end, results in low professionalism, which in turn results in little consideration for accuracy and adequacy of published information. This accuracy and adequacy can only be provided through government intervention and through laws and regulations to provide public confidence and trust in the reliability of the information provided and in the company.

As argued by Perera (1989a:52):

*“where the level of professionalism is relatively low and the preference for conservatism and secrecy is relatively high, the combined effect on the degree of disclosure will be negative. On the other hand, the collectivist or anti-individualist values of the society require business enterprises to be accountable to society by way of providing information. Therefore, it becomes necessary for the Government to intervene and prescribe certain disclosure requirements, including those in regard to social accounting”*

Similarly, Jaggi (1975) argues that accounting development experiences in developed countries cannot be transferred to developing countries due to cultural environment differences. Thus, he argues, government should have an active role to improve reliability of accounting information disclosed by companies in developing countries by intervening through legal accounting and disclosure regulation rather than disclosure being left to individual companies supervised by the professional bodies, which wouldn't improve reliability. As Hofstede (1984) argues, what is appropriate in one culture should not be necessarily relevant to another<sup>121</sup>. It is all culture-determined.

As to the UK, professional associations and bodies, compared to Egypt, are better established where accountants can make independent professional

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nature of the Egyptian culture which conflicts with the call for disclosure by the IASs adopted. Moreover, Dahawy et al. (2002) mentioned that alternatives allowed by the IASs were not taken advantage of by the Egyptian companies due to the high Uncertainty Avoidance and the strong Power Distance embedded in the Egyptian culture. Furthermore, they argue that the collectivist nature of the Egyptian society conflicts with some IASs (e.g., insider-trading standard) and were, thus, not implemented.

<sup>121</sup> For example, we cannot judge the rationality of behaviour in Egypt on the basis of the customs and cultural values of the UK or vice versa.

judgements which can be, at times, contrary to law requirements (Gray, 1988). However, in the case of Egypt<sup>122</sup>, the professional accountant role is highly restricted to following prescribed and detailed laws and regulations where (s)he is only required to comply with the legalities. Moreover, Egypt had a uniform accounting plan which has long been in operation, where there is a concern to facilitate national planning and the pursuit of macroeconomic goals. In contrary, the UK system allows for flexibility with some degree of consistency to allow comparability (Gray, 1988). In addition to this, Egyptian accountants are more conservative in their evaluations and more secretive compared to the accountants in the UK who are considered to adhere to optimism and transparency (Abd-Elsalam, 2002; Radebaugh and Gray, 2002).

From the above discussions, it is clear that most of the cultural characteristics (at least as understood by Hofstede and Gray) of Egypt appear to be different from the UK. Thus, Egypt and UK accounting systems and practices in general, and social accounting systems and practices in particular are expected to vary to a large extent. Egyptian culture (from classifications) calls for care for society and environment, being a collectivist society, and at the same time for secrecy. Thus, Egypt is expected to be more concerned by issues of social responsibility *but* to have lower disclosure levels relative to UK. Moreover, it is expected that Egyptian companies would only comply with mandatory disclosure requirements. In addition to this, Egypt being a strong Uncertainty Avoidant society is not expected to have companies willing to embrace CSD easily as this is considered to be a new or deviant idea with which they would feel uncomfortable and, thus, would not be easily tolerated. However, as Hofstede (1983c) argues, people of Masculine countries<sup>123</sup> with strong

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<sup>122</sup> HassabElnaby et al. (2003) provide significant empirical evidence that suggests a strong relationship between the environmental factors and accounting development in Egypt (intra-country perspective) with the level of economy and the political environment positively correlated to the accounting development in Egypt. The accounting development was captured in terms of the development of the accounting profession and the system of accounting education but not accounting practice. They also found that the relationship differs over time reflecting different stages of democracy and economic reform, with more development in the accounting environment during periods of political freedom and economic liberalisation.

<sup>123</sup> Egypt is considered more closer to Masculinity than to Femininity as per Hofstede's groupings but it shares the features of both to a degree. As mentioned by Perera (1989a:46)



Uncertainty Avoidance are very willing to perform if they are offered security in exchange. Thus, it can be assumed that if they are assured that CSD is not counter to them, they might adopt it. Moreover, the Power Distance dimension suggests that Egypt would be a more formal centralized society which, in turn, suggests probable adherence to law while the collectivist dimension suggests that disclosure of information would be only to closely known stakeholders or those with more power (Power Distance). Searching the literature for cultural insights into CSD, one was confronted with many relevant, but sometimes conflicting implications. Thus, the approach was to put forward these implications and shed empirical light on them through seeking both qualitative and quantitative data.

From cultural classifications and, accordingly, accounting systems classification attempts, it is suggested that UK and Egypt are to be placed in different clusters or groupings. This entails inevitable differences in disclosure practices in general and CSD in particular. Bearing in mind these differences in cultural characteristics between Egypt and the UK, the difference we find in content analyses of CSD can be explained by using the international differences between both countries outlined above which includes the cultural variables explained in previous sections. Moreover, the interviews can also reveal any societal influences on perceptions as to CSD. For example, we expect Egyptian managers to plead secrecy more often than has been reported in the UK. In summary, because of the differences in culture between Egypt and the UK (as described by Hofstede and Gray), we expect this to be reflected in organizational culture – to a degree<sup>124</sup> – and, consequently, in the

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“On the dimension [Masculinity versus Femininity] there is no identifiable pattern between countries”.

<sup>124</sup> However, one has to bear in mind that capitalism is Western and can be thought to override local culture. This might be evident in that the Islamic identity is not reflected on political and economic policies. For example, Rice (1999), with particular reference to Egypt, mentioned that although Egyptians are religious people in themselves and are strong believers, it is clear from the laws and practices in economic and political areas that Islam is not the dominant ideology and is accordingly absent. This is evident in the established stock market where it is basically a Western style market whose practices do not comply with Islamic principles (Naughton and Naughton, 2000). According to Islam, stock markets should be efficient in the sense that they are socially efficient in terms of supporting social justice, fairness and the well being of society, thus emphasizing value maximization in terms of the

disclosure practices. How international social accounting differences are portrayed in the literature is the issue to be discussed in the following section.

### **3.8 INTERNATIONAL ACCOUNTING DIFFERENCES AND CORPORATE SOCIAL DISCLOSURE**

Different studies of CSD reveal differences in CSD practices among different countries. There may be similarities in trends of disclosure; for example, the popularity and prominence of employee-related disclosures and the increasing trend of environmental disclosures. However, subject details within these categories (employee-related, environmental, community-related, and consumer/product-related disclosures) and levels of disclosure, in terms of average volume of disclosure as well as the number of companies disclosing about the relevant issue, may differ in a way that suggests that CSD varies in different cultural contexts (see, for example, Hackston and Milne, 1996; Roberts, 1990; Adams et al., 1995b, 1998; Guthrie and Parker, 1990; UN, 1994, 1995; Adams and Kuasirikun, 2000; Gamble et al., 1996; Williams, 1999). This may demonstrate the variety of importance given to CSD issues among different cultures, and reveals that the priorities given to various CSD categories vary considerably among different cultures.

There is also a growing body of evidence that suggests that country of origin (i.e., the country in which the organisation is reporting and the country of ultimate ownership) appears to significantly influence CSD and is noted as a determinant of the variations in practices across national boundaries (see, for example, Andrew et al., 1989; Roberts, 1990; Guthrie and Parker, 1990; Teoh and Thong, 1984; Adams et al. 1998; Hackston and Milne, 1996; Newson and Deegan, 2002; Gray et al., 1995a, 1996). Roberts (1991:69) comments in respect to national variations that “more needs to be known regarding the reasons for disclosures (or lack of disclosures)”. However, in seeking explanations for CSD practices and its differences among different countries,

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greater good for the society rather than the mere pursuit of self-profit maximisation (Saeed et al., 2001). However, many of the Islamic cultural traits are over-ridden by Western values, standards, establishments and practices (Rice, 1999).



few attempts have been made to identify factors at the inter-country level that would possibly explain significant variations (Williams, 1999). The CSD literature has not given the socio-political, cultural and economic context of CSD the emphasis that it warrants (Gray et al., 1996). Few studies explicitly provide insights into cultural influence (see, e.g., Buhr and Freedman, 2001; Newson and Deegan, 2002; Adams and Kuasirikun, 2000; Andrew et al., 1989; Haniffa and Cooke, 2005; and Williams, 1999)<sup>125</sup>. Even more, as Mathews and Reynolds (2001) point out, fewer studies made an attempt to link international accounting classification research directly to social accounting (see, e.g., Perera and Mathews, 1990).

It is not surprising (given the relatively low legitimacy in social accounting until fairly recently) that there have been very few studies concerned with the extent to which national culture might affect corporate social reporting and accounting (see, for example, Perera and Mathews, 1990). Mathews (1993) argues for social and cultural differences among countries having an influence on differences in the growth of CSR. There have also been calls for investigating the effect of culture on social accounting and whether culture explains differences in national corporate social reporting. Perera and Mathews (1990:215) suggest that “there is ... [a] need to make allowances for these cultural effects when conducting any type of research into social accounting” and that “social accounting researchers can perhaps learn from the experiences of others in the area of effects of culture on accounting” (Perera and Mathews, 1990:217).

Williams (1999) used the four bipolar dimensions of Hofstede-Gray theory in a comparative study of voluntary social accounting disclosure in the Asia-Pacific region (seven countries<sup>126</sup>). The empirical evidence suggests that culture as well as political and civil systems might significantly influence CSD practices development. Williams (1999) in his study of CSD in the Asia-

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<sup>125</sup> Studies which explicitly mentioned culture as an explanatory variable for CSD utilized different forms of cultural variables including Hofstede's (1980) cultural dimensions.

<sup>126</sup> These are: Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia.

Pacific region found that national culture, specifically Uncertainty Avoidance and Masculinity, had a considerable influence on the variation in volumes of voluntary CSR<sup>127</sup>. His findings are of particular interest to the current study as the study reveals cultural influence on CSD. He also called for comparing countries from different regions.

Perera and Mathews (1990) in giving examples on how culture affects social disclosure, drawing on Hofstede's (1980) seminal work along with its accounting adaptations of Gray (1988), mentioned that reporting is affected by pressure groups. Differences in influential pressure groups, which mould CSR, are affected by cultural classification. They argue that the different emphasis given to employee reporting in UK/USA<sup>128</sup>, on the one hand, and France/Germany, on the other, reveals this. The latter, characterized as being more collectivist orientated, have more employee power and thus, more employee-related reporting is the result. By contrast, UK/USA are individualist cultures and have witnessed more consumerist and environmentalist power. They attempt to explain the country differences in social reporting practices adoption - specifically employee and environmental impact reports - in terms of cultural factors, using the work of Hofstede (1980) and Gray (1988) as a basis for explanation. They argue that differences in culture have an impact on the development of social reporting<sup>129</sup>. They add that Uncertainty Avoidant cultures are more inclined to comply with laws and regulations and are more concerned about the confidentiality and secrecy of information disclosed (other than to managers and financiers). This, consequently, influences the degree of disclosure expected.

Moreover,

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<sup>127</sup> However, the economic environment was not found to be a significant determinant. The significance of both (uncertainty avoidance and masculinity) cultural variables also provides support for the theoretical framework developed by Gray (1988) but extends the model to include environmental and social accounting disclosures.

<sup>128</sup> Gray et al. (1996) argues that the US low concentration level given to employee-related disclosures can be attributed to differences in social concerns.

<sup>129</sup> Perera and Mathews (1990) considered the cultural effects on corporate social reporting in seven countries.



*“the collectivist or non-individualist values of the society require business enterprises to be accountable to society by way of providing information, therefore, it becomes necessary for the government to intervene and lay down certain disclosure requirements, including those in regard to social accounting”* (Perera and Mathews, 1990:240).

Agreeing with Perera and Mathews (1990), Mathews (1993) argues that culture, to some extent, has an influence on the attention given to CSR through differences in prominent pressure groups. This, in turn, affects the priority given to different categories of social disclosures<sup>130</sup>. In this, Mathew’s argument resonates with Willett et al. (1997b) who argue that culture most obviously influences those parts of the accounting environment that are essentially social, such as the abilities, rights, and powers of different user groups to use or demand information.

Following from Perera and Mathews (1990), Mathews and Reynolds (2001) conducted a survey through a questionnaire trying to elicit responses from managers in the timber industry in United States and Nordic Countries (Finland, Norway, Sweden) on subjects of sustainability and environmental accounting. This was to explore whether there were any identifiable and significant differences between the US and Nordic groups, along the dimensions of Hofstede. Further, they wished to establish whether any such differences could be used to explain reactions towards social and environmental accounting issues. However, these investigations, as far as can be ascertained, do not tell us *how* exactly culture influences CSD. It is not clear how cultural dimensions impact on levels as well as on patterns of CSD categories and sub-categories.

From the above, it is also clear that prior research and empirical evidence on corporate social reporting and accounting systems is mostly confined to and centred on the use of data from Western countries and on testing frameworks and models in Western organizations with little consideration given to the

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<sup>130</sup> Discussion of CSD theories, in Chapter 4, including Legitimacy Theory will shed more light on this.

extension and application of these frameworks and models to accounting systems in developing countries. Evidence from other environments where the social, economic, and cultural characteristics vary, is needed before generalizations can be made. To strengthen the external validity of Western evidence, especially its international dimension, it is imperative to reinvestigate these relationships in a different socio-economic environment than that of the previous studies. Empirical evidence or attempts is either generally inconclusive or unavailable from developing countries like Egypt. This disparity between developed and developing countries may cause large part of the literature, which is based on experiences from developed countries, to be of limited relevance in Egyptian organizations. Thus, the current study is an attempt to fill such a gap.

### **3.9 THE CURRENT STUDY**

This thesis comprises exploratory research attempting to describe the pattern and trend of corporate social and environmental reporting in the annual reports of Egyptian listed companies and understanding the triggers behind reporting. An attempt is made to use the lens of international differences (following Mathews and Perera) to try to explain CSR in an Egyptian setting, and how this can be compared to a Western setting; namely, UK.

This end will be achieved through, initially, content analysis of the annual reports of leading Egyptian and UK companies. This will be followed up by a qualitative investigation of the perceptions of motivation behind reporting by conducting a series of semi-structured interviews with Egyptian managers. Moreover, the literature on international accounting differences (as outlined and explained in this chapter) will be used with the expectations provided in Sections 3.4 and 3.7 to make sense of the interviews. These will be the spectacles through which we view the interviews responses. In addition, CSD theories (which will be discussed in the following chapter) will also be taken on board to arrive to a deep or – at least – a better understanding of the CSD phenomenon in Egypt.



Here, we are mainly adding to the relatively small amount of information derived from fieldwork in the CSR field. Moreover, we are adding to the very small amount of fieldwork in accounting based in Egypt. In addition, we are exploring the extent to which culture in the accounting literature (especially Mathews and Perera) helps us make sense of differences in CSR between Egypt and UK (which we have identified from the content analysis in Chapter 7) – and thus respond to the suggestions of Perera and Mathews (1990), Mathews (1993), Perera (1994), and Mathews and Reynolds (2001) for further research on culture and CSD as well as responding to Roxas and Stoneback's (1997) call for more research on the cultural influence on disclosure attitudes.

The aim is to provide primary data on an issue about which there is little empirical evidence with the primary motivation being the notion that social and environmental accounting, as with traditional accounting, is not culture free<sup>131</sup>. It, therefore, contributes to research in international social accounting by exploring corporation social disclosure across two countries with distinctly different cultures.

This investigation attempts to fill a gap in the existing knowledge of CSR and motivation behind it in developing countries in general and in Egypt in particular. It also attempts to investigate whether culture (as defined by Hofstede and Gray and following Perera and Mathews international differences) plays a role in framing CSR and in so doing affords an in-depth look at the cultural phenomenon in an Arab country, allowing comparison to developed regions. This empirical study will in turn offer insights into the

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<sup>131</sup> Hofstede (1980, 2001) found that cultural differences exist across different national boundaries, which could affect CSD decisions. Thus, CSD merits being looked at from a cultural point of view. As revealed in previous sections, studies argue that culture does play a significant role in accounting, generally, and in social accounting in particular. Similarly, in this thesis, one investigates whether culture is manifested in the differences of social disclosure between Egypt and the UK. However, it has to be made clear here that I am not arguing that culture might be the only explanatory factor, definitely not (d'Arcy, 2001), but rather that culture might have an explicit influence on CSD and related decisions of development, though these might not be entirely described or explained through the lens of culture. However, I think social accounting is expected, to a great extent, to be influenced by societal values especially voluntary activities and disclosure. Part of it at least is explained by national culture.

relationship between societal context on one hand, and CSR on the other. It will also shed light on whether or not, as well as the extent to which, contextual differences have an influence on CSR practices in Egypt as compared to the UK<sup>132</sup>.

### 3.10 CONCLUSION

This chapter mainly represents a literature review with the ultimate aim of trying to link between international accounting and social accounting which comprises a part of the broad theoretical framework for the current study. This aim was successfully achieved by finding, from the literature, a prospective association between international accounting differences (mainly as defined by Hofstede (1980) and Gray (1988)) and corporate social disclosure. The chapter started by outlining that some of the main international accounting classification frameworks linked between international differences in accounting systems and practices on the one hand, and various environmental factors (including national culture variable) on the other which are also internationally different and, consequently, are considered significant explanatory determinants of variations.

The chapter thoroughly outlined the definition of culture as per Hofstede's International Culture Theory and emphasis was placed on the related cultural values dimensions. Moreover, in an attempt to concentrate on culture as an important determinant of accounting systems worldwide and its unique contribution to accounting practices, this chapter demonstrated, as per the international accounting literature, that culture has an influence on financial accounting practices and regulations, which can provide us with a viewpoint through which we may further explore the cultural influence on CSR in Egypt. This view built upon previous literature on international accounting in general and cultural links to accounting in particular. Previous research findings infer

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<sup>132</sup> The question might not be whether various cultures embrace CSD differently but rather how to relate and link these differences to culture, principally, to Hofstede's dimensions. In a multicultural world that can only survive through global cooperation, such differences should be explored and understood given that there is relatively scarce evidence regarding the impact of culture on corporate social disclosure.



that corporate disclosure practices vary significantly across national boundaries with a number of recent studies relating accounting judgements on various matters to contextual influences.

In this chapter, Gray's (1988) framework is also considered in detail, as Gray's theory continue to be either referred to or relied upon in ongoing research. As may be seen from the review in Section 3.6, there continues to be a strong interest in cultural relevance research in accounting and in the application of Gray's (1988) theory to a variety of issues. Gray proposed a theory linking societal and accounting values that bring together constructs from the social sciences (specifically, Hofstede, 1980) and international accounting literature. Gray's (1988) accounting values can be equally applicable to social accounting, including CSD with the link to Hofstede.

Going from there, propositions concerning the influence of various cultural dimensions on CSD applying Hofstede's typology, with particular reference to Egypt, was developed and provided given that, according to Hofstede, Egypt and the UK have very different cultural values. This chapter is also concerned with providing a link between international accounting in terms of cultural differences and CSD. CSD literature in this context is also reviewed. The review has put some insights into probable links that could be found regarding cultural influences on CSD and the relevant decisions accordingly.

From the review of the literature in Section 3.8, it is found that studies although international in focus, many compare closely clustered countries such as the US, Australia, and the European countries, or Asian countries. To understand the internationalisation of CSD practice, the focus must extend beyond national boundaries to international dimensions of CSD practice, both in developing and developed nations, including the effects of contextual societal variables. More specifically, both country-specific and cross-cultural research is crucial in order to strengthen the generalisability of the Western-based evidence on the determinants of CSR or motivations behind it. This empirical evidence will contribute to the external and international validity of

the similar Western-based findings, which, in turn adds to the efforts toward building a general theory of trans-national global CSR.

The penultimate section describes the current study which will extend or build on prior research to explore the existence of a relationship between CSD and national culture, especially using Perera and Mathews' (and Reynolds') work which defines international differences in terms of Hofstede-Gray model.

This chapter, thus, covered the first part of the theoretical background pertaining mainly to the contextual influence on accounting generally and on CSD particularly. Chapter 4 completes the discussion of the theoretical framework. It reviews and discusses CSD main theoretical interpretations.



# CHAPTER 4

## THEORISING CSD

### 4.1 INTRODUCTION

This chapter completes the literature review commenced in Chapter 3. A demonstration of the three main and most commonly used social accounting theories – namely, stakeholder theory, legitimacy theory, and political economy theory – follows together with a definition of the ‘social contract’ notion. International differences regarding the perceptions of such theories and related definitions will also be alluded to. This will, ultimately, provide us with a completion of the broad theoretical framework through which CSD in Egypt will be explored and investigated.

### 4.2 REVIEW OF CSD THEORIES

Throughout the bulk of CSD literature, especially in recent research, three widely used theories have dominated the explanations with regard to the motivations behind disclosing such voluntary information. These are: stakeholder theory, legitimacy theory, and political economy theory<sup>133</sup>. Gray et al. (1995a:52) argue that these socio-political theories have resulted in the “most penetrating analyses of CSR”. Although each of these three theories are, by and large, utilised separately to provide explanations, it has been argued that they link to each other, overlap, are complementary rather than competing with each other, and cannot be used as standalone discrete theories (Gray et al., 1995a, 1996; O’Donovan, 2002; Deegan, 2002). Both legitimacy and stakeholder theories have their roots in the political economy theory (Deegan,

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<sup>133</sup> Corporate social and environmental accounting research has been criticised for not having an agreed theoretical framework (Gray et al., 1995a; Ullmann, 1985) or an accepted theory which in turn led to differences in theoretical underpinnings adopted to explain CSD motivations (Deegan, 2002). Given the prevalent disparity in CSD, it is unsurprising the many theories that arose in an attempt to explain the phenomenon (Patten, 2002). The present study is mainly concerned with socio-political theories. These manifest the relationship between business, the state, and the society where CSD can be explained in terms of social/political pressures from different groups on the firm to exhibit some form of social responsibility. However, according to Gray et al. (1995a), alternative explanations for CSR have appeared in the literatures which are mainly concerned with economic aspects. Further details on such functionalist economic theories can be found in Appendix 4.1.

2002). Moreover, all of these theories link to the notion of the ‘social contract’ between the organisation and the society/stakeholders, which is argued to be central to the above theories (O’Donovan, 1999, 2002). Gray et al. (1995a:52) argue that the differences among these theories are “in levels of resolution of perceptions rather than arguments for or against competing theories as such”. O’Donovan (1999, 2002) adds that the main distinction between these three theories is in the perspective from which they are viewed and examined. Following is a discussion of each of these theories and how they have been used in the literature. Going into details of these theories will be preceded by an explanation of the ‘social contract’ and its origins.

### 4.3 THE SOCIAL CONTRACT

The idea of a ‘social contract’ originated in the field of Western politics and is a branch of political philosophy (Lessnoff, 1990). Philosophers and theorists in the area of politics such as Thomas Hobbes (1588-1679); John Locke (1632-1704); and Jean-Jacques Rousseau (1712-1778) (Deegan, 2002) discussed and tried to explain or provide a justification for the existence of the state, the political system, or the government through seeing the world as if there was a social contract. This is suggested to be the licence with which a state justifies its existence (see, for example, Skyrms 1996). Likewise, the social contract theory can be used as a way of viewing and articulating the relationship between organisations and society (Donaldson, 1982).

Dahl (1972:17) states, “... every large corporation should be thought of as a *social enterprise*; that is as an entity whose existence and decisions can be justified only insofar as they serve public or social purposes”. There are at least three ways in which a firm might be thought of as a ‘social entity’. In the field of accounting, a firm can be defined as an entity that operates through utilising many resources including: capital, land, machinery as means of production, and labour. As manpower is among those resources used by the company then it is considered to be a social entity (Blau, 1993). Moreover, it operates through several channels, which include suppliers, customers, etc. All those constituents compose a society in which they are members and thus, a



company considerably interacts with the society. Additionally, any operation or transaction performed by the organisation well has a social effect and impact (Shocker and Sethi, 1973). In this vein, accounting is often considered to be a social science that studies the social arrangements which takes place among different human parties (Belkaoui, 1997) and thus deals with the society. This can encourage us to take one view of the organisation and society; that of the social contract. There can be thought to be a social contract in every society - no matter how far members are aware of its existence and regardless of whether individuals are conscious of their rights or not and of the terms of this contract (Allingham, 1987).

A number of authors (Donaldson, 1982; 1995; Gray et al., 1987; 1996; Shapiro, 1995) argue that basing the justification of existence entirely on the fact that productive organisations provide the society with their needed goods and services is not enough. Morally, the organisation's existence is not justified, as productivity doesn't encompass all society and human welfare (Donaldson, 1982<sup>134</sup>). As argued by Shocker and Sethi (1973:97):

*“Any social institution - and business is no exception - operates in a society via a social contract, expressed or implied, whereby its survival and growth is based on:*

*1) the delivery of some socially desirable ends to society in general, and  
2) the distribution of economic, social, or political benefits to groups from which it derives its power.*

*In a dynamic society, neither the sources of institutional power nor the needs for its services are permanent. Therefore, an institution must constantly meet the twin tests of legitimacy and relevance by demonstrating that society requires its services and that the groups benefiting from its rewards have society's approval.”*

In tandem, the duty towards the society includes direct and indirect obligations (Mathews and Perera, 1996). The indirect obligations are not identifiable or

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<sup>134</sup> Donaldson (1982) provides examples of activities that either benefit or harm the society. He gave as an example General Motors and how it affects and is affected by the society by stating that it affects “the lives of millions of people, influence foreign policy, and employ more people than live in many countries of the world. Equally important is the fact that General Motors exists only through the cooperation and commitment of society. It draws its employees from society, sells its goods to society, and is given its status by society. All of this may suggest the existence of an implied agreement between it and society” (Donaldson, 1982:42).

explicitly expressed in a written form by pen and paper but these express themselves implicitly (Donaldson, 1982), which bring about the social contract between the society members and the organisation (Mathews, 1993; Mathews and Perera, 1996). For example, selling unsafe or insecure products is a breach of the implied hypothetical social contract. A company that harms or pollutes the environment accidentally and does not even report on that is not fulfilling the terms of the contract.

As long as the existence of an organisation is dependent upon the will of the society, this organisation has to meet and satisfy the wishes of the society's people (Gray et al., 1987) who engage in social contracts as they have motivation and are willing to cooperate (Blau, 1993). As the organisation utilises resources from the society and acquires permission that helps it operate freely, it has an obligation to contribute positively towards the society or individuals who gave it the permission to exist and allowed it to prosper through rights granted<sup>135</sup> (AICPA, 1977). Society groups as represented by its members should, it is argued, at least be provided with advantages that outweigh disadvantages of the operating productive company (Donaldson, 1982). The overall consequences of the company such as: goods, services, employment, harmful accidents, pollution, product quality, growth and many others (Keeley, 1988) are to be on the advantageous side.

Many researchers (Donaldson, 1982; Gray et al., 1987) specified that the constituents of the society include consumers, employees, and community that are concerned about social and environmental issues. Donaldson (1982) goes on to argue that trying to satisfy all interests and wishes is near to impossible and suggests that a kind of 'trade-off' is required at some times to arrive to "*the greatest good for the greatest number*". Moreover, as Keeley (1988:52) argues this aim requires that "no one's welfare is unduly sacrificed to achieve someone else's interest ..." with no stakeholder group having priority over another (Omran et al., 2002). For a social contract to be described as fair and

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<sup>135</sup> This is where the Marxist critique is at its most powerful.



efficient, a balance between the various and maybe conflicting interests of all stakeholders is required (Keeley, 1988). This is also consistent with Mathews (1993:26) who states:

*“The social contract would exist between corporations ... and individual members of society. Society (as a collection of individuals) provides corporations with their legal standing and attributes and the authority to own and use natural resources and to hire employees. Organisations draw on community resources and output both goods and services and waste products to the general environment. The organisation has no inherent rights to these benefits, and in order to allow their existence, society would expect the benefits to exceed the costs to society.”*

If we follow the above, then any firm can be thought of as being held responsible and accountable, out of morality and the notion of the existence of a social contract, to its entire stakeholders, which virtually means everybody in its society. Accountability involves taking action and providing an account (Gray et al., 1996). A social contract implies that the society has the right to know and that consumers, employees and the general public are entitled and may expect justifiable additional disclosure (Mathews, 1993; Mathews and Perera, 1996). Regardless of awareness of one's own rights for information and regardless of asking for that information directly, the firm should (from the normative perspective as opposed to the positive stance) disclose and inform the society of its activities and initiatives, bad and good. By the same token, social and environmental disclosures including information about employees, products, community concerns and environment are to be disclosed. And so, accountants should not ignore this information on the grounds that traditional financial information is enough.

#### 4.4 STAKEHOLDER THEORY

From here we can go to the normative stance of the Stakeholder Theory (Gray et al., 1996) that can be based on the concept of the social contract. The social contract provides rights for all stakeholders who affect or are affected by the activities of the organisation<sup>136</sup>. These rights can be expressed in the form of

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<sup>136</sup> Evan and Freeman (1995:152) state, “Any social contract that justifies the existence of the corporate form includes the notion that stakeholders are a party to that contract”.

fairness and justice in terms of getting benefits as well as being informed about the impact on them by the organisation. This is how the organisation ought to behave towards stakeholders. This requires as well changes in disclosure in accordance with societal changes. According to Gray et al. (1987:17) "... those with a 'social' interest or 'stake'<sup>137</sup> in the organisation should be provided with relevant information ...". This is the vein in which accountability ought to be discharged (Gray et al., 1987; 1996), as "the organisation owes accountability to all its stakeholders" (Gray et al., 1996:45)<sup>138</sup>.

Accordingly, the company should provide information or disclosures to the society supported by the normative version of stakeholder theory, to keep parties informed of its activities based on moral and philosophical principles (Mellahi and Wood, 2003). This again entails disclosing to the society. At this point, the notion of social contract is used to support the argument in favour of additional social related disclosures to the general public, consumers and employees to which they are entitled out of its moral grounds rather than targeting the conventional reporting only to shareholders and the capital market (Mathews, 1993).

Put another way, if it is assumed that an organisation has a community licence to operate, then, logically, a company should be required to accept its accountability towards the society and all stakeholders within the terms of the implied social contract. This in turn necessitates the existence of a recording and reporting system of its performance and activities. Hence, the need for additional disclosures covering voluntarily reported social and environmental issues. The above discussion relates to the normative vein of stakeholder theory. This perspective suggests that companies should disclose social

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<sup>137</sup> According to Carroll (1991), a stake can be an interest, a right (legal or moral), and/or an ownership.

<sup>138</sup> Accountability has been defined as "identifying what one is responsible for and then providing information about that responsibility to those who have rights to that information" (Gray, 2001:11). By assuming accountability, those who are accountable (companies management) are obliged to provide an account of actions and consequences to the accountee (stakeholders), which might serve as a basis for judgement and assessment by the accountee, which may in turn affect his/her decision.



information to all its stakeholders to demonstrate responsibility and accountability (Gray et al., 1996). However, this variant of stakeholder theory, which relates to the normative approach of accountability cannot be powerful in providing explanations for CSD undertaken by organisations (Gray et al., 1996) and thus, cannot provide prediction as to managerial behaviour in terms of practices<sup>139</sup> (Deegan, 2002).

The other variant of the theory; the empirical (managerial) form of stakeholder theory<sup>140</sup>, is based on the premise that stakeholders are identified by the organisation and managed accordingly. Gray et al. (1996:45) defines a stakeholder as “any human agency that can be influenced by or can itself influence the activities of the organisation in question”<sup>141</sup>. Significant groups of stakeholders<sup>142</sup> include, in addition to financial stakeholders (creditors, shareholders, and investors), community with respect to social concerns, community with respect to environmental concerns, employees and consumers (Gray et al., 1987) as well as suppliers, governmental bodies, pressure groups, and competitors (Gray, 2000; Roberts, 1992; Buchholz and Rosenthal, 2004; Spence et al., 2001)<sup>143</sup>. According to Gray (2001:11) the definition of a stakeholder “pretty much includes everybody, and all stakeholders have some form of rights”. Stakeholders of a company may also extend to include future generations and non-human life (Gray et al., 1996) with Driscoll and Starik (2004) arguing that the idea of ‘social contract’ should be extended to a

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<sup>139</sup> The normative perspective of the stakeholder theory suggests and describes what corporations should do and how management should deal with its stakeholders (normative) rather than what corporations actually do (positive).

<sup>140</sup> Donaldson and Preston (1995) proposed three stakeholder theory types: “normative”, where the firm should attend to the interests of all their stakeholders not only stockholders, “instrumental”, where the ultimate objective of corporate decisions is marketplace success and stakeholder management is a means to that end, and “descriptive”, where the focus is on describing how organisations actually interact with their stakeholders.

<sup>141</sup> Another definition is provided by Simmons (2003:130) “Stakeholders are defined as those with a vested interest in an organisational issue who can influence the way it is formulated and resolved”. Madsen and Ulhoi (2001:78) define stakeholders as “individuals or groups with a legal, economic, moral and/or self-perceived opportunity to claim ownership, rights or interests in a firm and its past, present or future activities – or in parts thereof”.

<sup>142</sup> It is argued that, under the stakeholder perspective, as globalisation and networking expand, the boundaries of the company become more vague (Madsen and Ulhoi, 2001).

<sup>143</sup> Clarkson (1995) classifies stakeholders into primary and secondary stakeholders where the former group is essential for the survival of the organisation, which is not the case with the latter group.



natural contract with the natural ecological environmental which should be seen as the primordial and primary stakeholder of all firms<sup>144</sup>.

According to this theory, the stakeholders are identified by the organization (thus it is an empirical accountability)

*...by reference to the extent to which the organization believes the interplay with each group needs to be managed in order to further the interests of the organization. The more important the stakeholder to the organization, the more effort will be exerted in managing that relationship. Information is a major element that can be employed by the organization to manage the stakeholders in order to gain their support and approval, or to distract their opposition and disapproval (Gray et al., 1996:46).*

The identification of stakeholders, as a management problem, which is important to improve its relationships with them (Madsen and Ulhoi, 2001), is not easily solved (Vos, 2003) and is largely dependent on the organisation and its context (Jonker and Foster, 2002). It has been argued that they can be identified through the actual or potential harm and benefit they experience, or are expected to experience, as a result of the firm's actions or inactions (Madsen and Ulhoi, 2001)<sup>145</sup>. Mitchell et al. (1997) offered a theory of stakeholder identification by suggesting that management's perception of three proposed attributes affects stakeholder salience and, in turn, the degree to which managers give priority to competing claims of stakeholders. According to them, these key attributes are *power* to influence the company, *legitimacy* of the stakeholders' relationship with the organisation, and, finally, *urgency* of the stakeholders' claims on the firm calling for an immediate action<sup>146</sup> (see also, Simmons, 2003).

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<sup>144</sup> This agrees with the Islamic perspective based on principles of equity and justice where an individual is accountable to God. This entails responsibility towards God, society, and the environment which is a temporary custody given by God to human beings in order to facilitate their existence on earth (Saeed et al., 2001). According to this framework, a breach of contract with any one of these responsibilities constitutes a breach of Islamic principles. In other terms, accountability to God entails accountability towards the society at large (see also, Rice, 1999).

<sup>145</sup> According to Madsen and Ulhoi (2001), management is expected to prioritise powerful stakeholder groups, as, they say, it is difficult to identify and meet the demands of all stakeholders.

<sup>146</sup> They predict that "the salience of a particular stakeholder to the firm's management is low if only one of these attributes is present, moderate if two attributes are present, and high if all three attributes are present" (Mitchell et al., 1997:879).



Fundamentally, the positive version of stakeholder theory is mainly concerned with the way in which the organization will manage its stakeholders<sup>147</sup> in order to secure its economic existence and success in terms of profit, for example, by enhancing its reputation (Roberts, 1992; Donaldson and Preston, 1995; Jones, 1995; Gray et al., 1995a, 1996, 1997a; Jonker and Foster, 2002) as it is argued that stakeholder groups can impact on the value of the firm (Lyons, 2003)<sup>148</sup>. Ullmann (1985) suggested a model based on stakeholder theory according to which, when the stakeholders control resources critical to the organization's survival<sup>149</sup>, the company is likely to respond in a way that satisfies the demand of stakeholders for information and their needs.

Under this perspective, CSD can be seen as part of the dialogue between the organization and its stakeholders (Gray et al., 1995a:53). CSD is seen as a means and a part of the strategy by which stakeholders are managed to gain support and approval for the organization's continuing existence (Adler and Milne, 1997) as well as to distract stakeholders' opposition and disapproval (Gray et al., 1996) rather than to discharge accountability (Deegan, 2002). However, since accountability in this model is based on management's self-perceptions of the significance of particular stakeholders, the information needs of important but less powerful individuals and groups may be overlooked. With reference to voluntary CSD, stakeholder theory can help with providing indicative interpretation as to which stakeholder groups are considered by the firm to be more powerful, of more significance and importance to the company and, accordingly, the organisation would be more concerned with and would seek to influence (Gray et al., 1996).

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<sup>147</sup> Stakeholder management is all about handling the different stakeholder relationships and the numerous conflicting interests of the persons or groups surrounding an organisation at all times (Madsen and Ulhoi, 2001).

<sup>148</sup> This impact can, according to Cerin (2002), take various forms including investments, purchases, and/or governmental pressure which all at the end will have their effect on the business profits.

<sup>149</sup> This is underpinned by the 'resource dependence theory' where the importance of stakeholders is determined by the criticality of the resources over which they have control (Mellahi and Wood, 2003). Here, the organisation pays attention to such stakeholders to enhance its corporate image.

In an empirical study, Roberts (1992) found evidence supporting the managerial version of stakeholder theory in explaining decisions to undertake CSD where companies do not conform to the informational needs of all stakeholders but rather concentrate on the most important groups that they need to gain support and approval. It is suggested that firms adjust corporate-disclosure practices in response to the number, type, and nature of stakeholders (Roberts, 1992). Other empirical research that supports the positive version of stakeholder theory include: Owen et al. (2000), Gray et al. (1995a), and Belal (2002). Gray et al. (1996:46) argue, “While stakeholder theory can be used to explain some CSR practice, legitimacy theory can be employed to explain a little more”.

## **4.5 LEGITIMACY THEORY**

Legitimacy theory, though regarded as still underdeveloped (Deegan, 2002) and as rather simplistic (Deegan et al., 2002), is believed to provide valuable insights as to the motivations behind undertaking corporate social disclosures by corporate managers and is considered to be the most likely explanation behind such disclosures (O'Donovan, 2002). It has also been the most frequently theoretical basis used to provide such explanations (Deegan et al., 2002; Jenkins, 2004, Hooghiemstra, 2000). Many studies have been fascinated by the issue that legitimising organisational activities and existence is viewed as a motive behind reporting about the organisation's social and environmental aspects. These studies embraced legitimacy theory as the foundation of explanations for CSD with most of them supporting its explanatory power (see, e.g., Adams et al., 1998; Brown and Deegan, 1998; Buhr, 1998; Clarke and Gibson-Sweet, 1999; Deegan et al., 2002; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Jaggi and Zhao, 1996; Gray et al., 1995a; Milne and Patten, 2002; Neu et al., 1998; O'Donovan, 1999, 2002; Patten, 1995, 1992, 1991; Tsang, 1998; Walden and Schwartz, 1997; Wilmshurst and Frost,



2000; van Staden, 2003<sup>150</sup>; Campbell, 2003; Hedberg and Von Malmberg; 2003). Although it would be unwise to ignore the probability that there are many different motivations behind decisions to publicly disclose social and environmental information, especially in corporate annual reports, it is consistently found amongst a great deal of studies covering the issue that a strong driving force is the desire to legitimise organisational operations to promote a positive image of the firm (Clarke and Gibson-Sweet, 1999; Deegan and Rankin, 1996).

Legitimacy is defined by Lindblom (1994:2) as:

*“a condition or a status which exists when an entity’s value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity’s legitimacy”*<sup>151</sup>.

The notion behind ‘legitimacy’ directly relates and relies, in many aspects, upon the concept of the ‘social contract’ (Jenkins, 2004; Patten, 1991, 1992) and its implied existence between the organisations and the society within which they operate as argued by the proponents of legitimacy theory (Deegan, 2002; Patten, 1992)<sup>152</sup> where the former “agrees to perform various socially desired actions in return for approval of its objectives, other rewards and its survival” (Guthrie and Parker, 1989:344). As argued before, the existence of an organisation is threatened if it is, by any means, regarded as violating the implied social contract<sup>153</sup>. This is usually believed to take place whenever the society members are not satisfied with the behaviour of the concerned company and in turn does not accept its operations or performance (Milne and

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<sup>150</sup> van Staden (2003), with particular reference to Value Added Statements (VAS), argues that the sustained high level of VAS publication in South Africa can be attributed to the political, social, and economic movements in South Africa where VAS is seen as an attempt towards changing the perceptions of the stakeholders and directing their attention away from touchy and debatable issues. This is seen as supporting legitimacy theory as well as political economy theory (see below). More discussion of VAS is provided in Chapter 8.

<sup>151</sup> Suchman (1995:574) defines legitimacy as “a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions”.

<sup>152</sup> The ‘Social Contract’ is defined and discussed in Section 4.3.

<sup>153</sup> Lessnoff (1990) mentions that the scope of the social contract embraces the legitimacy of social institutions (see also, Shocker and Sethi, 1973).

Patten, 2002). Here, the organisation's value system and that of the larger society are no longer deemed in congruence as perceived by the society, and thus, the firm's existence is jeopardised (Gray et al., 1996).

Accordingly, and as the company is not acting within the limits of what is regarded as socially acceptable behaviour by the society (O'Donovan, 2002; Johnson and Holub, 2003), the society will eventually terminate the firm's contract and right to continue its activities (Deegan, 2002) due to a failure to fulfil the social contract (Deegan and Rankin, 1997) or conform to the social norms and expectations, and thus, withdrawing and revoking its legitimacy; that is, its contract and license to continue its operations<sup>154</sup>. Alternatively, for example, as put by Buhr (1998), a pressure group might empower better performance from the firm through pressure on it to meet expectations or through legislation.

In view of that, and as noted by Johnson and Holub (2003:270), "organizational legitimacy is not a quality or characteristic determined by the organisation itself, but is an attribute conferred on it by society" or "a resource to be obtained from groups outside the organization" (Milne and Patten, 2002:374; see also Deegan et al., 2002) but which can in a way be controlled by the firm by projecting a self-image of being socially conscious (Patten, 1992). This will, in turn, influence the public policy process (Patten, 1991, 1995) by shaping a priori perceptions of society ('shape the public opinion' as named by O'Donovan (1999)) or in response to increasing pressures from relevant public.

Socially acceptable behaviour, as argued by Deegan and Rankin (1996, 1997), is no longer confined to the fulfilment of economic goals in terms of the generation and maximisation of profit for the owners and shareholders accompanying the provision of products. Socially acceptable behaviour rather

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<sup>154</sup> Deegan and Unerman (2006) argue that in case of failure to comply with societal expectations which constitute the terms of the implied social contract, sanctions by the society can take several forms. For example, it can be through imposition of more legal restrictions, decline or cease of provision of resources, or reduced demand for – or boycotting – products.



expands to encompass other concerns and expectations. These broader expectations are contended to include: employees health and safety as well as to support their employees' quality of work life, to reveal their concern for the communities within which they operate, to care for ecological environment, to reduce the impact of hazardous products on the environment, and to engage in purely social and philanthropic endeavours (Angelidis and Ibrahim, 2004).

Moreover, it has been argued that there exist many conditions under which any organisation could be deemed illegitimate. Amongst these are adverse changes in the expectations of the society or shifts in its perceptions mainly due to changes in social norms and values which take place across time (O'Donovan, 2002). Here, the legitimising process is deemed as a dynamic and continuous process in an effort to deal with these shifts and control legitimacy by reducing or closing this 'legitimacy gap'<sup>155</sup> (Brown and Deegan, 1998). This is because what has been previously regarded, as an acceptable behaviour is no longer rendered as such (Lindblom, 1994). Thus, the organisation can lose its legitimacy even without changing its activities that were before reckoned legitimate (O'Donovan, 2002; Deegan et al., 2002). Moreover, major events could as well have a negative effect on the reputation or legitimacy of a particular organisation or a particular industry (Patten, 1992). Here, the organisation(s) concerned may choose to take action to change such social perceptions about how the organisation is acting.

As long as legitimising activities are an effort to change negative perceptions, it is argued that any effective corrective action has to be accompanied by public disclosure (Cormier and Gordon, 2001; Deegan et al., 2000) in corporate annual reports or any other publicly disclosed documents (Deegan and Unerman, 2006). This public disclosure will be a tool to construct the firm's own 'social imagery' (Deegan et al., 2002) and "to communicate to stakeholders the fact that the organisation is in tune with societal concerns"

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<sup>155</sup> The "legitimacy gap" refers to the difference between the 'relevant publics' expectations relating to how an organisation should act, and the perceptions of how they do act (Deegan, 2002:304).

(Clarke and Gibson-Street, 1999). Otherwise, the intended constituents will not become aware of what the company is doing or trying to achieve (Newson and Deegan, 2002) which will affect the success of gaining or maintaining legitimacy. Thus, companies, as a way of managing legitimacy, can choose to voluntarily disclose social and environmental information (O'Donovan, 1999) to build or enhance a company's reputation and effectively handle legitimacy threat as a form of public impression management (O'Donovan, 1999; Hooghiemstra, 2000).

Lindblom (1994) identifies four courses of legitimising actions that could be adopted by an organisation to gain or maintain legitimacy. These actions are either to conform to community expectations through changing its performance or to alter social perceptions and expectations in a range of different manners. These strategies, of which disclosure can be a part, are a manifestation of the company's management self-perception of what they believe are prevailing social perceptions, expectations, or values (O'Donovan, 1999) and its own version of the events (Jenkins, 2004) as well as an avenue for expressing the firm's side of the story in the debate (Cerin, 2002). All of these strategies can involve external disclosure, including CSD as one of the mechanisms (Lindblom, 1994), as follows:

1. educating and informing its 'relevant publics' about (actual or intended) changes and improvements in the organisation's performance and activities as a form of apology;
2. seeking to change the stakeholders' perceptions about the performance of the organisation or about an event as a form of providing justification;
3. manipulating perception by deflecting attention from the issue of concern by highlighting other accomplishments related to the social issue or to other related issues through an attempt to associate itself with symbols having high legitimate status. For example, inviting persons of high legitimate status to serve on board of directors. This is a form of finding excuses; something that is valuable in enhancing reputation and legitimacy;



#### 4. changing external expectations of its performance.

Choices of strategies are based on perceptions of society expectations, i.e., terms of the social contract and how the community perceives the company is acting or responding (Deegan et al., 2002). As stated before, an organisation's legitimacy could be threatened without change in its activities making it a dynamic concept (O'Donovan, 2002). Likewise, legitimacy can be regained through change of society's expectations with or without actual change in the firm's activities (Gray et al., 1996; Milne and Patten, 2002)<sup>156</sup>. Moreover, O'Donovan (2002)<sup>157</sup> argues that the choice of the strategy, and disclosure reaction, largely depends on whether the intention of the action or the need of the organisation is to *gain*, *maintain*, or *repair* its legitimacy within the society (see also, Suchman, 1995). The decision as to whether to disclose or not, is also affected, as O'Donovan (2002) continues to contend, by the degree of the significance of the event influencing legitimacy or the accordingly perceived threat. Therefore, the above-mentioned Lindblom's (1994) four strategies are very helpful in providing explanations as to why companies take the initiative to engage in CSD (Gray et al., 1996; Lewis and Unerman, 1999).

As was indicated before the overlap of different explanatory theories with reference to CSD, it is worth mentioning here that legitimacy theory borrows some of the insights from stakeholder theory. This mainly relates to identifying stakeholders or as named by Lindblom (1994) the 'relevant publics' to whom the attention ought to be paid where a number of constituencies are identified (Campbell et al., 2003). Thus, rather than focusing on the whole society, the focus is rather directed towards particular groups which are deemed to be more powerful in influencing the future of the company (Deegan, 2002). Neu et al. (1998) and Milne and Patten (2002) consider their most important stakeholders the financial stakeholders, i.e., the

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<sup>156</sup> Cerin (2002) argues that creating a positive image of the company is financially more effective than performing changes in the actual performance of the organisation. Neu et al. (1998:267) also point out "it is often easier to manage one's image through *communication* than through changing one's output, goals and methods of operations".

<sup>157</sup> O'Donovan (2002) suggests that different organisations have different levels of legitimacy to maintain.

investors, shareholders, or the investment advisors who are targeted by the disclosures in the corporate annual reports. The expectations of these dominant stakeholders are what really matter for the corporate managers, as those are the ones considered most powerful whose urgent claims have to be attended to (Mitchell et al., 1997). Thus, companies tend to undertake CSD as a response to the needs of most “important and supportive relevant publics, not at peripheral and ‘critical’ publics” (Neu et al., 1998:272).

To sum up, according to legitimacy theory, the firm needs to legitimate its activities to the society in which it operates. Therefore, it may well need to disclose enough social information to allow relevant publics to assess whether it is a good corporate citizen. In legitimising its actions via disclosure, the firm hopes ultimately to justify its continued existence and show the community that it is attempting to comply with their expectations (Jenkins, 2004). Firms may face situations (‘threats to their legitimacy’ as named by Gray et al. (1996)) that lead them to undertake legitimization activities including CSR (Guthrie and Parker, 1989). This approach to CSR shares with the stakeholder approach the view that management controls information and decides how to deal with the stakeholders. However, more emphasis is placed in this approach on firms’ purposes regarding CSR.

Wilmshurst and Frost (2000) contend that prior research has not provided consistent support for legitimacy theory<sup>158</sup>. Nevertheless, a number of studies have supported the explanatory power of legitimacy theory in relation to CSD practice (e.g., Patten, 1992; Gray et al., 1995a; Deegan and Rankin, 1996; Deegan and Gordon, 1996; Brown and Deegan, 1998)<sup>159</sup> with particular reference to the annual report<sup>160</sup>. These studies relied on either secondary data;

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<sup>158</sup> All discussions in this section related mainly to firm-specific legitimacy. However, Gray et al. (1996) identified another variant of the legitimacy theory which is concerned with the legitimacy of the capitalist system as a whole. Thus, self-reporting maintains also system-wide legitimacy (Neu et al., 1998) rather than only individual reporting organisations. Here, CSD is a means to maintain the relevant public perception of the importance of the system or an industry in creating jobs and wealth.

<sup>159</sup> For a review of a number of these studies see Buhr (1998) and O’Donovan (1999).

<sup>160</sup> Results of the studies supporting legitimacy theory suggest that CSD is influenced by such factors as: negative media attention (Brown and Deegan, 1998; O’Donovan, 1999; Deegan et



i.e., publicly available data (see, e.g., Deegan et al., 2002); or on primary data; i.e., through direct conversations with corporate managers and getting insights from them (see, e.g., Buhr, 1998; Campbell, 2000; O'Donovan, 1999; 2002; O'Dwyer, 2002) or from corporate disclosure users (see, e.g., Milne and Patten, 2002).

However, there are also some research studies that failed to provide evidence that would support legitimacy theory but rather might question the theory's ability of providing explanations as to motivations for CSD (see, e.g., O'Dwyer, 2002; Guthrie and Parker, 1989<sup>161</sup>). Next section is devoted to the discussion of the political economy theory.

## 4.6 POLITICAL ECONOMY THEORY

The final theory to be considered here that aims to explain CSR is political economy theory. Gray et al. (1996:47) regard the 'political economy' as "the social, political and economic framework within which human life takes place"<sup>162</sup>. Political economy theory helps researchers to interpret and explain CSD from the expansive social, political and economic contexts within which CSD takes place. Taking into consideration this broader socio-political issues that may have an impact on corporate behaviour and on what information a

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al., 2002) which shapes rather than mirrors public priorities and agenda (Deegan et al., 2002), changing community concerns and increasing social awareness (Patten, 1991), the occurrence of a major disastrous company or industry environmental or social incident (Deegan et al., 2000), or proven environmental prosecutions or regulatory pressure (Deegan and Rankin, 1996). These are all legitimacy threatening issues.

<sup>161</sup> Guthrie and Parker's (1989) study has been referred to as a very prominent paper in CSD literature (see, Deegan, 2002). Guthrie and Parker (1989) identified social disclosures over a hundred year period by BHP Ltd and attempted to discover whether the amount of social disclosure in BHP's annual and semi-annual reports was related to specific societal forces and behaviours, as reflected by key economic data. They concluded that of the six main social themes they identified, only environmental disclosures supported the legitimacy theory position. However, Deegan et al. (2002) re-examined the social and environmental disclosure of the same company for the years 1983-1997 and found evidence supporting legitimacy explanation. They suggested that Guthrie and Parker (1989) results were affected by some limitations and deficiencies in the data used, which Guthrie and Parker themselves acknowledged. These limitations related to failure to take into consideration some important events or activities in BHP's history when measuring 'community concern' which is reflected by media attention.

<sup>162</sup> Deegan (2002) argues that the society, politics and economics are inseparable and none can be considered without considering the others.

company chooses to disclose, can widen the level of analysis when explaining CSD practices (Deegan and Unerman, 2006).

Political economy theory “*suggests that corporate disclosure is a proactive process of information provided from management’s perspective, designed to set and shape the agenda of debate and to mediate, suppress, mystify and transform social conflict. This theory recognises the potential for management to tell its own story or refrain from doing so, according to its own self-interest*” (Guthrie and Parker, 1989:351). CSR is seen as a tool for constructing and affecting the political and economic environment surrounding the firm, in the firm’s best interest. Hence, this theory concentrates on how the firm deals with and affects its environment.

The argument of political economy is that power conflict, inequality of power and the role of state lie at the heart of the structure of society which shape all that goes on within it (Cooper and Sherer, 1984). The political economy theory explanations of CSD are concerned with the socio-political economic structure and associated power inequalities with emphasis on the existence of conflict of interests (Adams et al., 1995a; Tilt, 1994; Cooper and Sherer, 1984)<sup>163</sup>. Under this perspective, corporate management declares their own conceptions and reiterate the surrounding social situation through their control over the reporting process (Adams et al., 1995a; Guthrie and Parker, 1989, 1990).

Accordingly, CSD (for example, through annual reports) is perceived “as a tool for constructing, sustaining, and legitimising economic and political arrangements, institutions, and ideological themes which contribute to the corporation’s private interests” (Guthrie and Parker, 1990:166). Here, a corporation discloses social and environmental aspects that reflect its own beliefs, norms, values and perceptions, which in turn benefits its self-interest while avoiding and ignoring other aspects that are in the interest of the society

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<sup>163</sup> Graham and Neu (2003) argue that the political economy perspective argues that accounting serves to structure social relationships, not only economic ones.



(Adams et al., 1995a; Guthrie and Parker, 1990). This is to “demonstrate a constructive response to social pressure and avoid further regulation of their disclosures” (Guthrie and Parker, 1990:166).

Gray et al. (1996) identifies two variants of political economy theory. These are ‘classical’ political economy and ‘bourgeois’ political economy, which differ from each other according to the “importance placed on structural conflict within society” (Gray et al., 1996:47). The classical Marxian political economy “places structural conflict, inequality and the role of the State at the heart of the analysis” while, in contrast, the bourgeois political economy “tends to take these things as given” and are thus largely ignored where the world is broadly perceived as pluralistic (Gray et al., 1996:47-48). Gray et al. (1996) argue that classical political economy has little to say concerning the details of CSD where much of CSR practice can be explained with the aid of bourgeois political economy. Bourgeois political economy theory is principally useful in explaining the absence of CSD practice (Gray et al., 1996) where “accounting reports may selectively fail to communicate information where this is not consistent with business self-interest” (Adams et al., 1995a:103). On the other hand, classical political economy theory has been asserted as offering insights by those trying to explain mandatory social disclosure rules, thus indicating the role of the state in handling structural conflict and inequality by imposing restrictions on companies and “classical political economists would interpret this as evidence of the State acting *as if* in the interests of disadvantaged groups ... in order to maintain the legitimacy of the capitalist system as a whole” (Gray et al., 1996:48).

Political economy theory shares much with stakeholder theory and legitimacy theory: “the literature has not developed distinctions between these theoretical positions as far as it might” (Gray et al., 1995a:52), and “examples of either pure organizational legitimacy or pure political economy activities on the part of business will be hard to find” (Woodward et al., 2001:361). Buhr (1998) adds that the differences between legitimacy theory and political economy theory lie in how the means and motivations are viewed with both theories

giving perspectives as means to organisational legitimacy. Johnson and Holub (2003) argue that the legitimacy theory has its foundations in the political economy theory which states that any organisation is a part of a wider society system which it affects and is affected by. With reference to CSR literature application, Gray et al. (1995a)<sup>164</sup> contend that, in much of the applications, legitimacy theory tends to reflect a bourgeois political economy<sup>165</sup>. Stakeholder theory is as well regarded as a reflection of the bourgeois political economy (Gray et al., 1996). They, however, mention that these theories “are not as yet fully fledged theories ... but provide useful frameworks within which to study the developing practice of CSR” (Gray et al., 1996:49).

There have been numerous attempts to explain corporate social (non-) disclosure in light of bourgeois political economy theory<sup>166</sup>. However, the theory was not consistently supported. Nevertheless, a number of studies supported the political economy interpretation. Guthrie and Parker (1990) in their comparative study of the UK, US, and Australia concluded that the observed CSD tends to support political economy explanations. They also, in a longitudinal study (Guthrie and Parker, 1989), found that political economy theory provided a better explanation of the patterns of disclosure by the company they investigated (BHP) than legitimacy theory<sup>167</sup>.

In contrast, Buhr (1998), using a longitudinal case study following a company's (Falconbridge) treatment of the emissions of sulphur dioxide in its annual report over a period of 28 years, found that legitimacy theory provided a stronger explanation than political economy theory. She noted that, in

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<sup>164</sup> Gray et al. (1995a) argue in favour of using all three theories to interpret social disclosure practices contending that such combination enriches understanding of specific trends in CSD (see also, Hall, 2002). Other studies that made an attempt to employ these three theories in one study include: Guthrie and Parker (1989), O'Dwyer (2002), Adams et al. (1998), and Woodward et al. (2001). Deegan (2002) adds that using the three theories is more useful in that each provides a different explanations regarding CSD.

<sup>165</sup> Gray et al. (1996) argues that legitimacy theory explanation as to legitimising a whole system rather than a particular organisation reflects a classical political economy variant.

<sup>166</sup> See Buhr (1998) for a review of some of such studies.

<sup>167</sup> They, however, noted that the failure may have been due to limitations in their data sources which could have excluded a number of significant events, rather than a failure of the theory itself.



response to changing environmental regulations, the company focused on changing its performance rather than “using disclosure to influence social norms or influence the distribution of income wealth and power” (Buhr, 1998:186).

Adams et al. (1995a) findings, in studying nondisclosure of mandatory equal opportunity information in UK annual reports, support a political economy perspective. They suggest that corporations make selective social disclosures consistent with their interest and hide other information, which is not in their interest. Adams et al. (1998) studied CSR in some Western Europe countries and their results revealed that UK companies were relatively high in disclosure. In their explanation, they argued that this might be as a result of an attempt by UK companies to prevent further social regulations by portraying an impression of being socially responsible and thus, support a political economy explanation. In addition to the above, Adler and Milne (1997) and Adams and Harte (1998) studies provide further support to political economy theory with the former arguing that public pressure through media exposure motivates companies to undertake CSR<sup>168</sup>. The latter, i.e., Adams and Harte (1998), attempt to investigate CSD of women employment information in two UK industry sectors taking into consideration the wider social, political and economic developments. Results support a political economy perspective<sup>169</sup> where such information was ignored in corporate annual reports where management seemed to have attempted to conceal information that could help evaluate performance. Adams and Harte (1998) concluded that their results indicate doubtful prospect for voluntary CSR as a means to providing “*a reflective corporate accountability for the interactions between corporations and the society and the environment in which they operate ... [and] suggest that corporate annual reports are more important for what they do not reveal*” (Adams and Harte, 1998:808).

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<sup>168</sup> However, this was not noticed for the small companies in the sample selected.

<sup>169</sup> Adams and Harte (1998) pointed out that had the social, political and economic context not being considered, results would have supported legitimacy or stakeholder theory which, in turn, would provide incomplete explanations of the phenomena.

Williams (1999) undertook an international empirical study of bourgeois political economy theory focusing on socio-cultural, political and economic factors on voluntary CSD. It was found that culture (in particular uncertainty avoidance and masculinity dimensions of Hofstede, see Chapter 3), political and civil systems largely influenced disclosure levels. However, the level of economic development as well as the sophistication of the equity market were not found to be influential factors. Williams (1999) explains these observations as in support of the bourgeois political economy theory. He argues that corporations voluntarily disclose information to protect their self-interests in the face of the socio-political pressures. Williams (1999) also adds, in support of the bourgeois political economy theory, that social, political, and economic features of a specific country shapes the corporate perceptions of CSD required to meet society expectations and to avoid governmental legislations.

All the three socio-political theories of CSD discussed above suggest that the extent of social and environmental disclosure is dependent on the exposure to public pressure in the social and/or political environment in the form of social or regulatory changes (Patten, 2002). However, despite the usefulness of the above-explained three CSR theories, it has always been argued that we are nowhere near to a full understanding of why corporations undertake (or not) CSD voluntarily (Gray et al., 1996; Adler and Milne, 1997). This has been attributed to lack of sufficient empirical evidence into why organisations engage (or not) in CSD other than just providing a description of CSR content (Adler and Milne, 1997 but see, Tilt, 1994; Patten, 1991).

## **4.7 INTERNATIONAL DIFFERENCES OF CSD THEORIES APPLICATIONS**

As noted and suggested by the literature reviewed in Chapter 3 (Section 3.8), cultural context might considerably influence CSD practices. The literature, despite being still underdeveloped and rare in this vein, suggests a potential country effect on CSD (see, e.g., Adams et al., 1998; Adams and Kuasirikun, 2000; Buhr and Freedman, 2001; Gray et al., 1995a; Perera and Mathews,



1990; Lewis and Unerman, 1999; Williams, 1999) with voluntary CSD notably different internationally across different countries and various social contexts. It is suggested that cultural variables explain these differences at least to a degree. Gray et al. (1997a:351) explicitly note, “We stress that we see accounting and social accounting as culturally specific and contextually determined”.

Moreover, moral values, in which CSD can be considered to be grounded and which is somewhat shaped by culture, differ among different contexts and cultures (Lewis and Unerman, 1999). As evidenced from the review in Chapter 3 (Section 3.8) what is taken for granted in one country may be questioned in another (Spicer et al., 2004). Concepts of business ethics vary significantly from culture to culture. For example, what counts as usury, varies dramatically from Western to Muslim culture (Donaldson and Dunfee, 1994:259). This contends “relativism could be an important cause of [CSD practices] differences” (Lewis and Unerman, 1999:521).

Belkaoui and Picur (1991 as cited in Doupnik and Richter, 2003) developed a theoretical justification for the effect culture might have on the perception of accounting concepts. They show that national culture can affect perceptions and interpretations of accounting specific principles and concepts (Doupnik and Richter, 2003, 2004). Similarly, as there is no a priori reason to make us believe that this is not the case with other concepts, culture can affect perceptions of the notion of social contract and its definition, stakeholders, accountability, legitimacy, etc. The extent to which the notion of a social contract<sup>170</sup> is accepted within a culture and the extent to which it can be considered a relevant and useful idea is, Mathews (1993) argues, affected by the national culture. Likewise, different cultures will also have differing notions of accountability (see, for example, Gray et al., 1996) and

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<sup>170</sup> Frederick and Wasieleski (2002:300) argue that “the exchange relationships that constitute evolutionary social contracts assume a variety of forms reflective of the several different cultures in which they occur”. “The same is true of standard theories of social contract, each one mirroring either prevailing or sought-after cultural concepts of social justice and fair exchange”.

consequently will exhibit difference in the way in which the concept is operationalised (Ahrens, 1996) and, thus, in the way in which it is applied to corporate social accounting and reporting.

The theories of CSD, discussed above in previous sections, have provided an array of explanations and justifications for social disclosures, but they have not provided an irrefutable answer to either the question of why the actual social disclosures observed in practice have been made or what should be the appropriate form and content of social reporting. Those examining CSD agree that it is difficult to find explanations for the practice (Campbell, 2000). From the discussions above, it can be noted that CSD theories are all about the relationship between the organisation and the society including the socio-political context and how to manage this relationship. This, no doubt, entails the consideration of cultural factors as an integral component. It is unlikely that all societies will agree upon how to achieve things (Lewis and Unerman, 1999).

For instance, the identification of stakeholders depends on the organisation context (Jonker and Foster, 2002). According to Madsen and Ullhoi (2001), management is expected to prioritise powerful stakeholder groups, as, they say, it is difficult to identify and meet the demands of all stakeholders. Perera and Mathews (1990) noted that there are differences in influential pressure groups among countries. Relative power of different stakeholder groups might be a strong influence and is likely to determine which detailed moral codes are addressed by a particular corporation's legitimisation strategies (Lewis and Unerman, 1999). Moreover, legitimacy, from its definition, is socially constructed (Suchman, 1995) as it is determined by the degree of congruence between systems of values, norms, beliefs of both the organisation and the society. This, consecutively, implies cultural conformity highlighting congruence between the organisation and its cultural environment. Thus, cultural values, to an extent, frame what is expected by society from business and accordingly, the means by which the organisation will behave, operate and report to the society (Deegan and Rankin, 1996). Thus, beliefs about whether a



specific activity effectively promotes societal welfare might differ between countries. The cultural context has great influence in the way the organisation can convey, through communication, its activities as deemed desirable, proper, and appropriate (Suchman, 1995).

With particular reference to O'Dwyer (2002)<sup>171</sup>, results suggest that legitimising strategies employed differ according to country. Evidence provided suggests that disclosure within the annual reports of social and environmental issues is not seen as a vehicle to legitimacy in the Irish context. Accordingly, variations in national cultural contexts have to be taken in consideration whenever attempts are made to explore motivations of corporate managers for CSD. This leads us to believe that the notions of the 'social contract' and 'legitimacy' might be culturally influenced along with who are considered the 'relevant public'.

In the current study, CSD in Egyptian annual reports is explored to provide a description and an explanation of the observed practice, in an attempt to answer the research questions in Chapter 1, Section 1.3. To fulfil the aims of the research regarding the interpretation of Egyptian CSD, international differences offered by International Accounting are considered. In particular, an effort is made to address the call made by Mathews and Perera (see Chapter 3, Section 3.8) in relation to linking social accounting and international accounting. In addition, the ability of CSD theories (as discussed in this chapter) to explain CSD practice in Egypt is also investigated. However, and realising the complexity of the motivations behind CSD practice (Gray et al., 1995a), no single theoretical perspective is embraced for fear of missing out on other plausible explanation offered by the other CSD theories. This is to obtain a better understanding of the practice. Hence, the study is mainly exploratory.

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<sup>171</sup> O'Dwyer (2002) in an attempt to investigate motivations for disclosure and non-disclosure by Irish companies, he undertook in-depth interviews with 29 senior executives in 27 Irish companies. Although, according to him, a need exists for responsible actions in Ireland, however, legitimising disclosure is unlikely to succeed due to the Irish culture where the Irish people tend not to emphasise positive achievements or actions.

## **4.8 CONCLUSION**

This chapter dealt mainly with a discussion and a brief review of the three most common theories employed by researchers to explain and interpret CSD and understand the motivations behind the practice. These are stakeholder theory, legitimacy theory, and political economy theory. It is also found that it can be assumed the existence of a cultural influence, since CSD theories involve social aspects in addition to the finding that support for CSD theories differs between studies carried out in different countries.

The next chapter will cover a discussion of the methodology followed in the present thesis along with a brief introduction as to the two methods to be used in carrying out the research. These are the ‘content analysis’ method and the ‘interviews’ method.



# **CHAPTER 5**

## **RESEARCH DESIGN<sup>172</sup>**

### **5.1 INTRODUCTION**

The previous chapters (Chapters 2-4) covered the literature review, with Chapter 3 discussing accounting; including social accounting, and international differences, Chapter 4 explaining CSD theories while Chapter 2 detailed the Egyptian socio-political economic and cultural context. These three chapters helped mould the framework of the current research that guided the study.

This chapter details the methodology of the study based on the purpose and objectives of the study. It also provides substantiation for using the research methods; content analysis method and interview method<sup>173</sup>, in undertaking the research. The chapter points out the advantages and benefits of combining quantitative and qualitative perspectives. This chapter is structured as follows: Section 5.2 explains the methodological viewpoint of the research and how this verifies the choice of methods to be used in carrying out the study, with Section 5.3 justifying the combination of methodologies outlining the advantages of triangulation. Section 5.4 looks at the advantages and disadvantages of quantitative as well as qualitative research and methods. Section 5.5 briefly provides description of the two methods to be used. Finally, Section 5.6 concludes the chapter.

### **5.2 METHODOLOGICAL CHOICES**

It can be argued that every piece of research is based on specific philosophical assumptions that are either implicitly or explicitly expressed. This section

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<sup>172</sup> Holsti (1969:224) defines a research design as “a plan for collecting and analysing data in order to answer the investigator’s question”. This includes, as argued by Creswell (1998), conceptualising a problem until writing the report (see also, Bogdan and Taylor, 1975). Yin (1994) describes it as the logic that links data collected to conclusions to the research questions.

<sup>173</sup> The details of the content analysis method and the interview method, employed in this research, are discussed thoroughly in Chapters 6 and 9 respectively.

outlines and discusses such various philosophical assumptions based on the framework of Burrell and Morgan (1979). It further details those philosophical assumptions underpinning the current study, which lead to the choice of the methodology adopted.

Bogdan and Taylor (1975:1) define the term “methodology” as “the process, principles, and procedures by which we approach problems and seek answers ... [and] applies to how one conducts social research”. Gill and Johnson (1997), in a similar vein, claim that the philosophical assumptions researchers implicitly and explicitly make, influence methodological choice decisions.

It has been argued that the methodological choice and position of any researcher (how we know the world and gain knowledge of it) is mainly directed and determined by the philosophical assumptions of ontology<sup>174</sup> (realism v. nominalism), epistemology<sup>175</sup> (positivism v. anti-positivism) and human nature (determinism v. voluntarism; nature of the relationship between man and society) (Burrell and Morgan, 1979; Morgan and Smircich, 1980). Burrell and Morgan (1979) identify two polars of methodological choices, namely “ideographic” and “nomothetic”<sup>176</sup>.

The ideographic methodology is a product of nominalist ontology and an anti-positivist epistemology (Burrell and Morgan, 1979). An ideographic methodology entails that something is real when it is socially constructed (Hines, 1988) in the minds of the actors involved in the situation and is not out there apart from the minds of participants (Creswell, 1998). Thus, nominalist

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<sup>174</sup> Ontology is mainly concerned with the nature of reality as to when is something considered real (Creswell, 1998). Reality of the world can be considered to be either objective and external to the investigator or socially constructed and understood through the investigation of perceptions of actors (Hussey and Hussey, 1997).

<sup>175</sup> Epistemology addresses the relationship between the researcher and what is being studied whether being independent or not (Creswell, 1998). This relates to what is accepted as valid knowledge (Hussey and Hussey, 1997).

<sup>176</sup> Gill and Johnson (1997:37) define nomothetic methodologies as having “an emphasis on the importance of basing research upon systematic protocol and technique” while ideographic methodologies “emphasize the analysis of subjective accounts that one generates by ‘getting inside’ situations and involving oneself in the everyday flow of life”. These two forms of inquiry, however, do not exist in pure or extreme form.



ontology assumes that reality is not external to the individual but rather within us (Hussey and Hussey, 1997) and is socially constructed rather than objectively determined (Easterby-Smith et al., 1991). Here, epistemological knowledge can be identified through what is experienced by respondents, which deems it rather subjective and not independent of observation (Morgan and Smircich, 1980) and multiple (Creswell, 1998). This perspective “challenges the idea that there can be any form of ‘objective’ knowledge that can be specified and transmitted in a tangible form” (Morgan and Smircich, 1980:493). The relationship between the investigator and the phenomena being studied is interrelated and not independent but rather in the form of an interaction with participants (Creswell, 1998). This closeness in distance can be manifested through spending time in the field.

The assumption about human nature is voluntarism that views individuals as having “free-will” and as “autonomous”, who create the environment rather than being determined by it (Burrell and Morgan, 1979). All of the assumptions discussed above, thus, normally lead to the use of qualitative methodologies<sup>177</sup> as the researcher attempts to rely on and see things from the participants’ own frame of viewpoints (Creswell, 1998; Hussey and Hussey, 1997; Bogdan and Taylor, 1975) and thus, obtaining first-hand knowledge of the subject under investigation. Generally, the qualitative researcher works inductively, for example, developing categories from subjects rather than specifying them in advance prior to starting the actual research (Creswell, 1998) and concentrates on meaning given by people rather than measurement (Hussey and Hussey, 1997; Easterby-Smith et al., 1991).

On the other hand, the nomothetic methodology is at the opposite end of the spectrum from the ideographic approach. Accordingly, ontologically, reality of the social world exists externally (Easterby-Smith et al., 1991) and is considered hard and real (Burrell and Morgan, 1979). This is called realist ontology where the social world is seen as existing independent of an

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<sup>177</sup> Qualitative methodology is also termed ‘phenomenological paradigm’ (Hussey and Hussey, 1997).

individual's perceptions and appreciations. The positivistic epistemology underpins this approach where what happens in the social world is sought to be explained and predicted by searching for laws, casual relationships and regularities between the elements comprising the social world (Burrell and Morgan, 1979) as well as being based upon systematic protocol and technique (Gill and Johnson, 1997). Here, valid knowledge is that which is observable and measurable which is deemed objective and independent (Hussey and Hussey, 1997). Reality should, thus, be measured objectively rather than subjectively understood (Easterby-Smith et al., 1991). Contrary to the ideographic approach, the human nature assumptions underpinning the nomothetic methodology are deterministic in nature where individuals, as well as their experiences and activities, are deemed products of and are conditioned and dominated by their environment (Burrell and Morgan, 1979)<sup>178</sup> without any freedom to act over it. The observer is independent and looks for facts and for causality or fundamental laws (Easterby-Smith et al., 1991).

Laughlin (1995) argues for, and suggests, the choice of a form of "middle-range" methodological position. This presents choosing the mid-point (the medium position) of all philosophical assumptions from ontology, epistemology, human nature and methodology rather than moving towards pure or extreme forms, which he argues, are non-existent (see also, Gill and Johnson, 1997). Following this 'middle-range' approach allows the researcher to use a variety of research methods – such as mixing qualitative and quantitative methods to some extent – to undertake the empirical investigations. Similarly, Easterby-Smith et al. (1991) argue that although, from Burrell and Morgan's (1979) viewpoint, the distinction between the two paradigms may be very clear at the philosophical level, however, when concerning the use of quantitative or qualitative methods and the issues of research design, this division breaks down. This provides more perspectives on the phenomena being investigated.

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<sup>178</sup> Burrell and Morgan (1979) framework is criticised by Chua (1986:626) as under their model "one either assumes that human beings are determined by their societal environment or they are completely autonomous and free-willed" ignoring "that while individuals do act and shape meanings, they still live within structures of domination in society".



### 5.2.1 The Purpose Of The Study

As Morgan and Smircich (1980:491) observe, the appropriateness of a research approach “derives from the nature of the social phenomena to be explored” where the methodological choice is influenced by the nature of the problem and by the extent of the available resources (Gill and Johnson, 1997). Accordingly, and as the purpose of the study determines or specifies the philosophical assumptions, which in turn articulates the methodology of the study (Hussey and Hussey, 1997), it is apposite here to retrieve the purpose of the current study. As from Chapter 1, the core objective and the main focus of this study is to describe, explain and understand CSD practice in the Egyptian context as compared to that in the UK context<sup>179</sup>. Seeking a descriptive record of CSD practice (quantitatively measured) in the Egyptian context over a period of four years, and comparing it with practices in UK context, firstly achieves this. Secondly, perspectives of corporate managers regarding the practice of CSD in the Egyptian context are sought which will help provide a comprehensive basis, which will, in turn, facilitate an understanding of CSD practices witnessed. No single theoretical perspective is adopted in the attempt to arrive to an understanding of the CSD phenomena from this cultural contexts perspective (see Chapter 1, Section 1.5). There is no attempt or effort made to derive any generalisable conclusions or to provide any predictions regarding the practice of CSD in Egypt. Accordingly, the study does not involve setting hypotheses or undertaking any hypothetical testing. Basically, a subjective rather than an objective truth is sought for understanding CSD practices in the Egyptian context relying mainly on corporate managers’ perspectives. There is no aim, and therefore no attempt is made, to search for universal laws and regularities governing CSD.

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<sup>179</sup> The aim behind this comparison is firstly to get an understanding of the CSD issues presently reported by companies in both, the UK – as a Western developed context – and Egypt – as an under-developed context; and secondly, to examine what this will add to the understanding of CSD in both countries. Comparative research may also be used to help make explicit the cultural and other assumptions that the researcher and research subjects may hold implicitly (Carnegie and Napier, 2002).

To fulfil these research objectives, the following philosophical assumptions of the researcher are adopted to approach this research study in light of the research questions outlined in Chapter 1, Section 1.3.

### **5.2.2 Philosophical Assumptions Underpinning The Current Research Study**

This study adopts the “middle-range” approach outlined by Laughlin (1995), discussed above, by embracing what Gill and Johnson (1997) term a “methodologically pluralist’ position<sup>180</sup>. Hussey and Hussey (1997) also recommend blending different assumptions and methodological approaches particularly in the methods of collecting and analysing data, which will provide a broader and complementary view of the research issue (Gill and Johnson, 1997).

First of all, ontologically, the current study is perceived to take a medium ontological position between nominalism and realism as outlined by Laughlin (1995), however, closer to the nominalism end of the continuum. To the researcher, reality does not exist, out there in a social world, in a concrete external independent form ready to be discovered and ascertained but rather is subjectively constructed (Morgan and Smircich, 1980), influenced by individuals and is a product of their consciousness. With regard to the topic under investigation in this study, i.e., CSD, primary attention is given to the perspectives of corporate managers, which are explored in terms of their stances in constructing CSD ‘symbolic discourse reality’<sup>181</sup> (Morgan and Smircich, 1980).

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<sup>180</sup> Gill and Johnson (1997) argue that viewing methodology in terms of a pure dichotomy is fundamentally flawed. Similarly, Hussey and Hussey (1997) argues that it is best to view both methodological paradigms as the two extremes of a continuum where features and assumptions are relaxed and replaced for paradigms by moving along the continuum.

<sup>181</sup> As far as I understand ‘symbolic discourse reality’, I mean the idea that reality is created through conversations; that there is much in the social world which is not an objective reality and is created through language, and in particular that we can though through shared meanings at least appear to have a shared assumption of reality so that we could assume that there is reality behind the social world. This doesn’t mean that there is no something as objective reality.



From an epistemological viewpoint, the study also takes a middle-range position. The researcher believes that knowledge can come primarily, however not exclusively, from individuals who are involved in particular activities or events that are being studied by looking at their perspectives. Thus, the orientation of the study is closer to the subjective anti-positivistic end of a continuum running from anti-positivism to positivism. Knowledge is seen as subjective and dependent on particular context where the importance of the researcher is deemed significant in order to gain some level of understanding from the perspective of the individuals being studied. Knowledge is not viewed as only obtainable through causal relationships between the constituents of the social world. Knowledge that is attained at either end of the continuum is to be considered partial and deficient. Quantitative and qualitative knowledge are thus important to arrive to a description of reality. In this study, knowledge thus is gathered from two sources. Firstly, it evolves from the CSD content analysis results (quantitatively measured, however, involves subjectivity; see Section 5.5.1) of a sample of Egyptian and UK corporate annual reports. Secondly, it emanates from individual managerial perspectives on CSR by undertaking interviews to understand what is happening.

Regarding the human nature assumptions, the current study does not assume that the nature of human beings is totally voluntary or totally deterministic. On a continuum ranging from voluntarism to determinism, the researcher would appear to be in a mid-point between voluntarism and determinism in her core assumptions about human nature. In this vein, human beings are not always considered as conditioned by their external circumstances nor are they perceived to have exclusive control over their environment. Accordingly, they are neither utterly free-willed nor are they totally controlled by their particular situation. In this study, and in light of the above mentioned assumptions, the perspectives of the corporate managers are sought and explored bearing in mind that although managers may be to a degree free-willed, their surrounding environment does have the ability to exert some influence and control over them.

As already outlined above, the choice of methodology is directly dependent on the ontological, epistemological and human nature assumptions of the researcher. The primary philosophical assumptions discussed above reveal that the study generally follows a middle-range position. This implies that the study is inclined towards a middle-range methodology (Laughlin, 1995). Its position, thus, falls between the nomothetic objective and the ideographic subjective methodologies where both quantitative and qualitative research methods are made use of. What is sought in this study is a quantitatively measured description and exploration of the perceived reality of CSD in addition to a subjective understanding of CSD practices from the corporate managers' perspectives.

As argued by Silverman (1997:14): "there are no principled grounds to be either qualitative or quantitative in approach ... often one will want to combine both approaches ... [and] it is inaccurate to assume that quantitative and qualitative research are polar opposites" despite they might reflect "commitments to different styles of research, different epistemologies and different forms of representation" (Denzin and Lincoln, 1994:6). Both types of research are not mutually exclusive but can be employed in one study depending on the goal of the study (Sarantakos, 1998; Easterby-Smith et al., 1991).

Sarantakos (1998) adds that although researchers appear to employ a methodology that, although predominantly quantitative or qualitative, studies in essence contain some aspects of the other methods. It should be highlighted that despite constituting alternative strategies for research, quantitative and qualitative methods are rather seen as complementary (Jick, 1979) with quantitative methods tending to provide breadth to the study as opposed to the depth and detail provided by qualitative methods (Patton, 2002). Accordingly, neither type is better than the other but rather both are legitimate and useful for different purposes and under different circumstances. To investigate and explore the research questions of this study and to achieve the objectives of



the study, a single method may not be enough and it will be beneficial to employ different methods and methodologies to answer the research questions outlined above. Thus, it is decided that this research project will be both quantitative and qualitative in nature.

Accordingly, two different methods are employed at two different but complementary stages of this empirical investigation research to answer the research questions outlined in Chapter 1, Section 1.3. Content analysis of annual reports and semi-structured interviews are to be undertaken. Prior to seeking explanations for CSD practice, the first stage is about exploring social reporting practices in Egypt by content analysing annual reports of the largest listed Egyptian companies on CASE. The aim at this stage is to gather data and establish a record of the extent and level in terms of page volume and the issues of CSD practice existing in Egypt over a period of four years (see Chapter 7) and compare it to practices of UK companies over the same period. In the second stage, interviews, though limited in number, will be undertaken with corporate Egyptian managers to support and explain findings by seeking managerial perspectives concerning the nature of CSD practice (see Chapter 10). Through the meanings and understandings given by corporate managers, subjective and context-specific inferences from the witnessed CSD practices can be drawn. Subsequently, by talking to managers one is able to find out what was in and on the corporate managers' minds (Patton, 2002) regarding CSD and to endeavour to develop an understanding of CSD practice from this.

### **5.3 TRIANGULATION**

It has been argued that it is beneficial to apply both types of methods – quantitative and qualitative – to gain advantages of triangulation (Yin, 1994). Triangulation is defined as using “different research approaches, methods and techniques in the same study” (Hussey and Hussey, 1997:74). Easterby-Smith et al. (1991) state that four forms of triangulation are identified. These are data triangulation which uses different sources of data or data collected at different times, investigators triangulation where more than one researcher is involved independently in collecting the data which is then compared, triangulation of

theories where theories from other fields are used to explain the data, and finally, methodological triangulation where a combination of quantitative and qualitative methods are used to collect data to study a single phenomena.

In this study, we adopt methodological triangulation mixing both quantitative and qualitative methods. No single method is ample and thus a design evolved that made use of combination of methods (Jick, 1979) with data collected over a period of two years to capture multiple perspectives (Jick, 1979). Any single data collection strategy has its strength and weaknesses (Patton, 1987). It is argued that triangulation is beneficial in the sense that advantages and strengths of both approaches are reaped and combined, with disadvantages, deficiencies and weakness cancelled out or corrected (Easterby-Smith et al., 1991; Patton, 1987; Gill and Johnson, 1997) and thus, complementing each other with more accurate, holistic (Jick, 1979) and convincing findings (Gill and Johnson, 1997). This enhances the validity<sup>182</sup> and reliability<sup>183</sup> of the research (Jick, 1979; Eisenhardt, 1989; Gill and Johnson, 1997; Hussey and Hussey, 1997) as it can overcome the probable inherent bias of a single-method approach (Hussey and Hussey, 1997) giving greater insights and greater confidence (Jick, 1979). It also provides a thorough and rich understanding of the phenomenon under investigation as it “encourages productive research” (Jick, 1979:610) and allow new or deeper dimensions to emerge (Denzin and Lincoln, 1994).

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<sup>182</sup> Validity is defined, by Hussey and Hussey (1997:57), as “the extent to which research findings accurately represent what is really happening in the situation” which is, whether the data collected provides a true picture of what is being studied and whether the researcher has gained full access to the knowledge and meanings of participants (Easterby-Smith et al., 1991). Ryan et al. (1992) mention two types of validity; internal and external; where internal validity is concerned with the extent of control achieved, however, it does not apply to exploratory studies, while external validity relates to the extent of generalisability of the results (see also Gill and Johnson, 1997). Denzin and Lincoln (1994:2) argue that “triangulation is not a tool or a strategy of validation, but an alternative to validation”.

<sup>183</sup> Reliability is concerned with whether the research findings are consistent and can be replicated or not (Hussey and Hussey, 1997; Gill and Johnson, 1997), and whether similar observations can be obtained by different researchers in different occasions (Easterby-Smith et al., 1991) but using the same subjects and the same research design under the same conditions (Gill and Johnson, 1997).



Although triangulation is thought of as ideal and highly recommended where possible (Patton, 1987), on the other hand, multi-methods are tremendously time-consuming, costly, and very difficult to accomplish in terms of data collection and analysis (Gill and Johnson, 1997). It is also argued that triangulation makes replication extremely difficult when more than one method is used especially when a qualitative method is employed (Jick, 1979; Hussey and Hussey, 1997). Triangulation also is of no use if based on wrong research foundations (Sarantakos, 1998). Despite these difficulties, it is believed that the methodological pluralism adopted in this exploratory<sup>184</sup> study will permit new light to be shed and will provide different standpoints on CSD in Egypt. This will accordingly enhance content analysis and interviews synergetic benefits (Bloor, 1997; Eisenhardt, 1989) where elements of context are illuminated providing findings that quantitative methods alone would be blind on (Jick, 1979). The next section provides a discussion of quantitative and qualitative research methods in terms of advantages and disadvantages.

## **5.4 QUANTITATIVE AND QUALITATIVE METHODS**

As this research is utilizing both quantitative and qualitative research methods, a discussion follows of both types. Doing qualitative research entails undertaking the exploration in a natural setting (Dunk, 1999; Marshall and Rossman, 1999) where the researcher is actively involved (Sarantakos, 1998) as the data collector and interprets phenomena based on the meanings provided by the participants or subjects (Creswell, 1998; Denzin and Lincoln, 1994) as well as describing reality as respondents experience it (Sarantakos, 1998). This means that the researcher, although she controls the process, has to set aside her perceptions and perspectives (Bogdan and Taylor, 1975). Qualitative research has many pros and cons. The strengths and weaknesses of the phenomenological paradigm and associated qualitative methods are somewhat complementary. First of all, it is complex and time-consuming in data gathering as well as analysis (Easterby-Smith et al., 1991; Sarantakos, 1998). Moreover, it is expensive (Hussey and Hussey, 1997) and involves the

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<sup>184</sup> An exploratory study is one where there is not enough information about the subject being researched and is undertaken to gain information on the issue (Sarantakos, 1998).

risk of collecting meaningless and useless information (Sarantakos, 1998) as qualitative studies, despite the researcher being more aware of the flow of the process (Sarantakos, 1998), are often very messy in that they are harder to control their pace, progress and end-points ((Easterby-Smith et al., 1991). Besides, a qualitative approach presents problems relating to reliability and rigour due to the subjectivity involved (Hussey and Hussey, 1997; Sarantakos, 1998). This also affects the representativeness and generalisability of findings (Sarantakos, 1998). A further concern is that, not only may personal biases influence the process of interpretation, but also the mere presence of a researcher can influence the setting.

On the other hand, however, qualitative research (and methods) is deemed to have distinctive features. It is considered to be effective in some research as it is suitable for exploring issues that are not well understood, such as those investigated in this study, rather than hypothesis testing, to present a detailed realistic view of the subject under investigation (Hussey and Hussey, 1997; Sarantakos, 1998), as it is undertaken in a natural setting (Creswell, 1998; Easterby-Smith et al., 1991) where interpretations and meanings are stressed (Sarantakos, 1998). This provides a deeper understanding, rather than an objective truth or facts, of the issues under investigation with greater flexibility to look at change processes over time and to adjust to new issues and ideas as they emerge (Easterby-Smith et al., 1991), as it is less structured than quantitative research methods (Sarantakos, 1998). However, there are guidelines to be followed. Here, theoretical sampling rather than random sampling is employed which entails arriving to analytical or conceptual generalisations only (Sarantakos, 1998).

Qualitative methodology, based as it is on the ideographic approach to social science, refers to “research procedures which produce descriptive data: people’s own written or spoken words and observable behaviour” (Bogdan and Taylor, 1975:4). Qualitative research methods are defined as “an array of interpretive techniques which seek to describe, decode, translate and otherwise come to terms with the meaning, not the frequency, of certain more or less



naturally occurring phenomena in the social world” (Easterby-Smith et al., 1991:71). Eisenhardt (1989) notes that the qualitative data often provide the ‘why’ of what is happening through firsthand knowledge. This is, he argues, crucial to the establishment of internal validity.

On the other side, quantitative research and methods, based on the nomothetic methodology, emphasize the need to capture knowledge by “manipulating data through sophisticated quantitative approaches such as multivariate statistical analysis” (Morgan and Smircich, 1980:498). Quantitative research usually has a strict research design and makes use of extensive statistical analysis (Sarantakos, 1998). This method requires “the use of standardized measures so that the varying perspectives and experiences of people can be fit into a limited number of predetermined response categories to which numbers are assigned” (Patton, 2002:14). These employ highly structured techniques of data collection which allow quantification, hypothesis and measurement (Sarantakos, 1998). It emphasises “the measurement and analysis of causal relationships between variables [where] inquiry is purported to be within a value-free framework” (Denzin and Lincoln, 1994:4). Quantitative research, thus, results in “*a broad, generalizable set of findings presented succinctly and parsimoniously ... [rather than producing] ... a wealth of detailed information about a much smaller number of people and cases [which] increases the depth of understanding of the cases and situations but reduces generalizability*” (Patton, 2002:14). Quantitative researchers are thought to be interested in inductive generalisations of the research findings (Sarantakos, 1998).

Although quantitative research methods are thought to be fast and economical (Easterby-Smith et al., 1991) as statistics can be aggregated from large sample sizes, they are rather inflexible and artificial (Easterby-Smith et al., 1991) as results often reflect meanings that emerged from the beliefs and perceptions of the researcher rather than that from the respondents (Sarantakos, 1998). Moreover, the researcher does not provide effective understanding of the processes or the importance people attach to behaviour despite the wide coverage of the range of situations (Easterby-Smith et al., 1991).

From the discussions in Section 5.2.2, it is noted that this research is making use of both quantitative and qualitative research methods as a form of methodological triangulation (see Section 5.3). This is mainly based on the research objectives (see Section 5.2.1) and the underlying philosophical assumptions of ontology, epistemology and human nature adopted by the researcher which embrace a 'middle-range' position sketched by Laughlin (1995) resulting in a 'middle-range' methodology between nomothetic and ideographic.

The quantitative methods used reflect the 'what' of the phenomenon under investigation while the qualitative methods address the 'why' of the issue being studied (Yin, 2003). As the purpose of this research is to arrive to a record of CSD (the What) along with gaining an understanding of the motivation behind (non-) CSD (the Why), the study was designed to include both a qualitative and a quantitative element, so as to get the best of both worlds (Hussey and Hussey, 1997). It used annual reports content analysis as well as semi-structured face-to-face interviews. Following is a brief discussion of the two methods used with full description provided in Chapters 6 and 9.

## **5.5 RESEARCH METHODS**

This section is devoted to introducing the research methods utilised to conduct the study and to gather the relevant data. The choice of methods is largely dependent upon the research questions that need to be investigated. The research questions of the current study are mainly concerned with the description of CSD by Egyptian companies as compared to UK CSD and, then, examining the motivations or triggers of disclosure and non-disclosure within an international accounting framework. To explore these issues, two methods are found appropriate and relevant, and thus, made use of; content analysis as a quantitative method and interviews as a qualitative method. The former is mainly concerned with providing the description of CSD while the latter is rather connected with providing explanations as to why these (non-) practices of CSD exist. Gillham (2000) argues that as there is a need to



understand people in a real-world context, this entails making use of the interview method.

### 5.5.1 Content Analysis

As this research is comprised of two stages; the content analysis and the interviews, the first stage involves content analysis of corporate annual reports of both Egyptian and UK companies to obtain data on and provide description of the present status of CSD practices (social and environmental issues reported) in both countries, along with identification of trends of CSD over four years. Abbott and Monsen (1979:504) define content analysis as

*“a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity”.*

This technique will be used as the primary quantitative method to undertake the first empirical investigation in the current research. Data collected using this method is considered quantitative data due to the requirement that systematic counting procedures be followed, thus, making use of quantitative measures. This deems the method more objective (Marshall and Rossman, 1999). Although every attempt has been undertaken (as will be discussed in Chapter 6) to enhance objectivity of the content analysis method and procedures applied in the study, it cannot be denied that the method entails a degree of subjectivity<sup>185</sup>. The inherent subjective nature is evident in the choices, preferences, and decisions made by the researcher as to what is and what is not to be included as CSD – thus, deemed content – as well as CSD being allotted to different themes. Some researchers, thus, consider the method as qualitative (Krippendorff, 1980, Hussey and Hussey, 1997)<sup>186</sup>.

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<sup>185</sup> In her view, d'Arcy (2004) notes that empirical research is always subjective, which means that this shortcoming cannot be resolved in general. She adds that errors can also be caused by different interpretations. However, it is unlikely that those failures would harm the findings of this study, which deems my conclusions still valid. Nevertheless, every attempt was made in this study to remain as objective as possible throughout the content analysis method, interview method, and subsequent analysis process (see Chapters 6 and 9 for attempts to be as objective as possible in undertaking this empirical study).

<sup>186</sup> Morgan and Smircich (1980) state that any technique is put to use depending on the orientation and stance of the researcher as well as on how the researcher makes use of them.

The choice of this method for use in the current study reflects the methodology adopted in the study which encompasses a rather nominalist ontological position of the researcher (Section 5.2) as it is mainly based on the context as well as on providing a form of description by analysing symbolic representations to give symbolic meanings where reality is regarded as 'symbolic discourse' (Morgan and Smircich, 1980). According to Laughlin's (1995) framework, content analysis method fits the 'middle-range' methodological position. This is driven by that the content analysis method is mainly based on definite procedures, criteria, and techniques while at the same time there is room for the subjectivity of the researcher interpretations and thus, the coding and recording of data.

For this stage of the study, secondary data sources (Hussey and Hussey, 1997), namely the annual reports already published by the companies, are used. The annual reports of Egyptian companies cover the financial years ending in the years 1998, 1999, 2000 and 2001<sup>187</sup>. It should be emphasized that this is by no means a statistically representative sample. It is not meant for concluding generalizations<sup>188</sup>. Rather, it is seen as a tool of exploration.

The content analysis method employed, largely follows Gray et al. (1995b) instrument to record issues of CSD and their quantities. This method is used with the assumption that, and as Unerman (2000:669) contends, the 'quantity of disclosure signifies the importance of the item being disclosed'. This allows us to accept as true that the quantity of disclosure is an indicative of the importance placed on that declaration by the reporting company (Campbell, 2003). This is as well the premise upon which most of the CSD studies using content analysis method is based (e.g., Gray et al., 1995a; Deegan and Rankin, 1996; Neu et al., 1998).

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<sup>187</sup> The companies and industries represented in the final sample are described in Chapter 6.

<sup>188</sup> This is also due to the subjectivity involved in the method as discussed above (see also Chapter 6; Hanafi and Gray, 2005).



Details of the sampling process, procedures of annual reports collection along with why the focus of the research is on the annual reports, difficulties of data collection, final sample, its size and industries represented, as well as the details and full description of the content analysis method and its procedures, alongside a justification for its use, are discussed and described thoroughly in Chapter 6 with sufficient elaborations.

### 5.5.2 Interviews

The second stage of this study involves undertaking face-to-face semi-structured interviews. Semi-structured interviews method, as a primary source of data collected at source (Hussey and Hussey, 1997), represents the primary qualitative research method (Easterby-Smith et al., 1991) adopted to provide descriptive data and produce potential explanations for (the ‘why’ of) CSD practices witnessed. This fits the qualitative inquiry required to obtain the subjective explanations and understanding. Bogdan and Taylor (1975:14) talked about the need for the phenomenologically inclined researcher to “see things from [a participant’s] point of view”. Consequently, this is in line with the underlying philosophical assumptions and methodology underpinning this study where the individuals’ importance in constructing reality is revealed (Section 5.2). As stated by Wengraf (2001:5),

*“Semi-structured interviews are designed to have a number of interviewer questions prepared in advance but such prepared questions are designed to be sufficiently open that the subsequent questions of the interviewer cannot be planned in advance but must be improvised in a careful and theorized way”.*

Thus, semi-structured interviews are fairly standardised in terms of question sets which simplifies coding but at the same time gives some flexibility which allows the interviewee the chance to make their views known (Easterby-Smith et al., 1991). This is more relevant to the Egyptian context as the issues studied are still not investigated before and interviewees need to be given space to make their own views and perceptions in their minds apparent in a natural setting (Patton, 2002).

A series of semi-structured interviews were held with senior representatives, particularly financial managers, of companies throughout Egypt as an elaborated in-depth response is required (Gillham, 2000) together with an understanding of the individual perspectives provided and to obtain wider views on the research questions helping to understand the practice of CSD. Respondents were requested to comment upon such matters as why their organization reports what it does, why it does not report on other issues and what prospect respondents see for the future directions of CSR in the country.

Chapter 9 is totally allotted to the discussion of interviews, why they are undertaken, the advantages and disadvantages of interviews in general, difficulties of undertaking interviews in the Egyptian context, the population and the sample of interviews undertaken, the procedures of gaining access and arriving to the final sample of subjects along with the difficulties associated, derivation and testing of interview questions, steps of interviewing, and finally, the analysis process of the interviews.

## **5.6 CONCLUSION**

This chapter summarised the research procedures actually employed (the research design). The chapter is mainly concerned with outlining the position of the research along the core philosophical assumptions (ontology, epistemology, and human nature assumptions), which in turn specifies and supports the methodological choice to be followed. The research methods used for undertaking the study are broadly outlined and briefly introduced as well as their use supported under the philosophical assumptions underpinning the current study. This study mainly adopts the 'middle-range' approach outlined by Laughlin (1995), which made use of both quantitative and qualitative research methods to meet the objectives outlined in Section 5.2.1 and to answer the research questions of the study.

In an attempt to explore some of the issues raised with regard to CSD practices and its motivation in more depth, direct access to information from a management perspective was sought by utilizing semi-structured interviews



with senior management personal as the major data collection technique, in addition to obtaining a record of CSD through analysing the content of corporate annual reports. This allows more meaningful data to be collected. It has been argued that in order to obtain a comprehensive greater understanding of CSD practices, process and ultimately motivations, one needs to discover management thoughts and perceptions by interviewing individual management personnel directly involved in the annual report (O'Donovan, 1999) as supplementary to analysing records of the disclosure. This, it is argued, would strengthen the validity of any results (O'Donovan, 1999).

Moreover, as this is also the first comprehensive study of CSD in Egypt given that – to the best of our knowledge – there has been no prior research into the practice of CSD in this context, this study is predominantly of an exploratory nature. Ryan et al. (1992) suggest that field study methods can be used for research of an explanatory nature. It can be used to explore the reasons for particular reporting practices which if properly utilized, can result in the gathering of richer, more detailed data than either survey or content analysis alone could. This chapter concludes the background discussions of this thesis. The following chapter provides more details of the 'content analysis' method and how it was used and conducted in this study to gather data on CSD practices in Egypt and the UK.

*PART C*

*FIRST EMPIRICAL  
INVESTIGATION*



# **CHAPTER 6**

## **DATA COLLECTION AND CONTENT ANALYSIS IN EGYPT AND THE UK**

### **6.1 INTRODUCTION AND PURPOSE**

As was discussed in Chapter 1, a central element of this thesis is the description, exploration, and analysis of the practices and patterns of corporate social reporting (CSR thereafter) by Egyptian companies as well as the exploration of CSR trends along years. This basic description (which, to the author's knowledge, does not yet exist in the literature) is an essential first step towards answering the research questions and will provide a basis for: (i) making initial statements about Egyptian CSR; (ii) making initial comparisons with CSR practice in other developed; primarily the UK, and to a lesser degree, lesser developed countries; and (iii) both determining interview sites and a basis for conversation with interviewees into the reasons behind the practices. The penultimate section of the last chapter briefly outlined the two research methods used in this study. This chapter considers the first of these two methods; content analysis, and its related issues in more detail.

The initial sampling process, the formulation of the annual reports of the sample and the discussion of why this episode of the research will concentrate upon the annual report, will be explained at length in this Chapter. Details of the data collection stage along with the difficulties faced to collect the final sample of the annual reports occupy a major proportion of the chapter. This chapter is also concerned with the method employed to interrogate the annual reports and to provide a description of the extent of CSR practices found in those reports. That method is called "content analysis" and, in simple terms, content analysis refers to an array of methods designed to provide quantitative measures based on language – whether in the written or spoken word.

## 6.2 POPULATION TO BE SAMPLED

Listed companies on the Egyptian Stock Exchange (about 1000 companies)<sup>189</sup> represent the population for this research study. All companies listed for the four financial years ending 1998-2001<sup>190</sup> on Cairo Alexandria Stock Exchange (CASE thereafter) are included within the population from which the final sample was selected according to market capitalisation. However, all financial institutions (including: Banks, Insurance Companies, Financial Services Companies, and Financial Brokerage Companies) were excluded from the population as those have different disclosure requirements and operate under different legislation and regulations. Moreover, they report under a different statutory basis.

The study is limited to listed companies only for two reasons. Firstly, these companies are mostly the large companies<sup>191</sup> and the most prestigious. They have the financial and human resources, qualifications, and capability to engage in social activities, abide by rules and regulations (such as environmental law), and have various users. Thus, it is expected that these companies are more likely to be the ones disclosing about their social and environmental issues and activities in their annual reports<sup>192</sup>. Secondly, these are the companies, which according to the CASE and Capital Market Authority (CMA thereafter) regulations have to publish a compendium of their

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<sup>189</sup> See Appendix 2.1 for the number of companies listed on Cairo Alexandria Stock Exchange (CASE) at year-end for the period 1991-2004.

<sup>190</sup> The choice of the period covered in our study was influenced by two main factors. First of all, availability of annual reports for previous years was rare. For example, during the data collection process, one got to know that CASE disclosure department was established in 1998 and thus, availability of annual reports starts from 1998 onwards (see also, Abd-Elsalam and Weetman, 2003). Secondly, the Environment Law no. 4/1994 became effective from 1997. Thus, it is hypothesised that this law which is applied and supposed to be enforced from 1998 would lead to a significant change in organisation-society relationships and thus, in the subjects of organisation disclosure, especially on environmental disclosure, which is one of the aspects of social disclosure. However, it has to be made clear that this law doesn't require any public disclosure of any environmental information (see Section 2.6). Due to the timing of the data collection procedures (from early 2002), the latest year for which I was able to collect annual reports was 2001.

<sup>191</sup> Most social disclosure studies use large companies in terms of size as a criterion for choosing their sample based on the assumption that these are the companies most likely to disclose more (see Section 6.5).

<sup>192</sup> See Ernst and Ernst (1978), Wiseman (1982), Adams et al. (1998), Andrew et al. (1989), Belal (2001) and other studies that support this view.



financial statements along with the notes to the financial statements, their auditor report, as well as a compendium of the Board of Directors report in newspapers. In addition, listed companies are required to file their annual reports with the CASE and the CMA (see Section 2.6). This was expected to facilitate the accessibility to their annual reports (from CASE or CMA as will be explained later).

Regarding the population from which UK sample is collected, the 1998 sample was selected from the Times 1000 which ranks industrial companies by capital employed. It excludes financial companies. However, sampling was according to the turnover (CSEAR website, October 2004). With regard to 1999 and 2000, the sample was selected from the largest 500 companies listed in the Financial Times Index according to market capitalisation<sup>193</sup>.

### **6.3 HOW THE DATA (ANNUAL REPORTS) WAS COLLECTED**

The process of data collection and before it the preparation for data collection process started in Glasgow (UK) in February 2002 and took over a period of a year. The last annual report of the final sample was collected in February 2003 in Cairo (Egypt).

As one was interested in the social responsibility and environmental aspects (of the very widest nature) of Egyptian companies and any data that can be obtained would have been very useful to the research, one started seeking broad information<sup>194</sup>. Thus, different sources were approached to get hold of any relevant data. The researcher also browsed through the Internet all the sites she is aware of for Egyptian newspapers using several keywords searching for anything that relates to relevant aspects<sup>195</sup>. However, such searches did not result in useful information. Some searches did not result in

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<sup>193</sup> The UK data were taken from that available through the CSEAR database. The CSEAR data was not confirmed or verified at the time of my use of it.

<sup>194</sup> See Appendix 6.1 for information sought, other than the annual reports, and the responses obtained accordingly.

<sup>195</sup> The selection of search key words is based upon the theme of this study and pertains to words associated with the social or environmental aspects.

anything. Some newspapers, which had a weekly ‘environmental’ page, were also contacted through emails but no replies were received. It was also very important, as the main interest of the research was in Corporate Social Disclosure (CSD) through annual reports, to know about the availability and accessibility of the Egyptian companies’ annual reports as well as availability of annual reports in English version.

As the researcher has never done any research before in Egypt, one was not sure about the availability of information or data. The first step (as suggested by Hussey and Hussey, 1997) was to make use of any contacts that one may already have. For example, the researcher made use of her family members, relatives, friends, colleagues and professors who through themselves or through their acquaintances – who might be more knowledgeable about relevant information – provided an introduction to organisations and authorities which might have had the data or might have been interested in one’s research. Annual reports were pursued during this period by gradually collecting a network of supporters.

However, I was always assured that to get Corporate Annual Reports in Egypt is near to impossible because companies consider these things secrets and become afraid of competitive disadvantage. It was mentioned that if I insist on the Annual Reports, I have to write to the companies asking them to send these Annual Reports. All contacts made from Glasgow suggested contacting companies individually as there isn’t anywhere I could get the annual reports of a number of companies from. However, some mentioned that some companies might have their annual reports in English<sup>196</sup>.

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<sup>196</sup> One of the contacts stated that an English Version of the annual report is usually issued for the following reasons: • If some of the initial incorporators were foreigners • If the company is advertising for itself abroad to obtain foreign investments for capital extension or something like this and, • If the company is registered in a foreign stock market like the London Global Depository Receipt (GDR). It was thought that a meaningful comparison between English and Arabic annual reports could be performed if obtained. However, it proved later to be infeasible due to data availability limitations.



Thus, it was the decision to personally contact companies by writing them. However, to collect the annual reports for the Egyptian companies, the first thing needed was a list of all companies listed on CASE, which represent the population for the current study, for each year from 1998 to 2001 along with each company's contact details. Yearly CASE handbook was sent by one of the contacts, in the form of excel files, which contains the list of all companies listed on the CASE with their market capitalisation and contact details. Initially, the researcher undertook personal initiatives by faxing, mailing, emailing, and phoning different organizations, through several stages, as will be explained below, with the hope of acquiring the annual reports. Some of the contacts took the initiative to contact the CASE disclosure department to ask for availability of the annual reports but the answer was negative. It was also assured by many that neither the CASE nor the CMA had any annual reports but rather the financial statements only<sup>197</sup>.

After a comprehensive sheet of all companies' contact details has been prepared<sup>198</sup>, the first stage of faxing companies started. Companies were asked to send<sup>199</sup> their annual reports for the four years 1998-2001 explaining to them that the researcher was interested in Corporate Social Disclosure of Egyptian companies. It was also made clear that what was requested is the whole annual report not just the financial statement and the notes to the financial statements. Initially, faxes<sup>200</sup> were sent to as many companies<sup>201</sup> as possible hoping for good response rate. During this stage, 206 faxes were sent with great

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<sup>197</sup> The researcher was misinformed about the non-availability of annual reports as ultimately, the annual reports were collected from CASE and the CMA (see also, Hanafi and Gray, 2005).

<sup>198</sup> See Appendix 6.2 for details of how a comprehensive sheet was prepared and constructed from different files of data received.

<sup>199</sup> Both researcher addresses of Egypt and Glasgow were sent to companies to choose whichever suits them due to shipping costs considerations. In addition, phone numbers and emails of the researcher were included in case further enquiries emerge.

<sup>200</sup> However, there were some problems as well with the fax numbers as will be explained later.

<sup>201</sup> The companies that were aimed to be contacted during the first stage were 250 companies (see Section 6.5).



difficulty. Twelve companies only responded to these faxes of which 6 companies only sent 23 annual reports<sup>202</sup>.

The response rate being unsatisfactory, another round of fax and mail sending began. This second stage of contacting companies was divided into sending faxes to the 100 most actively traded companies<sup>203</sup> and sending letters to the rest of the companies<sup>204</sup>. This time, Glasgow University headed letters were used as well as a letter from my supervisor was attached. During this stage 91 faxes and 177 letters<sup>205</sup> were successfully sent. Eleven companies replied to sent faxes with 21 annual reports<sup>206</sup> of 6 companies received<sup>207</sup>. Eight companies replied to letters<sup>208</sup> sent resulting in only four annual reports of one

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<sup>202</sup> Some companies, who did not sent annual reports for the 4 years but for 3 or 2 years, sent the missing annual report after faxing them again asking for the missing annual report. One as well sent an English version when further asked for it while others ignored the request or replied that these – English version annual reports – are unavailable. Still others either sent Media Highlights, newsletters, or press releases with the annual reports or without them. Other replies were either apology for not been able to send their annual reports for different reasons or sending only the financial statements with or without the notes to the financial statements or incomplete annual reports (Appendix 6.3 provides some of the replies received).

<sup>203</sup> The Egyptian Stock Exchange has around 1000 listed companies. Of these the shares of around 100 are actively traded. Shares of the rest are rarely traded. These are companies that are either listed under the provision of the previous regulations or for tax exemption purposes offered by tax law for listed companies (Abd-Elsalam and Weetman, 2003). Traded companies are those companies, which are listed in the Stock Exchange to raise capital. For these companies, public disclosure is an important matter. Actively traded companies abide by disclosure requirements the most. Considering all 100 actively traded companies in the targeted sample, increased the number of companies to be contacted by 14 companies arising to 250 companies. Number of top 150 listed companies over the four-year period resulted in 236 companies.

<sup>204</sup> This option of sending letters was not thought of before as sending letters through mail – in Egypt – is not guaranteed to reach the company or to be received by it as mail usually gets lost, delayed or it does not reach the person for some reasons. Fax sending was more guaranteed in time as well as in reaching the company. However, mainly due to cost considerations of sending faxes, the above decision was taken.

<sup>205</sup> Each envelope had a label with the address of the company in English and another one with the address in Arabic so that it can be read by the postmen in Egypt. A personal label was added as well.

<sup>206</sup> One of the companies asked that I send somebody on my behalf to collect the annual reports from the company premises.

<sup>207</sup> Other replies were suggestions to contact CASE. Some companies only sent their financial statements along with the accompanying notes and the auditor report.

<sup>208</sup> One of the replies was a phone call where the financial manager, after me explaining what I exactly want, said that all what I need is the figures and was wondering why the descriptive material is important. This seemed to be a normal reaction to the researcher as qualitative research is not common in Egypt and is rarely applicable. The norm against which quality of research is measured is through it making use of statistical packages. Most studies in accounting are in the form of quantitative and statistical analysis mostly dealing with financial data only. This, no doubt, deems the current research novel and original in terms of data and methodology. Another company's member of the Board Of Directors phoned clarifying that



company been sent. Other replies were apology for not being able to send annual reports<sup>209</sup>.

A last resort to contacting companies from Glasgow and trying to get the annual reports was through searching the websites available for some companies and sending emails to whatever email addresses are available and obtained<sup>210</sup>. Only one firm had its 2000 annual report on its website in downloadable form. At the end, 147-email addresses were found but not necessarily for 147 companies as many companies had more than three email addresses. Emails sent were 137 as ten email addresses were of companies that had already replied. However, from these 137 emails 60 did not reach the recipients for different reasons of failure. Only two replies were received with two annual reports for one company<sup>211</sup>.

In a final attempt to find any clue as to how to get annual reports of Egyptian companies, I started to search in the literature for research and publications made in the field of Accounting and Finance with an application on Egypt in case researchers had to use Annual Reports and mentioned how they got their data. An extensive literature review of all studies conducted on Egyptian data and all publications relevant to Egypt were searched for sources reviews. All databases, that the researcher is aware of, were also searched for articles on Egypt. Moreover, the researcher searched for theses completed on Egyptian data, scanning their abstracts to identify which ones are most likely to have used annual reports. Only one thesis was found that used Egyptian companies' annual reports and it was mentioned that those were obtained from CMA<sup>212</sup>.

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all companies manipulate data and that the reports don't reflect the reality. He added that it is only Banks who have financial statements that reveal authenticity.

<sup>209</sup> See Appendix 6.3 for some examples of these replies.

<sup>210</sup> Websites were either obtained from Kompass Egypt yearbook Directory or by trying [www.companyname.com](http://www.companyname.com). For some companies this worked while for others it did not.

<sup>211</sup> See Appendix 6.3 for examples of replies received. A note to be made is that most of those companies that replied when sent emails or letters or faxes (second round) were sent faxes at the first beginning but it seems that they realized that I was serious when they received a second or possibly third call.

<sup>212</sup> It was also mentioned in the thesis that only 70 annual reports for 1996 were successfully obtained, though with difficulty in 1999. Moreover, it was noted that the researcher got the annual reports from the CMA through personal visits. The researcher and the supervisor for

However, not much detail about the whole process was provided in the thesis. Moreover, databases of annual reports were searched and only one (Perfect Information) had Egyptian Companies' Annual report. However, the researcher had already, by that time, collected all the annual reports available in this database.

After several contacts for around a year, the researcher had no success in collecting the annual reports through correspondence and only 51 annual reports (for 15 companies) were collected<sup>213</sup>. This meant the material could not be used for the purpose of the analysis. On a subsequent visit to Egypt by the researcher from the period starting December 2002 until February 2003, the researcher was able to collect the annual reports sufficient to conduct the study.

It has to be admitted that it is a very difficult task to collect sound and accurate data in Egypt. A chain of contacts of people, who most probably would be able to help, started again once in Cairo (Egypt) trying to get more annual reports. This included contacting previous lecturers and professors, people that I was told specialise in gathering information for researchers, former contacts, a company that I was told have annual reports for listed companies<sup>214</sup>, and people personally known to managements of some companies<sup>215</sup>. Unfortunately, what was offered was the brief version, which only included the financial statements and its notes. At last, after one almost lost hope, I was connected to the right people at CASE and CMA<sup>216</sup> who assured availability

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that thesis were both contacted to get more details about how they got hold of the annual reports. I was informed that I wouldn't be able to get anything while in Glasgow and that I had to go to Egypt and visit companies to get good response. The author of this thesis (Abd-Elsalam, 1999) assured that I had to know somebody who is well known to them in CMA as an intermediary.

<sup>213</sup> 50 are the outcome of sending 297 faxes, 177 letters and 77 emails in addition to one annual report downloaded from corporate websites search.

<sup>214</sup> This company assured availability of annual reports when I phoned them but it turned out to be the financial statements and its notes that they meant.

<sup>215</sup> Some companies were personally visited but this was not fruitful so was not completed for the rest of the companies as it was realized that it is a waste of time.

<sup>216</sup> There were previous contacts with people from CASE and CMA but from other departments that didn't have the annual reports. These people didn't know about the availability of the annual reports in other departments. It seems that people are only concerned



of the annual reports. This time it was the annual reports not the perceived annual report.

In principle<sup>217</sup>, annual reports of listed companies can be obtained from the CMA and the CASE but in practice it requires personal visits and much effort and persistence. It also required much attentive waiting while employees were busy with other work<sup>218</sup> and patience towards unexpected incidences faced<sup>219</sup>. Several follow-up calls had to be made before the person started gathering annual reports. Besides, the researcher had to be present herself while the annual reports are being photocopied to ensure that this was done to her satisfaction without any missing or unclear pages and at a good pace<sup>220</sup>. It happened frequently that I was told to 'come tomorrow', as they were very busy but 'tomorrow never comes' and the researcher had to be adamant on getting anything photocopied everyday<sup>221</sup>.

The detailed and full versions of the annual reports were filed manually in the Archives<sup>222</sup> of CASE and CMA, which made it difficult and time consuming to retrieve for their staff and, accordingly, to obtain the annual reports for the

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with their direct jobs and department work and that they know nothing about how other departments operate or what information they do have.

<sup>217</sup> As stated by Hatem (1994), despite the availability of organizational documents in Egypt, access to documentation is restricted, problematic, and only available through highly controlled channels.

<sup>218</sup> The researcher had, at times, to wait for long periods doing nothing while the people who will be collecting the annual reports from the archives were doing other urgent tasks (as they said). One had to be completely attentive to them or else they would have said "she doesn't care why should we!". Thus, nothing can be done while waiting other than following them with my eyes.

<sup>219</sup> People, who were supposed to help in collecting annual reports from archives, were always absent for different reasons. Sometimes illness or sickness, sometimes a daughter of one of them had an accident. These personal circumstances always happened.

<sup>220</sup> Photocopying people were reluctant to do it as they felt it is an overburden and some were given some gifts as a means of encouragement. In addition, fees for the annual reports were paid in two instalments to the CASE and CMA. One was a down payment of 50 % before starting the process of collecting the annual reports from the archives and the rest was after finishing the process and arriving at the final number of annual reports collected.

<sup>221</sup> Some days the researcher, after getting permission, had to stay till 9 or 10 pm with employees gathering annual reports from the archives and photocopying them. Employees who normally finish their day at about 4-5 pm would never agree to stay until late at night without being compensated with some sort of gifts.

<sup>222</sup> These archives are non-organised, not even in alphabetical order and annual reports had to be hand collected. Thus, searching for annual reports in the archives is done manually due to the fact that these are not electronically saved.

researcher (see also, Abd-Elsalam (2002) for similar experiences). Obtaining the full version requires several daily visits or else nothing would be collected. Moreover, not all of the annual reports are available. However, a reasonable final sample was collected that allows the study to be completed<sup>223</sup>.

### **6.3.1 What Do Annual Reports Collected Look Like?**

Through the whole stage of collecting annual reports, it is observed that there is no standardised format of an annual report amongst all Egyptian companies. However, it is noticed that although there are minor exceptions and variations, the Annual Reports comprise the balance sheet, the income statement, the cash flow statement, profit appropriation statement, statement of changes in shareholders' equity, notes of the financial statements, the Board Of Directors report and the auditor report. Some companies have the Chairman's Statement in addition to directors' report. Some also do include responses to the Audit report<sup>224</sup>. The Egyptian Accounting Standards, the Company Law No. 159/1981, and the Capital Market Law No. 95/1992 require the preparation of five main financial statements, namely: the balance sheet, the income statement, the changes in owners' equity statement, the cash flow statement, and the profit appropriation statement. These are, in addition to, the value added statement and the notes to the financial statements (see Section 2.6 for corporate disclosure regulations in Egypt).

It is further observed that Annual Reports vary greatly in size<sup>225</sup>. In terms of the number of pages, the size of Annual Reports in the sample varied from a minimum of 13 to a maximum of 195 pages. In terms of appearance, their quality also varied. Some were printed and presented as a well-prepared document for public relations purposes with colour printed and neatly bound report with consecutively numbered pages. This is what one calls the "official

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<sup>223</sup> See Appendix 6.5 for an illustration of the final sample construction.

<sup>224</sup> However, one company, although they sent an annual report which (to all intents and purposes) looked like an official annual report – an annual report as that which is found in and understood by those in the West – it didn't have notes to the financial statements and accounts included. These annual reports are, however, included in the sample.

<sup>225</sup> It is worth mentioning here that what the researcher meant by annual report includes 'constructed annual reports' as well (see Section 6.4.4).



annual report”. Others, however, although with consecutively numbered pages, are typewritten and then manually reproduced through duplication machines and/or photocopying. In addition, some are just paper compiled together by stapling without any numbering or by numbering each section separately. The purpose is to form what is supposed to be or to be included in what is supposed to be called an ‘annual report’. These are named, by the researcher, ‘constructed annual reports’. Content analysis of these annual reports will be conducted with complete awareness of the limitations already clear from the above mentioned analysis.

## **6.4 DIFFICULTIES OF DATA COLLECTION**

The title of this section refers to data collection in terms of gathering the annual reports, and the researcher’s main focus is naturally on problems connected with this aspect, rather than on the processing and analysis of data, which will be shed light on in the following sections.

### **6.4.1 General Difficulties With Data**

There have been many difficulties that were faced at the beginning stage of preparation for actual data collection. At the commencement, one hoped for excellent results but later, it became clear that it is a very big challenge. It was easier said than done. This stage covered the dealings with the Arabic version files where a special computer had to be found<sup>226</sup>. Non-availability of an Arabic reading-writing computer made it extremely difficult to organise the data in the files collected. It also affected the newspaper searches in Arabic newspapers, as there was a problem with typing the keyword in Arabic. However, this has been partially solved by a website which facilitates writing in Arabic through copy-paste and partially by using the only available Arabic reading-writing computer at the Language Centre, Glasgow University.

Another problem was that faced when sending emails and faxes to companies or people. Contacting these people and organisations and sending emails to

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<sup>226</sup> Read more about this in Appendix 6.2.

them was not a trouble free task and consumed a lot of time since to construct the email, express oneself in English, and structure sentences that conveys the exact messages was a very difficult task. Moreover, not all email addresses worked. Some actually failed, some returned with a note that 'permission is denied' or 'service unavailable', 'does not exist', 'name not recognised', not sent because of 'over storage limit', 'unknown user', or user not listed in public name or address book.

As to faxes, many fax numbers had problems. For example: being busy, no answer, number changed, there is a fault, not recognised, temporarily out of service, not a working number ... etc. Moreover, many faxes had to be sent several times due to failures of being sent from first attempt and had to be retransmitted. In addition, as it was difficult to check or correct the wrong faxes from Glasgow (no reliable recent directory was available for Egypt), I had to phone my family back home, dictate them the wrong fax numbers or those with problems along with company names asking them to check these numbers for correctness<sup>227</sup>.

Adding to all the above was that people or organisations contacted, rarely replied. Letters and faxes are usually not attended to and discarded. I was given many emails<sup>228</sup> of specialized people in these issues, i.e., social and environmental responsibility issues, but I never received any replies<sup>229</sup>. While

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<sup>227</sup> This was done almost daily during the period of sending faxes. However, it was funny to hear from them that a company refused to give their fax number and the person answering the phone said that he was not authorised to give such information and that he has to take permission. Another company as well refused to give the fax number on the grounds that it will be useless for me to send a fax since nobody will be willing to send me anything. Other companies said that the fax is in another location (office) and that they don't know it. They only gave the phone number of that office and once called by my family, no one replied. Actually, checking these fax numbers was not an easy task for my family as well, since fax numbers cannot be given by phoning the "phone operator". What was done is that they called the phone operator to get phone numbers and then called the companies themselves to ask for the fax number. I really appreciate their help in making these phone calls and in mailing anything that they received to me.

<sup>228</sup> Sending emails from Egypt is not as easy as in the UK. This was because of the Internet connection, which keeps disconnecting while sending an email and several trials would be the result until the email is successfully sent.

<sup>229</sup> One of these contacts was the President of AIESEC Egypt as I was told that one of their focus areas is the corporate social responsibility. Another one was an NGO that worked with social issues.



contacting people through emails, there were always delays in replies, which could reach up to several months, and follow-up emails had to be made. Sometimes even no replies were received at all. Moreover, a mobile phone number, that I was given, of a person who takes it as his job to gather information for researchers always gave the message that this mobile is switched off. Most promises to send material or of further replies were not kept under claims of being busy.

#### **6.4.2 Importance Of Personal Connections And Contacts**

It is worth mentioning, at this point, that personal connections to contacts and intermediaries are very important in Egypt. One can rarely get things done without personal contacts. Different channels were used to get access to the data required. The snowball effect<sup>230</sup> describes best the manner in which contacts were made. Getting things done in Egypt is really dependent on personal contact, building rapport and building relationships. It is also most important, from one's experience, to have the right contact. It should, however, be noted that access was much easier when I had a 'warm' contact; someone who already closely knew me. The success rates were somewhat lower with 'cold' contacts. In almost every case, it was necessary to be persistent (Easterby-Smith et al., 1991); in being patient during the photocopying of the annual reports and in making follow-up calls. Although people who were responsible for photocopying were given gifts, these had an effect and worked well only on the day things are given. Three or four phone calls might be necessary before anything was done to the contentment of the researcher.

In collecting annual reports for this research, one relied on 'Brokers' who in turn connected the researcher to 'Patrons'<sup>231</sup> (Easterby-Smith et al., 1991:47). Brokers are important because they know the way round the system, and are

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<sup>230</sup> Friends contacted through emails connected me with their friends back home also through email.

<sup>231</sup> Brokers are social "fixers" who use their secondary resources such as information and use a wide range of contacts in order to achieve their ambitions. Patrons are people with direct control over primary resources such as people and money (Easterby-Smith et al., 1991:47).

known by others. They may be able to advise on questions such as, which people are able to grant access to a particular organization or a particular piece of information. It has been the case that contacts to reach 'Brokers' were executed through further personal contacts. There was also the problem of people leaving their positions and thus, new contacts in the same place had to be found. Thus, access was heavily dependent on the institutionalised tradition of personal contacts. Without the availability of contact person, very little could be achieved.

#### **6.4.3 Mis-Perception Of An Annual Report**

From all the replies I got regarding Annual Reports when asking about availability in Egypt, I realised that the word "Annual Report" is used as a synonymous and equivalent to "Financial Statements" or to "Financial Statements and Notes To The Financial Statements" sometimes adding to it the "Auditor Report". Availability was thus assured based on this misperception. This was evident from replies received and attitudes of several people and organisations contacted.

For example, one of the contacts suggested checking websites of CASE and CMA where, he alleged, I could get the annual reports. He also offered to email me with the annual reports of the listed companies. What was received was an excel file with the totals of the financial statements and some financial information for listed companies. Another example was that a reply was received from a company that is supposed to be selling annual reports assuring that it had the annual reports of listed companies available with that of 100 most actively traded companies translated into an English version. When visiting the company to give a list of the companies whose annual reports are required, it was realised that they meant the financial statements and its notes rather than the whole annual report. Moreover, some companies, which



responded to faxes and letters requesting the annual reports, sent their financial statements and notes to the financial statements<sup>232</sup>.

In addition, a contact with the CASE previous to the personal visit to Egypt resulted in them preparing a huge file with the financial statements of the listed companies whose annual reports were requested. Even during my visit to Egypt to collect the annual report, it was realised that this mis-perception was not uncommon but rather prevailing.

#### **6.4.4 Rare Availability Of A Genuine Annual Report And Constructing Annual Reports**

Annual Reports are really difficult to get if not impossible since most of the companies don't even have an Annual Report. As mentioned before, for most companies this was mostly paper stapled together. It was really very ambitious to ask for an English version of the annual reports as it proved to be very difficult and troublesome to get a page of the Annual Report in Arabic, let alone the whole Annual Report and in English. The common unavailability of genuine annual reports resulted in having to construct annual reports from photocopied papers. This was even sometimes achieved by photocopying the financial statements and notes available from CASE and stapling them with the Board of Directors report, which was available and photocopied from CMA. Section 6.3.1 provides a description of what the annual reports looked like.

Due to prevailing misperception of what an annual report is, as discussed in the previous subsection, some annual reports were only the financial statements and the attached notes. This research was not limited to the financial statements only but rather was related to the entire contents of the annual report, which normally includes at the minimum the following: • Board of directors report, • Audit report, • Financial statements, and • The explanatory notes attached. Thus, the case was the necessity of constructing

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<sup>232</sup> Companies that sent their financial statements, notes to the financial statements, and/or auditor report, were asked to send the annual report after explaining what one meant by annual report. However, the researcher never got any replies from them.

annual reports. Incomplete annual reports according to the above criteria were consequently not included in the analysis.

While constructing the annual reports, there have been many common items between what is required in law and what is covered in corporate disclosure studies conducted in Egypt (see for example, Mahmoud, 1999a). These included the five main financial statements (Balance Sheet, Income Statement, Statement of Changes in Owners' Equity, Cash Flow Statement, and Profit Appropriation Statement), the notes to the financial statements, the Board of Directors Report, and the Audit Report. However, it has to be noted that if the annual report included more than the above, nothing will be discarded. Examples are: a performance evaluation report attached to the annual report and the value added statement. This is not uncommon in Egypt. This in addition to other extra disclosure concerning description of the company, complementary tables and diagrams, and future plans and prospects which are not put as a requirement for an annual report but are disclosed by some companies. This is a justification for choosing the items used in constructing the annual reports.

There had been cases where, for example, the complete annual reports of a company were available for years 1998 and 2000 while that of 1999 had some missing pages. In such similar occasions and where the contents of the annual reports and, accordingly, disclosure is similar in every year (as realised from the complete annual reports available), missing pages or sections in an annual report were extrapolated from the other complete annual reports in terms of number of pages and volume of content of CSR.



## 6.5 FINAL SAMPLE AND RESPONSE BIAS

Initially, it was intended to collect annual reports for the largest 100<sup>233</sup> Egyptian companies (in terms of market capitalization<sup>234</sup>) listed on CASE in each year from 1998 till 2001. Taking the decision to target largest companies is based on findings of previous research which suggest that largest companies are most likely to have 'best practices' of corporate social reporting in terms of level of disclosure (Adams et al., 1995b; Adams et al., 1998; Neu et al., 1998; Andrew et al., 1989) and quality (Cowen et al., 1987). Moreover, any trends or switch points are thus likely to be more pronounced in larger companies than in smaller ones which would make the study more meaningful (Campbell et al., 2003). This can also facilitate comparison with studies that used largest companies. However, due to difficulties encountered, explained above, in collecting these annual reports while in the UK or during the visit to Egypt where annual reports had to be personally collected by physically going to Egypt, this criteria in deciding about the sample slightly changed and is very much dependent on the availability of the annual reports in CASE and CMA<sup>235</sup>.

The final sample collected included the annual reports of 82 companies with a total of 279 annual reports of some listed Egyptian companies for the four years 1998, 1999, 2000, and 2001. This includes all annual reports collected whether while in UK or during the first fieldwork visit to Egypt. These companies represent, if only to a slight degree, most of the industry sectors

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<sup>233</sup> It was later decided, and after realizing the difficulties of data collection, that the target would be towards the top 150 listed companies in each year. This led the final number of companies over the four years to reach 236. Including the actively traded companies not included within these 236, increased the targeted companies by 14 reaching, at the end of the day, 250.

<sup>234</sup> This is in line with prior literature (Adams et al., 1998; Adams and Harte, 1998; Hackston and Milne, 1996; Gray et al., 1995a; Guthrie and Parker, 1990; Newson and Deegan, 2002) where market capitalisation was used as a size ranking of the companies. Moreover, selecting from publicly listed companies improves chances of obtaining English version annual reports (Newson and Deegan, 2002).

<sup>235</sup> Given the annual reports collection difficulties, the annual reports were collected on the basis of the next available. However, most of the annual reports collected are among the top 150 companies.

operating in the Egyptian economy<sup>236</sup>. Some of the annual reports were in English Language while the majority of the Annual Reports collected were in Arabic. Only eight annual reports were obtained in both languages<sup>237</sup>. Due to difficulties of collecting annual reports and its absolute dependence on accessibility and availability, two industries were not represented at all<sup>238</sup>. Moreover, some industries were not sufficiently represented in terms of number of annual reports collected for companies from those industries<sup>239</sup>. The criteria for selection were not followed strictly and thus, what was aimed to in terms of the final sample was not achieved. This might, however, make it difficult or affect the results and in turn conclusions arrived to, when comparing with UK data. The inevitable non-response of companies in the first place biased the final sample<sup>240</sup>. The bias might distort the findings as companies who did not respond, and whose annual reports were not collected, might belong more to one segment (industry) of the population than to another.

The sample of 279 annual reports, collected in the manner explained above, includes 11 annual reports of 4 service companies and the rest industrial companies. The final sample represented between 12-13% of the whole population in any one year. The companies vary greatly in size ranging from approximately L.E. 4 million to L.E. 9 billion in terms of market capitalization with the sample representing between 36-44% of the total market capitalisation of population in any one year, and from L.E. 18.77 million to L.E. 12.1 billion in terms of capital employed. Concerning profitability, it

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<sup>236</sup> Appendices 6.4 and 6.5 show categorisation of sampled companies into 17 different industry sectors.

<sup>237</sup> A bias test (Appendix 6.6) reveals that there are no significant differences in CSR volume between both versions. Thus, no bias is present.

<sup>238</sup> These industry sectors are: Consultancy and Services; and Social, Health and Cultural Services.

<sup>239</sup> Four industry sectors were represented by one company only each. These are: Oil and Gas; Paper, Packaging and Publishing; Tourism; and Trade and Distribution. A further two industry sectors were represented by two companies each. These are: Agriculture; and Transport and Communications.

<sup>240</sup> Low response rate from contacting companies was even expected by the private company that was believed to be selling annual reports but it turned out to be the financial statements that they sell and thus, suggested contacting companies individually.



ranged from a minimum of L.E. 160 million losses to a maximum of approximately L.E. 635 million profits.

As from CSEAR<sup>241</sup> website (2004), the final sample of UK data was composed of the largest 100 UK companies in 1998 according to turnover selected from the Financial Times website. As mentioned before, these excluded financial companies. Companies are sampled by the calendar year into which their year-end falls and are sampled by the year in which they appear in the Times 1000. As to the years 1999 and 2000, 100 UK companies from the largest 500 companies listed in the Financial Times Index were selected according to their market capitalisation. When there were problems in obtaining the annual reports of all selected sample, the search extended to the next company in the index (CSEAR website, 2004). This resulted in the sampling process being uneven.

## **6.6 CONTENT ANALYSIS METHOD**

A content analysis of annual reports from both UK and Egyptian firms provides the primary quantitative method of investigation into the present status of CSR practices in both countries, which represents the first empirical investigation in this study. The method used in this research (with regard to Annual Reports) is based on a well-established research instrument which has been developed at The Centre for Social and Environmental Accounting Research (CSEAR) in the UK to describe CSD content of UK annual reports (see Gray et al., 1995a, b).

Content analysis is a method, which has been widely used in conducting research in different areas of social sciences studies for many years (Holsti, 1969, Krippendorff 1980). It has been defined as “a research technique for making replicable and valid inferences from data to their context” (Krippendorff 1980:21). Berelson (1952:18 as quoted in Krippendorff 1980) defines content analysis as: “a research technique for the objective,

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<sup>241</sup> Annual reports are available from CSEAR archive for UK companies.

systematic, and quantitative description of the manifest content of communication”. Abbott and Monsen (1979:504) also define it as:

*“a technique for gathering data that consists of codifying qualitative information in anecdotal and literary form into categories in order to derive quantitative scales of varying levels of complexity”.*

Although content analysis method has not been utilised on a wide scale in conventional fields of accounting research (Gray et al., 1995b), it has been extensively used within CSR literature with most studies based, with some further developments, on the approach followed by Ernst and Ernst (1976 et seq.) or Guthrie and Mathews (1985). It is usually the case that this method is used in undertaking social and environmental accounting research to analyse annual reports (see, Abbott and Monsen, 1979; Gray et al., 1995a; Williams, 1999; Wilmshurst and Frost, 2000; Patten, 1995; Deegan et al., 2002; Hackston and Milne, 1996; Ernst and Ernst, 1978; Guthrie and Mathews, 1985; Zeghal and Ahmed, 1990; Campbell, 2000; Guthrie and Parker, 1989, 1990). However, content analysis has also been used to analyse CSR contents disclosed through other sources of communication such as: web pages, newspapers, or internal newsletters (see for example, Zeghal and Ahmed, 1990; Williams and Ho Wern Pei, 1999; Unerman, 2000).

As one objective of the study is to investigate the pattern of corporate social reporting in corporate annual reports, this makes content analysis an appropriate method to fulfil the underlying objective and mostly suitable to provide a description of the CSR content in the annual reports. As a documentary method, content analysis is largely apposite for analysing corporate annual reports, which includes unstructured data in the form of documentary demonstrations accepted by the content analysis method (Krippendorff, 1980). Moreover, content analysis can cope with large volumes of data as per the annual reports (Unerman, 2000) and is context sensitive (Krippendorff, 1980).



Whilst various semiotic forms of analysis – as an indication of meaning – (of which content analysis is one – see for example Lehman, 1992 as cited in Gray et al., 1995b) offer different ways in which to address the analysis of text, one of the attractions of content analysis is that it can be used to determine volumes of disclosure. Not only does this give us a quantitative measure (which, in turn, gives us a basis for formal comparison, statistical analysis and/or testing of formal hypotheses) but the central assumption underlying content analysis is that what a person (or organization) says about themselves, tells the reader (or listener) something about that person or organization. More specifically, as Krippendorff (1980), for example, demonstrates, it is perfectly plausible to infer that the more an individual or organization says on a subject the more that subject matters to that individual. The extension to corporate social and environmental accounting research being that the amount that a company says about say; environmental issues or employment matters, can be taken as an indication of the importance of that issue to the reporting organization (see, Deegan and Rankin, 1996; Neu et al., 1998). Thus, for example, changes in the volume reported might be taken as indicating that an issue has changed in importance in the eyes of the organization as an object of concern. The following subsections will discuss and describe the method (research instrument) used in this research in more details along with efforts made to achieve reliability.

#### **6.6.1 Where? Corporate Annual reports**

Before beginning any content analysis research and for its description some issues need to be addressed. These issues are to cover ‘what is to be analysed’, ‘where’ and ‘how’. The following discussion will start as to ‘where’. This simply means the communication media or as termed by Krippendorff (1980) ‘the sampling unit’. Krippendorff (1980:57) defines sampling units as “those parts of observed reality or of the stream of source language expressions that are regarded independent of each other”. To investigate the research question through content analysis entails undertaking the first sampling decision which is the choice of the communication source, which needs to be analysed. The medium employed in this study is a documentary secondary data source issued

by the corporation, namely, the Corporate Annual Report. The justification for the selection of annual reports only as to this part of the empirical investigation is presented in the following subsection.

### 6.6.2 Why Annual Reports?

The first empirical investigation of this research is restricted to the annual reports of companies. It is acknowledged that companies – and Egyptian companies are no exception – frequently disclose information – including social information – through other channels<sup>242</sup>. However, such forms of disclosures are excluded and are outside the scope of this thesis.

With particular reference to Egypt and as far as relevant to this research, the exclusive choice of and focus on the annual reports is first and foremost based on the fact that – to the best of the author's knowledge and from her experience – there are little or no alternative sources of corporate social information in existence and/or accessible in Egypt to conduct the study. The annual report is the only common document and the only readily available source of information amongst companies by legislation which facilitates comparison (Tilt; 1998, 2001). This also facilitated access as annual reports of listed companies were available, however with great difficulties, from CMA and CASE.

Moreover, this research follows the vast bulk of CSR literature in using the annual reports as a sole or main source of social disclosure for the sample of the study to explore corporate social reporting. Attempts to collect data on

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<sup>242</sup> Other sources that companies might use to reveal information may include: press and media releases, television and radio commercials, newspaper advertisements and announcements, participation in industry initiatives, interim reports, standalone social or environmental reports, focus groups, internal employee newsletters, company publications as booklets or brochures, school education, employee councils, Internet websites, quarterly trading statements, discussions and meetings with financial analysts and journalists, and the Chairman's bulletin to shareholders (Zeghal and Ahmed, 1990; Unerman, 2000; Adams et al., 1995b; Yamagami and Kokubu, 1991). From an idealist point of view, all these varieties of communication mechanisms should be investigated to comprehensively capture all corporate social reporting and disclosure and to provide a full image or picture of corporate social reporting practices (see, Unerman, 2000; Zeghal and Ahmed, 1990; Harte and Owen, 1991; Holland and Foo, 2003; Roberts, 1991).



CSR with the annual report being the primary focus of disclosure as in line with most studies<sup>243</sup> in the area of social and environmental accounting, might facilitate comparative studies.

Various reasons have been put forward throughout the accounting, including CSR, literature regarding the importance of the annual report and its justifiable use in an exclusive manner in exploring CSD. It is argued that annual reports, as the final product of the accounting system in any economic unit, is probably the most important and popular medium by which an organisation conveys information about its operations to the public (Milne and Adler, 1999; Adams et al., 1998; Mohamed, 1993; Hines, 1988; Niemark, 1992) and a primary source and channel of corporate communication of corporate social information (Wiseman, 1982; Gray et al., 1995b; Adams et al., 1995a, b; Fekrat et al., 1996). Mahmoud (1999b) adds that the annual report is a high status informative media especially in societies where there is deficiency in other external sources of specialized information, of which Egypt is an example.

In addition, the annual report has been extensively and exclusively used in almost all studies into corporate social reporting (CSR) due (arguably) to its high level of credibility (Tilt, 1994); usefulness to various stakeholders and various sectors of the community (Deegan and Rankin, 1997; Tilt, 1994; Buhr, 1998; Neu et al., 1998; Epstein and Freedman, 1994); formality and being a statutory report incorporating both statutory and voluntary disclosure (Hackston and Milne, 1996; Buhr, 1998; Wilmshurst and Frost, 2000); regularity (Niemark, 1992; Tilt, 1998, 2001; Adams et al., 1998) thus providing a consistent measure (Tilt, 1994); availability and accessibility (Tilt, 1994; Adams and Harte, 1998; Wilmshurst and Frost, 2000; Cormier et al.,

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<sup>243</sup> See for example, Abbott and Monsen (1979); Bowman (1973); Bowman and Haire (1975); Anderson and Frankle (1980); Deegan and Rankin (1996); Guthrie and Parker (1989); Deegan and Gordon (1996); Guthrie and Parker (1990); Ingram and Frazier (1980); Wiseman (1982); Rockness (1985); Freedman and Jaggi (1982), Chan (1979); Freedman and Wasley (1990); Hackston and Milne (1996); Ingram (1978); Patten (1991); Rockness et al. (1986); Adams and Harte (1998); Adams et al. (1998); Niskala and Pretes (1995); Freedman and Stagliano (1995); Gray et al. (1995a); Harte and Owen (1991); Campbell (2000); Deegan and Rankin (1997); Tsang (1998); Brown and Deegan (1998); and Gamble et al. (1996).

2004; Kuasirikun and Sherer, 2004); contents being under total editorial control of the company which makes a good indicator of corporate reporting intent towards any given issue mentioned therein (Neu et al., 1998; Niskala and Pretes, 1995; Guthrie and Parker, 1989); its permanency – being a historical document – as a record of the activities a firm's management has chosen to reveal (Cormier et al., 2004); and being the only published document that is popular and widely distributed (Campbell, 2000; Toms, 2000; Buhr, 1998; Ernst and Ernst, 1978).

It has also been noted that the annual report is used by the company as a method of reflecting an image about itself within the society (Niemark, 1992) and as a vehicle for showing the public that the corporation is living up to its social obligations (Fry and Hock, 1976). Thus, a company will exert more intellectual commitment, effort and care when deciding about its annual report content, as it will have an influence on how the company will be perceived and this may accordingly represent a better indicator of the company's attitude to an issue. Adams and Harte (1998) add that the corporate annual report's importance lies in what it discloses as well as what it doesn't, with reference to social issues (see also, Buhr, 1998). They also add that the annual report has potential influence in shaping what is seen to be important in society and thus provides management an opportunity to report on what it perceives as appropriate (Adams and Harte, 1998; Adams et al., 1995a; Niemark, 1992).

Gray et al. (1995b) also suggest that the annual report is a major medium for the company to promote itself, and its inclusion of social and financial issues gives it greater importance. This allows the recognition of the potential for conflict between the organization as a financial entity and it as a social and environmental entity which is central to CSD (Hackston and Milne, 1996; Mathews, 1987; Owen et al., 1987). For these reasons and following the lead of CSD literature, the annual report is also considered in this study as the most reliable source for information, including social and environmental information, about the organization.



Moreover, to investigate all possible media of corporate social disclosure, even if available, is a very expensive, time-consuming and infeasible approach. Such an analysis is pragmatically, financially and technically infeasible. It can be said that it is impossible to collect data on corporate social reporting for a number of companies over a number of years from all communication media and any such claims would be questionable (Gray et al., 1995b). Thus, the annual report is chosen for pragmatic reasons as well<sup>244</sup> (Zeghal and Ahmed, 1990).

### 6.6.3 What? Categories

In this subsection, themes of CSR are to be discussed. Conducting content analysis research requires an accurate and exclusive definition concerning what is to be studied. This entails precise identification of main categories of CSR along with relevant further subcategories, which will be applicable equally to all sampled annual reports. Deciding about the categories to which the disclosed information will be assigned was not free from problems or difficulties.

Following Gray et al. (1995b)<sup>245</sup>, four major mutually exclusive categories of CSR formulate the main themes of CSR. These are also found to be employed consistently throughout the CSR literature. These four categories are: natural environment, employees, community, and consumer. Moreover, 'directors' and 'corporate governance' categories are added following recent developments in UK (CSEAR website, 2004)<sup>246</sup>. In addition, a 'general other' category is added to capture any areas or issues that do not fit in any of the main categories and 'new' meanings which emerge overtime (Gray et al., 1995b). This 'general other' category is also useful in capturing any disclosure

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<sup>244</sup> Unerman (2000) states that even though disclosure is made in many different communication mediums a limit must be put on the choice of documents to analyse. Moreover, consistent identification of all forms of disclosure over a period of time is likely to be problematic (Hammond and Miles, 2004).

<sup>245</sup> Gray et al. (1995b) went through thorough procedures of reliability testing and replication before finalizing the definitions of the categories.

<sup>246</sup> As to 'directors' category, which includes directors' emoluments and remuneration including pensions and share options, it has been added and separated from employee data in 1993 and 1997. 'Corporate governance' is a new category introduced in 1993.

regarded as CSR in Egyptian annual reports but are not included amongst the previous categories. The above categories are further subdivided into subcategories to capture CSR within the main categories<sup>247</sup>. This mainly allows for separation of voluntary and mandatory CSR disclosures, which differ among countries (Gray et al., 1995b). Decision rules are also established to define which CSR item is to be disclosed under which category and subcategory<sup>248</sup> and thus, facilitate codifying data. Having established “explicitly formulated rules and procedures” (Holsti, 1969), enhances the objectivity and reliability of the research instrument used and thus, facilitates replication by other researchers with similar results (Krippendorff, 1980).

As the research instrument established by Gray et al. (1995b) is to be applied in a different context (Egypt), there was a concern about the applicability of this Western instrument for conducting content analysis of Egyptian annual reports. Driven by the above, a pilot study was inevitable. After collecting some annual reports and studying the legal, social, cultural context of Egypt and before finalising the categories and decision rules for this study, a pilot study was conducted. Through this pilot study, the researcher read over a sample of the annual reports collected (40 annual reports) to get a sense of what themes or categories are common in Egyptian annual reports and decide whether they fit in Western-context instrument as represented by the research instrument of Gray et al. (1995b) and as a test of this instrument in the Egyptian context.

The results of this pilot study revealed that Gray et al. (1995b) research tool is applicable to the Egyptian context as almost all of the CSR themes in the Egyptian annual reports fell within one of the categories or the subcategories already established. However, not all subcategories had one or more

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<sup>247</sup> See Appendix 6.7 for main CSR categories and subcategories.

<sup>248</sup> See Appendix 6.8 for Decision Rules (compare CSEAR website for UK decision rules). The final categories and the decision rules defining these categories (as developed by Gray et al., 1995b and updated from CSEAR website) are primarily adopted in this study due to the rigorous nature of their development and their compliance with Krippendorff's (1980) requirement for objective, systematic and reliable criteria for content analysis.



disclosure<sup>249</sup>. The only apparent difference is a kind of disclosure relevant to Egyptian context, that is, disclosures that reflect religious influence, which did not fit in any of the categories. These include such examples as: ‘thanks to God (Allah)’, verses from the Holy Qur’an and prayers. This however are added as a separate ‘general other’ category as it is found that these disclosures are not uncommon in most Egyptian annual reports and might be a manifestation of Egyptian Islamic culture and its influence.

Other amendments were needed as to subcategories mainly due to different mandatory and voluntary reporting requirements<sup>250</sup>. Examples are: ‘profit sharing’; previously included with ‘employee share ownership’, and ‘provision for employee benefits’ which represents the costs incurred in the provision of employee non-financial benefits; which is a part of ‘employee other’ disclosures. These two subcategories are separately recorded, as they are mandatory disclosures under Egyptian laws and regulations.

In addition, some changes in respect of decision rules were undertaken where these appeared to have no relevance to the Egyptian context or where additions were performed to include any further relevant items. Full presentations of such additions and any deletions are in Appendix 6.8.

Thus, with only minor alterations and amendments in the subcategories or decision rules defining them, the whole instrument as formulated by Gray et al. (1995b) including categorisation, is equally effective in capturing CSR in Egyptian annual reports as it is in the UK context and thus, deemed viable in different contexts. Thus, objectivity is achieved through the development of this set of categories and subcategories that is able to encompass all themes

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<sup>249</sup> For example, none of the following subcategories had any disclosure by any company: sustainability information, employee disability information, and employees’ equal opportunities.

<sup>250</sup> See Appendices 6.10 and 6.9 for legal disclosure requirements in Egypt and for a summary of mandatory and voluntary categories in the Egyptian context. For UK CSD legal requirements and for mandatory/voluntary categories, see Gray et al. (1995b) and CSEAR website.

and items of CSR with even new themes that arise over time<sup>251</sup>. This, in addition to clearly defined, precise and unambiguous decision rules which makes the categories exhaustive; i.e., all relevant items in all annual reports sampled are placed within a category, and mutually exclusive; i.e., each relevant item could not be categorised under more than one category or subcategory (Holsti, 1969; Krippendorff, 1980; Gray et al., 1995b). This also deems the instrument systematic, where the inclusion and exclusion of categories must be done in accordance with steadily applied rules (Holsti, 1969).

#### 6.6.4 How? Measurement Issues

This subsection relates to how CSR is to be measured and the unit of measurement (Enumeration unit). The literature suggests two methods by which the content of CSR can be captured and measured (Gray et al., 1995b). These are either through the number of CSR disclosures (frequency) or through the amount or volume of disclosure. Using the latter is argued to arrive into richer data set (Gray et al., 1995b) and the same approach is adopted in this study. The mechanism of measuring CSR by volume can be done in three ways: by words (see, for example, Zeghal and Ahmed, 1990; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Wilmshurt and Frost, 2000; Campbell, 2003; Campbell et al., 2003; Brown and Deegan, 1998), sentences (see, for example, Ingram and Frazier, 1980; Wiseman, 1982; Hackston and Milne, 1996; and Adler and Milne, 1997) or page proportion (see, for example, Guthrie and Parker, 1989, 1990; Patten, 1991, 1992, 1995; and Gray et al., 1995a; Campbell, 2000<sup>252</sup>). In this study and following the CSEAR research instrument (Gray et al., 1995b), volume of disclosure is captured by measuring the proportion of the page which reflects the amount of space given to a theme and which in turn reveals the importance of this theme

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<sup>251</sup> It is noted by Unerman (2000), however, that content analysis is a subjective process (see also Hall, 2002) and that “even if the reliability of coding instructions and their implementation is demonstrated to be high, reliability measures can only indicate the level of ‘intersubjective agreement’ (Krippendorff, 1980:131) among the researchers carrying out a particular study, rather than indicating objectivity of classification” (Unerman, 2000:677).

<sup>252</sup> Campbell (2000) found the word count and page proportion count measures relatively comparable.



to the company (Krippendorff, 1980; Deegan and Rankin, 1996; Gray et al., 1995b). This also allows taking into account relevant pictures, photographs, charts and graphical representations, which are not possible under, measuring by a word, sentence or paragraph and thus, not using a page proportion measure decreases the total volume of disclosed information (Unerman, 2000).

An A4 template<sup>253</sup> that is divided into 100 equal cells in terms of height and breadth (4 columns \* 25 rows) is used to measure disclosure. Using a transparent grid (sheet)<sup>254</sup>, by placing it over sections of the disclosure item – whether text, pictures, or captions, the number of cells within which the disclosure fits are counted and that results in the proportion of the page occupied by this disclosure to two decimal points. One cell is equal to a hundredth of a page. Thus, after identifying what is considered to be CSR and after deciding upon which category or subcategory it fits in using the decision rules defined, the above measurement procedure is applied.

However, it has been criticised by Milne and Adler (1999) that measuring disclosure by using page proportion through the grid does not take quality of information into account due to loss of some information. Following the approach undertaken by Guthrie and Mathews (1985), Gray et al. (1995b) treated this through including quality assessment categorisations. Three categories are used, namely ‘evidence’, ‘news’ and ‘auditability’. ‘Evidence’ categorisation is through deciding whether the nature of the disclosed information at hand is monetary, quantitative, or declarative<sup>255</sup>. As to ‘news’, it reveals whether the news communicated by disclosure is good, bad, or

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<sup>253</sup> It is assumed that all annual reports are in the form of A4 pages. This is actually true for most of the annual reports but for some the page size is less than A4. In this case, page size is ignored following Gray et al. (1995a:99): “Actual physical size of page is to be ignored – ... A measure of page size was collected but appeared to convey little information and so, probably, can be ignored”.

<sup>254</sup> See Appendix 6.11 for a structure of the grid.

<sup>255</sup> Numerical information is generally more useful than descriptive information on a company’s social and environmental impact (Milne and Adler, 1999). A number of previous studies applied these categories to measure the nature of disclosure (e.g., Guthrie and Parker, 1990; Zeghal and Ahmed, 1990; Walden and Schwartz, 1997, Williams and Ho Wern Pei, 1999; Belal, 2001).

neutral. Finally, ‘auditability’ is concerned with whether the information disclosed is auditable or not if access to the organisation is secured<sup>256</sup>.

#### **6.6.5 The Actual Recording Process**

After getting the annual publications of the companies from which annual reports are constructed (see Sections 6.3 and 6.4), and after organising these annual reports by years, the actual recording process starts. This was, however, preceded by the pilot study, mentioned above (see Section 6.6.3); during which finalising the different categories and subcategories division took place. This pilot study was used as a training stage as well. As noted by Krippendorff (1980), training of coders is important and is a common elementary task in content analysis. During this period of training, categories and subcategories are refined, processes are altered, and data sheets are revised until one felt comfortable with doing the job reliably and efficiently. Thus, content analysis during this stage was done intensively word-by-word to get the common trend and to build the basis upon which the final sample will be analysed. During this period as well, any difficulties<sup>257</sup> in understanding decision rules or in applying them were pointed out and discussed with CSEAR staff to ensure the presence of “shared meanings” (Gray et al., 1995b) and enhance validity (Holsti, 1969) of the instrument used. Any difficulties or problems arising are discussed with CSEAR personnel until an agreement and consensus is reached. As a result, the researcher developed a feel that enables her to scan the annual report and spot the CSR disclosure that may exist in that report.

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<sup>256</sup> See Appendix 6.12 for definition of each of these terms which provides guidance on such judgement.

<sup>257</sup> Usual kinds of problems arising are confusion between which subcategory best fits a content unit of observation and which criteria to use in choosing among categories. Sometimes certain disclosures were missed out, as the researcher was not yet familiar with the decision rules and their interpretations. Moreover, accuracy in measuring the volume using the grid was in some occasions a problem especially as to how to decide about reasonable allowance of blank parts to include as part of the social disclosure. However, this problem was overcome by applying a consistent method in measurement. In addition, there were still other occasions when the researcher got confused about whether or not some pictures are to be included as a part of CSR.



After being trained and after collecting the final sample of annual reports, the researcher started content analysing the full sample. Every annual report was wholly scanned before coding – however very carefully – to make a judgement about whether any particular item is relevant to any of the categories of disclosure and to establish a primary understanding. This reduced subjectivity in determining applicable items. During the recording process, the context behind the specific disclosure item is stressed to ensure it being among social and environmental disclosures. However, this doesn't entail digging deeply in-between the lines and using imagination about implicit statements and meanings behind them. This can be achieved through concentrating on more general reading of the context. The 'context unit' (Krippendorff, 1980) – which is named 'unit of coding' by Milne and Adler (1999) – to decide on what is social and/or environmental is the 'sentence' in this study<sup>258</sup>. Here, the researcher read text from the document and assign to it a label (code) indicating the category considered in the study, preparing it for counting and analysis. Hence, specific statements are included and not implied meanings. Each item deemed relevant is measured using the transparent grid (see Section 6.6.4 and Appendix 6.11). The volume of disclosure, with the categories of assessed quality (see Appendix 6.12) relevant to each separate social disclosure is then entered in the content analysis form specified for this purpose<sup>259</sup>. There is one data-entry form for each annual report for each company for each year. The above procedure was repeated for every incidence of disclosure. When the case arises that more than one incidence for a particular subcategory exists, the volume of all incidences for that subcategory is summed and the total entered next to the heading of the subcategory on the relevant sheet. Subsequently, totals of subcategories are summed into one total of the relevant category. This results in, for each category of disclosure, a total figure for disclosure by any one company for any one year measured in

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<sup>258</sup> As an example when the word 'environment' is faced while scanning an annual report, the researcher from the context decides whether what is meant is ecological, natural environment or the business environment (i.e., economic, suppliers, competitors, ... etc.). Another example is the word 'tree' whether it means a business structure tree or a natural tree. If we code by word and search for 'Trees', it can thus be something that is completely unrelated to social or environmental disclosure.

<sup>259</sup> See Appendix 6.13 for Content Analysis form.

number of pages to two decimal points. Afterwards, figures for all categories are added in one total, which represents the total CSR volume for the relevant annual report<sup>260</sup>.

Content analysis was conducted twice at different dates, with the second time marking any disclosure that is consistent with the final decision rules by pencil, for almost the entire annual reports collected and constructed, to test for reliability in the form of stability (Krippendorff, 1980) and to check the face validity of the numerical results arrived at. Very negligible differences were observed between both rounds which, in turn, suggest that results are replicable. The content analysis forms filled in each stage were compared for any differences and sometimes items were missing as well as two incidence of exchange of subcategories within the main category. However, there weren't any differences as regards the assignment of disclosure items to the main categories. This was done to check for accuracy as well as completion of recording and any errors are immediately corrected. The reliability in the form of reproductivity (Krippendorff, 1980) and validity of the method and its procedures used were further tested, in addition to the use of rigorous research instrument along with its decision rules and categories, by having another researcher (in line with Milne and Adler, 1999) independently undertake some of the content analysis for a small sample of annual reports to ensure accuracy, completeness and consistency. Very minor, unnoticeable variations and disagreements between the two researchers were present mainly due to items not counted among disclosures. Generally, there was a high level of agreement<sup>261</sup>. This reveals the existence of shared meanings of the categories and the decision rules as a requirement (Gray et al., 1995b). Moreover, for all annual reports in the final sample categories and subcategories together with

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<sup>260</sup> It has to be noted here that in each content analysis form there is a memorandum field where notes could be made of any interesting observations and of page numbers of the relevant annual report relating to a particular disclosure to facilitate finding illustrations.

<sup>261</sup> Due to that both the identification and subsequent quantification of CSD is subject to a degree of arbitrariness (Wiseman, 1982; Ingram and Frazier, 1980), both myself and the other researcher made separate calculations of the CSD for the selected sample under consideration to reduce this arbitrariness. Only negligible differences in the assessment of CSD were identified. All the disagreements were discussed and reconciled.



the measured volume recorded on the forms were checked to the relevant annual reports and vice versa to ensure every entry is correctly recorded.

After adjusting for any differences, the content of the forms was transferred into a data sheet in the form of a computerised excel file database. The outcome of content analysing each annual report is entered in one row. The detailed data filled in this excel file was crosschecked against the data manually recorded on the hard forms to ensure that entry process was correctly accomplished free from errors. There have been occasions where errors were caused as a result of a slip of the eye or the pen where digits are exchanged in places. All errors in copying, emanating from this cross comparisons, are immediately corrected.

The mathematical and graphical capabilities of the Microsoft Excel was utilised and benefited from to generate sums of each category of CSD and to perform descriptive statistics of the data as well as to generate graphical representation of pattern and trends by setting up a database in Microsoft Excel for further subsequent processing of the data collected (Campbell et al., 2003). The totals of main categories and of Total CSR for every annual report were double-checked against totals calculated manually in the forms to see whether there is any mistake in formulating the formulas. However, none took place. Moreover, background data (for example, company size: market capitalisation, turnover, and capital employed; in addition to, industry sector) for all companies included in the sample of content analysis was collected and added for all four years.

## **6.7 CONCLUSION**

This chapter has thoroughly outlined the research method undertaken for the first empirical investigation conducted in this study along with an exhaustive description of the data collection process.

The chapter started by an introduction as to the purpose behind conducting content analysis of annual reports as a means of exploring CSR practices in

both Egypt and UK, and comparing accordingly. It then goes on describing the population from which the final sample was selected. The chapter proceeds with a full explanation with regard to how the annual reports were collected, however, with tremendous inevitable difficulties, which are outlined in the chapter. It was also emphasised that personal contacts is a vital element in the data collection process and hence, in conducting the research.

Details surrounding the specific use of the content analysis adopted, as a quantitative method of investigation into the present status of CSR practices in both countries, in this study are then explained and outlined with attempts to support its use in this study. The chapter highlighted the use of the research instrument of Gray et al. (1995b) due to its all-encompassing nature by which it was built up at CSEAR. The results of the content analysis of the annual reports are presented in the following chapter.



# CHAPTER 7

## CORPORATE SOCIAL DISCLOSURE (CSD)<sup>262</sup> PRACTICE (EGYPT VERSUS UK)

### 7.1 INTRODUCTION

As the reader will recall from Chapter 6, I was able to collect the annual reports (or an approximation thereto) for 82 Egyptian listed companies over 4 years. The sample, due to missing years, eventually comprised 279 annual reports. These reports have been interrogated using content analysis (as outlined in Chapter 6) and the results of that interrogation are reported here<sup>263</sup>.

The emphasis in this chapter is on description of the key data that was derived from the content analysis although, if only to provide some sense of context, the chapter will, towards the end, broadly compare the present results with current UK practices.

It should perhaps be emphasised from the start that a process such as this described here will produce enormous volumes of data<sup>264</sup> and yet (as shall be touched upon and confirmed in more detail in this chapter and in Chapter 8) there is a danger that the actual quality of the disclosure represented by that data may, in actuality, be verging on the trivial. Disclosure – and certainly corporate disclosure in the formal processes so carefully examined in the social accounting literature – is less prominent and, perhaps, less important in cultures which reflect lesser economic development as judged by Western standards and/or which exhibit those cultural characteristics (Hofstede, 1980) more easily associated with Collectivism, Power Distance, and Uncertainty Avoidance.

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<sup>262</sup> It is worth reminding ourselves here that CSD and CSR are used interchangeably in the text, figures and tables of this chapter to mean the same thing; Corporate Social Disclosure.

<sup>263</sup> We would like to remind readers of the main research question: “To what extent is CSD undertaken by Egyptian companies? What explanations can be offered for this situation? To what extent are these explanations comparable with - and supported by - those offered by the international accounting and the Western social accounting literature?”

<sup>264</sup> The first version of this chapter was over 100 pages long!

Consequently, it will not be spoiling any surprises if we recognise at the outset that social disclosure in Egypt is not especially arresting. That is not to say that it is uninteresting or that there are not interesting issues which emerge. It is just that we have to sift the data more finely to reveal the nuggets of interest. As a result the chapter is organised as follows. The chapter firstly presents an overview of the main trends in both the incidence and volume of total CSD over the four-year period followed by a description of mandatory and voluntary disclosures. A detailed description of the key voluntary social disclosure areas comes next. This is accompanied by examples extracted from the Egyptian corporate annual reports to provide further illustrations. Finally, a broad comparison with UK practices is delineated.

In Chapter 8, the findings from this chapter will be summarised and discussed in light of the recent international evidence of CSD (to be reviewed in Chapter 8). A more detailed analysis and comparison will take place. Size and industry impact on CSD practices will also be explored in Chapter 8.

## **7.2 AN OVERVIEW OF CSD IN EGYPT**

In Tables 7.1 and 7.2 below (and Appendix 7.1 which contains a series of tables on quality categorisation of data produced in Egypt) much of the raw data from the content analysis is presented. This (and the subsequent) sections will draw freely from these tables as the discussion progresses. In addition, figures showing the trend of Egyptian companies' incidence and average volume of disclosure will be introduced alongside the discussions.

The first thing to note is that all companies in the sample had some form of social disclosure due to the fact that all corporate annual reports in all years had some sort of employee-related disclosures<sup>265</sup> (see Table 7.1 and Figure 7.1

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<sup>265</sup> Total levels of CSD ranged from 22.78 pages (in 1998 of Egyptian Chemical Industries (KIMA), a Fertilizers and Pesticides industry company) most of which encompassed voluntary employee-related disclosure to 0.06 pages (in 2000 of Oriental Weavers for Carpets; a Textiles, Garments and Leather industry company) which all encompassed mandatory employees' profit share disclosure. The average volume of total CSD in the



below); and that whilst the bulk of this disclosure is of a textual nature there are examples of quantitative data produced in the annual reports (see Appendix 7.1). Of more significance, whilst Egypt has mandatory requirements for disclosure relating to charitable donations (charity), employee data, pension data, employees' profit share, VAS (value added statement), provision for employees' benefits (employee benefit provision), and directors' data (as we saw in Chapter 2 (Section 2.6), Chapter 6, and Appendix 6.10), corporate social disclosure is not limited to that which is mandatory. Ironically perhaps, it is also worthy of note that non-compliance with mandatory disclosure requirements occurred in a small but potentially striking percentage (will be discussed in more details below).

Reporting is dominated by employee disclosure (see Table 7.1) but

**TABLE 7.1**

**AVERAGE VOLUME (IN NUMBER OF PAGES) AND INCIDENCE OF CSD FROM 1998 TO 2001 DESCRIPTIVE STATISTICS (EGYPT)**

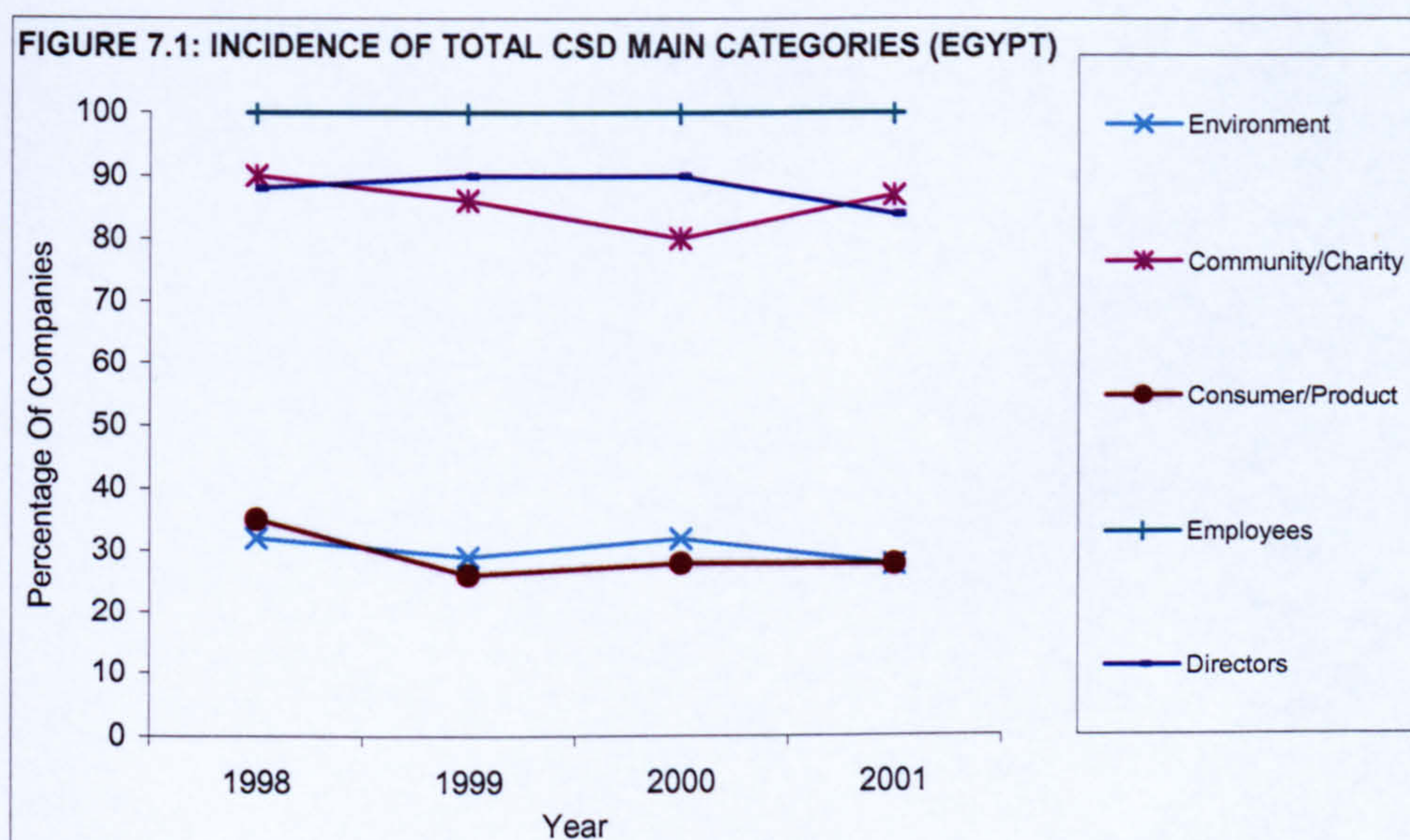
EGYPT	Mean	Max.	Min.	No. disclosing
Total CSD	2.23	22.78	0.06	279 (100)
Mandatory	1.11	4.57	0	274 (98)
Voluntary	1.12	18.99	0	273 (98)
Environmental Data (Voluntary)	0.11	2.05	0	84 (30)
Charitable Donations (Mandatory)	0.08	1.23	0	127 (46)
Community (Voluntary)	0.03	1.55	0	14 (5)
General Other (Voluntary)	0.13	1.10	0	224 (80)
Community/Charity	0.23	2.47	0	238 (85)
Consumer/Product Data (Voluntary)	0.10	2.88	0	81 (29)
Employee Data (Mandatory)	0.40	2.15	0	241 (86)
Employees' Profit Share (Mandatory)	0.11	1.06	0	233 (84)
Pension Data (Mandatory)	0.05	0.31	0	183 (66)
VAS (Mandatory)	0.25	2.00	0	42 (15)
Provision for Employees' Benefits (Mandatory)	0.04	0.52	0	131 (47)
Mandatory Employee-related Disclosures	0.86	4.21	0	272 (98)
Consultation with Employees (Voluntary)	0.0003	0.06	0	2 (0.7)
Health and Safety at Work (Voluntary)	0.02	0.56	0	32 (12)
Employees' Share ownership (Voluntary)	0.06	1.23	0	119 (43)
Voluntary Employee Other (Voluntary)	0.67	18.65	0	255 (91)
Voluntary Employee-related Disclosures	0.75	18.65	0	263 (94)
Total Employee-related Disclosures	1.61	22.27	0.04	279 (100)
Directors' Data (Mandatory)	0.18	1.39	0	245 (88)
Corporate Governance (Voluntary)	0.01	0.36	0	4 (1)

Note: The figures in brackets indicate the percentage of companies' annual reports in the sample disclosing in the relevant category.

However, it has to be recognized that the community/charity disclosure is partially voluntary as charitable donations disclosure are mandatory in Egypt.

corporate annual report over the four-year period was approximately 2.23 pages in Egypt. Employee-related disclosure comprised the majority of disclosure in Egypt at 1.61 pages.





Reporting is dominated by employee-related disclosure (see Table 7.1) but there is widespread community/charity-based reporting (85 percent)<sup>266</sup> and an incidence of environmental disclosure. Disclosure about the consumer and products is slight<sup>267</sup>. Equally, (a matter I shall return to in Chapter 8) it is worthy of note that the value added statement – a mandatory disclosure requirement – holds a significant place in Egyptian disclosure and, in this, appears to be more in line with other countries on the African Continent than is the practice in Europe or the Americas.

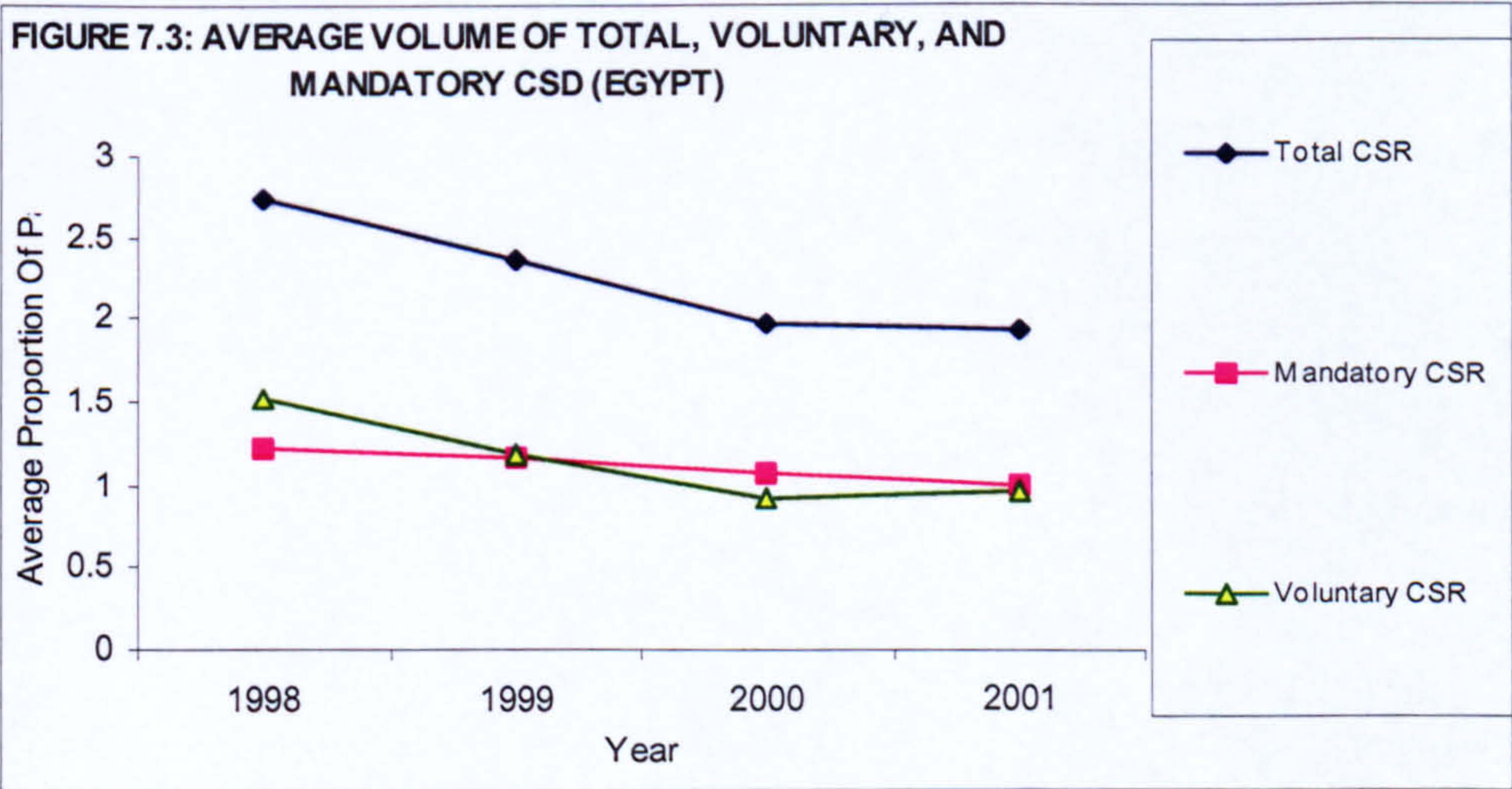
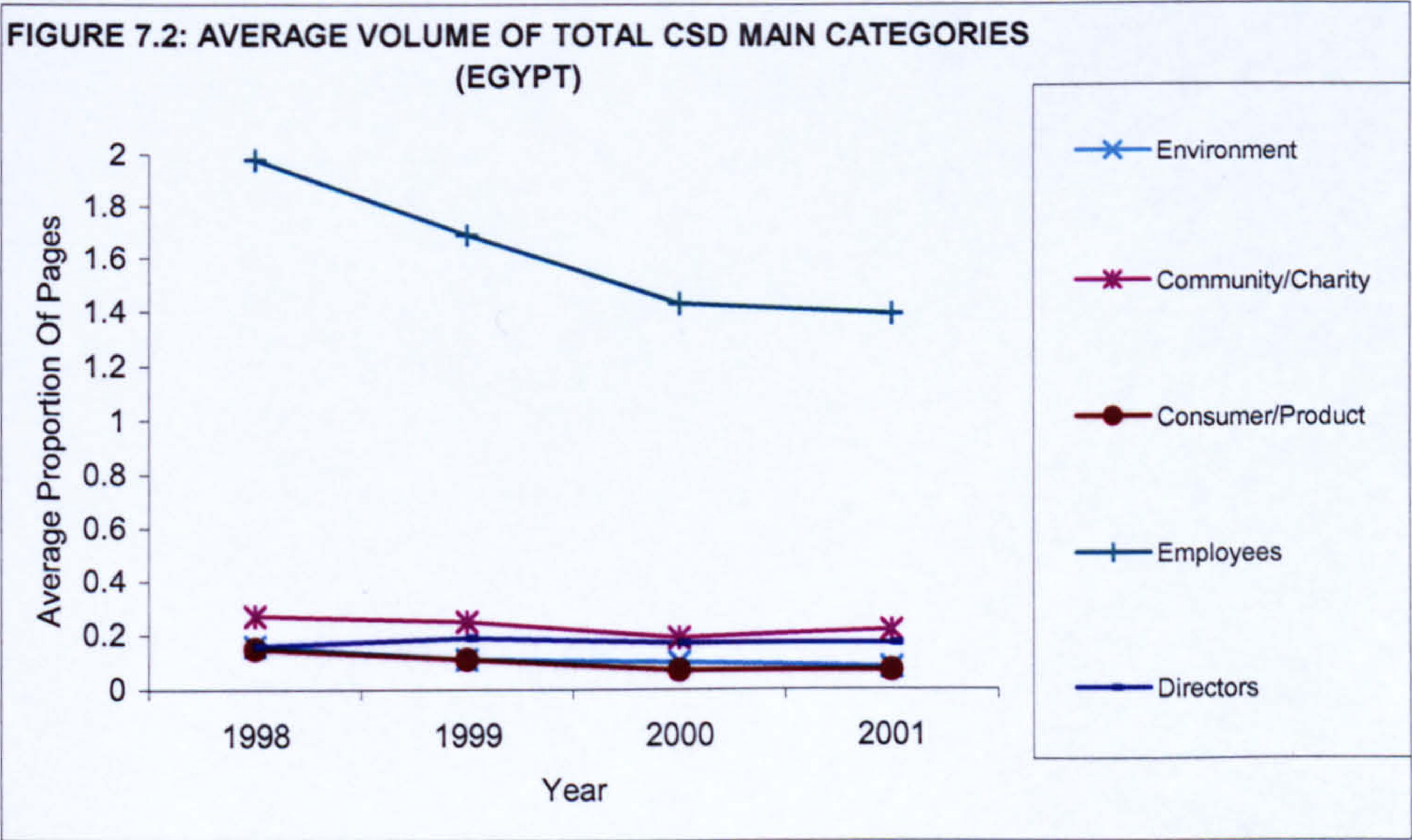
But overall, the matter which, on the face of it might be thought of as of greatest significance (if only because it runs counter to most other research), is that disclosure by Egyptian companies, appears to be *declining* (see Figures 7.2 and 7.3, see also Table 7.2). The average volume of total CSD *decreased* continuously over years from 1998 to 2001 in Egypt (see Table 7.2 and Figure 7.3) mainly due to a *decline* in voluntary disclosures. This was the case as well with the average volume of mandatory disclosure; however, the decline was less sharp and mandatory CSD exceeded voluntary disclosure in 2000 and

<sup>266</sup> However, it has to be mentioned here that community/charity disclosure is partially voluntary as charitable donations disclosures are mandatory in Egypt.

<sup>267</sup> It is clear that environmental and consumer/product disclosures – which are totally voluntary – were the least in popularity and were undertaken by 30 and 29 percent of sampled companies respectively.



2001 (see Figure 7.3)<sup>268</sup>. The reasons for this are far from obvious and, to the extent that we argued in Chapter 1 that social accounting is an important element of Egyptian development, it is an unsettling datum and one which deserves fuller investigation.



<sup>268</sup> Egyptian Chemical Industries (KIMA), a fertilizers and pesticides industry company, is a single highly disclosing company which slightly affects volume of disclosure in 1998 and 1999, due to high volume of voluntary employee disclosures, but not the pattern of disclosure.



TABLE 7.2

AVERAGE VOLUME (IN NUMBER OF PAGES) AND INCIDENCE OF CSD MAIN CATEGORIES AND SUBCATEGORIES FOR DISCLOSING COMPANIES (EGYPT)

EGYPT	1998				1999				2000				2001			
	Mean	Max.	Min.	No. disclosing	Mean	Max.	Min.	No. disclosing	Mean	Max.	Min.	No. disclosing	Mean	Max.	Min.	No. disclosing
Total CSD	2.73	22.78	0.13	60 (100)	2.36	21.86	0.12	76 (100)	1.97	9.93	0.06	76 (100)	1.94	9.93	0.16	67 (100)
Mandatory	1.23	4.48	0	59 (98)	1.21	4.48	0	74 (97)	1.07	4.57	0	75 (99)	1.01	4.57	0	66 (99)
Voluntary	1.52	18.99	0.01	60 (100)	1.20	18.09	0	75 (99)	0.95	5.84	0	73 (96)	0.98	5.84	0	65 (97)
Environmental Data (Voluntary)	0.50	2.05	0	19 (32)	0.39	2.05	0	22 (29)	0.31	1.24	0	24 (32)	0.29	1.16	0	19 (28)
Charitable Donations (Mandatory)	0.15	1.23	0	31 (52)	0.20	1.23	0	36 (47)	0.16	1.00	0	32 (42)	0.15	1.00	0	28 (42)
Community (Voluntary)	0.57	1.55	0	5 (8)	0.65	1.00	0	5 (7)	0.29	0.50	0	2 (3)	0.29	0.50	0	2 (3)
General Other (Voluntary)	0.18	1.10	0	49 (82)	0.14	1.09	0	62 (82)	0.16	1.10	0	58 (76)	0.19	1.08	0	55 (82)
Community/Charity	0.30	2.47	0	54 (90)	0.29	2.47	0	65 (86)	0.24	1.17	0	61 (80)	0.26	1.19	0	58 (87)
Consumer/Product Data (Voluntary)	0.43	2.88	0	21 (35)	0.44	2.88	0	20 (26)	0.24	1.39	0	21 (28)	0.25	1.39	0	19 (28)
Employee Data (Mandatory)	0.52	2.15	0	53 (88)	0.48	2.15	0	67 (88)	0.45	1.71	0	64 (84)	0.43	1.69	0	57 (85)
Employees' Profit Share (Mandatory)	0.14	0.39	0	52 (87)	0.12	0.39	0	65 (86)	0.13	1.06	0	64 (84)	0.12	0.28	0	52 (78)
Pension Data (Mandatory)	0.09	0.31	0	41 (68)	0.08	0.27	0	50 (66)	0.08	0.27	0	48 (63)	0.08	0.27	0	44 (66)
VAS (Mandatory)	1.55	2.00	0	11 (18)	1.62	2.00	0	13 (17)	1.80	2.00	0	10 (13)	1.75	2.00	0	8 (12)
Provision for Employees' Benefits (Mandatory)	0.08	0.27	0	33 (55)	0.08	0.38	0	34 (45)	0.09	0.49	0	33 (43)	0.09	0.52	0	31 (46)
Mandatory Employee-related Disclosures	0.98	4.03	0	59 (98)	0.91	4.21	0	74 (97)	0.84	4.09	0	74 (97)	0.78	4.09	0	65 (97)
Consultation with Employees (Voluntary)	0.03	0.03	0	1 (2)	-	-	-	0 (0)	-	-	-	0 (0)	0.06	0.06	0	1 (2)
Health and Safety at Work (Voluntary)	0.14	0.40	0	5 (8)	0.19	0.56	0	7 (9)	0.18	0.56	0	9 (12)	0.13	0.40	0	11 (16)
Employees' Share ownership (Voluntary)	0.12	0.55	0	25 (42)	0.12	0.81	0	31 (41)	0.15	1.23	0	34 (45)	0.17	1.04	0	29 (43)
Voluntary Employee Other (Voluntary)	1.02	18.65	0	56 (93)	0.80	17.75	0	69 (91)	0.58	3.56	0	69 (91)	0.58	3.56	0	61 (91)
Voluntary Employee-related Disclosures	1.07	18.65	0	57 (95)	0.84	17.75	0	72 (95)	0.66	3.89	0	71 (93)	0.67	3.89	0	63 (94)
Employee-related Disclosures	1.98	22.27	0.04	60 (100)	1.69	21.35	0.04	76 (100)	1.43	7.40	0.06	76 (100)	1.39	7.40	0.06	67 (100)
Directors' Data (Mandatory)	0.19	1.08	0	53 (88)	0.21	1.08	0	68 (90)	0.19	1.39	0	68 (90)	0.21	1.39	0	56 (84)
Corporate Governance (Voluntary)	0.36	0.36	0	1 (2)	0.36	0.36	0	1 (1)	0.36	0.36	0	1 (1)	0.36	0.36	0	1 (2)

Note: The figures in brackets indicate the percentage of companies in the sample (of each year) disclosing in the relevant category.



These, then, are the themes which will be emphasised in the following sections. Rather than provide endless detail (which the reader can derive from Tables 7.1, 7.2 and Appendix 7.1 if they wish) the subsequent elements of the chapter will focus on providing an overview of mandatory – including the place of the value added statement – and voluntary disclosures. Subsequently, key voluntary categories will be discussed including the dominance of employee reporting, the incidence in environmental reporting and counter-initiative lack of substantive community-based disclosure. Examples and illustrations will be provided where apposite. Then the data will be considered through a UK-centric lens to cast the Egyptian results into sharper contrast.

### **7.3 MANDATORY CSD IN EGYPT**

In Egypt, all mandatory information disclosed related to charity, employees and directors and was in some annual reports not even in compliance with minimum disclosure requirements by regulations<sup>269</sup>. Ninety-eight percent (274 out of 279) of the annual reports in the sample over the four-year period disclosed one or more of the mandatory information required (see Table 7.1); the maximum of which was 4.57 pages<sup>270</sup>. The five annual reports not disclosing any mandatory information are that of two companies, namely; Orascom Construction Industries (OCI) in the Building Materials, Refractories and Wood industry for 1998 and 1999, and Orascom Telecom Holding (OT) in the Transport and Communications industry for years 1999, 2000, and 2001.

As apparent from Figure 7.4 below, the average volume of total mandatory disclosure exhibits a decreasing trend from 1998 to 2001. This is due to a decrease in the average volume disclosed of almost all the subcategories of mandatory disclosure (see Table 7.2 and Figure 7.4). Moreover, none of the

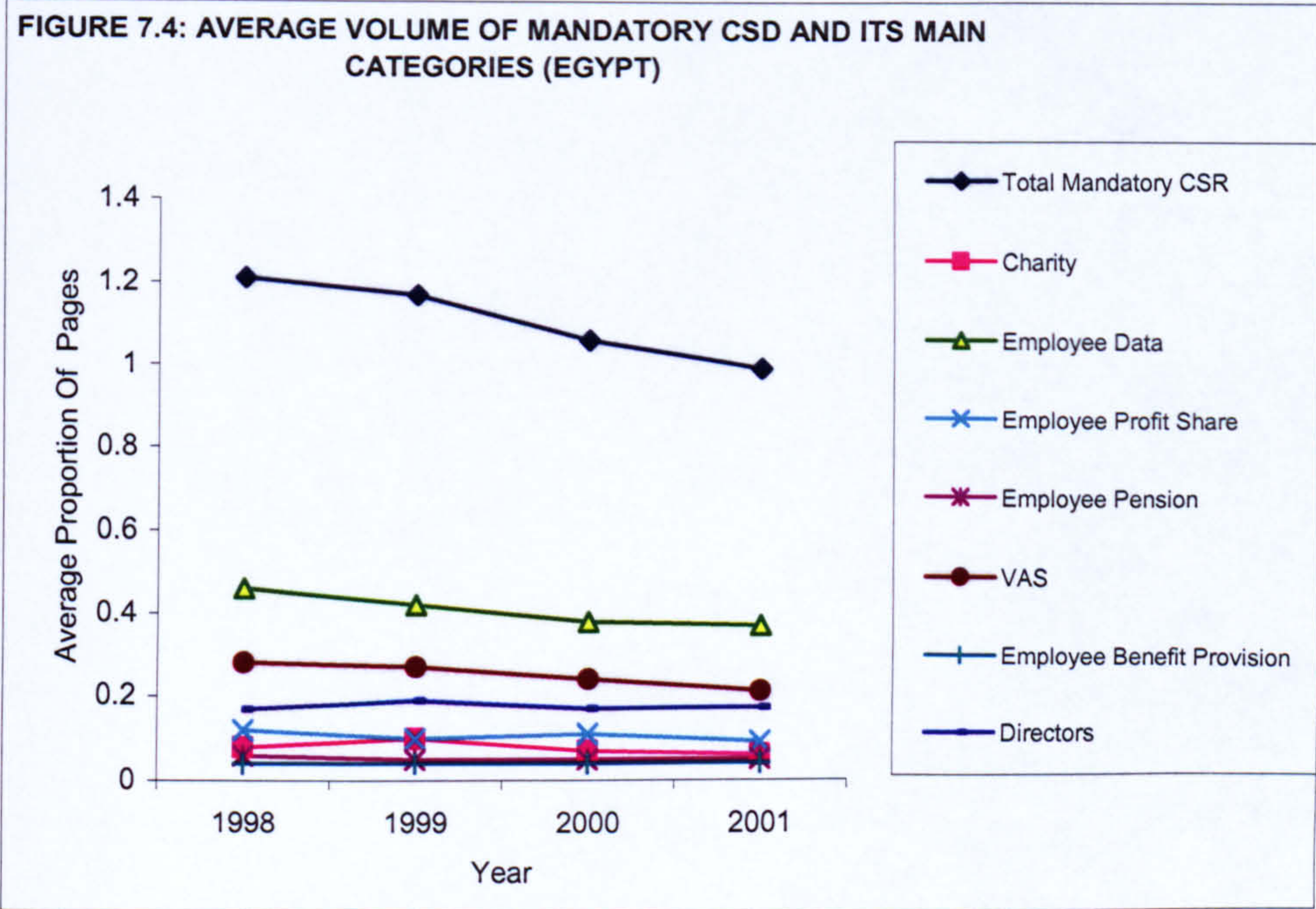
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<sup>269</sup> All mandatory CSD requirements in Egypt are in the form of financial and quantitative information. No qualitative or descriptive information is required. See Appendix 6.10 for details of CSD required by Egyptian legislation

<sup>270</sup> This is shared by four annual reports, two in 2000 and two in 2001. The companies are Bisco Misr (Food and Beverages Company) and Nile Pharmaceuticals and Chemical Industries companies (Pharmaceuticals Company).



mandatory information required was disclosed by all companies (100%) in any one year (see Table 7.2). It is clear that in Egypt, compliance with CSD legislation is deficient especially concerning VAS, provision for employees' benefits, and charitable donations disclosures which showed the lowest disclosing incidences (see Table 7.1). The following paragraphs provide a brief discussion of each category of mandatory CSD.



With regard to ‘Charitable Donations’ disclosures, over the four-year period 127 annual reports, representing 46 percent of all annual reports in the Egyptian sample, disclosed anything about charity with a maximum of 1.23 pages in 1998, 1999 for Bisco Misr, a Food and Beverages industry company (see Table 7.1). The average volume of these 127 disclosing incidences is 0.17 pages. However, in most occasions with charity disclosure, what is disclosed is just the amount of donations disclosed in financial statements, which does not entirely comply with the regulation that states that a two-year comparison donation report is to be provided by all Egyptian companies. Only ten instances gave any details or a list of beneficiaries to which donations were



given<sup>271</sup>. In addition, only one company; Cairo Precision Industries, in the Engineering and Electronics industry, mentioned about ZAKAT<sup>272</sup> payment as a percentage of profit (profit share) in years 1998, 1999 and 2000. Charitable donations information represents the second least subcategory of mandatory disclosure in Egypt in terms of popularity of companies disclosing over the whole period (46 percent) after VAS (15 percent).

Mandatory disclosures relating to employees, in the case of Egypt, comprise of: employee data (payments, salaries, costs and numbers), employees' profit share, pension data, Value Added Statement (VAS), and provision for employees' benefits. As evident from Table 7.1, incidences of disclosures, over the four-year period, made in the mandatory employees categories mentioned above showed deficiency in compliance with regulatory requirements. The least of all was VAS (15%) and Provision for Employees' Benefits (47%). The average volumes also exhibited very low levels (see Table 7.1). VAS disclosure showed a relatively high average volume of disclosure, despite showing the least instances of VAS disclosure, because in all cases a full page or two pages of the annual report were devoted to the disclosure of these statements. The majority of the instances of VAS disclosure were provided mainly by Pharmaceuticals, and Mills industry sectors<sup>273</sup>.

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<sup>271</sup> These are: Egypt Gas (Oil and Gas) 1999; Bisco Misr (Food and Beverages) 1998, 1999, 2000, 2001; Industrial and Engineering Projects (Contracting and Real Estate) 1998, 1999; Egyptian Glass Company (Building Materials, Refractories and Wood) 1999, 2000, 2001. This means that only 4 % (10 out of 279) actually complied with regulation relating to charity disclosure.

<sup>272</sup> ZAKAT is a form of donation in Islamic Law. It is a wealth tax comprising compulsory charitable-giving – fulfilling certain conditions, on the part of the well to do and rich, for specially designed groups in society mainly the poor and needy and for the welfare of the society as a whole (Uddin, 2003; Rice, 1999). Although companies are not required to explicitly disclose Zakat, it is considered as part of donations.

<sup>273</sup> No explanation is found as to why VAS shows very low level of disclosure in terms of percentage of companies disclosing in Egypt despite being a mandatory requirement indicating a very low level of compliance compared to other mandatory CSD requirements. However, we have to remember that this is given our sample, its size, and the way we put our annual reports (see Chapter 6). There might be that some annual reports disclose something but are not there. It has been argued that VAS, by specifying how much value is the share of employees, it recognises them as a significant stakeholder to the company. VAS also promotes morale on the part of employees because they are considered an important part of the enterprise in the financial reports, and they provide useful information to help employees

Overall, no company attempted to provide any details further to what is required by law other than in Employees Pension disclosure where very few companies mentioned about compliance with law in addition to the amounts disclosed in the financial statements. A typical example of a detailed declarative disclosure is as follows:

*The company contributes in the governmental social insurance scheme for the benefit of its employees in accordance with the social insurance law No. 79 of 1975 and its amendments. Contributions are charged to the income statement as incurred (Alexandria National Iron & Steel (ANSDK) 2000 annual report, p. 46; 2001 annual report, p. 52)*

As to 'Directors' disclosures, 88 percent (245 annual reports) of all companies' annual reports over the four-year period showed any related disclosure in Egypt. The average disclosure was 0.18 of a page with a maximum of 1.39 pages.

## **7.4 VOLUNTARY CSD IN EGYPT: A GENERAL OUTLINE**

Regarding voluntary CSD, this is primarily concerned with the following categories: environmental disclosures, consumer/product-related information, community-related information, employee-related voluntary disclosures (health and safety at work, equal opportunities, employees' share ownership, employment of disabled, consultation with employees, and voluntary employee other), and general other<sup>274</sup>.

As with mandatory disclosure in Egypt, ninety eight percent of the 279 companies investigated provided some form of voluntary CSD, with an average volume of 1.12 pages (see Table 7.1)<sup>275</sup>. The maximum volume was undertaken in 1998 at 18.99 pages of the annual report of Egyptian Chemical Industries (KIMA), with the majority of this disclosure coming under the

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negotiate labour contracts (Hegde et al., 1997). More discussion and more light will be shed on VAS in Chapter 8.

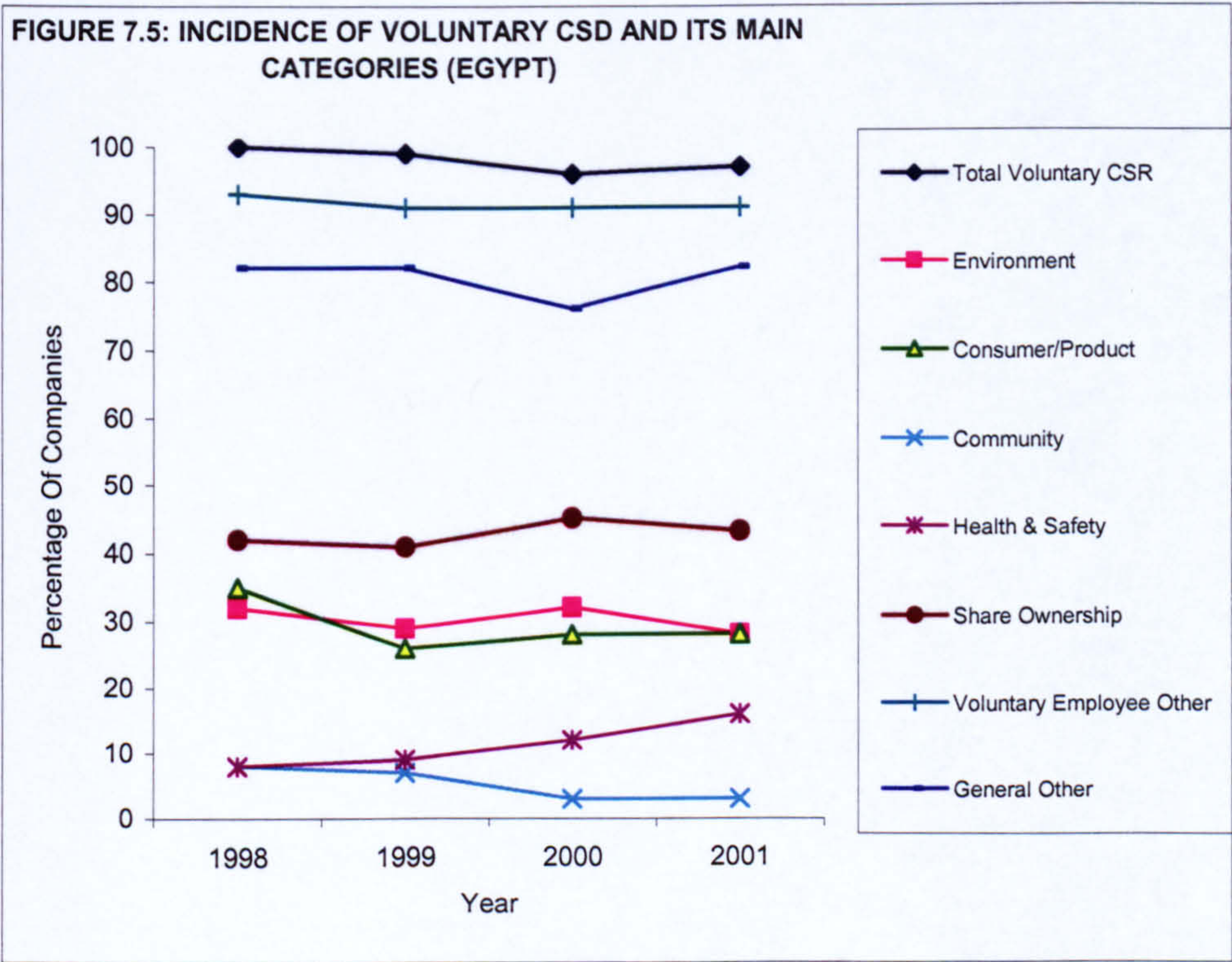
<sup>274</sup> Appendix 6.8 provides examples of what each of these categories might include.

<sup>275</sup> The overall average volume of mandatory and voluntary CSD in Egypt are almost equal.



voluntary employee other disclosure category<sup>276</sup>. The incidence of disclosure peaked at 100 percent of companies in 1998 and never fell beyond 96% in any one year (see Table 7.2)<sup>277</sup>.

It can be noticed from Figures 7.5 and 7.6 below that the incidence and average volume of total voluntary CSD undertaken by Egyptian companies showed a decreasing trend throughout the period with an increase in 2001 only.



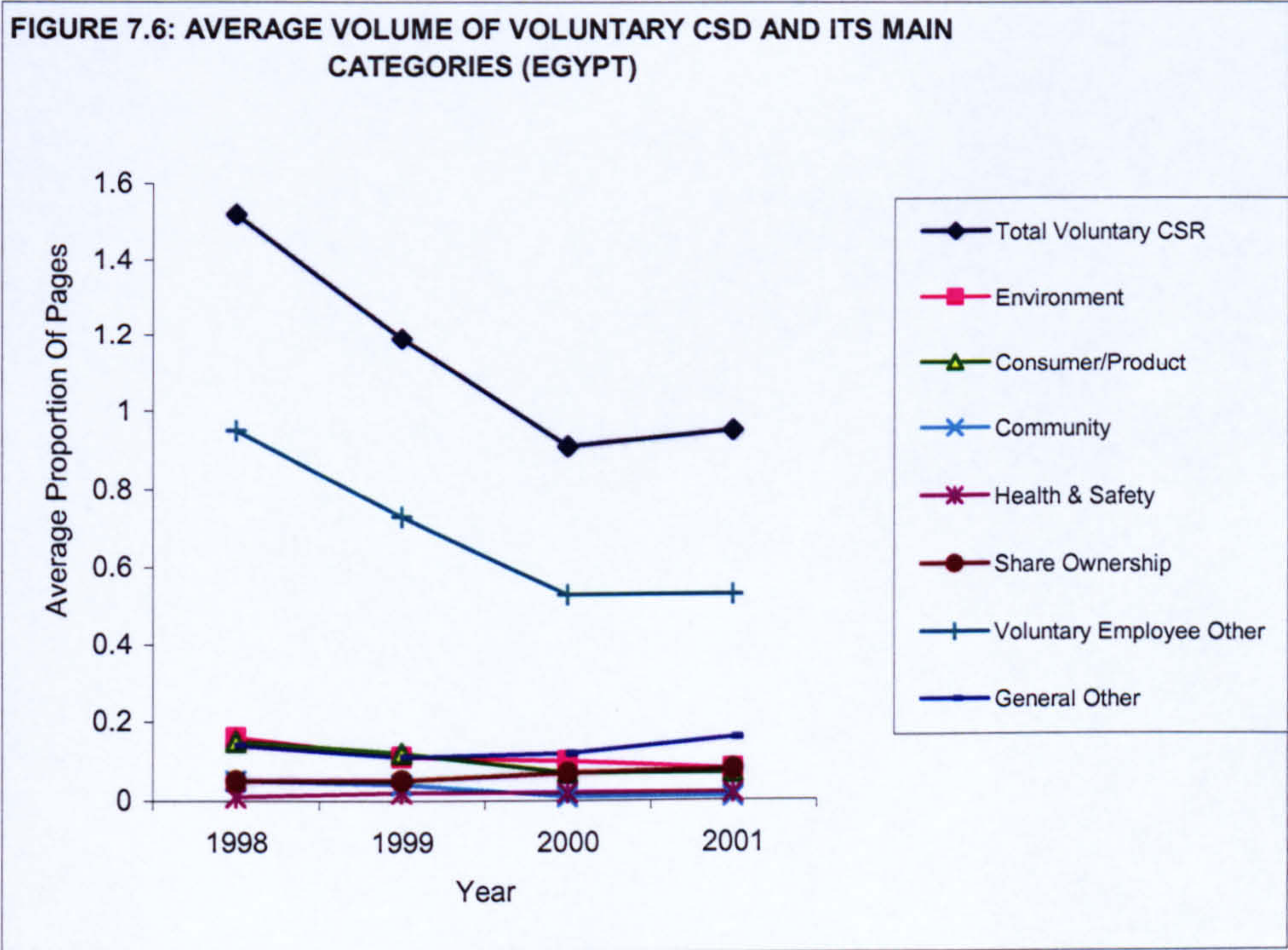
As is evident from Tables 7.1 and 7.2, the most popular area of voluntary disclosure over the four-year period in Egypt, both in terms of number of companies disclosing and average volume of disclosure, related to employees voluntary disclosures with ‘employee other’ voluntary disclosure being

<sup>276</sup> The second maximum volume (18.09 pages) is also represented by KIMA annual report of 1999 most of which is also voluntary employee other disclosures.

<sup>277</sup> Six instances of voluntary non-disclosing annual reports are represented by three companies: Oriental Weavers for Carpets (a Textiles, Garments and Leather company) 1999, 2000; National Cement (a Cement company) 2000, 2001; and Export & Development Trading Co. (EXPOD) (a Trade and Distribution company) 2000, 2001.



disclosed by the highest proportion of companies (see also Figures 7.5 and 7.6 for trends of main categories of voluntary CSD in Egypt).



The incidence of voluntary employee-related disclosure, which averaged 94 percent over the whole study period in Egypt with an average volume of 0.75 pages (see Table 7.1), never fell below 93 percent of companies and peaked at 95 percent of companies in 1998 and 1999 (1998 and 1999 also recorded the highest average volumes of voluntary employee disclosures), while the average volume of disclosure among disclosing companies never fell below 0.66 of pages occurring in 2000; the same year showing the lowest incidence of disclosure (see Table 7.2)<sup>278</sup>.

The lowest level of disclosure – excluding corporate governance which was undertaken by only one company (see Section 7.5.5) – in Egypt in terms of percentage of companies disclosing are in the community related category (5 percent). Eight percent of companies disclosed anything relevant to

<sup>278</sup> Details of voluntary employee-related disclosures and its subcategories are provided in Section 7.5.4.



community in 1998. This decreased to three percent in 2000 and 2001 showing also a decrease in the average volume of disclosure among disclosing companies (0.29 pages in 2000 and 2001). The average volume of disclosure among disclosing companies peaked at 0.65 pages in 1999.

The environmental and consumer/product-related categories provided low levels of disclosure both in terms of average volume and numbers in Egypt. However, this exceeded community related disclosures in terms of numbers of companies disclosing and overall average disclosure (see Table 7.1).

The preceding sections indicate the overall trends in both the incidence and volume of total CSD over the period with its two main divisions, i.e., mandatory and voluntary CSD. The next section considers discussion of the voluntary CSD in details in order to outline many of the qualitative characteristics of these disclosures. These disclosures are considered under the five main category headings of environmental information, consumer/product information, community information, employee-related information, and general other information.

## **7.5 VOLUNTARY CSD IN EGYPT: ILLUSTRATION AND DESCRIPTION OF CATEGORIES**

This section further considers and illuminates the trends in, and types of voluntary CSD. It discusses the major categories making up voluntary CSD undertaken over the period studied. Examples of the principal types of disclosure produced in each voluntary category are also provided in order to give some analysis of the qualitative characteristics of the voluntary CSD undertaken<sup>279</sup>. This section proceeds by looking firstly at environmental disclosure, then comes consumer/product, and community disclosures followed by voluntary employee disclosure and ends with consideration of general other disclosures.

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<sup>279</sup> All translated illustrations are approximations that give the nearest meaning of what is written in the annual report.

### 7.5.1 Key Aspects Of Environmental Disclosure

In Egypt, environmental disclosures were undertaken by a proportion of companies ranging from 28 percent in 2001 to 32 percent of the sampled companies in 1998 and 2000 (see Table 7.3 and Figure 7.5).

The average volume of disclosure by disclosing companies over the period was 0.37 pages. The average volume reached its zenith in 1998 at 0.50 pages which declined to 0.29 pages by 2001 (see Table 7.3). Only, 9 companies<sup>280</sup> made environment disclosure in all four years of the study out of 26 companies that had annual reports for the four years of the study and undertook environmental disclosures in one or more of the annual reports<sup>281</sup>.

The majority of the environment disclosures were declarative with little financial or quantitative information being provided mainly in environmentally financially-related data, waste and pollution data, and environmental other. Almost all of the data provided were good news with very little neutral data provided in Egypt (see Appendix 7.1). There was no evidence of any bad news disclosures relating to the environment in any annual report over the four year period (see Appendix 7.1).

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<sup>280</sup> These are: Suez Cement (Cement), Abu Qir Fertilizers and Chemical Industries (Fertilizers and Pesticides), Egyptian International Pharmaceutical Industries Company (EIPICO) (Pharmaceuticals), Egypt Aluminium (Misr Aluminium) (Metallurgy), Egyptian Financial and Industrial Co. (EFIC) (Fertilizers and Pesticides), Nile Pharmaceuticals and Chemical Industries (Pharmaceuticals), Misr Chemical Industries (Chemicals and Plastics), Egyptian Starch and Glucose M.F.L. (Food and Beverages), and Kafr El Zayat Pesticides & Chemicals (Fertilizers and Pesticides).

<sup>281</sup> Some companies devoted separate sections for environmental information which had different titles for different companies. Examples are: Suez Cement (Along the environment), Alexandria National Iron & Steel (ISO 14000 Certificate regarding environment), Abu Qir Fertilizers and Chemical Industries (Environmental Protection Projects), Helwan Portland Cement (The company efforts in environmental protection and pollution abatement), Paints and Chemicals Industries (The environmental adherence plan).



**TABLE 7.3**  
**AVERAGE VOLUME (IN NUMBER OF PAGES) AND INCIDENCE OF CSD FOR DISCLOSING COMPANIES IN**  
**THE MAIN ENVIRONMENT CATEGORIES (EGYPT)**

	1998		1999		2000		2001		1998-2001	
	Mean	No. disclosing	Mean	No. disclosing	Mean	No. disclosing	Mean	No. disclosing	Mean	No. disclosing
Total Environmental CSD	0.50	19 (32)	0.39	22 (29)	0.31	24 (32)	0.29	19 (28)	0.37	84 (30)
Environmental Policy	0.09	9 (15)	0.08	10 (13)	0.12	10 (13)	0.10	10 (15)	0.10	39 (14)
Environmental Audit	0.48	7 (12)	0.35	9 (12)	0.14	10 (13)	0.13	7 (11)	0.27	33 (12)
Waste, packaging, pollution, etc.	0.27	9 (15)	0.15	11 (15)	0.18	9 (12)	0.15	6 (9)	0.19	35 (13)
Environmentally Financially-related data	0.29	8 (13)	0.12	8 (11)	0.15	8 (11)	0.19	7 (11)	0.19	31 (11)
Sustainability	-	-	-	-	-	-	-	-	-	-
Energy	0.03	1 (2)	0.03	2 (3)	0.04	1 (1)	-	0 (0)	0.03	4 (1)
Environmental Other	0.08	7 (12)	0.20	10 (13)	0.21	10 (13)	0.29	5 (8)	0.19	32 (12)

Note: The figures in brackets indicate the percentage of companies' annual reports in the sample (of each year) disclosing in the relevant category.



The most popular of environmental disclosures were on environmental policy provision disclosed by 14 percent of the Egyptian companies followed by information relating to waste, packaging, pollution, etc. Environmental audit information then comes next. Three companies only in Egypt provided energy related disclosures in four incidences over the period (see Table 7.3). None of the Egyptian companies sampled made any sustainability disclosure. Each subcategory of environmental disclosure will be separately discussed in the following subsections.

#### **7.5.1.1 Environmental Policy**

As from Table 7.3 above, environmental policy incidence in Egypt was either 13 percent or 15 percent in any one year throughout the four-year period. All environmental policy statements are in declarative form with the majority portraying good news (see Appendix 7.1). Brief statements were common in Egypt as illustrations of actual statements of environmental policies generally attempting to set out the views of the company on environmental matters and to stress the importance that the company attached to environmental considerations:

*The company continues its policy ... supporting the means of pollution prevention for the protection of the environment (Translated from Egyptian Financial and Industrial Co. (EFIC) 1998 annual report, p. 10)*

*Building the correct image ... in the minds of the society depends on ... the company's carefulness for the environmental protection (Translated from Al Ezz Steel Rebars 1999 annual report, p. 6)*

In Egypt, the majority of environmental policy disclosures made referred to being in compliance with or exceeding environmental laws and regulations in terms of environmental pollution control. However, this was not outlined in much detail and usually expressed as follows:

*The environmental management system is completely coincided with the Egyptian Environmental law no. 4 of 1994 (Alexandria National Iron & Steel (ANSDK) 1999 annual report, p. 21)*

*An important goal for 1998 at Suez Cement Company was to bring the plants into strict compliance with Egypt's new environmental regulations ...*



*both plants have reduced emissions to below the maximum rates allowed under Law No. 4 of 1994 (Suez Cement 1998 annual report, p. 12)*

Some companies explicitly mentioned adherence to environmental laws as part of the strategy of the company:

*One of the core elements of [our] strategy is its full commitment to the increasing requirements of the environmental laws (Abu Qir Fertilizers and Chemical Industries 1999 annual report, p. 23)*

On other occasions, in particular Cement companies, reference was made to compliance with global laws or regulations, which gives inferences of having current or potential international stakeholders in the form of investors or customers:

*The Company's strategy is to ... Enhance production standards to comply with international environmental standards ... (Suez Cement 2000 annual report, p. 14 and 2001 annual report, p. 13)*

Some companies went a step further to emphasize an historical commitment to environmental protection – presumably, predating regulations – as if to emphasize that their aim is not mere compliance, but a long held sense of responsibility:

*Despite the promulgation of the Environmental Protection Law No. 4 of 1994 ..., the company's efforts ... goes back to 1989 ... This assures the company's ... concern for protection of the environment (Translated from Helwan Portland Cement 1998 annual report, p. 5)*

A smaller number of disclosures were general statements of formal intentions of the company, will do statements, or statements of actual deeds of the company:

*In the field of pollution abatement, the company continues to work for improving the surrounding environment out of its care for the populated areas nearby the company and for securing environmental safety for its employees (Translated from Torah Cement 2001 and 2000 annual reports, p.7)*

Only two companies; namely Suez Cement, and Egyptian Financial and Industrial Co. (EFIC) – a fertilizers and pesticides company –, continued to

report on environmental policy for the four years of the study. However, the level of details and the volume of disclosure varied from one year to another. Generally, trends are difficult to follow as not all environmentally disclosing companies have their four-years annual reports included in the sample due to difficulty to obtain them (see Chapter 6, Section 6.4). Moreover, not all companies disclosed in the four years. For example, Alexandria National Iron and Steel (ANSDK) – a metallurgy company – disclosed in 1998 and 1999 but failed to disclose any information relating to the environment in 2000 or 2001:

*The company acquired the ISO 14001 Certificate ... which was ratified by the German Inspection Authority ... affirming the successful system of environment preservation adopted by the company which coincided with the environment law no. 4 of 1994 (Alexandria National Iron & Steel (ANSDK) 1998 annual report, p. 22)*

Other companies also mentioned their compliance with the law in one or two years of the study years but neglected to do so or to disclose any environmental information in the rest of the years. Examples are: Al Ezz Steel Rebars – a metallurgy company – (disclosed in 1998 and 1999 but not 2000 or 2001), Paints and Chemicals Industries (PACHIN) – a chemicals and plastics company – (in 1998 only), Misr Chemical Industries – a chemicals and plastics company – (in 1998 and 2001).

#### **7.5.1.2 Environmental Audit**

Fourteen companies represented the 33 instances of environmental audit disclosures along the four-year period in Egypt (see Table 7.3). Almost all of these disclosures related to the company preparing for or being certified with or renewed ISO 14001 certificates which were all declarative and mostly good in nature. Most of the disclosing companies in Egypt were either from the Cement industry or the Pharmaceuticals industry:

*The environmental systems has been reviewed by ... the German TUV institution which approved the compliance ... with the requirements of ISO 14001 and thus, the certificate was renewed for the company (Translated from Alexandria Portland Cement 2001 annual report, p. 18)*



A number of Egyptian companies have provided pictures of the certificate alongside their statements about the award. The picture of the certificate usually took half to one whole page of the annual report with one pharmaceutical company providing two pages, one for an Arabic version and another for the English version of the certificate alongside a statement stating being certified:

*The company has acquired the ... certificate ISO 14001 and it is from the first ... companies [to be] awarded this certificate (Translated from Arab Drugs & Chemicals Industries (ADCO) 1999 annual report, p. 9)*

#### **7.5.1.3 Waste, Packaging, Pollution, Etc.**

A handful of companies (16 companies) undertook thirty-five incidences of this form of environmental disclosure in Egypt over the four-year period of the study. The maximum incidences of disclosure were at 15 percent in 1998 and 1999 but this has fallen to 12 and 9 percent for 2000 and 2001 respectively. Any information disclosed portrayed Egyptian companies in a good sense and was mostly of a declarative nature (see Appendix 7.1). Companies used disclosures of this form to highlight endeavours in decreasing their levels of pollution, especially emissions with some companies highlighting their use of experiences of specialist companies in environmental activities as well as using modern environmental technology in pollution measurement and waste disposal. Most endeavours seem to have been provoked mainly by a desire to comply with the law:

*The following is among the environmental achievements of the company: ... current average dust emission rates are all within limits allowable under environmental law, which is less than 500 mg/m<sup>3</sup>. It reached in December 1998 from 190 to 235 mg/m<sup>3</sup>. Executive procedures are currently being undertaken to establish a station for treatment of industrial waste ... entering into contract with a specialized company ... for carrying out maintenance works for the filters of the dry and wet furnaces to reach the emission rates allowable under law (Translated from Helwan Portland Cement 1998 annual report, p.5)*

*The company had major endeavours in the field of environment protection ... A laboratory was established for measurement of pollutants ... (gases, suspending dust, noise, heat, radiations, ...) ... resulted in tracking their negative effects on health ... on employees and the surrounding environment (air, water, soil,..) (Translated from Egypt Aluminium (Misr Aluminium) 1998 annual report, p. 22)*

*The company has imported 13 modern computerised machines that operate without manual interference along the 24 hours daily to pinpoint and measure dust emission rates with great accuracy to ensure that these are in line with the allowable rates specified by the environmental law. (Translated from Helwan Portland Cement 1999 and 2000 annual reports, p. 12)*

Some companies disclosed endeavours in product development and improvement that will help save resources and protect the environment:

*From the achievements of 1997/1998 is the production of liquid ammonium nitrates that has an advantage of protecting the environment (Translated from Egyptian Chemical Industries (KIMA) 1998 annual report, p. 9)*

In some expressions about being environmentally friendly, it is seen as contributing to increases in productivity and to cost reductions with economic benefits being achieved for the company, giving the impression of economic self-interest purpose:

*... a significant part of industrial investments, approximately 12% of the total, was used for measures to reduce the emission of dust ... These measures positively impacted productivity (Suez Cement 1998 annual report, p.3 emphasis added)*

*From the most important benefits of environmental protection is decreasing volume of pollution, which leads to reduction in waste [and] in turn benefits the company regarding reduction in production cost which at the end represents an increase in profit (Translated from Cairo Pharmaceuticals and Chemical Industries 2000 annual report, p. 63 emphasis added)*

#### **7.5.1.4 Environmentally Financially-Related Data**

Sixteen Egyptian companies undertook thirty-one incidences of this form of environmental disclosure over the four-year period of the study. The maximum incidences of disclosure were at 13 percent in 1998 but this has fallen to 11 percent for the following three years (see Table 7.3). Disclosures were all of a monetary nature encompassing a mixture of good and neutral news orientation (see Appendix 7.1). Disclosures tended to deal mainly with financing: environmental friendly machines purchases, maintenance works, budgets/expenditures on different activities relating to environmental protection projects investments, or consultancy services. A flavour of the types of disclosures made can be gained from the following quotes:



*...an amount of 8 million L.E. have been allocated in the Planned Investment Budget for the coming year ... to execute a number of environmental projects (Abu Qir Fertilizers and Chemical Industries 2001 annual report, p. 14)*

*25,000 L.E. consultancy services to prepare the document of the work plan for environmental compliance (Translated from General Silos and Storage 1998 annual report, p. 11)*

Three companies mentioned being provided with grants or loans which should be directed specifically for environment-related expenditures with some cases providing quarter a page listing all grants provided (e.g., Misr Chemical Industries 1998 annual report, p.54):

*The company was successful in obtaining a grant from the German party (K.F.W.) for the establishment of three industrial waste treatment units of the company's three factories for a total cost of 3.3 million L.E. The contribution of the German party reached 1.5 million L.E. in the form of non-refundable grant. (Translated from Bisco Misr 2001 annual report, p. 12)*

*The total cost of executed environmental activities was 20.6 million German marc of which 20 million were financed by the grant and the rest 0.6 million marc financed by the loan from the German Development Bank (KFW) (Translated from Misr Chemical Industries 1998 annual report, p. 15)*

#### **7.5.1.5 Energy**

As mentioned before in the introduction to this section (7.5.1), there was little evidence of energy consumption and conservation data with only three companies undertaking this form of disclosure (see Table 7.3). These disclosures were evident in only four occasions. An example is displayed by Alexandria Portland Cement in 2000 as follows:

*In the fifth furnace project, it is concentrated on achieving sufficiency and economy in energy usage and consumption (Translated from Alexandria Portland Cement 2000 annual report, p. 16)*

#### **7.5.1.6 Environmental Other**

Disclosures undertaken by Egyptian companies in environmental other category mainly included details on greening activities (plantation, landscaping), environmental-related training and increasing environmental awareness of employees, awards won in relation to environmental activities,

entering into partnerships, and details on the company's efforts in encouraging environmental research and organising related conferences. Most of the information disclosed was declarative and good in nature with few quantitative or neutral instances (see Appendix 7.1). The predominant disclosures in environmental others in Egypt related to landscaping and plantation activities as part of it. Following is a typical example:

*500 feddan surrounding the factory will be planted ... for protection of environment, and creating a green belt around the factory (Translated from Misr Beni Suef Cement 1999 annual report, p. 6)*

Disclosures on activities relating to increasing employees' awareness and training were expressed as follows:

*The company issues a periodical bulletin to increase environmental awareness of its employees in addition to organising training sessions for employees for the same purpose (Translated from Misr Chemical Industries 2001 annual report, p. 9)*

Few examples were provided on organising or sharing in environmental conferences mainly alongside a photo from the conference being organised. A further example was provided concerning prizes awarded:

*The company was awarded the international prize for compliance with quality systems from Business Initiative Direction organisation in Spain [witnessing] adherence to the highest quality standards in ... environmental protection (Translated from Al Ezz Steel Rebars 2000 annual report, p. 4)*

Two companies recognised owing a kind of responsibility relating to environmental protection:

*The company's take-over of social, environmental and political responsibilities is more than that specified by the certificate ISO 14001. This is the view peculiar to Al Ezz Steel Rebars. The company has presented, in one of the environmental conferences, its experience with environmental protection and it was highlighted, through cost and benefit summaries, how environmental protection achieves profit. The company contributed with its experience in one of the Masters dissertation for one of the students at Menoufeya University. (Translated from Al Ezz Steel Rebars 1999 annual report, p. 6)*

*Keeping a clean environment is a social and ethical responsibility for which ABU Qir is very keen to fulfil (Abu Qir Fertilizers and Chemical Industries 1999 annual report, p. 23)*



As mentioned above in the introduction to this section (7.5.1), no reference to what could be said to be related to sustainability information was recorded in any annual report throughout the whole four year period.

### **7.5.2 Consumer/Product-Related Information**

Consumer disclosures revealed a low level of disclosure in terms of percentage of companies disclosing in Egypt (29 percent) as well as the proportion of pages disclosed. Throughout the four-year period the proportion of companies undertaking any consumer disclosure in Egypt ranged from a high of 35 percent in 1998 to as low as 26 percent in 1999 (see Table 7.3). Over the four-year period there were only 81 instances of this form of disclosure, the average of which was 0.34 pages.

The most common disclosures in this category included disclosures relating to acquiring the ISO 9001/9002 certificates. All of these forms of disclosures came in a declarative and/or monetary nature disclosure including some quantification, which were predominantly good news with few neutral disclosures and only one bad news disclosed (see Appendix 7.1). Some companies provided photographic pictures of the certificate awarded in half or one whole page. The following is an illustrations of this kind of disclosures extracted from the annual reports of disclosing companies:

*The company is already qualified ... and has been certified with the ISO 9002 in December 1996. (Translated from Egyptian Financial and Industrial Co. (EFIC) 1998 annual report, p. 13)*

Some disclosures outlined the monetary costs incurred for acquiring or renewing the certificate:

*... cost of ISO 9001 certificate is 333,000 L.E. (Translated from Alexandria Pharmaceuticals and Chemical Industries 2000 annual report, p. 16)*

Other related disclosures are mainly concerned with expiry dates of products, related issues of destroying expired products, and related costs incurred:

*The company has destroyed some kinds of stored products that have expired and/or are stagnant (Translated from Alexandria Pharmaceuticals and Chemical Industries 2000 annual report, p. 10)*

*The company incurred a loss of 69,000 L.E. of some material that has been ... transferred to waste due to end of expiry date and non-suitability for consumption (Translated from Bisco Misr 1999 annual report, p. 27)*

There were also few incidences of disclosures relating to consumer complaints typically displayed as follows:

*In the area of customer complaints: production quality control gives special care to the examination and analysis of customers complaints and putting solutions adequate to remove the cause of the complaint (Translated from Kafr El Zayat Pesticides & Chemicals 1999 annual report, p. 27)*

### **7.5.3 Deficiency Of Community-Based<sup>282</sup> Disclosure**

As mentioned in Section 7.4, community disclosures revealed the lowest level of disclosure in Egypt in terms of percentage of companies disclosing (see Figure 7.5 and Table 7.1). Over the four-year period there were only 14 instances of this form of disclosure covering 9 companies in Egypt. These disclosures averaged 0.52 pages with a maximum of 1.55 pages occurring in 1998 by a metallurgy company; Egyptian Iron & Steel. The proportion of companies undertaking any community disclosure ranged from a high of 8 percent in 1998 to as low as 3 percent in 2000 and 2001 (see Table 7.3). Most disclosures were categorised as good news with few neutral disclosures and not any bad news disclosed (see Appendix 7.1).

The most common disclosures in this category included sponsorship of sports and other events, and training and employment of youth and students. Most of these disclosures came in the form of quantitative and/or declarative disclosure (see Appendix 7.1). Some companies, which provided information about sponsorship of events, accompanied it by pictorial evidence.

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<sup>282</sup> Here, we refer to the voluntary exclusive community disclosures rather than the total community/charity disclosure.



Examples of community information disclosures are found in the following extracts from the annual reports of companies. All these disclosures were included as part of marketing section and were occasionally accompanied with photos from the relevant events:

*Sponsoring a variety of sports events in Egypt, which started with the Handball World Cup and will include the Squash World Cup for singles. (Paints and Chemicals Industries (PACHIN) 1999 annual report, p. 12)*

*We sponsored beach parties in Hurghada, a Ministry of Sound concert in Alexandria and happy hour events at the Hard Rock café in Sinai (Al Ahram Beverages Company (ABC) 1999 annual report, p. 20)*

*Our company is also an active player in the community, lending support to a variety of ... events ... in an ongoing effort to express gratitude to the communities in which it works (Orascom Telecom Holding (OT) 2001 annual report, p. 7)*

Egyptian Iron and Steel, a metallurgy company, provided one of the rare examples of quantitative community disclosure of university students training in the form of a table presenting the number of students, their universities names, the departments of the company in which those are trained.

One pharmaceutical company explicitly declared its recognition of owing a social duty to the community in providing them with help and support and contributing the community welfare:

*Pfizer Company, out of its social responsibility, undertakes and runs a number of programs to fight epidemic diseases in cooperation with Ministries of Health and Population during the year. For example, the national program for fighting Blindness and Trachoma in Egypt (Translated from Pfizer Egypt S.A.E. 2000 annual report, p. 2)*

#### **7.5.4 Major Themes In Voluntary Employee-related Disclosures In Egypt**

As mentioned in Section 7.4, voluntary employees' disclosures are the most popular area of disclosure along the whole period of study. Ninety Four percent of all sampled companies made some sort of voluntary employee disclosure in Egypt. Years 1998 and 1999 showed the highest levels of disclosure; 95 % of all companies in Egypt (see Table 7.2). Only four

companies didn't disclose any sort of voluntary employee disclosure in any year<sup>283 284</sup>.

The majority of the voluntary employee disclosures were monetary due to 'Employees' Share Ownership' disclosure and 'Sport Activities Profit Share' in voluntary employee other disclosures with fewer incidences of declarative or quantitative information being provided in Egypt (see Appendix 7.1). Almost all of which were good or neutral news with very few bad data provided (see Appendix 7.1). The majority of voluntary employee disclosures were concentrated on voluntary 'employee other' disclosures followed by information relating to 'employees' share ownership'. 'Health and safety at work' disclosures then come next. Two companies only made reference to 'consultation with employees' related disclosures in their annual reports which were evident in two occasions over the period. None of the companies provided any disclosures relating to 'equal opportunities' or 'employment of disabled' disclosures in any year.

#### **7.5.4.1 Employees' Share Ownership**

The proportion of companies undertaking this kind of disclosure in Egypt ranged from 41 percent in 1999 to 45 percent in 2000 (see Table 7.3). This was mainly a brief disclosure on percentage of employees' shareholding in the capital structure which is in most cases provided in the form of a pie chart. Other types of information provided was mostly made in the notes to the financial statements and dealt with loans to employee shareholders union, writing off these loans, profit share of employee shareholders union, and employee union share of ownership.

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<sup>283</sup> These are: National Cement, Power Egypt (CAC) (Engineering and Electronics), Six of October Development & Investment (SODIC) (Contracting and Real Estate), and Export & Development Trading Company (EXPOD) (Trade and Distribution).

<sup>284</sup> Some companies had separate sections regarding employee-related information, however, captioned differently among companies. Examples of these are: Alexandria National Iron & Steel (ANSK) (Development of Human Resources), Helwan Portland Cement (Human Resources), Paints and Chemicals Industries (PACHIN) (Personnel), Al Ahram Beverages Company (ABC) (New Developments In People), and Egyptian International Pharmaceutical Industries Company (EIPICO) (Personnel Management).



Some companies, however very rare, provided details on employee share option plans available explaining the scheme and its aim, and emphasising the perceived motivational power behind them reaching half a page:

*Employee Share Option Plan: the stated purpose of the Employee Plan is to provide an opportunity for ownership of ABC shares by employees of the Company to attract and retain talented managers and employees and align shareholder and management interests. The total number of shares in respect of which options may be granted under the Employee Plan is 250,000 (Al Ahram Beverages Company (ABC) 1998 annual report, p. 20)*

#### **7.5.4.2 Health And Safety At Work**

Disclosures about health and safety issues were relatively rare in Egypt, being provided by 12 companies covering the 32 incidences over the four-year period and representing 12%. These were mostly declarative good statements (see Appendix 7.1) on the importance of safety, and initiatives made by, the disclosing company. However, some companies provided monetary amounts as to how much was spent on industrial safety during the reporting year. Others provided numbers regarding how many injuries occurred during the year. The following is an illustration from Alexandria Portland Cement 2000 annual report concerning health and safety disclosures which highlights training of employees in Health and Safety issues:

*The company has given great importance to including major improvements to Health and Safety at work ... we are proud that the performance achieved exceptional results concerning occupational safety as there was only one injury per 1.4 million working hour ... steps are taken to make positive changes in safety performance. This is through training sessions to increase employees' awareness of health and safety issues at work. Moreover, employees are provided with preventive clothes and instruments (Translated from Alexandria Portland Cement 2000 annual report, p. 5, 16)*

There were two incidences of Health and Safety disclosures revealing what could be termed 'bad' news. These were recorded in a form of a bar graph in the 1998 and 1999 annual reports of 'Alexandria National Iron & Steel

(ANSDK)' and exhibited an increase in the number of injuries and injuries frequency over years.<sup>285</sup>

#### **7.5.4.3 Consultation With Employees**

As mentioned above, only two incidences of disclosure can be categorised as information relating to consultation with employees. These took place in 1998 and 2001 with the volume of 0.03 and 0.06 respectively:

*Additionally, we have fostered open lines of communication through, for instance, the Chairman's open-door policy. (Al Ahram Beverages Company (ABC) 1998 annual report, p. 15)*

*Most importantly, we take advantage of the skills and ideas that individual members of our team contribute ... We motivate employees to make independent decisions that will facilitate their work. Operating on their own accountability keeps them motivated and gives them confidence – resulting in better productivity and efficiency (T3A Pharmaceutical Group 2001 annual report, p. 29)*

#### **7.5.4.4 Employee Other**

Most Egyptian companies (91 percent) provided some sort of this form of disclosure. Only six companies didn't provide any form of employee other information in Egypt<sup>286</sup>. Disclosing companies tended to concentrate mainly on: thanks to employees, training information, general human resources development policies, sport activities profit share, with lower incidences of early retirement information, redundancy, and loans provided to employees. The majority of these disclosures tended to be of monetary form, owing to the 'sport activities profit share' information provided and information on loans to employees with declarative information coming next and very little quantitative information. Most of the information disclosed was good or neutral news with fewer bad news provided (see Appendix 7.1).

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<sup>285</sup> The same wording was used in 1999 annual report but changing the total injury cases number from 50 to 45. Making disclosure in different years using the same wording but changing figures or years is not uncommon in Egyptian annual reports.

<sup>286</sup> These are: National Cement, Orascom Construction Industries (OCI), Power Egypt (CAC), Arab Trading and Cotton Ginning, Six of October Development & Investment (SODIC), and Export & Development Trading Co. (EXPOD).



The most common and predominant disclosures under employee other category in Egypt went to expressions of thanks and praise to, recognition and appreciation of employees efforts and hard work in sharing in success achievements. However, these were in most cases directed to shareholders and/or were in addition to thanks to other parties and other stakeholders. Those parties included the following: clients, shareholders, auditors, all officials, prime minister and other ministers, banks, CMA, CASE, CAO, governors, consultants, holding companies, Governmental agencies and organisations, and members of the general meeting for their continuous support and eliminating obstacles with relatively more space provided to other stakeholders than employees<sup>287</sup>. Following are few of the many examples extracted from annual reports of disclosing companies:

*Finally, it gives the Board of Directors ... particular pleasure to praise the shareholders and customers for their trust and confidence, being the primary factors of ... ongoing success. The Board is also grateful to ... the Chemical Industries Holding Company, the Capital Market Authority, the Cairo & Alexandria Stock Exchange ... the Company's auditors ... which have participated in the Company's success ... Last but not least, the Board is indebted to the loyalty, sincerity and sense of responsibility of the employees who are the main driving engine behind every success (Paints and Chemicals Industries (PACHIN) 1998 annual report p. 17)*

*I am extremely proud to take this opportunity to show-case the hard work of the company's management team and employees; the faces you see on these pages. To your benefit as shareholders, their dedication has translated into fantastic results. (Al Ahram Beverages Company (ABC) 1999 annual report, p. 3)*

In Egypt, 'sport activities profit share' is mostly disclosed in the financial statements (mainly profit appropriation statements) or notes to financial statements or Board of Directors report. It is all monetary information and neutral news.

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<sup>287</sup> This gives the impression of other stakeholders being of more importance to the company maybe because the firm considers them more powerful. This sort of disclosure seemed to be perfunctory in content with the vast majority of such disclosures being few words at the end of Chairman's or the Directors' report simply thanking employees for their efforts during the year.

Another important theme on which many companies disclosed is training of employees. Some disclosures were entirely declarative in nature highlighting the company's concern for training its employees and how this benefits them and contribute to the success of the company. Some companies provided, alongside their narrative statements, pictures taken from training courses being undertaken. Examples are as follows:

*The company continues its employee training program through specialised organisations nationally and internationally to be in line with the requirements of the current era and to guarantee continuous improvement in employees performance and technical experience in all fields (Translated from Helwan Portland Cement 2000, p. 5)*

*The company contributes in developing [employees'] skills and capabilities through training programs ... EIPICO's top line and profitability improvement was a function of: Enhancing employees' productivity to the highest level ... by continuous training (Egyptian International Pharmaceutical Industries Company (EIPICO) 1998 annual report, p. 10, 30)*

A number of companies provided detailed information on number of employees trained and on number of training programs provided, in addition to other quantitative information. A metallurgy company, Alexandria National Iron & Steel (ANSDK), provided bar graphs under the title "Training Achievements" showing yearly number of trainees, training courses, and training days.

Another quite repeated disclosure among companies is information about different aspects of human resource policies. Disclosure was mainly in brief statements of the companies' general policy towards their employees. However, there were some detailed disclosures of specific policies, for example, recruitment policy, bonus and promotion system reflecting an aim to benefit the company at the end with some companies explicitly mentioning this aim. The following are some detailed examples extracted from annual reports of disclosing companies:

*EIPICO personnel policy aims that the employees contribute to the success of the company as a whole. The company commits time and efforts to attract and develop the employees, through performance creativity and productivity translated by financial motivators (attractive incentives and bonuses-end of*



*service indemnity...etc) and non-financial motivators (transportation – housing – meals – baby home – rest houses – training...etc) to attract qualified personnel. EIPICO's goal is to point out to all employees our responsibility of optimising profit growth (Egyptian International Pharmaceutical Industries Company (EIPICO) 1998 annual report, p.10; 1999 annual report, p. 29)*

*The company considers the human resources the most important asset owned by the company. The expenditure on this asset is considered a kind of direct investments which increases in value with time opposite to the other material elements which become obsolete and is damaged through time (Translated from El Ezz Porcelain (GEMMA) 2000 annual report, p. 28)*

*The Human Resources Management Vision is to: Create an enabled workforce that can deliver competitive advantage through developing capabilities and; leadership, which brings exceptional added value to our products and customers and makes a major contribution to our business growth. (Egyptian International Pharmaceutical Industries Company (EIPICO) 2000 annual report, p. 15; 2001 annual report, p. 23 emphasis added)*

Other types of disclosures that meet the decisions rules of being categorised under employee other but are rarely or less frequently disclosed include early retirement and redundancy information mostly resulting from implementation of privatisation program. These included the only six instances of bad news information and many of the instances provided monetary illustrations of costs incurred:

*According to the decree of the Board Of Directors ... relating to the approval of the application of the Early Retirement System in the company 741 and 427 employees respectively were subject to early retirement in 2001. The cost of early retirement of those employees had a cost of 71,264,787 L.E. financed through two loans from which was repaid 2,500,000 L.E. by the end of 2001 (Translated from Torah Cement 2001 annual report, p. 23)*

*Privatisation is posing challenges even as it creates opportunities. Great effort has been made to insure that sweeping layoffs do not result. Training of personnel and the modernization of facilities are likewise central to making the successful transition to a competitive environment. Failure in any of these areas would undermine public support for the program. (Suez Cement 1998 annual report, p. 5)*

Some companies provided extra details beyond statutory, occasionally monetary and quantitative, concerning benefits provided to their employees

from social, health, transport, clothes, and entertainment services. A pharmaceutical company provided one whole page of declarative description of the services provided by the company to its employees under the title *'Fringe Benefits for employees and services'* (Translated from Cairo Pharmaceuticals and Chemical Industries 2000 annual report, p. 65) which included medical, housing, transportation, religious, and entertainment services.

A number of companies have also provided a tabular and graphical breakdown of employees in one whole page or more. An example is Egyptian International Pharmaceutical Industries Company (EIPICO) which provided, in its 1998, 2000 and 2001 annual reports, tables with charts showing breakdown of employees according to category of employment, age structure of human resources, years of employment since the establishment of the company in 1981.

As mentioned before, 'equal opportunities' disclosure and disclosure relating to the 'employment of disabled' were conspicuous by their absence throughout the four year period with no disclosures which could be said to fulfil the relevant decision rules.

### **7.5.5 Corporate Governance**

Disclosures relating to corporate governance were rarely in evidence. Only four disclosures were found over the period. These were included in the four year annual reports of only one company Orascom Construction Industries (OCI); a Building Materials, Refractories and Wood industry company, as follows:

*The Company maintains a system of internal control ... which is intended to provide reasonable assurance to the Company's ... Board of Directors regarding the preparation of financial statements. The system includes a documented organisational structure and division of responsibility ... and the careful selection and development of staff. Internal auditors monitor the operation of the internal control system and report findings and recommendations ... There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and*



*the circumvention or overriding of controls. Accordingly, even an effective internal control can provide only reasonable assurance with respect to ... statement preparation. Furthermore, the effectiveness of an internal control system may change over time ... The company assessed its ... system in relation to criteria for effective internal control over financial reporting. [and] the Company believes that ... its system of internal control ... met those criteria (Orascom Construction Industries (OCI) 1999 annual report, p. 20)*

### 7.5.6 General Other Disclosures

This form of disclosure includes all disclosures that do not fit in or satisfy any of the decision rules for all of the above discussed categories but at the same time appear to be – and can be – considered amongst the social disclosures made by the company. This is undertaken by 80 percent of all Egyptian annual reports (see Table 7.1).

The most popular disclosure relates to religious statements or prayers<sup>288</sup>. These constituted a majority of general other disclosures. Most of the companies disclosed their thanks to God for their achievements and their prayers for further achievements. Some as well quoted some of the Holy Book (Qur'an) verses or always started the annual report or different sections of the annual report with "In The Name Of God" which is usually disclosed in one whole page. Most of the verses dealt with the reward that workers will gain from God, the gifts of God to people, etc. Examples of these types of disclosures are evident from the following extracts from the annual reports of disclosing companies:

*EIPICO faced all these circumstances with success. "Thank God" ... We ask God to help us all, and to guide us to what is right (Egyptian International Pharmaceutical Industries Company (EIPICO) 2000 and 2001 annual report, p. 5-6 emphasis added)*

*we ask Allah [God] to grant us the will towards further development and to provide us all with all the good. He is the Lord who supports (Translated from Delta Industries (IDEAL) 2000 annual report, p. 3 emphasis added)*

*The plan ensures, God willing, the continuity of our leadership (Paints and Chemicals Industries (PACHIN) 1999 annual report, p. 3 emphasis added)*

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<sup>288</sup> Here, the Islamic religion identity has been reflected in the style of writing which portrays the intention of corporate managers to reveal their accountability to God. Muslims believe in man's accountability to God (Uddin, 2003).

Another array of disclosure related to events (national or other) that affected performance of the company. Moreover, a cement company noted, in the chairman letter, that being profitable is the means to satisfying different stakeholders' interests:

*... we strive to be the best we can, we are committed to ... continuous ... improvement ... being the "best" means being ... consistently profitable company ... this is the only way we can really serve the long-term interests of all our shareholders, clients, associates and communities (Suez Cement 1998 annual report, p. 3)*

Some companies mentioned being responsible to all stakeholders without naming who those are:

*As management, we are committed to all stakeholders and are pleased that our actions had real effect in 2001 (Alexandria National Iron & Steel (ANSDK) 2001 annual report, p. 19)*

*ABC's aim is to continue to grow by meeting consumers' demands and, by doing that, to increase the value of the company to the benefit of all its stakeholders (Al Ahram Beverages Company (ABC) 1998 annual report, p. 1)*

A further Fertilisers and Pesticides company extends its responsibility to the whole country:

*On behalf of Abu Qir's family, we pledge to double our endeavours in order to raise the name of our beloved country among leading countries (Abu Qir Fertilizers and Chemical Industries 1999 and 2000 annual report, last page emphasis added)*

## **7.6 COMPARISON WITH UK CSD PRACTICE<sup>289</sup>**

In this section, the findings of Egyptian CSD as from the sections above will be compared (but only in general terms) with UK CSD practices. It is found that, as with the Egyptian data, all UK companies in the sample undertook some form of social disclosure. Yet again, similar to Egypt, all sampled UK companies disclosed some form of employee-related information. In addition,

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<sup>289</sup> It is apposite reminding readers that I did not collect UK data. The UK data were taken from that available through the CSEAR website. The data has not been affirmed or tested.



directors and corporate governance data – which are both mandatory requirements – was disclosed by the whole UK sample (see Table 7.4 below). It is worth to remind ourselves that corporate governance is disclosed by only one company in Egypt (see Section 7.5.5).

Compared to Egypt, average volume of total CSD in the corporate annual report throughout the period is 11.47 pages which is considerably higher than that of Egypt (2.23 pages). In addition, Egypt showed much lower CSD volume as a proportion of the total volume of the annual report compared to the UK<sup>290</sup>.

In the UK and similar to Egypt, community/charity comes next in popularity after employee-related, directors', and corporate governance disclosures which all are, or include, mandatory requirements. Environmental disclosures, which are totally voluntary, come next and were disclosed by 86 percent of all annual reports in UK sample. Similar to Egypt, consumer/product-related disclosure showed the least incidence of disclosure with only 24 percent of UK sampled companies undertaking such disclosure presenting the least popular category (see Table 7.4).

Thus, it can be concluded here that both countries have similar patterns of disclosure where employee-related, directors' and community/charity information are the most popular in both countries due to mandatory requirements with consumer disclosure the least popular. Corporate

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<sup>290</sup> Over the period, the average pages contained in the corporate annual report slightly declined from 52 pages in 1998 to 49 pages in 2001 in Egypt. Correspondingly, a slight decline was observed in the average total CSD volume as a proportion of the total annual report from 1998 (5.25 percent) to 2001 (3.96 percent). As to mandatory disclosure, a very slight increase in the proportion was observed in 1999 only (from 2.33 percent in 1998 to 2.34 percent in 1999 then down to 2.16 percent in 2000 and 2.02 percent in 2001). Voluntary disclosure as a proportion of average total annual report pages followed the trend of the average volume over years, which highlights an increase in 2001 (1.94 percent from 1.86 percent in 2000) but decreased from 2.92 percent in 1998. In the UK, average pages of corporate annual reports increased from 70.43 pages in 1998 and 1999 to 73.41 pages in 2000. As a percentage of total annual report pages, total CSD on average increased from 16 percent in 1998 and 1999 to 16.15 percent in 2000 indicating a corresponding increase in CSD with the increase in the length of the corporate annual report.



governance although disclosed by all UK companies as a mandatory requirement, is almost non-existent in Egypt (see above).

**TABLE 7.4**  
**AVERAGE VOLUME (IN NUMBER OF PAGES) AND INCIDENCE**  
**OF CSD FROM 1998 TO 2000 DESCRIPTIVE STATISTICS (UK)**

	Mean	Max.	Min.	No. disclosing
<b>Total CSD</b>	<b>11.47</b>	<b>27.96</b>	<b>3.26</b>	<b>300 (100)</b>
<b>Mandatory</b>	<b>9.66</b>	<b>21.40</b>	<b>2.58</b>	<b>300 (100)</b>
<b>Voluntary</b>	<b>1.81</b>	<b>11.36</b>	<b>0</b>	<b>298 (99)</b>
Environmental Data (Voluntary)	0.79	6.28	0	259 (86)
Charitable Donations (Mandatory)	0.07	0.31	0	275 (92)
Community (Voluntary)	0.40	3.00	0	230 (77)
General Other (Voluntary)	0.08	3.00	0	58 (19)
Community/Charity	0.55	4.76	0	292 (97)
Consumer/Product Data (Voluntary)	0.06	2.70	0	73 (24)
Employee Data (Mandatory)	0.56	3.40	0.16	300 (100)
Pension Data (Mandatory)	0.92	5.16	0.08	300 (100)
Consultation with Employees (Mandatory)	0.11	0.56	0	278 (93)
Employees' Share Ownership (Mandatory)	0.59	4.24	0	262 (87)
Employment of Disabled (Mandatory)	0.06	0.42	0	239 (80)
Mandatory Employee-related Disclosures	2.23	8.60	0.56	300 (100)
VAS (Voluntary)	0.01	1.00	0	2 (1)
Health and Safety at Work (Voluntary)	0.19	3.60	0	196 (65)
Equal Opportunities (Voluntary)	0.06	0.68	0	215 (72)
Employee Other (Voluntary)	0.22	2.40	0	229 (76)
Voluntary Employee-related Disclosures	0.48	3.62	0	284 (95)
Employee-related Disclosures	2.71	9.36	0.70	300 (100)
Directors' Data (Mandatory)	4.68	10.00	1.00	300 (100)
Corporate Governance (Mandatory)	2.68	8.00	0.44	300 (100)

Note: The figures in brackets indicate the percentage of companies' annual reports in the sample disclosing in the relevant category.

In the UK and contrary to Egypt, there is great disparity between mandatory<sup>291</sup> and voluntary CSD average volumes, with mandatory CSD presenting a much higher overall average volume than voluntary CSD indicating that UK companies rely more on law in terms of CSD as well as are more in compliance with disclosure regulations.

In the UK, all companies in all years undertook some sort of mandatory disclosure. The UK shows greater compliance than Egypt regarding legislative

<sup>291</sup> In the UK, charitable donations, employee data, pension data, consultation with employees, employees' share ownership, employment of disabled, directors' data and corporate governance disclosures are mandatory requirements.



CSD requirements with the majority of companies complying with regulations (see Tables 7.4 and 7.5). In particular, employee data and pension data showed 100 percent compliance. Moreover, mandatory CSD showed an increasing trend from 1998 to 2000 in the UK (see Table 7.5 below).

Regarding voluntary CSD<sup>292</sup>, almost all UK companies sampled made some voluntary disclosure with only two annual reports from the whole sample failing to undertake any voluntary disclosures, which is similar to Egypt. The UK showed higher averages of total voluntary disclosures (1.82 pages) than indicated by Egyptian data but the difference is not as great as that of total mandatory disclosures (compare Tables 7.1 and 7.4).

Similar to Egypt and as is evident from Tables 7.4 and 7.5, the most popular area of voluntary disclosure over 1998-2000 in the UK, related to employees voluntary disclosures with employee other voluntary disclosures been disclosed by the highest proportion of companies in both countries. The UK, however, showed lower overall average of disclosure (0.48 pages) and similar overall proportion of companies disclosing (95 percent) with the least in 1999 (89 percent) (see Tables 7.4 and 7.5)<sup>293</sup>.

Contrary to Egypt, VAS disclosure is voluntary in the UK and was only disclosed in two annual reports of all corporate annual reports sampled. Since 1990s VAS started to fade out in UK (Roberts, 1990).

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<sup>292</sup> In the UK, the following are voluntary disclosures: environmental disclosures, consumer/product-related information, community data, employee voluntary disclosures (health and safety at work, equal opportunities, VAS, and voluntary employee other), and general other disclosures.

<sup>293</sup> The specifics of CSD differ between Egypt and the UK due to differences in what is mandatory and what is voluntary in both countries. This applies mostly to disclosures under employee-related information category.



**TABLE 7.5**

**AVERAGE VOLUME (IN NUMBER OF PAGES) AND INCIDENCE OF CSD MAIN CATEGORIES AND SUBCATEGORIES FOR DISCLOSING COMPANIES (UK)**

UK	1998				1999				2000			
	Mean	Max.	Min.	No. disclosing	Mean	Max.	Min.	No. disclosing	Mean	Max.	Min.	No. disclosing
Total CSD	11.29	23.26	4.56	100 (100)	11.03	24.48	3.26	100 (100)	12.08	27.96	4.99	100 (100)
Mandatory	9.43	19.10	4.48	100 (100)	9.46	17.68	2.58	100 (100)	10.09	21.40	2.65	100 (100)
Voluntary	1.88	11.36	0	99 (99)	1.59	8.12	0	99 (99)	1.99	8.23	0.12	100 (100)
Environmental Data (Voluntary)	0.86	6.08	0	83 (83)	0.80	3.00	0	87 (87)	1.07	6.28	0	89 (89)
Charitable Donations (Mandatory)	0.09	0.27	0	97 (97)	0.08	0.26	0	94 (94)	0.07	0.31	0	84 (84)
Community (Voluntary)	0.69	2.66	0	61 (61)	0.39	3.00	0	88 (88)	0.54	2.84	0	81 (81)
General Other (Voluntary)	0.40	2.08	0	18 (18)	0.52	3.00	0	14 (14)	0.39	1.76	0	26 (26)
Community/Charity	0.58	2.84	0	99 (99)	0.49	3.64	0	99 (99)	0.63	4.76	0	94 (94)
Consumer/Product Data (Voluntary)	0.41	2.70	0	20 (20)	0.24	0.78	0	28 (28)	0.18	0.66	0	25 (25)
Employee Data (Mandatory)	0.72	2.00	0.24	100 (100)	0.48	3.40	0.24	100 (100)	0.47	1.00	0.16	100 (100)
Pension Data (Mandatory)	0.99	3.12	0.08	100 (100)	0.82	3.44	0.12	100 (100)	0.96	5.16	0.08	100 (100)
Consultation with Employees (Mandatory)	0.11	0.48	0	95 (95)	0.11	0.36	0	91 (91)	0.13	0.56	0	92 (92)
Employees' Share Ownership (Mandatory)	0.61	4.00	0	81 (81)	0.68	4.24	0	90 (90)	0.74	4.00	0	91 (91)
Employment of Disabled (Mandatory)	0.07	0.40	0	82 (82)	0.07	0.42	0	72 (72)	0.06	0.26	0	85 (85)
Mandatory Employee-related Disclosures	2.37	7.40	0.64	100 (100)	2.06	8.60	0.56	100 (100)	2.27	6.54	0.72	100 (100)
VAS (Voluntary)	-	-	-	0 (0)	1.00	1.00	0	1 (1)	1.00	1.00	0	1 (1)
Health and Safety at Work (Voluntary)	0.27	3.00	0	60 (60)	0.25	3.60	0	67 (67)	0.34	2.12	0	69 (69)
Equal Opportunities (Voluntary)	0.07	0.28	0	69 (69)	0.09	0.68	0	65 (65)	0.08	0.39	0	81 (81)
Employee Other (Voluntary)	0.43	2.40	0	84 (84)	0.22	1.16	0	73 (73)	0.21	1.64	0	72 (72)
Voluntary Employee-related Disclosures	0.59	3.08	0	97 (97)	0.44	3.62	0	89 (89)	0.47	2.88	0	98 (98)
Total Employee-related Disclosures	2.94	9.28	0.72	100 (100)	2.45	9.04	0.70	100 (100)	2.73	9.36	0.74	100 (100)
Directors' Data (Mandatory)	4.70	9.72	1.50	100 (100)	4.31	8.00	1.00	100 (100)	5.01	10.00	1.00	100 (100)
Corporate Governance (Mandatory)	2.28	6.00	0.44	100 (100)	3.02	8.00	0.50	100 (100)	2.76	6.55	0.50	100 (100)

Note: The figures in brackets indicate the percentage of companies in the sample (of each year) disclosing in the relevant category.



With regard to environmental data, the UK showed higher levels of disclosures in total environmental disclosures as well as in almost all environmental subcategories. This was the case with both the percentage of companies disclosing in addition to average volumes of disclosure (compare Tables 7.3 and 7.6). There is an evident growth in the incidence of environmental disclosure in the UK which is missing in Egypt. Moreover, sustainability disclosures, which is again absent in Egypt showed a rising trend in average volume. However, the most popular of environmental disclosures in both countries were on environment policy provision followed by information relating to waste and pollution.

**TABLE 7.6**  
**AVERAGE VOLUME (IN NUMBER OF PAGES) AND INCIDENCE**  
**OF CSD FOR DISCLOSING COMPANIES IN THE MAIN**  
**ENVIRONMENT CATEGORIES (UK)**

	1998		1999		2000		1998-2000	
	Mean	No. disclosing	Mean	No. disclosing	Mean	No. disclosing	Mean	No. disclosing
Total Environmental CSD	0.86	83 (83)	0.80	87 (87)	1.07	89 (89)	0.91	259 (86)
Environmental Policy	0.16	76 (76)	0.18	83 (83)	0.19	80 (80)	0.18	239 (80)
Environmental Audit	0.20	43 (43)	0.16	61 (61)	0.24	75 (75)	0.20	179 (60)
Waste, packaging, pollution, etc.	0.43	64 (64)	0.37	72 (72)	0.42	75 (75)	0.41	211 (70)
Environmentally Financially-related data	0.56	19 (19)	0.35	9 (9)	0.40	10 (10)	0.47	38 (13)
Sustainability	0.13	14 (14)	0.38	15 (15)	0.53	12 (12)	0.34	41 (14)
Energy	0.17	21 (21)	0.12	11 (11)	0.19	15 (15)	0.16	47 (16)
Environmental Other	0.18	44 (44)	0.15	50 (50)	0.27	65 (65)	0.21	159 (53)

Note: The figures in brackets indicate the percentage of companies' annual reports in the sample (of each year) disclosing in the relevant category.

Similar to disclosure undertaken by Egyptian companies, UK companies showed dominance of disclosure relating to 'thanks to employees' and information on training provided to employees in voluntary 'employee other' disclosures; the most popular voluntary employee-related disclosure.

UK CSD showed a difference in the topics covered in the annual reports that are categorised under 'General Other'. 'General Other' disclosures in the UK



include statements about: responsible corporate behaviour, corporate social responsibility philosophy, OECD guideline and contingent liability, improved health care in developing countries, accountability statements, human rights, ethical conduct, and stakeholders' right recognition which were not particularly evident in Egypt.

Like the quality of the Egyptian data, most of the UK data is declarative with little numerical or monetary information provided. Moreover, most of the disclosures provided are neutral or self-laudatory with few bad news incidences (see Appendix 7.2).

## **7.7 CONCLUSION**

This chapter has presented an empirical investigation into the social and environmental disclosure practices of a sample of listed Egyptian companies over a four-year period and comparing it, in general terms, to UK CSD practices<sup>294</sup>. It is clear that all companies disclosed something about social issues. It may be said that the efforts made by the Egyptian companies to make social disclosures are note-worthy and deserve appreciation. But it is observed that in most cases the quantity and quality of disclosures were less satisfactory and poor. The disclosure levels in Egypt were quite low throughout the four-year period and are marginal in terms of number of companies reporting with most – especially voluntary disclosures – being textual. Overall, the results are disappointing and surprising.

Mandatory and voluntary CSD – though patchy and minimal – exist in Egypt. Both are nevertheless decreasing over time. Mandatory disclosures relating to employees information tended to predominate with only a limited number of companies reporting detailed voluntary information on a consistent basis. Total disclosure and disclosure in most categories decline each year over the period with a general fluctuating pattern more or less in all areas. There is no

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<sup>294</sup> It has to be noted here that sampling and measurement techniques used for samples from both countries are consistent, despite data collection difficulties, which allows such comparison (see Chapter 6).



evidence of increasing trends observed in CSD during the period of the study but rather there was a noticed decrease in the level of total CSD and most of its categories and subcategories. Moreover, total CSD, as well as mandatory and voluntary CSD, declined as a proportion of the annual report from 1998 to 2001.

It is clear that the practice of CSD in Egypt is not widespread and what disclosure exists appears to be primarily influenced by legislative guidance despite figures by and large showing that Egyptian companies disclose mandatory and voluntary CSD almost equally. Although many companies confined their CSD practices to mandatory information, there are a significant minority of companies which do not comply with disclosure laws and regulations not even disclosing the minimum information required. This is mostly evident concerning VAS. Companies in Egypt seem not to be convinced that such issues are worth mentioning and would rather prefer to focus on purely financial information that they might see of more interest to financiers and owners.

In addition to tremendously trivial volume of, especially, voluntary CSD, with substantial reporting almost non-existence, disclosure seems to be misleading and does not seem to reflect performance. Any voluntary disclosure undertaken provides little information of substance. Most disclosures are general and unsystematic with predominance of general descriptive and rhetoric statements. Few attempts were made to quantify the disclosures, mainly for clarification, although in some cases quantification could easily be made by disclosing the amount of expenditures made in carrying out activities. Excluding mandatory information requirements, relatively little evidence of financial or quantitative disclosure is reported in Egypt. Moreover, the tone of almost all disclosures was very positive, reassuring and self-justificatory; i.e., reflecting positively on the disclosing companies. There has also not been any explicit or implicit notice in the audit reports as to the review and audit of any social information disclosed in the annual report. However, in some cases, some aspects which can be considered social are discussed in the audit report.

This gives an indication that it has been reviewed and audited. Nevertheless, for mandatory disclosures, companies are audited and yet don't disclose.

Although there are similarities in patterns of disclosure between Egypt and the UK, such as the dominance of employee disclosure<sup>295</sup> followed by community and environmental information with consumer disclosure the least popular and the dominance of employee appreciation and training concerning voluntary employee other disclosure, UK and Egypt are similar in general overall patterns. Levels and incidences of disclosure differ between the two countries. In addition, CSD practices analysis reveals disparity between Egypt and the UK when considering details and specifics of disclosures (e.g., employees disable, equal opportunity, employee profit share, sport profit share, employee benefit provision, sustainability, energy, employee consultation, prayers as a general other disclosure) where some themes are existent and prevailing among companies of one country but not the other. Differences also exist between both countries in terms of least and most popular subcategories within the main categories as well as within voluntary and mandatory subcategories in general. Moreover, trends over time are not similar. For instance, the increasing trends in environmental disclosure in the UK were not found in the Egyptian sample. Overall, the quality and quantity of CSD in Egypt is, generally speaking, lower than that of the UK in nearly all main issues (but see, for example, Sections 7.2 and 7.5.2). In addition, UK companies are found to be more in compliance with law than Egyptian companies in terms of proportion of companies disclosing mandatory requirements. Surprisingly, Egypt relied less on regulations compared to the UK where volume of CSD indicates greater influence by disclosure regulations. CSD in the UK is a function of mandatory requirements<sup>296</sup>.

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<sup>295</sup> Dominance of employee disclosure might suggest the recognition of the importance of employees in both countries (see Guthrie and Parker, 1990). In Egypt, the law requires that there be a representative of the employees' trade union as a member of board of directors. However, this person is rarely in disagreement with the other board members and just takes an honorary – however paid – position without much active participation in the interest of the employees. It doesn't really have an effective role. It is just to tell employees you are represented. It all depends on government enforcement.

<sup>296</sup> Volume of voluntary CSD in UK is lower than that of the mandatory CSD.



By completing Chapter 7, we have addressed the first two operational research questions (see, Section 1.3). The next chapter outlines the results of research done on developed and developing countries as to CSD practice and patterns evident in reporting. Findings from this chapter will be compared in general with that of the literature. In addition, the chapter will include discussions of size and industry influence on CSD volume and practices. Chapter 9 then explains and describes the field study where motivations behind CSD practices in general are explored by undertaking interviews with corporate managers. Chapter 10 describes and analyses the interview data obtained.

# **CHAPTER 8**

## **CORPORATE SOCIAL DISCLOSURE: LITERATURE VERSUS EGYPTIAN FINDINGS**

### **8.1 INTRODUCTION**

Chapter 7 presented a perhaps slightly unexpected picture of Egyptian CSD. It is more widespread than might have been expected but is dominated by employee-based reporting as might have been predicted. The value added system plays an important role but overall disclosure appears to be declining. Besides, surprisingly, non-compliance with mandatory disclosure legislation is common. It also seems that there is no attestation. More to the point, levels of Egyptian CSD appear to be very low compared to UK CSD.

This chapter now seeks to place this in context and it will do this in three stages. First, the mainstream literature on CSR will be rehearsed in order to pull out the principal themes that appear to be exercised by the developed Western nations in their disclosure and which seem to be the items of interest and concern to most developed country researchers. Second, the same process will be undertaken – again broadly – with studies based on lesser developed economies. The third substantive stream in the chapter will be to return to the Egyptian data, re-examine it in the light of these reviews and attempt an initial teasing out of patterns which seem similar to which countries and which might, in the end, offer some support of rejection of Hofstede's framework.

In addition, the potential influence of corporate size on volumes of disclosure in Egypt is considered together with a comparison of the disclosure patterns in the main industry sectors represented by the companies in the sample. This is to highlight any differences in the disclosure incidence and volumes and as compared to the international literature.



Before going into the mainstay of the chapter, however, it may be apposite to offer a few words of explanation as to why what may well look like a fairly traditional literature review, should appear so late in the thesis. This literature review mainly concentrates on key issues that came up from the data in Chapter 7. Thus, it comes into view subsequent to it to develop a logical structure for organising the material in the chapter. This also allows and facilitates a comparison between the findings of this study and the prior literature results.

## **8.2 CSD IN DEVELOPED COUNTRIES**

Even though social accounting and responsibility have been argued to exist since before the start of the twentieth century (see, e.g., Guthrie and Parker, 1989) or can be even tracked back to as far as 5000 B.C. (see, Anderson, 1989), social accounting attracted considerable attention during the early to mid-1970s and modern social accounting is usually marked from the 1970s (Gray, 2000).

Although CSD is a global activity, it is more pronounced in the Western developed countries and is predominantly a developed country phenomenon. Developed countries studies, such as that of the US, Canada, Australia, New Zealand, UK, and other European countries, dominate prior empirical work on CSD (Tsang, 1998; Choi, 1998a, b)<sup>297</sup> with even the international comparative research concentrating – as Williams (1999) argues – on analyzing differences and similarities of CSD practices within these developed countries (e.g., Cormier et al., 2004; Adams, 2002; Adams and Kuasirikun, 2000; Ernst and Ernst, 1978; Guthrie and Parker, 1990). By comparison, there is a relative paucity of studies on CSD practices in the developing and newly industrialised

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<sup>297</sup> Examples of studies undertaken in a Western developed context include: Hammond and Miles, 2004; Adams and McPhail, 2004; Hedberg and von Malmberg, 2003; Guilding and Kirman, 1998; Freedman and Stagliano, 2002; Deegan et al., 2000, 2002; O'Dwyer, 2002, 2003a, b; Friedman and Miles, 2001; Adams et al., 1995a; Cormier and Gordon, 2001; Adams and Harte, 1998, 2000; Harte and Owen, 1991; Gray et al., 1997b; Gallhofer et al., 2000; Chan, 1979; Tilt and Symes, 1999; Stagliano and Walden, 1998; Buhr, 1998, 2001; Ernst and Ernst, 1978; Grojer and Stark, 1977.

countries (see Section 8.3). This section will mainly deal with CSD literature on developed countries.

Despite international CSD comparisons showing variations between countries (see, for example, Adams et al., 1995b, 1998; Fekrat et al., 1996; Gamble et al., 1996) and over time in areas of disclosure (see, for example, Gray et al., 1995a; Patten, 1995; and Pava and Krausz, 1996)<sup>298</sup>, the main findings of the previous studies demonstrate a general steady increase (e.g., Gray et al., 1995a) in the level, complexity and importance of corporate social disclosure within annual reports over the past three decades (Gray et al., 2001; Tilt, 1998; but see, Patten, 1995), with disclosure, generally speaking, mostly in the employee-related category. However, overall, despite the evidence of increasing levels of CSD, there is vast agreement – amongst most researchers – that the amount of CSD currently produced is still insufficient (Tilt, 1994) and most disclosures made in all categories are mainly declarative in nature (see, Hall, 2002). The following subsections will discuss and summarise main findings of literature on CSD undertaken in Western developed countries context.

### **8.2.1 Employee-Related Disclosures Dominate CSD**

As mentioned before, main and greatest emphasis has been placed on this aspect of disclosure (Hall, 2002) compared to other strands of CSD. Employee-related information dominates all current CSD. The highest percentage of disclosing companies undertook employee-related disclosures (see, e.g., Guthrie and Parker, 1990; Adams et al., 1998; Adams et al., 1995b; Hackston and Milne, 1996; Roberts, 1990, 1991). Some studies indicate that nearly all companies sampled disclosed some employee-related information

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<sup>298</sup> The emphasis on particular areas appears to be subject to fashions, varying across both time and place (see, Gray et al., 1995a). By the end of the 1980s, the emphasis on social issues shifted more from employee information and value added statements (e.g., Burchell et al., 1985) to environmental information. At the same time, this remarkable growth of interest in environmental issues and reporting (Gray, 1993; Adams et al., 1995b) has been accompanied by an increasing trend towards greater coverage of environmental issues in corporate annual reports (Harte and Owen, 1991). The 1990s have revived an interest in environmental issues which outdo that of the 1970s where environmental safety and protection issues have once again become a major concern (Gamble et al., 1996).



(e.g., O'Dwyer and Gray, 1998; Gray et al., 1995a). However, this has been mainly due to mandatory disclosure requirements concerning employee-related information in some countries, especially Western European countries, such as employee numbers and salaries.

Nevertheless, there were some variations<sup>299</sup> in disclosure among countries in terms of level of employee-related disclosures and the percentage of companies disclosing as well as the popularity of relevant sub-categories. Moreover, aspects of emphasis tend to change over time in addition to by place or country of origin. For example, Gray et al. (1995a), in surveying the trend of disclosure in UK over the period from 1979 to 1991, identified a stable growing trend in employee-related disclosures with varying aspects of interest over time. They identify that VAS and trade union disclosure faded over time with information on employee training, share ownership, and equal opportunities taking place.

### **8.2.2 Rising Environmental Disclosures**

Environment-related – as well as community-related – disclosures received most attention after employee-related information. Much of the research done on CSD focused exclusively on environmental disclosure made by companies (e.g., Holland and Foo, 2003; Cormier and Magnan, 2003; Jupe, 1994)<sup>300</sup> with a general consensus that there has been a general increasing trend in number of companies disclosing (Gray, 1993; see e.g., KPMG, 1997, 1996a; Jupe, 1994; Gray et al., 1995a; Niskala and Pretes, 1995; Moneva and Llana, 2000; Ljungdahl, 1994; Deegan and Gordon, 1996; Gamble et al., 1996<sup>301</sup>; Buhr and Freedman, 2001<sup>302</sup> but see, Nuffel et al., 1995) as well as in the volume of

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<sup>299</sup> Differences in employee-related disclosures have been attributed by Gray et al. (1996) to differences in social concerns among countries.

<sup>300</sup> Some empirical research into environmental reporting concentrates on environmental disclosure made in media other than the corporate annual report. Examples are: environmental reports (see, Jupe, 1997), environmental policy statements (see, Tilt, 1997).

<sup>301</sup> Gamble et al. (1996) indicate that companies in countries that have more well-established capital markets or relatively high social conscious tend to disclose more environmental information on a voluntary basis more and above what is required by law (e.g., Sweden, UK, US, Canada).

<sup>302</sup> Buhr and Freedman (2001) conclude that culture has an influence on environmental disclosure.

information disclosed (Adams et al., 1995b, see, e.g., Guthrie and Mathews, 1985; Guthrie and Parker, 1990; Roberts, 1991) since the initial rise in the environmental concern in the late 1980s and early 1990s (Gray et al., 1995b but see Hall, 2002 study of New Zealand). The considerable rise in environmental disclosures is also evidenced in international surveys conducted by UN and KPMG (e.g., KPMG, 1993, 1996b, 1999; UN, 1992, 1994, 1995).

However, despite evidence of an increase in environmental disclosure (Fortes, 2002; Burritt and Welch, 1997; Stanwick and Tabor, 1997), it is, by and large, agreed that the amount of disclosure is in general low (see, Solomon and Lewis, 2002; Deegan and Gordon, 1996) and frequently low in quality (see, Solomon and Lewis, 2002). These environmental disclosures are mostly voluntary in nature (Gray et al., 1995a; KPMG, 1993) with the most popular disclosure being in environmental policy statement (KPMG, 1993). Gray et al. (1995a) also suggest that most of the environmental disclosure is more than the legislative requirement in European countries where such disclosure takes place.

In addition to the above, and similar to findings from employee-related disclosures, incidences and volume of environmental disclosures varied worldwide. In Europe, it is found that the incidence of environmental disclosure varies significantly across the countries with German, Swedish and UK companies showing the highest levels of disclosure in terms of companies disclosing (Adams et al., 1995b; Roberts, 1991) as well as average quantity disclosed (Adams et al., 1998; Adams et al., 1995b) and variety of categories disclosed. Compared to European countries, relatively low levels of environmental disclosure is witnessed in Australia (see, Deegan and Gordon, 1996; Guthrie and Parker, 1990), New Zealand (see, Hackston and Milne, 1996) and Japan (see, Yamagami and Kokubu, 1991).



### **8.2.3 Community/Ethical-Involvement And Consumer/Product-Related Disclosures**

These categories broadly include most CSD issues that fall outside employee-related and environmental disclosures categories (Gray et al., 1996). These disclosures, especially consumer/product-related information, tends to be the least developed category of CSD (Gray et al., 1996) undertaken by the lowest percentage of companies (see, e.g., Guthrie and Parker, 1990). However, there has not been much consensus among different researchers as to what these categories should include<sup>303</sup>. Customer relations and product safety information are sometimes included within community/ethical involvement disclosures (e.g., Adams et al., 1995b) while in other studies they are dealt with separately (e.g., Guthrie and Parker, 1990).

Although the majority of these disclosures are voluntary in nature, some aspects are mandated in some countries. For example, ‘charitable donations and activities’ and ‘political donations, activities and statements’ are all mandatory requirements in UK. This difference in legislations leads to variations in disclosure incidences between countries (see, e.g., Adams et al., 1995b). Gray et al. (1995a), in their longitudinal study on UK, found that disclosure relating to the community including charitable donations was widely practiced and rose considerably in terms of number of companies disclosing throughout the study period especially from the late 1980s to the early 1990s presumably in order to comply with UK regulations (but see Hall, 2002 for evidence of decreasing disclosure in New Zealand). However, Gray et al. (1995a) find that customer-related disclosure remains very low during the period of study from 1979 to 1991.

### **8.2.4 Mandatory Versus Voluntary Disclosures**

CSD, all over the world, is predominantly a voluntary activity. Having said that, there is some socially- and environmentally-related information required

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<sup>303</sup> This, however, could include: customer relations; political donations, activities and statements; equal opportunities; community involvement and public welfare; sponsorship and advertisement; charitable donations and activities; product safety and testing; foreign corrupt practices/ethical business practices; legal proceedings, litigation and liabilities; and investment policies (see, for example, Adams and Kuasirikun, 2000).

to be disclosed by legislation in some countries. For example, there are some employee-related mandatory disclosure requirements in some countries, especially Western European countries, such as employee numbers and salaries, disabled employee policy, and employee consultation and communication policy (see, e.g., Gray et al., 1995a; Adams et al., 1995b)<sup>304</sup>. Gray et al. (1995a) contend that voluntary CSD is fashionably changing with only mandatory requirements more likely to be preserved over long terms.

Mandatory disclosure requirements greatly affect overall CSD level. For instance, levels of employee-related disclosures are found to be relatively lower in countries which lack mandatory CSD (see, for example, New Zealand in Hackston and Milne, 1996 and Japanese disclosure in Yamagami and Kokubu, 1991) than in other countries where all companies disclose due to legislative requirements (see, for example, Irish disclosure in O'Dwyer and Gray, 1998; UK disclosure in Gray et al., 1995a and Adams et al., 1995a). Compliance with mandatory CSD requirements reaches 100 percent for some issues (employment data and pension data) but not for others (see, for example, Gray et al., 1995a; Adams et al., 1995a; and O'Dwyer and Gray, 1998). However, minimal mandatory CSD is found with no attempts to exceed what is required by law (see, Guthrie and Parker, 1990). Generally speaking, voluntary CSD, despite being remarkable, is lower in level of incidence than mandatory CSD (see Gray et al., 1995a; Guthrie and Parker, 1990)<sup>305</sup>.

### **8.2.5 Quality Of Corporate Social Information Disclosed**

By and large, it is indicated that the quality of CSD is disappointing and often described as low in terms of taking place mainly in qualitative form – other than that of the mandatory requirements – being biased, self-laudatory with very limited monetary or quantitative type disclosures (see, e.g., Adams et al.,

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<sup>304</sup> The US, Canada, Denmark, Netherlands, Norway, Sweden, Australia and the EU also have some mandatory environmental disclosure and reporting requirements (see, KPMG, 1993, 1997, 1999). See also Gamble et al. (1996) for a synopsis of the environmental reporting requirements of countries worldwide. As noted above, 'charitable donations and activities' and political donations' are also a mandatory requirement in the UK in addition to 'directors' data' and 'corporate governance' information (Gray et al., 1997b).

<sup>305</sup> This has changed since the 1990s with the increase in stand-alone reporting.



1995a). CSD is also featured by an absence of a complete, honest and true picture reflecting the company's social and environmental interactions but rather is mostly "empty rhetoric" (Owen and Swift, 2001). Thus, it can be said to be "inadequate" and unable to hold companies accountable for their activities (Murray et al., 2006).

With particular reference, for example, to employee-related information disclosed, Adams et al. (1995b) and O'Dwyer and Gray (1998) argue that disclosures are found to be mostly discursive and declarative. Most quantitative data present is due to compliance with mandatory regulations of certain countries on specific issues such as employee numbers and salaries with relatively little other quantified information.

Similarly, the overall picture of environmental disclosure is argued to be disappointing in terms of quality (Adams et al., 1995b; UN, 1992, 1994). It is contended that environmental disclosures undertaken by corporations are low in quality (Roberts, 1991), dominated by narrative (Ljungdahl, 1994), incomplete and biased information (Cerin, 2002) which is not deemed helpful or informative (Adams et al., 1995b) and which seems to have the intention to promote a favourable corporate image (see Jupe, 1994; Deegan and Rankin, 1996). In addition to being mostly declarative and often superficial (see, Tilt, 1998, 2001; Moneva and Llena, 2000; Niskala and Pretes, 1995)<sup>306</sup>, environmental disclosure is found to be selective and promotional (Gray, 1993) with the reported negative information or events negligible in proportion compared to the positive disclosures made (see, e.g., Guthrie and Parker, 1990; Niskanen and Nieminen, 2001). Companies disclosing 'bad' news are rare if not nonexistent (see, e.g., O'Dwyer, 2003b) with the majority of disclosures undertaken being often self-congratulatory (see, Deegan and Gordon, 1996; Hackston and Milne, 1996). Very little quantitative and

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<sup>306</sup> Neu et al. (1998) studied 33 publicly traded largest Canadian companies in environmentally sensitive industries over 1982-1991 annual reports. They found that narrative disclosures in annual reports are preferred to other forms of textually-mediated communication because they are targeted toward the organization's relevant publics (as opposed to the general public as is the case with other forms of organizational advertising).

financial information is provided by fewer companies (see, UN, 1992, 1994; Burritt and Welch, 1997; Deegan and Rankin, 1996; Gamble et al., 1996).

As with previous categories, community- and consumer-related disclosures are found to have the intent to provide a publicly acceptable corporate image which casts a favourable and positive light. For example, Stittle (2002) conclude that in UK ethical reporting in general lacks objectivity and structure with considerable distortions and omissions. In addition, Adams et al. (1995b) remark that despite a large number of companies disclosing, the information disclosed seems low in quality being rather descriptive, discursive, and brief (see also, Adams et al., 1998; Adams and Kuasirikun, 2000).

#### **8.2.6 Motivations Behind Social And Environmental Disclosures**

A substantial body of literature from a wide spectrum of theoretical positions concludes that public ‘social and environmental’ disclosures are an important phenomenon employed by corporations for a variety of actual, intended or assumed purposes (Gray, 2000; Gray et al., 2001). These range from the quest for corporate legitimacy to the desire to be seen as accountable or transparent (Gray et al., 1987, 1988, 1995a). Arguments are employed to suggest that social accounting is intended as (say) risk signalling to investors (Trotman and Bradley, 1981); has no value-relevance to investors (Milne and Chan, 1999); is part of legitimacy or stakeholder management strategies (Patten, 1992; Roberts, 1992; Neu et al., 1998); is a response to accountability desires (Gray et al., 1987); is a means of propaganda (Collison, 2003); is a result of external pressure groups, media effect, cultural specific variables (Tilt, 1994; Adler and Milne, 1997; Brown and Deegan, 1998; Adams et al., 1995a); is due to influence of key executives (Campbell, 2000), or pressure from ethical investors (Friedman and Miles, 2001), and regulation in the West (Larrinaga et al., 2002), etc.

Research that investigated the actual motivation behind undertaking CSD failed to find any support for the normative ‘accountability’ purpose. On the other hand, actual driving forces behind CSD tend to be mostly public



impression management (Neu et al., 1998) and managerial control (Gray, 2000). This could be achieved via enhancing/protecting the corporate image or reputation for socially responsible behaviour, becoming influential in public policy decisions (Guthrie and Parker, 1990), managing stakeholders in an attempt to alleviate social pressure; and protecting or establishing legitimacy for corporate operations (Gray, 2000). CSD could also have been the result of more than one motivation (Gray et al., 1996). The many theories<sup>307</sup> that have been developed in the CSD literature trying to answer the question of why companies disclose social and environmental information in annual reports include: stakeholder theory, legitimacy theory, and political economy theory (discussions on these theories can be found in Chapter 4). The overall conclusion from these theories is that interest groups, stakeholders and society have some influence over the types and timing of firms' disclosures through exercising pressure.

### **8.2.7 Corporate Characteristics And CSD**

Many prior studies in the CSD literature have examined the impact of observable corporate characteristics, viz. size, industry affiliation, and profit(ability), on corporate social and environmental reporting. Despite differences – amongst these studies – in terms of researchers conducting the study, country of origin, time periods studied and span of time covered across the diverse studies, sample size, industrial sectors comprising these samples, proxies for explanatory variables, method of sample selection<sup>308</sup>, and method of measurement of CSD, some relationships have been identified. In particular, the size of the disclosing company appears to be a very important explanatory variable (see, for example, Adams et al., 1995b, 1998; Gray et al., 1995a; Gray et al., 2001; Cormier and Magnan, 2003; Deegan and Gordon, 1996; Cowen et al., 1987; Hackston and Milne, 1996; Fry and Hock, 1976; Patten, 1991, 1992; Belkaoui and Karpik, 1989; Trotman and Bradley, 1981)

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<sup>307</sup> Indeed, Ullmann (1985) cites the lack of systematic theorizing of CSD as one of the main reasons for the lack of substantive, systematic conclusions about CSD.

<sup>308</sup> Most of the surveys and research undertaken has considered and concentrated on largest companies' disclosure practices rather than drawing random samples which if ignored, the quantity and quality might considerable change or even decline (Gray et al., 1995a).

and there also seems to be strong evidence supporting the influence of the industrial sector – to which the disclosing company belongs – on CSD – though findings are less consistent to that of size impact – (see, for example, Adams et al., 1995b, 1998; Gray et al., 1995a; Cowen et al., 1987; Fry and Hock, 1976; Deegan and Gordon, 1996; Gray et al., 2001; Newson and Deegan, 2002; Hackston and Milne, 1996; Patten, 1991; Roberts, 1992; Deegan and Rankin, 1999; Cormier and Magnan, 2003).

Thus, the literature suggests and empirically demonstrates that corporate size and industry membership are factors potentially related and associated to as well as affecting CSD practices (Gray et al., 1995a, 2001). It appears that CSR is associated with larger companies – presumably due to increased visibility concerns (Patten, 2002; Patten and Nance, 1998) – and is less common in smaller companies. In other words, ‘super-large’ companies are significantly more likely to disclose more of all types of corporate social and environmental information. These companies are subject to more public scrutiny by virtue of their size; they receive more attention, and are under greater potential pressure<sup>309</sup>.

Similarly, the nature of a company’s industry has been identified as a factor potentially affecting CSD practices. It seems that CSR is more likely in some industries than in others. High-profile companies – those operating in high-profile industries<sup>310</sup> such as raw material extraction, pharmaceuticals, metals, chemicals, oil and gas industries – on average, provide significantly more voluntary CSD than low-profile companies; i.e., those operating in low-profile industries such as services, health care, computers, and electronics. It is noted that high-profile companies have greater incentive to project a positive social image through CSD (Adams et al., 1998; Hackston and Milne, 1996; Patten, 1991) as they are subject to greater potential public pressure relative to environmental conditions (Holland and Foo, 2003).

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<sup>309</sup> Legitimacy theory (see Chapter 4, Section 4.5) contains arguments for a size-disclosure relationship (see, for example, Guthrie and Parker, 1990).

<sup>310</sup> Roberts (1992:605) defines high-profile industries as those “with consumer visibility, a high level of political risk, or concentrated, intense competition”.



Moreover, companies whose economic activities directly change the environment (Holland and Foo, 2003; Dierkes and Preston, 1977) are more prone to disclose information about their environmental impacts than are companies in other industries (Hackston and Milne, 1996; Adams et al., 1998). In addition, environmental sensitivity of the industry has been argued as having an influence on the level of environmental reporting (Deegan and Gordon, 1996; Harte and Owen, 1991) and the development of environmental management systems (Wilmshurst and Frost, 2000). Several studies (e.g., Cowen et al., 1987; Deegan and Gordon, 1996; Walden and Schwartz, 1997; Hackston and Milne, 1996; Patten, 1991) show that firms from industries with higher sensitivity to potential environmental regulation (e.g., petroleum, chemical, and metals industries) tend to provide more extensive environmental disclosure than firms from less environmentally sensitive industries. Patten (1991) asserts that industry sensitivity increases the political visibility of a company and thus increased disclosure is used to avoid pressure or criticism from lobby groups<sup>311</sup>.

In respect of corporate income or profitability (economic performance), CSD is not obviously related to the profitability (including share returns) of the corporations. Research findings are mixed and relatively inconclusive (Murray et al., 2006; Richardson et al., 1999). Some studies found a relationship (e.g., Gray et al., 2001; Bowman and Haire, 1975) while others did not find any meaningful or direct effect (e.g., Murray et al., 2006; Abbott and Monsen, 1979)<sup>312</sup>.

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<sup>311</sup> The differing industry results can be understood as providing support for socio-political theories of social disclosure (Patten, 2002). The finding that worse environmental performance is associated with greater (positive and favourable) environmental disclosure (Deegan and Rankin, 1996; Deegan and Gordon, 1996) supports arguments that the level of social disclosure is a function of the exposure a company faces to the political environment.

<sup>312</sup> See also, McGuire et al. (1988) and Appendix 4.1 for more discussion on economic performance and CSD.

### 8.2.8 Stand Alones, The Internet And CSD

Despite that the majority of the CSD literature – and the reviews within this chapter – tend to concentrate mainly on self-reporting by organisations in corporate annual reports, it is not denied that other media of disclosure (Zeghal and Ahmed, 1990) are gaining acceptance and are gradually becoming much more important. For example, there is growing evidence of specific stand-alone reports (such as environmental reports, community reports, and employee reports)<sup>313</sup> (Adams et al., 2003) prepared by the corporations and targeted to specific groups (see, for example, KPMG, 1996b, 1997, 1999; Jupe, 1997; Buhr and Freedman, 2001; Buhr, 2002). The Internet is also becoming a popular medium for providing social and environmental information (see, Rikhardsson et al., 2002; McMurtrie, 2001; Jones et al., 1999).

It was found by Buhr and Freedman (2001) that stand-alone environmental reports contained more environmental information than that disclosed in the corporate annual report. Thus, stand-alones have a considerable impact on the total disclosure levels. Murray et al. (2006) also argue that the growth in stand-alones reveals the capability of organisations of producing extensive social and environmental disclosures should they will to do so. Besides, McMurtrie (2001) suggests that corporate annual reports are becoming less appropriate and inconvenient communication media compared to corporate websites. Campbell et al. (2003:574) agree arguing that widespread and increasing use of the Internet “renders the analysis of corporate annual reports only as a limited, and less meaningful, research instrument”. Moreover, McMurtrie (2001) notes that annual reports are also becoming especially inappropriate when making assertions regarding the volume of CSD produced (see also Williams and Ho Wern Pei, 1999)<sup>314</sup>.

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<sup>313</sup> Australia, Belgium, Denmark, France, the Netherlands, Norway and the EU are also reported to make environmental/sustainability reports mandatory (Sahay, 2004).

<sup>314</sup> Williams and Ho Wern Pei (1999) made a comparative study of corporate social disclosures in four Asia-Pacific nations (Australia, Singapore, Malaysia and Hong Kong). They compared disclosures on the web sites to that undertaken in the annual reports and found that Australian and Singaporean companies provided notably more disclosures in their websites than in the annual reports, while their counterparts in Malaysia and Hong Kong did



In summary, the results from previous research on CSD suggest the following conclusions; that the level of CSD, including its subcategories: employee-related, environmental, and community/ethical involvement information; in terms of proportion of companies disclosing and quantity of disclosure made in corporate annual report has shown a gradual increasing trend over time since 1970s despite the overall low level of disclosure observed (Tilt, 1998; Gray et al., 1995a, 1987; Cowen et al., 1987; Trotman and Bradley, 1981) with employee-related information being the most popular theme of disclosure followed relatively recently by environmental information and community/ethical involvement disclosures. Over these years, CSD has advanced in fits and starts and has the look of an ad hoc response rather than a precisely definable or systematic activity (Gray et al., 1995a, 1996).

Most CSR issues are not yet part of a mandatory reporting process but rather still depend on voluntary activities of managers. This general pattern of disclosure, although, generally speaking, is prevailing in all parts of the world, research signifies that differences exist amongst different countries in terms of the amount of disclosures as well as the emphasis and importance placed on the detailed issues of disclosure<sup>315</sup> in addition to it changing over time (Gray et al., 1987; Guthrie and Parker, 1989, 1990; Roberts, 1991; Niskala and Pretes, 1995).

The information given by companies has been seen to be for the most part qualitative, inadequate, descriptive in nature, fragmented and disparate, misleading, partial and incomplete particularly in regard to negative or critical information; only showing that the disclosing company is good at leaving the bad perspectives aside (Wiseman, 1982; Rockness, 1985; Harte and Owen,

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not show any significant difference. According to the authors, these differences between countries are attributed to differences in technological developments and investments as well as corporate and governmental perceptions towards the importance of the internet technology in disseminating information.

<sup>315</sup> Gray et al. (1996) mention that this might be due to the existence of different pressures and different powerful stakeholder groups among countries.

1991; Owen, 1994; Deegan and Gordon, 1996; Deegan and Rankin, 1996; Adams and Harte, 2000; Solomon and Lewis, 2002).

Further more, company size and industry appear to be significant determinants of CSD while profitability does not seem to have an influence especially in relation to the same period (Trotman and Bradley, 1981; Cowen et al., 1987; Deegan and Gordon, 1996). Finally, there appear to be a number of motivations which may explain corporate decisions to make social disclosures. There is also a noticeable increase in the use of standalones and the internet to disclose on corporate social and environmental aspects.

The following section is concerned with giving a general idea whether a similar pattern of CSD can be observed in developing countries or that these countries has a peculiar prototype of CSD practice distinctive to the rest of the world.

### **8.3 CSD IN DEVELOPING COUNTRIES**

As mentioned before, most of the empirical studies so far carried out on CSD have focused mainly on industrialized Western countries of Europe, United States and Australasia (see, Section 8.2) with scant attention given to empirical work on developing countries.

Nevertheless, a growing body of literature is now available that explores practices in LDCs (e.g., Kuasirikun, 2005; Rahaman et al., 2004; Newson and Deegan, 2002; Rahaman, 2000; Nuhoglu, 2003; de Villiers, 1995; Lodhia, 2003; Imam, 1999; Belal, 2000). The current section concentrates on the few studies carried out in the developing countries. It will generally outline the major findings, from the review of such studies, concerning developing countries CSD practices.

#### **8.3.1 Level Of CSD**

Generally speaking, the review of CSD research on LDCs reveals that corporate social and environmental disclosure undertaken by LDCs



corporations lags behind that found in the developed world (Sahay, 2004; de Villiers, 1998; Abu Baker and Naser, 2000). It can be noticed that the levels of social and environmental reporting practices in developing countries is mostly less than that found in the more developed regions in terms of volume of disclosure as well as the range (percentage) of companies disclosing (Lodhia, 2000), being more unsystematic, inadequate, biased, and comparatively poor. As Andrew et al. (1989) state, CSD has not been extensive in developing countries (Abu Baker and Naser, 2000) and is still in its infancy (Sahay, 2004). Disclosure is very limited in LDCs with both quantity and quality seems to be inadequate<sup>316</sup>. However, the pattern of disclosure resembled that of studies in developed countries, in particular, the dominance of employee-related data. Moreover, one of the major differences between LDCs and developed nations is the absence of growth in stand-alones and website disclosures that is witnessed in the Western developed world (but see, Ahmad and Gao, 2005 where they found that the annual report is not the only means of disclosing environmental disclosure in Libya. See also Sahay, 2004).

On the other hand, CSD in developing countries were inconsistent in terms of CSD trend. Some studies noted an increase in CSD such as Tsang (1998) study of Singapore CSD amount during the late 1980s and de Villiers (1999) study of South African CSD volume from 1982 to 1997<sup>317</sup>. This follows the general pattern witnessed in developed nations where generally speaking CSD is increasing in terms of number and percentage of countries disclosing as well as volume of disclosure (see also, for example, Imam (1999) regarding Bangladeshi environmental disclosures in the 1990s and Gao et al. (2005) regarding Hong Kong evidence). However, other LDC studies witnessed a decrease in CSD over time such as Thai disclosure noted by Kuasirikun and Sherer (2004) and Nigerian mandatory CSD average volume recorded by Disu and Gray (1998).

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<sup>316</sup> Lodhia (2000) argues that the lack of adequate resources and qualified personnel has contributed to ad-hoc and patchy CSD practices in developing countries.

<sup>317</sup> de Villiers (1999) attributed this increase in disclosure to the phenomenal political change of the 1990s.

### **8.3.2 Voluntary Versus Mandatory CSD**

Most of CSD undertaken in LDCs is voluntary-based. In some developing countries, CSD is entirely voluntary with no social and/or environmental disclosure required by legislation such as the case with South Africa CSD (Savage, 1994; de Villiers, 1998), Indian environmental disclosure (Sahay, 2004), and Hong Kong environmental disclosure (Jaggi and Zhao, 1996).

In other LDCs, CSD is partly voluntary and partly mandatory. For example, in Bangladesh (see Belal, 1999, 2000, 2001), ‘energy usage’ information is a mandatory environmental disclosure requirement. Many countries – including the very few African countries studied – have mandatory disclosure requirements concerning employee-related issues and charitable information<sup>318</sup>, for example, Nigeria (Disu and Gray, 1998) and Uganda (Kisenyi and Gray, 1998).

From the findings of LDCs CSD studies, it was mostly the case that the vast majority of companies in LDCs confined their CSD practices to mandatory (statutory) disclosure requirements with voluntary CSD found to be rare (see, for example, Kisenyi and Gray, 1998; Disu and Gray, 1998<sup>319</sup>; Belal, 1999, 2000). Belal (1999, 2000) noted that some companies (10%) did not even disclose the minimum mandatory disclosure requirements. Excluding environmental disclosures, Belal (2001) found that 97% undertook voluntary CSD. Ironically, however, Belal (2001) found that 51% of the Bangladeshi companies failed to comply with mandatory CSD requirements.

### **8.3.3 Employee-Related Disclosures**

As for Western CSD patterns, employee-related information outweighs CSD in developing countries contexts. In almost all studies undertaken using LDCs data, findings reveal the popularity of disclosure on employee-related issues

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<sup>318</sup> Those mandatory requirements in LDCs include: charitable donations, employment data, pensions, employee consultations, employment of the disabled, health and safety, and corporate governance.

<sup>319</sup> In a study of 22 large MNCs in Nigeria, Disu and Gray (1998) documented that on majority of mandatory issues, 100 percent of companies reported in 1994.



(see, for example, Teoh and Thong (1998), Jamil et al. (2002), Tsang (1998) and Andrew et al. (1989) on Malaysian and Singaporean CSD; Belal (1999, 2001) and Imam (2000) on Bangladeshi CSD; Lodhia (2000) of Fijian CSD; Kuasirikun and Sherer (2004) providing Thai evidence; Lynn (1992) of Hong Kong; Savage (1994) and de Villiers (1999) on South African CSD; Disu and Gray (1998) documenting Nigerian support; and Kisenyi and Gray (1998) recording Ugandan data). This popularity was also accompanied by employee-related information representing the highest volume of CSD (see, Savage, 1994; Belal, 1999). Nevertheless, the specifics of employee-related information disclosed varied amongst developing countries due to differences in mandatory employee-related disclosure requirements of each country.

The motivation to disclose on employee-related issues is attributed to that human resources are considered by managers as the most valuable asset (Teoh and Thong, 1984). Moreover, employee-related disclosures are also triggered by the concern shown by the government regarding improving standards of life as well as working conditions of employees with such disclosures regarded as a contribution to efforts for improvement (Andrew et al., 1989; Abu Baker and Naser, 2000). Employee-related disclosure is said to be triggered as well by labour movements such as that in South Africa (de Villiers, 1999).

#### **8.3.4 Other Corporate Social Disclosures**

Environmental and community involvement information comes next after employee-related disclosure in popularity and volume (see, for example, Kuasirikun and Sherer, 2004; Teoh and Thong, 1998; Tsang, 1998; Belal, 1999; de Villiers, 1999; Savage, 1994) with the least widespread category is customer/product issues in most LDCs (see, for example, Imam, 2000. But see, Jamil et al., 2002; Lynn, 1992). As with employee-related data, it is noticed that the specifics disclosed under the above categories varies between developing countries.

### 8.3.5 Value Added Statement (VAS)

Value added is defined as “the value created by the activities of a firm and its employees, that is, sales less the cost of bought in goods and services” (van Staden, 2003:224). The VAS reports on the calculation of the value added and/or the distribution of the return among the different stakeholders of the company including employees, government, lenders, and shareholders (Roberts, 1990; Imam, 2000; Belal, 2001). It, thus, reports on the combined efforts and contributions of a number of stakeholders (Belkaoui, 1988; Burchell et al., 1985). The VAS is seen as a modified version of the Income Statement (Belkaoui, 1988; Imam, 2000) that, in reality, adds little, if any, new information to what is contained in the Income Statement (van Staden, 2003). Due to the lack of legislative requirements for the disclosure of the VAS, there are no specific formats to be followed when preparing the statement<sup>320</sup>.

It has been argued that the VAS has several uses (Burchell et al., 1985) ranging from communication with employees or to indicate social responsibility, to being a signal of the economic failure or success of the company (van Staden, 2003). It does not, however, mean that an increase in value added is an addition to the shareholder wealth. The VAS is claimed to promote the morale of the employees of a company as the VAS reflects the perception of the worth of the employees to their company – as responsible participators – and that employees are taken into account as an important stakeholder and part of the organization in the financial reports (Hegde et al., 1997; van Staden, 2003). This may in turn motivate employees to exert extra effort and work harder (Imam, 2000). In addition, VASs are seen to provide useful and important information to employees to help them through negotiations of the labour contracts (Hegde et al., 1997).

Van Staden (2003), in an attempt to provide an understanding of the motivation behind voluntary publishing VASs (with particular relevance to South Africa), indicates that legitimacy theory and political economy theory

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<sup>320</sup> See Roberts (1990) for the most common formats used in some European countries.



provide the best explanations. He explains that there has been major political (together with social and economic) changes<sup>321</sup> in South Africa that brought with it uncertainty as to the society's expectations of the economic system and the role of private business. Due to these changes, the government changed from representing the views of capital to that of labour. Thus, companies had to demonstrate that they are not exploiting employees in favour of capital. To do this, disclosure of VAS became the preferred method. VAS is seen as an attempt at altering the perceptions and expectations of the stakeholders towards holding a more favourable view of the organization and capitalism, as well as directing their attention away from touchy and debatable issues by downplaying the importance of profit and interests of capital (van Staden, 2003, 2000). VAS is useful in diverting attention from profit and directing it to the employee's share of value added. This is seen as supporting legitimacy theory as well as political economy theory. Savage (1994) adds that communication between management and workers via the annual report may be one way of striving to improve strained relationships with trade unions<sup>322</sup>.

Although the VAS is not a mandatory disclosure requirement in any LDC (but see Egyptian CSD requirements; Appendix 6.10), it was voluntarily published by companies in a number of countries. In Bangladesh, for example, Belal (2001) found that one in every three companies presented a VAS (value added statement) on a voluntary basis which is similar to what Imam (2000) found who reported that 15 out of 40 sampled Bangladeshi companies disclosed a VAS (see also, Belal, 1999). In India, Hegde et al. (1997) observed that a public company named the Steel Authority of India Limited (SAIL) prepared a VAS, amongst other financial statements, on a voluntary basis.

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<sup>321</sup> These include low economic growth and high unemployment coupled with a strong alliance between labour and the government (van Staden, 2000).

<sup>322</sup> It is argued, however, and as shown by empirical evidence that corporate efforts in this regard may not be achieving the desired result, as trade unions and workers do not perceive annual reports (having originated from management) to be a reliable source of information – but rather regard it with suspicion – whether audited or not as auditors are unjustifiably also perceived to be “hand in glove” with management (Savage, 1994; van Staden, 2000).

The VAS is most popular among South African companies and there is an increasing use being made of VASs (Savage, 1994). There has been a sustained increase in the publication of the VAS since mid-1980s in South Africa reaching 50% of all companies listed on Johannesburg Stock Exchange (JSE) (van Staden, 2000, 2003). This percentage is argued to be the highest incidence of VAS publication all over the world (van Staden, 2000).

The VAS was very popular, and its publication reached its peak, in the UK in the late 1970s and early 1980s (Burchell et al., 1985). It started to decline in publication after the mid-1980s (van Staden, 2003), as it was never statutorily required in the UK<sup>323</sup>. According to Hegde et al. (1997), the VAS is also published voluntarily in some European countries providing sources of value and uses of the value furnished<sup>324</sup> (see also, Roberts, 1990). Since the 1990s, the VAS started to fade out in the UK (Roberts, 1990) and the Western literature on VAS has fallen.

### 8.3.6 Quality Of Corporate Social Information Disclosed

In addition to the above discussions regarding CSD in LDCs, and in line with the results of studies of CSD in developed countries, most of CSD in LDCs is poor, being declarative and narrative in nature (see, Kuasirikun and Sherer, 2004), with a dearth of quantitative and monetary disclosures (but see, Savage, 1994)<sup>325</sup> other than the mandatory requirements in some countries (see, Andrew et al., 1989; Jamil et al., 2002; Belal, 1999, 2000, 2001; Lynn, 1992; Imam, 1999, 2000).

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<sup>323</sup> There were definite trends towards, and then away from, the publication of VASs in the UK (van Staden, 2003). Burchell et al. (1985) suggested 'three arenas' that led to the development of value added information in the UK. They described these 'arenas' as: The Accounting standard setting process; Macro-economic management; and Industrial relations and information disclosure (van Staden, 2003). More details on VAS in UK context and its history can be found in Burchell et al. (1985).

<sup>324</sup> See van Staden (2003) for details on the background and history of the VAS publication in addition to a literature review to the VAS.

<sup>325</sup> Savage (1994) discovered that companies made extensive quantitative non-monetary and quantitative monetary disclosures which indicate high quality of disclosures (see, Gray et al., 1995a). Moreover, extensive coverage of employee-related 'bad' news was observed mainly relating to labour disruption and demands relating to both internal work-related disputes and politically motivated issues.



Likewise, predominant qualitative CSD seems to be public relations driven attempting to build and enhance corporate image by providing barely any bad news (see, Belal 1999, 2000; Rajapakse, 2002; de Villiers, 1998, 1999; Nuhoglu, 2003. But see Savage, 1994) that would reflect negatively on the firm (Sahay, 2004; Lodhia, 2000; Tsang, 1998) but rather CSD present the company in a favourable form (see, Jaggi and Zhao, 1996). Prevalence of self-laudatory descriptive and positive disclosure was despite that quantification could have easily been made in most cases (Imam, 2000).

### **8.3.7 Corporate Characteristics And CSD**

As far as can be ascertained, very few CSD studies undertaken in LDCs explored the relationship or the influence of corporate characteristics on CSD volume and practices. There is a consensus, though, amongst these few LDCs CSD researches that size of the disclosing company and its nature of industry have an impact on its disclosure practices (but see Jamil et al., 2002 who found that CSD is fairly even spread across industrial groupings of Malaysian companies). Following is a brief discussion of such studies.

Singh and Ahuja (1983) found that disclosure of social information differs amongst different Indian companies. They also found that in contrast to company age, net sales and rate of return; company size in terms of total assets as well as profitability represented by earning margin have positive significant influence on CSD. Likewise, the nature of industry was found to be highly related to CSD. Similarly, Williams (1999) studied CSD practices of seven countries within the Asia-Pacific region<sup>326</sup> and was mainly concerned with exploring the extent to which organisational characteristics, inter alia, can influence CSD volume. He concluded that organisational size and industry group significantly influence CSD levels in these countries (see also, Imam, 1999, 2000). Andrew et al. (1989) also found that larger (foreign-owned) companies disclosed more social information than smaller (domestic) companies in Malaysia and Singapore. They attribute this to the greater

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<sup>326</sup> These are: Australia, Singapore, Hong Kong, the Philippines, Thailand, Indonesia and Malaysia.

visibility of larger corporations. Providing Korean evidence, and consistent with other studies, Choi (1998a, b) found the type of industrial grouping to be notably related to both the quality and quantity of CSD. He found that firms in high-profile industries disclosed systematically more and better environmental information than companies in low-profile industry sectors. Moreover, Korean disclosing companies were found to be larger in size (Choi, 1998b. See also Teoh and Thong (1984) providing Malaysian evidence and Gao et al. (2005) for support from Hong Kong).

From the above, it can be noted that corporate size and industry sector have a considerable influence on CSD practices in developing countries similar to what is witnessed in Western developed countries. Here, larger companies tend to disclose more information than smaller ones. In addition, heavy industrial and manufacturing companies tend to provide greater amounts and better qualities of information compared to low-profile manufacturing corporations as well as to service type companies.

#### **8.3.8 Arab Countries Studies On CSD**

From the above, it is clear that only a handful number of studies are available on the developing countries, concentrating on the newly industrialised countries and African countries. Very few studies, as far as I am aware, are available from an Arab country context.

Naser and Abu Baker (1999), through a survey, explored the perceptions and views of financial managers, public accountants, academicians and government representatives of Jordanian Shareholding companies regarding CSD and accountability. Exploring the reasons behind deficiency of CSD undertaken by Jordanian companies, the lack of mandatory CSD requirements was found to be the most important reason. They claim that the above groups are willing to accept broader accountability to undertake CSD through annual reports disclosure preferably within the framework of legislation. In a later study, Abu Baker and Naser (2000) provide empirical evidence on actual CSD practices by Jordanian companies. They found that 100% of sampled



companies undertook some sort of CSD in their annual reports owing to disclosures required by law. In their study, employee-related disclosures were most common followed by community involvement. Moreover, industry sector influence on CSD practices by Jordanian companies was noticed. Another study undertaken by Al-Khater and Naser (2003) examined four stakeholder/user (accountants, external auditors, academicians, and bank officers) groups' perceptions of CSD in Qatar. As with Naser and Abu Baker (1999), their results suggest a consensus in favour of CSD in – and for the betterment of – the Arab region. Their findings also indicated a demand for legally encouraged social and environmental disclosures.

On the other hand, Ahmad and Gao (2005) investigated corporate environmental reporting made by Libyan companies. Results revealed non-existence of environmental reporting as such but rather what was found was 'health and safety' disclosures with 70 percent of their sample providing such information<sup>327</sup>. As with all other studies, declarative disclosures were dominant, however, all but one of the seven companies disclosing provided quantitative information<sup>328</sup>. More surprisingly, and in contrast with all studies, bad news dominated and were noticeably larger in volume than good or neutral news<sup>329</sup>. In an attempt to examine determinants of CSD in Qatari companies, Naser et al. (2006) found that CSD practices tend to be related to size (market capitalization), business risk (leverage) and corporate growth.

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<sup>327</sup> Their sample consisted of 10 of the 13 largest industrial companies quoted on the Industrial Production Administration in Libya. These are the companies that sent their reports - whether annual reports, internal reports, or specific environmental/social reports – which revealed that annual reports are not the only means of environmental disclosures in Libya.

<sup>328</sup> But only one company provided monetary information.

<sup>329</sup> Ahmad and Gao (2005) speculated that the domination of bad news was attributed to legal requirements and to the Islamic religion principles of telling the truth no matter what the consequences are. However, it has been argued by Defeo and Falk (1998) that even disclosure of bad events may have a positive impact on the value of the firm if it favourably reflects on the reputation of the disclosing company as being seen as providing full and fair disclosure which might, in the long run, have an impact increasing profits as opposed to the immediate negative influence (Defeo and Falk, 1998). If the managers of the Libyan companies were aware of this possible favourable impact, they might have been motivated to disclose negative news.

From the above discussion and review, it is clear that there is a shortage of CSD literature in the context of developing countries in general and Arab countries in particular which gives more importance to attempts of studying CSD in such contexts. Against this background, it is argued that the current empirical study of CSD practices in Egypt bridges this gap which would add to the literature and make a contribution to understanding the nature of CSR in developing countries, particularly the Arab World. This study will further put CSD in context<sup>330</sup> by trying to understand current CSD practices using an international accounting lens (see Chapters 3 and 11), in addition to employing CSD theories (see Chapters 4 and 11).

From the above, in summary, CSD is mainly a voluntary activity with few mandatory CSD requirements that differ amongst countries. Overall, almost all voluntary CSD in all categories, in both developed and developing countries are qualitative in nature providing only information that reflects positively on the disclosing organisation. Generally speaking, despite the evidence from different studies of an increase in the levels of disclosure in terms of percentage of companies disclosing and in the amount of disclosure made, volume of disclosure is still low and disappointing. The next section compares our findings from Chapter 7 to the general overview of current CSD practices in both developing and developed countries as synthesized in this chapter.

#### **8.4 COMPARISON OF EGYPTIAN CSD FINDINGS AGAINST THE INTERNATIONAL LITERATURE**

Before going into comparative discussions of the findings of the current study with the prior research results, it is apposite at this stage to offer some discussion and description of size effect (as measured by market capitalization) within the Egyptian sample. Differences and/or similarities in

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<sup>330</sup> Williams (1999) and Belal (2001) are also CSD studies that took socio-political and economic contextual factors into consideration in an LDC context. This gives interesting insights to CSD in developing countries (Belal, 2001).



volumes and patterns of disclosure among different industries represented by the Egyptian companies included in this study are subsequently discussed.

#### **8.4.1 Corporate Size And Industry Impact On Egyptian CSD**

- *Size Influence:*

It can be recalled from Chapter 6 (Section 6.5) that the final sample represented between 36-44% of the total market capitalisation of population in any one year. Due to difficulties and bias (see Chapter 6) in the annual reports collection process, there were large variations in the size of individual companies, as measured by market capitalization. Corporate size varied greatly ranging from a low of approximately L.E. (Egyptian pound) 4 million to a high of L.E. 9 billion (market capitalisation) while the mean market capitalisation was L.E. 453 million for all firms. To make sense of the data available, companies were categorised into two groups, namely, above average (large size) companies and below average (small size) companies<sup>331</sup>.

A visual inspection of Appendix 8.1 reveals that, consistent with prior research (see Sections 8.2.7 and 8.3.7), on the whole, larger companies undertake more CSD (in terms of average volume). This finding clearly holds across all four types of voluntary social information<sup>332</sup> (see Appendix 8.1) but not for total CSD or mandatory CSD. Percentage of companies disclosing is also higher for larger companies for all voluntary CSD but not total voluntary CSD and not voluntary employee-related CSD (see Appendix 8.1).

As highlighted in Section 7.3, there were five annual reports with no mandatory disclosure at all. The five annual reports were of two companies, namely, Orascom Telecom Holding (OT) from Transport and Communications industry (1999, 2000, 2001), and Orascom Construction

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<sup>331</sup> This will give us 215 annual reports (of 279) below average and 64 (of 279) above average. KIMA (Egyptian Chemical Industries Company, a Fertilisers and Pesticides company), which is the highest discloser is included in the below average group. Patterns of disclosure for small size group is displayed twice; once including KIMA and the other excluding KIMA. See Appendix 8.1 for averages and incidences of CSD for each size group.

<sup>332</sup> However, regarding voluntary employee-related disclosure, this finding holds only when KIMA, the highest discloser, is excluded (see Appendix 8.1).

Industries (OCI) from Building Materials, Refractories and Wood industry (1998, 1999). Interestingly enough, all mandatory non-disclosers are large-size companies with four (of these five) representing the top four corporate annual reports (largest in market capitalisation).

With regard to voluntary disclosures, six incidences (3 companies, 2 annual reports each) of voluntary non-disclosure were highlighted. Two were by Export & Development Trading Co. (EXPOD), a Trade and Distribution industry companies (2000, 2001) which represent the two smallest in terms of corporate size. The other four are all above average in size, namely, National Cement from Cement industry (2000, 2001), and Oriental Weavers for Carpets from Textiles, Garments and Leather industry (1999, 2000).

- *Industry Impact:*

We now aim to consider whether different industries are on average different in CSD page proportion. To explore whether there is an industrial influence on CSD, companies are categorised according to industrial classification into two groups<sup>333</sup>, namely, high-profile industry companies<sup>334</sup> and low-profile industry companies<sup>335</sup>. Of course, such classifications are to an extent subjective and ad hoc. However, the high-profile industries are believed to meet the criteria outlined by Roberts (1992) for high profile having a large consumer visibility, higher political risk and/or intensive competition. These groupings are also broadly in line with other such groupings in the literature.

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<sup>333</sup> It is clear from Appendix 6.4 that the 279 annual reports (82 companies) sampled are not evenly distributed between the 17 sectors analysed. Because of the relatively small numbers in several of the industries (see Appendix 6.4) which is not enough to reveal a general industrial pattern with some industry sectors having only one or two companies included, we explored the data through the construction of two sectoral groups.

<sup>334</sup> These include companies from the following industries: Building Materials, Refractories & Wood; Cement; Chemicals & Plastics; Fertilizers & Pesticides; Metallurgy; Oil & Gas; and Pharmaceuticals. 123 annual reports are included in this group, 46 of which are large-size companies (above average).

<sup>335</sup> These include companies from the following industries: Agriculture; Contracting & Real Estate; Engineering & Electronics; Food & Beverages; Mills; Paper, Packaging & Publishing; Textiles, Garments & Leather; Tourism; Trade & Distribution; Transport & Communications. 156 annual reports are included in this group, 18 of which are large-size companies (above average).



Running an eye over the numbers (see Appendix 8.2) demonstrates that, generally speaking, high-profile companies tend to disclose more social and environmental information (in terms of average volume) than low-profile companies<sup>336</sup>. The average CSD for high-profile companies is larger than that for the low-profile companies. This is the case with voluntary as well as mandatory and total CSD (see Appendix 8.2). It is also established – from Appendix 8.2 – that percentage of companies disclosing is also higher for high-profile companies for all voluntary and mandatory categories but not total community-related CSD<sup>337</sup>. Thus, consistent with the prior literature, it can be inferred that industry membership also appears to be notably related to Egyptian CSD<sup>338</sup>. High-profile industry companies tend to be larger in size than low-profile industry companies which in turn may add to the explanation of production of more CSD by high-profile industry companies.

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<sup>336</sup> Excluding KIMA (Egyptian Chemical Industries Company, a Fertilisers and Pesticides company), Metallurgy industry displayed the highest average total and voluntary CSD. Mills industry showed the highest average volume for mandatory CSD.

<sup>337</sup> Regarding environmental disclosures, Cement industry companies undertook the highest average volume of environmental disclosure over the period of the study followed by Metallurgy; Chemicals and Plastics; Food and Beverages; Fertilisers and Pesticides; and Pharmaceuticals sectors. On the other side, Agriculture; Contracting and Real Estates; Engineering and Electronics; Tourism; Trade and Distribution; and Transport and Communications industry sectors did not undertake any environmental disclosure. These 6 industrial sectors are all low-profile industries. In terms of percentage of companies disclosing, Fertilisers and Pesticides industry took the ride.

In relation to disclosure on consumers or products, Pharmaceutical companies produced the highest average volume of this form of disclosure followed by Metallurgy, Fertilisers and Pesticides, Chemicals and Plastics, Cement, and Food and Beverages industries companies with 8 industry sectors (6 of which are low-profile: Agriculture; Contracting and Real Estate; Mills; Paper, Packaging and Publishing; Tourism; and Trade and Distribution; and 2 are high-profile: Building Materials, Refractories and Wood; and Oil and Gas) not producing any information relating to consumers or products.

No evidence of any disclosure relating to the purely community information was found in 10 industry sectors amongst which is the Cement and Fertilisers & Pesticides industries, which are the top in average volume and percentage of companies disclosing of environmental disclosures respectively. Other industries include: Building Materials, Refractories and Wood (high-profile) and Agriculture; Engineering and Electronics; Mills; Paper, Packaging and Publishing; Textiles, Garments and Leather; Tourism; and Trade and Distribution which are all low-profile industries.

<sup>338</sup> This also holds after excluding KIMA (Egyptian Chemical Industries Company, a Fertilisers and Pesticides company), which is the highest discloser. KIMA, however, being excluded, affects some of the average volumes (see Appendix 8.2).



#### **8.4.2 Comparing Egyptian CSD With The Prior Literature**

Sections 8.2 and 8.3 provided reviews of CSD practices by corporations in developed and developing countries. These reviews provide evidence that CSD is not comprehensively developed, and varies across time and places in terms of issues disclosed as well as level and volume. Level of disclosure is found to be low, especially with reference to voluntary disclosures. In addition, the quality of CSD disclosure is disappointing being partial, biased, brief, mostly narrative, and trying to echo a positive image of the corporation disclosing by being self-laudatory with minimal disclosure of negative information. Regarding CSD undertaken by developing countries, evidence from empirical studies shows even lower levels and quality compared to developed countries. Nevertheless, the priority given to information types was similar to that found in developing countries. That is, human resource information attained the widest coverage, and was followed by community involvement and the environment. The current section intends to give an idea about how the findings from the content analysis of Egyptian annual reports in Chapter 7 compare to the findings from the literature with particular emphasis on developing countries studies and whether similar patterns of CSD exist.

The content analysis of the Egyptian annual reports (see Chapter 7) generally reveals similar results as that obtained from the literature. In line with the literature, greater emphasis is on employee-related disclosures with all companies in all years disclosing some employee-related information, along with the highest incidences relating to legislative requirements, e.g., employee costs and numbers, and pensions but not VAS. Compliance with mandatory CSD requirements is also partial as evidenced in some prior developing countries research (see, e.g., Belal, 2001). Regarding the quality, and like most of the literature, CSD in Egypt is found to be rather descriptive with limited quantitative and monetary disclosure mostly only in mandatory requirements. This is the case for all categories of CSD. Moreover, neutral and good news heavily overweigh negative information.



Strictly comparing Egyptian CSD practices with findings from developing countries that have completely and significantly different cultural characteristics than that of Egypt (see, Hofstede, 1983b); it is found that Egypt shares many of the disclosure practices of these countries. For example, as witnessed from Malaysian (Jamil et al., 2002; Andrew et al., 1989) and South African evidence (de Villiers, 1999; Savage, 1994), – as well as other studies – Egyptian CSD is also dominated by employee-related disclosures with environmental information next in popularity. In addition, in common with Korean (Choi, 1998a, b), Malaysian (Jamil et al., 2002; Andrew et al., 1989), and South African CSD (de Villiers, 1999; Savage, 1994), CSD provided in Egypt is also generally low in quality as it is dominated by declarative and positive information rather than conveying quantitative, financial and bad news at the same coverage rate. Excessive quantitative and monetary information is found in employee-related disclosures akin to that evidenced in South Africa (Savage, 1994). Besides, in the vein of Korean (Choi, 1998a, b) and Malaysian findings (Andrew et al., 1989; Teoh and Thong, 1984), corporate size and industry sector influence on CSD practices is also evident in Egypt. What's more, 'environmental policy' disclosure and 'waste and pollution' information are the most popular voluntary environmental disclosures in Egypt which echoes what is found in Korea (Choi, 1998b). Thus, despite being culturally different, the patterns of CSD in developing countries including Egypt are very similar. Accordingly, we can reject Hofstede's (1980, 1983b) cultural theory as an explanation to corporate social disclosure.

## **8.5 CONCLUSION**

This chapter looked at the literature on CSD practices in developed countries as well as in developing countries to understand the level and nature of disclosure by companies in different contexts. It is found that there are similarities in general patterns of CSD – things are not that different with the exception of the VAS – between developed and developing countries, however, volumes of disclosures as well as levels, in terms of percentage of companies disclosing, were different among different contexts. It can be

inferred that there is a sense – although it has never been formally tested – that the size of the companies in the developed countries is larger than the size of the companies in the less developed countries. That might be all what CSD levels differences is about; the absolute size. Disclosure is dominated by larger companies, and companies in LDCs are not larger than those in developed nations. In addition, it could also be that the differences in the level of development (Stepien, 1994) between the developing and developed worlds have an influence on CSD. The stage of economic development is likely to be an important factor affecting CSD practices (Tsang, 1998). Other than these, results are broadly similar between developed and developing contexts. However, the specifics of CSD – especially with regard to employee-related information – differ between countries owing to what is mandatory and what is voluntary.

The chapter went on to outline and compare general similarities and differences between the findings of the current study (as reported in Chapter 7) and that documented in the literature. Egyptian CSD practices are found to be, in comparison, broadly in line with LDCs which are culturally different – along Hofstede's (1980, 1983b) cultural constructs. This leads us to imply that Hofstede's cultural theory has no explanatory power. It does not help explain CSD differences between countries.

As well as investigating the disclosure practices, the study also examined some potential relationships between corporate characteristics and disclosure identified in other studies. The size of the company and its industry sector seem to have an effect on the amount of corporate social and environmental information the company discloses in its annual report. Larger companies tend to disclose more voluntary social and environmental information than smaller firms. However, larger organisations tend to ignore mandatory disclosures more than smaller firms. In addition, this chapter reveals that industry seems to be a factor of CSD as different average volumes of disclosure were found between different industry sectors. Thus, inferences drawn from our findings makes it reflect the international literature that size and the nature of a



company's industry are relevant and are the most important explanatory variables of CSD. This also makes us infer that the Egyptian sample is perhaps more generalisable than one thought.

This chapter concludes the first empirical investigation part. The next chapter starts off Part D which covers the second empirical investigation undertaken through conducting some interviews with corporate personnel. Chapter 9 commences the part by introducing the fieldwork done to collect data in order to complement findings from, and enhance our understanding of, the content analysis of corporate annual reports.

*PART D*

*SECOND EMPIRICAL  
INVESTIGATION*



# **CHAPTER 9**

## **INTRODUCING THE FIELDWORK**

### **9.1 INTRODUCTION**

This chapter covers a discussion of the fieldwork undertaken. It starts with a justification for undertaking semi-structured interviews as a complementary stage to the content analysis of the corporate annual reports to fully understand the phenomenon of CSR in the Egyptian context. The chapter continues by pinpointing the pros and cons of undertaking interviews generally and in Egypt primarily (also see, Hanafi and Gray, 2005). It further outlines in details the procedures undertaken to arrive to the finally selected sample of interviewees, undertaking the interviews and finally, the process of recording, writing down, translating the interviews transcripts and the process in which the data originating from the interviews was analysed and synthesized.

### **9.2 WHY THE NEED FOR FURTHER INVESTIGATION**

The main objective of this study is to provide a description, explanation and more comprehensive understanding of CSR practice in Egyptian context. The first phase of the study provided the description of patterns in CSR by Egyptian Listed companies (see Chapter 7). However, explanations as well as an understanding of why such patterns and trends are observed are by no means clear from the content analysis of the corporate annual reports (Tilt, 1998) over a four-year period (first empirical investigation). Thus, the need arose for further data collection and investigations to fill this gap. Field research provides an effective method of exploring issues that are not well understood, such as those investigated in this study. The researcher believes that obtaining primary data directly through interviewing corporate managers as to their perspectives regarding the nature and practice of CSR in Egypt will enable the provision of an explanation of CSR practice (or non-practice)<sup>339</sup>.

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<sup>339</sup> The researcher did not manage any additional sources of data in Egypt and she believes other sources do not exist.

This, as supplementary to the first stage of the study, in turn will aid in drawing inferences from the empirical data collected on CSR as part of the content analysis of the annual reports.

It is also visualized that the interviews may illuminate some pervasive views on the concept of CSR in the Egyptian context and may provide some means with which to understand and expand on the results of the four-year corporate social reporting phase of this study outlined in Chapter 7. It is the viewpoints, opinions and beliefs of the corporate managers that matter in gaining this understanding as managers are directly related to CSR and can provide insights as to the motivations behind it. Thus, by taking knowledge primarily from individuals who are involved in particular activities of CSR that are being studied, their perspectives can be explored where there are usually a number of motivations involved in decisions to disclose (or not to disclose) social and environmental information (Gray et al., 1996).

## **9.3 THE STRENGTH AND LIMITATIONS OF FIELDWORK**

### **9.3.1 Strengths And Advantages Of Undertaking Interviews**

Kahn and Cannell (1957:149) as quoted in Marshall and Rossman (1999:108) describe interviewing as “a conversation with a purpose” (see also, Gillham, 2000). The semi-structured interview method is used in this research as one of two methods, the other being ‘content analysis’ method of corporate annual reports. Interviews are especially valuable for exploratory studies as it is a suitable method for thorough investigation where the participant’s views are considered to be important and useful (Marshall and Rossman, 1999). Interviewing is very helpful in gathering large amounts of data and information by direct conversation with the subjects (Marshall and Rossman, 1999) especially open-ended interviews, which can secure more information than other types. Adds to this is the possibility of asking follow-up questions for interesting lines of inquiry (Hussey and Hussey, 1997) which increases the richness of the data (Gillham, 2000). Semi-structured interviews are fairly standardised in terms of question sets which simplifies coding but at the same



time is very open in style (Gillham, 2000) and gives some flexibility which allows the interviewee the chance to make his views become known (Easterby-Smith et al., 1991). This is more relevant to the Egyptian context as the issues studied have not been investigated before and interviewees need to be given space to make their views apparent. The interview method ascertains the communicator's aim in writing the content (in Chapter 7).

However, although it has been argued that "the most fundamental of all qualitative methods is that of ... interviewing" (Easterby-Smith et al., 1991:71) and that it "is often claimed to be 'the best' method of gathering information, its complexity can sometimes be underestimated" (Easterby-Smith et al., 1991:72). The following sub-sections shed light on the weaknesses that underlie conducting interviews.

### **9.3.2 Limitations Of The Interviews**

Of course this study, as any field study, has its limitations in general and with its methods in particular. Interviews are generally time-consuming in terms of gaining access, undertaking the process and, further, in analysing the obtained data (Gillham, 2000) as well as being costly (Hussey and Hussey, 1997). A lot of frustration can be experienced in trying to obtain an interview. The initial hurdle can be trying to persuade the interviewee to give you an interview. It is also important to always remember that gatekeepers would rarely – if at all – permit access purely for the sake of loving research and knowledge gain (Easterby-Smith et al., 1991). Access limitations might result in limited number of subjects not enough for getting the data and exploring the issues aimed in full. One would never know how other managers, who were not interviewed, would have responded and it might limit one's ability to generalize the findings to the entire population, if that was the aim; but rather interviews are seen as tools of exploration. Moreover, it is difficult to investigate, within a given industry sector, whether there is a trend of any given viewpoint or not. This is because not enough companies from every industry were interviewed. In the current study, achieving access to a sufficient number of organisations proved quite a problem, as will be

explained later, despite access sought to a wide range of different organisations.

Moreover, the researcher had to accept that she is collecting viewpoints and opinions but not facts; “that is that the subjective view is what matters” (Marshall and Rossman, 1999:110). Interviewing, as a social personal interaction which needs cooperation, might also present difficulties due to lack of experience from the part of the interviewer in establishing rapport, gaining the interviewee’s trust and making him/her feel comfortable with talking (Patton, 2002). Here, the interviewee will be reluctant to provide sensitive information, unwilling to be entirely truthful, provide erroneous information just not to appear lacking of knowledge and ignorant about the issues discussed, or be contradictory at times. In addition, lack of experience by the researcher might cause her to ask misleading or unclear questions, lack the flexibility to handle “the planned sequence of questions” (Wengraf, 2001:23), fail to successfully utilise probing for more elaboration, mis-hear or mis-comprehend responses (Marshall and Rossman, 1999) which might at the end influence the evidence obtained.

With particular reference to this research study, it is believed that the psychological state of the interviewee might have its influence as well (Hussey and Hussey, 1997). There have been occasions where the interviewee seemed to be very tired probably of work pressure<sup>340</sup>. On another occasion, the interviewee seemed to be having problems with his subordinates<sup>341</sup>, which might have affected his mood and probably his involvement in the interview (Keats, 2000), as it was clear from his replies that he wanted to get over with the interview as soon as he can. General anxiety – due to fear, shame of lack of knowledge, or difficulty in understanding the concepts – as well as

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<sup>340</sup> This was evident from the participant holding his head during the whole interview while speaking and taking pills occasionally.

<sup>341</sup> This interviewee had an employee at his office during the interview and refused to let her go shouting at her to wait until he finishes the interview which he said wouldn’t take long.



boredom<sup>342</sup> can prohibit or affect concentration and, consequently, might lead to many contradictions and to much confusion (Keats, 2000).

### **9.3.3 Limitations Of Not Been Permitted Tape Recording**

There is no doubt that had the researcher been allowed to record the interviews, the whole process would have been easier. Tape recording could have aided better listening process and could have given the researcher better opportunity to take unbiased documentation of the interviewees' responses (Easterby-Smith et al., 1991) and behaviour (Hussey and Hussey, 1997). The tape recorder would have saved the interviewees' time, as they are very busy people and would have given the interviewer more time (Hussey and Hussey, 1997) to ask pre-formulated questions or expand on new areas that were thrown up in the course of an interview by the interviewee. In the case of the note taking, one could not always decipher one's handwriting afterwards or understand one's own symbols and abbreviations while transcribing.

One could not always write as quickly as an interviewee spoke. It would have also become tiresome for interviewees to have to repeat what they had said. The flow of conversation and thought would have been interrupted, besides the second time around not always was an interviewee as fluent or spontaneous as in the first go. More importantly, it would have been also easier in terms of identifying non-verbal clues such as facial expressions, which is unattainable due to lack of sustaining eye contact during an interview (Easterby-Smith et al., 1991). A nod of the head, a smile or the raising or lowering of the eye-brows to show surprise or disbelief, agreement or disagreement can be as important in stimulating the interviewee to respond and prompt them to disclose things that they would not normally do or may not have originally intended. Sometimes, the non-verbal gestures were almost sufficient to gain responses interrupted with the occasional verbal grunt.

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<sup>342</sup> During the interviews, many interviewees kept looking at their watches every now and then. They seemed to want to end the interview, which they might have thought took so long, but were polite enough not to do this explicitly or in a direct way.

Tape recording would have allowed the researcher to capture so much more than she could relying on memory (Bogdan and Taylor, 1975), thus increasing the accuracy of the data collection. It would have also helped the interviewer to be more attentive to the interviewees and would have enhanced the interactive nature of each interview (Patton, 2002). Tape-recording would have also facilitated the probing of certain points, through note-taking, which the researcher felt needed more elaboration or which appeared to conflict with points made at an earlier stage of the interview. This in turn would have enhanced and aided recording main phrases, major points made, and key terms or words used throughout each interview (Patton, 2002).

Despite all of these demerits of interviewing and difficulties, which might apply equally to the current research, and which were difficult to remove, the researcher did her best to always try and avoid or minimise many of the limitations outlined in this section and its sub-sections. A formal educational process on research methods has assisted the author in reducing such problems for the present research. This will be evident from the following sections, which illustrate in details how all the stages of the interviewing process from trying to gain access until analyses of the data obtained from the interviews have been conducted.

## **9.4 POPULATION AND REASONS**

The population of companies from which the targeted sample for interviews was to be chosen is the overall 250 top CASE-listed companies (in terms of market capitalization) for years 1998-2001. These are the same companies used for collecting corporate annual reports for content analysis stage. Personnel targeted for interviews were mainly senior financial managers of Egyptian companies listed on the CASE whose annual reports were among the top 250 with a tendency to choose companies for which annual reports have been collected and content analysed. However, all companies outside the boundaries of Cairo (the Capital of Egypt) in location were excluded. Cairo is where the researcher lives, and travelling outside Cairo to undertake interviews would have been impossible in terms of constraints of time and



money needed for travelling. Therefore, it was not possible to research companies in other cities of Egypt. To do so would have required a research team as well as more finances and time in order to build contacts and acquire the necessary permission. The final sample has also been constrained by accessibility and permission for interviewing as will be discussed in the following sections. No doubt all of this might have biased the final sample.

Targeting senior managers for interviews according to the above-mentioned criteria is mainly attributed to three reasons as outlined by O'Dwyer (2002). Firstly, senior financial managers share in the development of the published corporate annual report either by intimate direct input into the contents of the report or by engaging in a review function. Thus, they are expected to have come through the issues of CSD if it at all exists within the company and have relevant experiences accordingly. Moreover, top-level management, including financial managers, are expected to have a wide knowledge of the strategies, policies and procedures within their companies as they are perceived to be attending periodical Board Of Directors meetings where such discussions take place. This in turn deems them qualified to provide insights into the organization's practices and perceptions of CSD and motivations behind its existence or non-existence. Thus, it was felt that they are in a position to comment on what influenced the corporate decision to disclose and to provide details on the information sought. In addition, with particular reference to the sample in this study, most of the personnel interviewed worked for companies that were amongst those formulating the final sample of the content analysis stage (Chapter 7)<sup>343</sup>. This have assisted in formulating and constructing the questions as well as in interpreting the perspectives obtained from the interviews<sup>344</sup>.

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<sup>343</sup> Four interviewees (representing two companies) out of the twelve interviewees in this study did not work for companies whose annual reports were included in the sample for the CSR content analysis. All these four interviewees were from the 'Transport and Communications' industry sector.

<sup>344</sup> This has also facilitated contacting companies, as contact details were readily available from previous stage.

## 9.5 SAMPLE AND REASONS

Despite the intention to strictly follow the above-mentioned criteria and procedures for selecting the sample, this was not practically feasible. The final sample was highly constrained by access provided and obtained through intermediaries, which will be later explained in further details. Arranging for interviews with corporate managers was the most challenging task in this research. Numerous requests and reminders were made before time was allowed for interviews as will be explained below. Spatial access was another determining factor in the choice of companies to be interviewed which were all located in Cairo for pragmatic limits as mentioned in the above section<sup>345</sup>. The people interviewed are those who were willing to talk to the interviewer and worked for companies whose premises are located within the boundaries of Cairo. This ended up in having 12 interviewees working for 10 companies.

### 9.5.1 Profile Of Interviewees

All of the interviewees but one were a male. The interviewees worked in eight different industries. These industry sectors covered most of the major company sectors listed on CASE. It can be recognized from Table 9.1 below that the choice of organizations for interviews reflects a variety in industry nature of these companies and its activities; as it includes manufacturing and service organizations. The majority of the interviewees are from the 'Transport and Communications' industry. All the interviewees but one work in CASE listed companies. The sample included eight Financial Managers or the equivalent (two-third of the sample), two Chief Financial Officer, one Junior Accountant in finance department, and one Health and Environmental Affairs Manager. Total interviewing time was approximately 9 hours with the duration of every individual interview varying from a minimum of 20 minutes to a maximum of an hour.

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<sup>345</sup> Unfortunately, a couple of the companies which sent their annual reports during the data collection for the first empirical investigation stage and were willing to be interviewed, were located outside Cairo.



**TABLE 9.1**  
**INTERVIEWEES ROLE AND INDUSTRY SECTOR**

Industry Sector	Financial Manager	Chief Financial Officer (Head of Financial Sectors)	Junior Accountant in the Finance Department	Health And Environmental Affairs Manager	Total
Cement	1				1
Chemicals and Plastics	1				1
Contracting and Real Estate	1				1
Food and Beverages		2			2
Pharmaceuticals	1				1
Textiles, Garments and Leather	1				1
Tourism	1				1
Transport and Communications	2		1	1	4
Total	8	2	1	1	12



## 9.6 PROCEDURES TO COLLECT THE SAMPLE

From the researcher's experience with data collection in terms of collecting annual reports from companies, it was found that sending letters to personnel are not attended to, letters were discarded, and replies are rarely received. Thus, the researcher took the decision not to follow this step in this stage of obtaining interviews since it has previously proved to be a waste of time and money, and did not work well before. Driven by the above, initial contacts with targeted interviewees were undertaken during the researcher's second fieldwork visit to Egypt<sup>346</sup> through phone contacts with the hope of acquiring interviews. Easterby-Smith et al. (1991:77) have also argued that "when making initial contact ... a phone call is often better than a letter" in obtaining trust.

The process of initial contacts for interviews, collecting the sample, and undertaking the interviews took place during the period from January 2004 until April 2004. Once in Egypt, one started to contact companies through phone calls due to its convenience to take appointments for interviews. Personal visits to companies would have been possible. However, it would have been a waste of time, as it was believed that it would be highly likely and probable that access will not be allowed from entrance gate. This proved to be true as will be explained later on. Fortunately, the contact details of targeted companies were available with the researcher from the first stage of data collection for the purpose of collecting annual reports. Sheets containing the addresses, phone numbers, and fax numbers were referred to (see Chapter 6 and Appendix 6.2 for full details of constructing those sheets).

Personally calling companies and trying to get hold of the financial manager or any top-level manager in Egyptian companies was not an easy task. Technological barriers – e.g., call waiting and answer machines – as well as personal barriers – busy schedules, etc. – increased the difficulties (Frey and

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<sup>346</sup> The first fieldwork visit to Egypt was undertaken during the period from Mid-December 2002 until End of February 2003. This period was mainly utilized in collecting annual reports of companies for the first empirical investigation, namely, the content analysis stage. Chapter 6 provides full details of data collection for content analysis.



Oishi, 1996). Many attempts failed because the phones were not answered at all or were always busy. Some phone numbers were busy at some points but when tried again nobody answered. Moreover, the phone been answered was not a guarantee that I will be able to talk to the targeted person or will be able to get an appointment. It is worth mentioning here that the targeted person asked for, whenever the phone was answered, was the financial manager of the company.

There have been occasions where the telephonist at the switchboard transferred me to the secretary of the financial manager who, after me introducing myself as the researcher undertaking the study, the research study I am undertaking and the purpose of interviews, asked for my phone number to get back to me with the appointment date after speaking with the financial managers as I was told that he was not available at that time. However, not a single return call was received and they completely ignored the request for the interview. It was really very difficult to get hold of the person required.

On many other occasions, apologies were given for not having the time and for being extremely busy<sup>347</sup>. Sometimes apologies were given for being busy to be interviewed due to time constraints but I was asked to call back the following month when they will be willing to be interviewed. However, when calling some of these companies the following month, I could not even get hold of the person I spoke to before.

On one occasion (a pharmaceutical company) after getting hold of the financial manager on the phone, I was asked to call again after 10 days. Calling again after the 10 days, I failed to get hold of the financial manager or his secretary. The telephonist at the switchboard always replied that their; i.e., the financial manager's or his secretary's, phones were not replying. After many call-back attempts for several days, the switchboard telephonist

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<sup>347</sup> This is understandable by the researcher as during the period of undertaking the interviews, it was the time of preparing the financial statements and the annual reports for the year just ended (2003) for publication in newspapers and for submission to the CASE (Cairo Alexandria Stock Exchange) and CMA (Capital Market Authority).

suggested me coming in person to meet the financial manager without an appointment. However, doing so, I was not allowed entrance in the company beyond the gate reception and when they tried to get hold of the financial manager while me waiting, they couldn't and I had to leave which proved wise not to approach companies through personal visits to their premises. I also had to wait 40 minutes before being attended to and they were angry for not making an appointment. All these failures to gain any access caused frustrations.

On still another occasion, access and permission for an interview was granted through the phone. However, on the day of the interview, I was told that the financial manager had to leave for an urgent meeting and thus, the interview had to be cancelled. I was asked to leave my phone number so that the financial manager can contact me to arrange for another date for the interview when he will be free. Again, they never got back to me. Still another financial manager of a pharmaceutical company had her answer machine always on and never answered her phone. I left a voice message and left my name and phone number but nobody got back to me. I also sent an email to the same person but never received any reply from her.

Many other companies were contacted by emails. Two responses were received. One was a successful interview appointment date while the other was a request to wait for a further reply; which I never got, to find a suitable or the right person who will be interested in the topic and knows about it in the company. In addition to all the above, many of the phone numbers called turned out to be sales outlets of the companies where the headquarters or the factories, where the financial manager and all top-level management exist, are located outside Cairo. These companies were excluded.

To my surprise, while starting contacts with companies while in Egypt through the phone asking permission for access to make interviews, I was asked by many of them to get a letter from CAPMAS (Central Agency For Public Mobilization And Statistics) – as a means of proving the interviewer



credentials (Keats, 2000) – stating that I am who I say I am; PhD student, and that part of my study is to do fieldwork by undertaking interviews even though I said I had a letter from my Supervisor on University headed letter. The letter from CAPMAS is an approval by CAPMAS, which is a representative of the State and is the primary governmental agency that regulates all research conducted in Egypt, that interviews can be undertaken and that no harm will be caused by interviewing people in companies. It is also an admission for permission to undertake interviews. It is a guarantee for companies that they will not be questioned as to why they permitted being interviewed, as this letter is a declaration that these interviews will not affect national security negatively<sup>348</sup>.

I didn't have a clue about this kind of letter and knew nothing about this requirement before then. From my experience and the experiences of other colleagues who were asked about this letter, any attempt to get official letters from governmental bodies is time consuming and could take up to several months<sup>349</sup>. Thus, I decided not to go for obtaining this letter, which might end up being a waste of time as there is no guarantee that permission will be given. I relied on those companies who did not ask for this letter and on acquaintances and friends to get access to companies. This of course might have biased the sample.

Some common points for all the companies called and successfully answered are:

- The person answering the phone was always the switchboard telephonist who either transferred me directly to the person targeted or

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<sup>348</sup> One would have to acquire State permission to conduct interviews with companies' personnel or with groups from the general public. This justifies why I needed friends' access and cannot embarrass them (see below).

<sup>349</sup> After returning from the fieldwork journey, I came through a paper; Hatem (1994), stating the requirement of this permission letter in order to undertake research in Egypt. The paper also states that a minimum waiting period of three months is required before an approval is granted. Hatem (1994) also outlines the details required by the authorities before providing researchers with approvals for conducting research in Egypt. He also notes various difficulties associated with pursuing research in Egypt, most of which are similar to that encountered by the researcher of the current study.

his secretary, or gave me another number to call where I can find the targeted person.

- In occasions where I talked to the financial manager of the company, I was always asked to call again the following week or month as they were very busy with preparing the financial statements and the annual report for the CMA and CASE. This is understandable as the period of the fieldwork was the first four months of the new calendar year. It was also the period exactly after the fiscal year end for most of the companies (31<sup>st</sup> December). Interviewees were gracious enough to take time off their hectic workloads and to make themselves available to the researcher despite their busy schedules.
- Interviewing or getting hold of the chairman proved to be impossible. Some attempts have been made to talk to the chairperson whenever the financial manager is not available. However, those attempts failed.

On calling companies asking for an interview, I introduced myself as being an Assistant Lecturer at the Faculty of Commerce at Cairo University, doing my PhD research in the UK at Glasgow University on Corporate Social Reporting and Disclosure<sup>350</sup> with an application on large CASE-listed Egyptian companies. It was made clear that the purpose of the interview was to know the point of view of the interviewee concerning these issues. It was also stressed that confidentiality is guaranteed and nothing will be disclosed in the thesis that would individually identify the interviewees or their companies (Hussey and Hussey, 1997). It was assured that the timing and duration of the interview would be the interviewee's decision although it was mentioned that expected duration would be half an hour. No mention of the request for tape recording of the interview was made over the phone until the day of the interview if successfully obtained for fear of being denied the interview for this reason. However, it was mentioned that a letter from my supervisor was

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<sup>350</sup> By corporate social reporting and disclosure, the researcher means both social and environmental disclosures including any related issues. However, the word 'environment' was avoided so as not to offend people over the phone and thus, increasing the likelihood of being denied the interview. However, on the day of the interview, when explaining the purpose of the interview, the word 'environment' was used in addition to the word 'social'. See below.



available upon request and will be available on the day of the interview as well as a proof of my credentials (Keats, 2000). In case of successful appointments, I reviewed the exact address with the interviewee in case I had it wrong. Some interviewees requested more detailed clarifications over the phone of the topics to be discussed<sup>351</sup>.

Personal efforts resulted in only four successful interviews in four companies being successfully contacted and interviewed: three through phone calls and one through email. A further six companies were contacted and interviewed through acquaintances and intermediaries. All possible contacts available to the researcher were used. Acquaintances were friends who either directly knew, or had strong links with, somebody in the companies interviewed who could be helpful in introducing me to the financial manager or who knew some other friends, mostly working in tax authorities; who had previous direct contact with the targeted person; or was personally known to the top-level managers. Their personal contacts were very helpful indeed and, thus, much appreciated. The use of these personal networks was successful in arriving to the final number of interviews. In total, ten companies were interviewed with twelve interviews taken (twelve persons interviewed). This resulted in a deviation from the initial selection criteria with four interviewees being from companies for which no annual reports were collected or which were not listed companies.

Intermediaries (acquaintances and friends) asked me to ‘be nice’ to interviewees; for fear of other than this affecting their relationship with the interviewees, and so as not to make them feel embarrassed by any means or not to be confrontational in any form. I was also asked not to use the word “environment” but rather “social” as the word “environment”, as they said, gives the impression by the listener of being attacked and does not sound

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<sup>351</sup> They were mainly asking whether I will need any financial information about their company which they felt, as they said, not comfortable providing me with.

friendly<sup>352</sup>. However, at some points and maybe even always the word “environment” had to come into context as it is one of the main issues in the study. However, the word “environment” was avoided when asking for permission to make interviews. The word “social” was used instead as in “corporate social disclosure”. In some of the interviews, intermediaries attended the interview to make sure I was nice. I was thus suppressed while undertaking the interviews and have to seriously take into consideration and follow what intermediaries asked for. This prohibited the use of more pushy strategies for eliciting responses (Wengraf, 2001).

## **9.7 DERIVATION AND TESTING OF QUESTIONS**

Due to the lack of prior understanding of factors influencing CSD in Egypt, the semi-structured open-ended interview approach was adopted in this research. This entailed the use of a list of questions and issues as an interview guide (see Appendix 9.1) of what is to be discussed and what topics need to be explored (Maykut and Morehouse, 1994). These needed to be formally constructed and used in the interviews to keep a reasonable level of consistency of the material to be covered during all the interviews (Patton, 2002; Keats, 2000). However, it was born in mind that what is required – to be extracted – from these interviews was mainly a deep exploration and understanding of the motivations behind corporate social disclosure (CSD) or non-disclosure with particular reference to the annual report. Therefore, the type of questions used were open-ended questions (Gillham, 2000) to provide more freedom for the interviewees to talk (Keats, 2000) and participate in the conversation (Maykut and Morehouse, 1994) rather than using closed-ended questions that require a ‘yes’ or ‘no’ answer (Patton, 2002). This gave the

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<sup>352</sup> The reason behind this was not explicitly mentioned but the researcher inferred that this was due to current continuous calls by governmental bodies that companies and their factories have to take extra care concerning their negative environmental influence on the environment. The accusation directed to any corporate personnel of their company polluting the environment makes him/her extremely offended. This is also because, culturally, pollution is usually connected and linked with dirt. As stated by Rice (2006), the perceptions of Egyptians of the environment are set in the context of cleanliness. It simply means one is saying that this person is dirty which is of course very offensive. This was not the case with other social issues. However, these are all efforts of the researcher of interpreting the situation.



interviewees the opportunity to highlight the issues they felt impacted on their disclosure practices and to provide further insights into it.

The nature of a semi-structured interview implies very careful listening from the part of the interviewer (the researcher) and following what is said (Maykut and Morehouse, 1994). As a result, there cannot be a formal structure of questions. Thus, it is worthwhile mentioning that the sequence and the order of asking interview questions differed from one interview to another depending on the flow of the interview and the responses of the interviewees. Although the interviewer still used the same semi-structured list of questions as a guide; “to follow interesting lines of inquiry and to facilitate an unbroken discussion” (Easterby-Smith et al., 1991:75), and being keen not to miss anything crucial, required deviation from a standardised systematic way of asking the questions. Exploration of motivations behind undertaking CSR, which is the main aim of the field study, entailed tracking the sequence suitable to individual interviewees rather than having it fixed throughout all the interviews (O’Dwyer, 1999). However, it must be made clear that the first question asked was the same for all the interviews and was sort of general question. More specific questions followed, whose order was highly determined by issues arising during the conversations. Moreover, the number of questions and issues discussed differed among interviews been highly constrained by time limits peculiar for each interview. However, the researcher attempted to cover all the issues planned.

The questions and issues included in the interview guide were to some extent shaped by the review and the consultation of the relevant literature on corporate social and environmental reporting/disclosure. The questions were also influenced to a degree by the initial results obtained from carrying out the content analysis of the annual reports (details in Chapter 7). In addition, detailed conversations with the supervisor of the research and another researcher in the field as well as brainstorming talks with colleagues acquainted with the research areas being studied had an effect on determining

the interview guide. An Arabic version of the questions was also prepared to facilitate the conversations.

While in Egypt, the interview guide was reviewed, in advance to undertaking the interviews, by one of the professors at Cairo University for checking translations (Keats, 2000) and reducing the issues to be explored to make the interviews among all interviewees more systematic and comprehensive (Patton, 2002). This was also an endeavour to ensure that no misleading questions were asked. It was also aimed to make the questions clear and precise in order to ensure that each interviewee could clearly understand the question being asked or the issue being addressed and to be grammatically correct<sup>353</sup> (Keats, 2000).

What was required from undertaking interviews with corporate managers, which formulated the principal areas of enquiry, is to explore their perspectives and perceptions relating to corporate disclosure generally; CSD in particular, their explanations as to why Egyptian companies perform some CSR as well as why they don't report other things, and their perspectives as to the future direction of and prospects for CSR in Egypt (see Appendix 9.1).

## **9.8 PROCEDURES OF THE INTERVIEWS**

As mentioned before, the researcher was successful in undertaking 12 interviews in 10 companies. Some interviews were undertaken simultaneously while contacting other companies for further interviews between January 2004 and April 2004. All interviews took place at the companies' headquarters, in the interviewee's office, and were all conducted face-to-face.

On the interview day, at the reception (gate) of the company, the following scenario was repeated for all companies but one: I was asked to leave my national identity card at the reception and I would take it when leaving the company after I finish the interview. The full details of the card and the name

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<sup>353</sup> This assessor attested that there were no differences between the content and format of the final English and Arabic versions to be used in data collection.



of the person I had an appointment with were recorded in the logbook of the company. The person I had an interview with was also contacted to make sure I do have an appointment before letting me in.

Before beginning the interview<sup>354</sup>, I felt necessary to introduce myself again, in addition to been done before over the phone, briefly explaining the research being undertaken as studying the emergence of social and environmental disclosure by Egyptian companies, presenting the purpose of the interviews as part of the research, providing absolute assurance of confidentiality (Gillham, 2000) with the commitment from the part of the researcher not to include any material or opinion expressed by interviewees in the thesis with any reference to them or their companies which would identify them unless they have given explicit written consent. That also included whether or not they wish their significant contribution to the thesis to be acknowledged in the final document.

To help promote and maintain a relaxing atmosphere during the interview, to establish rapport between the interviewee and the researcher, and to remove anxiety (Keats, 2000), it was mentioned to the interviewee that there were no expected answers or expected information. Rather it was made clear that all what was required were the point of view and the perspectives of the interviewee (Patton, 2002; Maykut and Morehouse, 1994) and the management policy which might reflect the company's viewpoint without the necessity of having any previous knowledge of the issues discussed. It was also stressed that there is no right or wrong responses and that the best reply is the one that reflects the interviewee's opinion to the issues that will be covered during the interview. It was made clear that this will help the researcher to arrive to true conclusions and will be of great value to the results of the research undertaken. All of this led (as far as I can tell) most of the interviewees to talk freely and openly. The researcher mentioned to all interviewees that the expected duration of the interview is half an hour and

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<sup>354</sup> In many occasions, the researcher had to wait until the interviewee finishes some work with some papers in his hands or on the computer.

that the interviewees had the full right to end it at any time they please or extend it as long as they can or want.

Finally, the interviewees were thanked for giving me; the researcher, the opportunity to undertake the interview and were presented with the letter from my supervisor which supports all what I was saying. Some of the interviewees took a photocopy of the letter while others just had a look and returned it back to me. In addition, gifts were given to interviewees, on the day of the interview, and before starting the interview. This was a way of saying ‘thank you for giving the researcher the chance to undertake the interview’. This also emphasizes the importance of the role they have played by participating in the interview (Frey and Oishi, 1996)<sup>355</sup>.

Prior to being interviewed, the interviewees were asked for giving permission to tape-record the conversation. It was made clear that the purpose behind tape-recording was to easily follow what the interviewees were saying and to facilitate careful listening to the interviewees with accurate note-taking, and taking further notes of issues that need extra elaboration. The researcher stressed that tapes recorded will only be used for the purpose of this research and that nobody will have access to the tapes other than the researcher. It was also emphasized that tape-recording could be ceased any time at the request of the interviewees and that the interviewees could receive a transcript of the interview at their wish that would give them the chance to check the interview and could “strike out any passages to which he [she] objected” (Easterby-Smith et al., 1991:66). However, none of the interviewees provided consent of tape-recording and the researcher had to record the conversation manually.

Objection to tape recording by the interviewees entailed taking extensive field notes throughout the interview by the researcher. To overcome the disadvantages of lack of tape recording, which is mainly not being able to write everything said by the interviewees as they speak quickly and it is not in

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<sup>355</sup> Interviewees appreciated this gesture.



the favour of the conversation smoothly going or the research in general to ask interviewees to repeat what was said before or to stop them until one can write what is said, the researcher had to use her own symbols and abbreviations for words during the interview (Wengraf, 2001) to catch as much as possible from what was said<sup>356</sup>.

Moreover, there were many interruptions caused by phone calls received by the interviewees and by unexpected people or employees with papers to be signed (Wengraf, 2001). These periods of interruptions were utilised by the researcher to take further notes and to try to clarify what is written and complete anything missing but still in the mind of the researcher. This all helped in overcoming some of the limitations of not tape-recording the interviews.

All interviews were conducted in Arabic language<sup>357</sup>, which is the native language of Egypt. Conducting interviews in English would have been risky in terms of misunderstanding or confusion that might be caused by some English words and terminology. Asking interviewees to conduct the interview in English or even giving them the choice might have caused them some embarrassment if they didn't know English well which in turn could have made them uncomfortable talking and expressing their opinions freely<sup>358</sup>. This

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<sup>356</sup> Writing in symbols and abbreviations is a skill that has been acquired and ameliorated during the researcher's undergraduate degree where she was very keen not to miss a single word spoken by the lecturer throughout the whole lecture. This has helped in conducting the research interviews without tape-recording with missing almost nothing from what was said by the interviewer.

<sup>357</sup> It might be worth mentioning that all interviewees are Egyptians.

<sup>358</sup> I think it is a cultural thing that if asked, interviewees would never admit their ignorance of or not being fluent in English language despite English being the second official language in Egypt. They might have also thought that it is the language preferred by the researcher as she is conducting her research at a UK university. This could have forced them to speak in a language that they might not feel comfortable with in fear of being stigmatised as being a top-level manager in a large company who does not know languages. This to them would be a shame or even a big disgrace, if known by others, of which they would be embarrassed as this would potentially undermine their perceived competence. Thus, they would have never denied conducting the interview in English despite being uncomfortable and there could have been obstacles, as a result of this, establishing rapport between the interviewer and the interviewee. Distances between both will always be felt during the interview especially from the part of the interviewee who is expected never to be open in his talk but just answering in a couple of words. This is all from experience gained by the researcher from the first stage of empirical

will of course have its negative impact on the relationship established between the interviewee and the researcher, on the smoothness of the interview, and on the material obtained from the interview. This was prepared for before, through having a readily translated version of the interview guide and questions in Arabic language, which made the issues more understandable to both parties.

The prepared interview guide was used during all interviews to explore the major themes and topics that satisfied the purpose of the research. As mentioned before, despite differences in the sequence of questions as well as its wording, the interview guide helped ensure that more or less the same topics are discussed and the same materials are obtained depending on time constraints of each interview<sup>359</sup>. The opening question was always the same followed by further questions specific to each interview in order. How to phrase the following question and the point at which the questions are to be asked were decided by the researcher (Bogdan and Taylor, 1975). This was made according to the issues that need to be covered and following the response of the interviewees. Responses were also encouraged by occasional acknowledgements and by using ‘probes’ – supplementary questions (Gillham, 2000) – as an “intervention technique to improve, or sharpen up, the interviewee’s response” (Easterby-Smith et al., 1991:80). However, probes were never used in the form of leading questions but were rather non-directive so that the researcher avoids bias as well as to refrain from projecting one’s own viewpoints, thoughts and impressions or feelings<sup>360</sup> but were often used for checking as people are often simply confused and aren’t aware of their own motives.

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investigation when annual reports were being collected. Even the simple word “Annual Report” was rarely understood and I had to translate it and explain what this means.

<sup>359</sup> There were some occasions where the interviewee collected his papers, keys and was about to leave for a meeting before finishing the interview. In such cases, the interview had to end at this point and further clarifications were not possible.

<sup>360</sup> However, despite this, the potential for researcher bias in interpretation and classification of responses is acknowledged. Nevertheless, every attempt was made in this study to remain as objective as possible throughout the interview and subsequent analysis process.



## 9.9 ANALYSIS OF THE INTERVIEWS

Analysis of the interview material started at an early stage exactly the same day the interview was undertaken (Bogdan and Taylor, 1975). This began with immediately writing up detailed extensive notes completing what has been taken during the interview immediately after the interview ended (Wengraf, 2001) within the subsequent couple of hours while all the data was still fresh in the researcher's memory (Maykut and Morehouse, 1994). Added to this, the researcher took field notes of all what happened during the interview along with any general observations or impressions, possible themes, key points and phrases recorded (Patton, 2002). No attempt was made to remove what may not seem important since, as Eisenhardt (1989:538) suggests, "it is often difficult to know what will and will not be useful in the future". Transcribing the interview while it is still fresh included completing words that were written in the form of symbols or abbreviations. All of this, of course, aided to enhance the accuracy and comprehensiveness of the interview at the later analysis stage. Moreover, attitudes of interviewees were also recorded (Gillham, 2000) and any other "non-verbal communication" (Wengraf, 2001).

While transcribing the interview, there was sometimes difficulty in reading one's own handwriting and understanding one's own symbols and abbreviations. However, with reading the notes taken during each interview again and again, the researcher was able to make sense of all the notes taken by remembering the context of the interview and replaying the interview film in one's mind.

As all interviews were conducted in Arabic<sup>361</sup>, which is the native language in Egypt, the interviews had to be translated from Arabic into English after being transcribed to facilitate further analysis. Translation was done to the nearest approximation of the meaning<sup>362</sup>. This sometimes required the use of an

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<sup>361</sup> The only Health and Environmental Affairs Manager in the sample used some English words within his conversation, which was mainly held in Arabic.

<sup>362</sup> As noted by Evans (2004:11), "this use of the (perceived) nearest equivalent in translation [might] ... lead [in some occasions] to a blurring of meaning and loss of significant difference in the concepts".

Arabic-English Dictionary to arrive to as possible exact word as one can, to substitute words for more appropriate ones, and to improve fluency of the English. After completion of translation, the Arabic and English version were read again simultaneously to ensure that nothing was missing that has not been translated and that the wordings and phrases gave the exact meaning in both versions. Finally, the English version alone was read again to make sure that the phrases make sense and are understandable. This was done for all the twelve interviews. Any errors that happened to exist were immediately corrected.

The following stage of the analysis was mainly based on and utilized Miles and Huberman's (1994) approach to qualitative data analysis where the transcripts were analysed through classification into similar or different responses. This started with reading all the transcripts and going over it again and again (Marshall and Rossman, 1999) until some first thoughts emerge and the researcher obtained a general idea of the interesting issues (Easterby-Smith et al., 1991) and recurring themes (Patton, 2002) throughout all the interviews. Subsequently a very big sheet in the form of a matrix was constructed for recording codes representing themes that emerged from the interviews. Coding is a means of aiding the classification and retrieval of meaningful data (Coffey and Atkinson, 1996). Miles and Huberman (1994:56) define codes as

*“tags or labels for assigning units of meaning to the descriptive ... information compiled during a study. Codes usually are attached to ‘chunks’ of varying size—words, phrases, sentences, or whole paragraphs, connected or unconnected to a specific setting. They can take the form of a straightforward category label or a more complex one”.*

The first far left column of the sheet mentioned above was used for the entry of the codes given to individual interviewees as a ‘code name’. This was done in the following form: the position held by the interviewee whether a financial manager or a chief financial officer followed by a number. For example, the first financial manager is recorded as “Financial Manager 1”. Beneath each of these codes is written the industry sector of the company the relevant interviewee is working for. The upper row represented the themes representing



interview data that explicitly arose from the interviews. Each apparent theme was given a code to label it (Patton, 2002; Marshall and Rossman, 1999). Thus, each interviewee had one row entry along all the themes emerging from all the interviews with 12 rows in total covering the twelve interviews undertaken.

All themes developed were generated from the interviews themselves. They are all extracted from the interviews transcripts by going through each interview transcript individually and adding any new themes, which the researcher came through, along the top row. Any themes that have been recorded before are not repeated. This procedure was redone twice at different points in time to ensure that no themes were unintentionally missed and that none are repeated as well. This double-checking is a vital element of the rigor of the analysis (Gillham, 2000).

Following the previous procedure, each interview was read individually in-depth and codes recorded beside the relevant section of the transcript according to relevant themes, from the big sheet, that appeared in the interview transcripts (Miles and Huberman, 1994). While reading each interview transcript, any coded theme faced is then ticked under the relevant column of the code and in front of the relevant row of the interviewee represented by the code name. Page number(s) were also added beside every tick to facilitate later cross-reference for quotations and further insights. Themes were then highlighted on the transcripts, each theme with a different colour to spot anything that is not coded (Easterby-Smith et al., 1991) and add it to the big sheet of interview data. Un-highlighted parts of the interview transcript were reviewed for any relevant themes that could be coded and added to the big sheet. The researcher was open as to adding any new themes emerging – inductive analysis (Patton, 2002) – rather than trying to fit new insights within the previously identified themes.

The previous stage resulted in a very big representation of the story driven from the interviews, which required further development and refinement. The

following stage was that of data reduction (Marshall and Rossman, 1999) where codes were logically grouped together according to links emanating amongst them (Wengraf, 2001; Miles and Huberman, 1994). Specific themes and patterns are put into categories. These are also coded in groups of main codes; core codes. For example, an ‘N’ followed by a number codes the negative perspectives towards corporate social disclosure. Again beneath every code an explanation is provided as to what this code stands for.

This technique of reducing the data provided a better reflection of the patterns and stories emerging from the interview data covering the issues dealt with in the research study undertaken by bringing “the masses of data into more manageable proportion” (Marshall and Rossman, 1999:174). This also gave a feel of any contradictions made by the same interviewee, which will help explain his/her perspectives. Added to this are “reflective remarks” (Miles and Huberman, 1994:66) recorded between brackets as to what the researcher felt the interviewee meant. Notes taken as to the relationship established between both parties, the attitude of the interviewee as well as the level of confidence that the researcher had about the data offered, all had their influence in the analysis and weren’t ignored (Easterby-Smith et al., 1991). A separate detailed summary was prepared for each interview, which outlined such general observations along with themes emerging from the interview. In addition, a second separate file was maintained which provided a record of overall observations on the meaning of the data for all interviews. All the manually prepared files and records were then transferred into computerised form.

The final stage of the analysis of the interview material is to display the data in a form that facilitates subsequent writing up of the findings. This was mainly done by constructing a data matrix for each core (main) code (Miles and Huberman, 1994). To this matrix, relevant quotations were added using the number of pages, recorded before, as a cross-reference. This was mainly taken account of to support the codes that signify the themes stemming from the interviews. These were not actual or exact quotations. They are translations from transcripts. They are close approximation of what was said in the



interviews due to lack of tape recording. A file was constructed for each main code with the relevant quotations to facilitate its use in writing up Chapter 10 by cutting and pasting the required sections.

## **9.10 CONCLUSION**

This chapter has outlined in detail the research method undertaken for the second empirical investigation in this study. It described the use of semi-structured interviews it has adopted as a qualitative method to elicit the perspectives of a sample of corporate managers on CSR. The researcher depended on personal interviews with financial managers to investigate their viewpoints concerning social disclosure, especially in annual reports. The chapter outlined the strength and limitations of undertaking interviews in this study. It further described how the sample was selected. Here, participants were approached and the purpose of the research explained to them. The research was entirely dependent upon the respondents' willingness to participate. The sample of the study constitutes those companies that were cooperative with the researcher in allowing access and were openly willing to be interviewed. Also, a factor of choice is those companies within the boundaries of Cairo for cost and time considerations. The chapter emphasized that, within the Egyptian context, the most expedient way in which contacts and tasks are completed is through personal contacts and intermediaries (also see, Section 2.3.3).

The chapter goes on describing in details the procedures undertaken to conduct interviews and before it the construction of the interview guide questions as well as the steps followed in analysing the interview data obtained. The results of the semi-structured interviews are presented in the following chapter.

# **CHAPTER 10**

## **THE FIELDWORK AND RESULTS: PRELIMINARY REPORTING OF THE INTERVIEWS**

### **10.1 INTRODUCTION**

The preceding chapter provided an overview of the motivation for and the principal elements of the fieldwork undertaken for this thesis. We saw in that chapter some of the difficulties involved in undertaking such fieldwork in Egypt and, consequently, some initial explanations as to why there has been so little prior fieldwork in Social and Environmental Accounting (SEA) in Egypt. The preceding chapter also provided a brief overview of how the interviews were conducted and the processes undertaken to produce transcripts and, subsequently, English-language quotations for use in this current chapter.

All of the foregoing therefore provides an important context for the material which will be presented in this chapter. That context should be borne in mind. In particular, the relatively passive state or nature (by Western standards at least) of the interviewing process, the lack of use of a tape recorder and the need to translate many (if not all) of the quotations into English must ensure that the quotations are treated as more-than-usual constructions of social reality by both the interviewees and by the researcher.

Consequently, this chapter proceeds in a slightly unusual fashion. Although a degree of structure has been, of course, imposed upon the data (see the next section), a conscious attempt has been made to report the interview conversations in as much detail as seemed practicable. That is, there is a strong, explicitly inductive element to this interviewing process (Patton, 2002) and given the more-than-usual potential for noise in the data it has been decided to lay before the reader a considerable proportion of the transcripts so that the reader might seek to infer their own conclusions as far as possible. This is done in the interests of maintaining as transparent a research process as



possible. Of course, responsibility for drawing conclusions from this data remains with the researcher and this is the task attempted in the chapter following this one.

With these points in mind – and further bearing in mind that the explanation for the structure of this chapter is to be provided in Section 10.2 below - this chapter is organised as follows. Section 10.2 reviews the sample of interviews and provides a brief overview of them<sup>363</sup>. This section thus provides some justification for the first, tentative, structure which is then imposed on the data reported here. Section 10.3 reviews the areas of *social responsibility* which the respondents recognised and discussed and the issues that they saw as exercised by the companies for which they worked. Section 10.4 reviews the respondents' explanations of why their organisation did not either undertake social responsibility actions or, more pertinently, social and/or environmental disclosure. A number of the themes from this section are, as far as I am aware, relatively unusual in the SEA literature. Section 10.5 reviews the positive benefits which interviewees identified as associated with either social responsibility or social and environmental disclosure while Section 10.6 offers some tentative summary and conclusions. This summary and conclusions form the basis for Chapter 11.

## 10.2 AN OVERVIEW OF THE INTERVIEWS

The interviews were, in the end, conducted with 12 individuals in 10 companies. The interviewees included 8 financial managers, two chief financial officers, one junior accountant, and one health and environmental affairs manager. The interviewed companies represented 8 industry segments (see Chapter 9, Section 9.5.1 for profile of interviewees)<sup>364</sup>. It is worth reaffirming here that whilst these interviews should give insights into the thinking behind social and environmental (non) disclosure in Egypt (for more

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<sup>363</sup> Detailed discussions of the sample selection process and the profile of the interviewees are provided in Chapter 9.

<sup>364</sup> It might be worth mentioning here that annual reports are available for 8 out of the 10 companies interviewed. The two companies with no annual reports available in this study sample are both from Transport & Communications industry sector (4 interviewees).

detail see go back to Chapter 7) it is clearly not possible to specify to what extent the sample is either biased or an approximate representation of the attitudes of all Egyptian officers in larger companies. As we shall see, however, there are clusters of expressed views within the diverse range of views expressed here that could lead one to speculate that any tentative conclusions were unlikely to be profound misrepresentations of Egyptian attitudes in this field. Further research would, of course, be necessary to confirm or refute this speculation.

The process behind the development and testing of the interview protocol was outlined in the preceding chapter (and a full copy of the semi-structured questionnaire is reproduced in the appendix to Chapter 9; Appendix 9.1).

It will be recalled that the principal thrust of the questions was concerning social and environmental disclosure. It was somewhat to the consternation of the researcher that questions about “social and environmental disclosure” more frequently than not invoked answers concerned with “social responsibility”<sup>365</sup>. This, inevitably, influenced the direction and content of the interviews thereafter and must, consequently, influence the initial tentative themes that appear in this chapter. The matter was made somewhat more difficult still by the frequent experience that, as far as this researcher could tell, the understanding of the interviewee of that responsibility was itself somewhat thin or shallow.

Consequently, the primary thrust of this chapter is around themes of social responsibility and, from there, I have followed into discussions about social and environmental disclosure where appropriate.

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<sup>365</sup> In Sections 10.4 and 10.5, beside any quotation it will be indicated if the interviewee meant responsibility by writing the term ‘responsibility’ whenever relevant or needed. This is because most interviewees didn’t differentiate between ‘responsibility’ and ‘disclosure’ when questioned about what exactly they understand by the term ‘corporate social and environmental disclosure’.



Reading and re-reading the transcripts revealed that the discussions did follow along the lines that the SEA literature would normally expect – environmental, employee, customer and community – to a significant degree. However, the discussions also touched upon aspects of these categories which are unusual in the literature (e.g., the wider Egyptian community and issues of development/lesser development) and, more pertinently, often touched upon issues on which the SEA literature is relatively silent. These areas were identified as: legislation, the state and “other”.

Having identified and removed all the material in the transcripts categorised as concerned with social responsibility, it was a relatively simple matter to identify that the principal thrusts of the remaining quotations were, much as had been anticipated, concerned with positive and negative attitudes and reasons for social responsibility, and social and environmental disclosure. These themes are the subject of Sections 10.4 and 10.5 respectively.

The foregoing is summarised in Table 10.1.



**TABLE 10.1**  
**CHARACTERISTICS OF INTERVIEWEES AND THEIR RESPONSE ON SOCIAL AND ENVIRONMENTAL DISCLOSURE**

Position	Industry	Code	Understood "S&E disclosure" + answered accordingly	Explicitly admitted ignorance of S&E disclosure	Responses did not relate to S&E disclosure (or responsibility) at all	Spoke about "responsibility" when asked about "disclosure"	Researcher had to explain what the terms meant
Financial Manager	Contracting & Real Estate	FM1				✓	
Financial Manager	Textiles, Garments & Leather	FM2			✓		✓
Financial Manager	Pharmaceuticals	FM3	✓				
Junior Accountant	Transport & Communications	JA		✓			✓
Financial Manager	Transport & Communications	FM4				✓	
Health and Environmental Affairs Manager	Transport & Communications	H&EAM				✓	
Financial Manager	Transport & Communications	FM5		✓			✓
Chief Financial Officer	Food & Beverages	CFO1		✓			✓
Chief Financial Officer	Food & Beverages	CFO2				✓	
Financial Manager	Tourism	FM6				✓	
Financial Manager	Chemicals & Plastics	FM7	✓				
Financial Manager	Cement	FM8				✓	
<b>TOTAL</b>			<b>2</b>	<b>3</b>	<b>1</b>	<b>6</b>	<b>4</b>



## 10.3 AREAS OF SOCIAL RESPONSIBILITY RECOGNIZED

All interviewees recognized some sort of broader responsibility beyond that perceived as being owed to shareholders and the owners of capital. However, the extent to which respondents understood these responsibilities and the broader responsibility that might attach to the company appeared, on the basis of the evidence from the interviews, to be rather shallow. Almost all of the interviewees recognized social responsibility to employees, to the environment, and to the community. Reference – in terms of number of interviewees referring to it – was also made to acknowledged responsibility towards legislation adherence. Limited reference – in terms of number of interviewees – was made to identification of responsibility to customers and, least, to the government<sup>366</sup>.

Although it was the choice of most of the interviewees to talk about the social responsibility rather than the social disclosure, they appeared to have difficulty elaborating on, expanding upon and deepening how these responsibilities took place in practice. Some interviewees were very brief in their responses – it appeared to me that they had said all that they had to say – that they had no more ideas on the subject.<sup>367</sup>

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<sup>366</sup> The material and the quotations included did not, of course, occur in a nicely organised or linear fashion. The material has been organised by the author to illustrate the key themes of the chapter.

<sup>367</sup> It was also observed that there was inconsistency in the responses of interviewees where contradictions occurred in individual responses. Moreover, most interviewees, it seemed, felt attacked, not comfortable, and were defensive in their responses. It is believed by the researcher – and this was the impression from the attitude of the interviewees refusing to speak openly – that a major obstacle is the lurking suspicion on the part of the managers that in some manner any responses or information they give could be leaked back to top management or be made available to the authorities with subsequent disadvantageous results to the company for which they work and, consequently, to the interviewee's job (see Irvine, 2003). Whilst doing (saying) all that can be done (said) to convince interviewees that confidentiality will be maintained (see Sections 9.6 and 9.8), it was very difficult to remove this suspicion and it was necessary most of the time in the first instance to avoid direct questions on the most sensitive areas. As suggested by Epstein and Freedman (1994), as interviewees can never be certain that the interviewer will not associate his/her name with his/her response, the guarantee of confidentiality is more difficult to believe. If the respondent is unsure whether or not his or her anonymity will be respected, he or she is less likely to provide accurate information of the kind needed but rather they would be tempted to provide socially desirable responses. Thus, they try to show that they are socially responsible rather than appearing to be irresponsible.

More disturbingly, I also got the impression that the interviewees tended to place emphasis on issues that they believed I wanted to hear about and which would be most relevant, from their viewpoint, to the study I am undertaking.

Table 10.2 (see below) displays the social responsibilities recognised by the interviewees followed by separate presentation of how interviewees believe their responsibilities to different groups are exercised.

**Table 10.2 (about here)**

**10.3.1 Environment (ENV)**

Despite the fact that seven interviewees<sup>368</sup> alluded to responsibilities towards the ecological environment as an issue at some point during their interview, most of them only recognized having broad unspecific responsibilities. A typical comment mentioning about responsibility towards the environment and related activities was made by the financial manager of a pharmaceuticals company:

*As for environmental ..., includes: investment expenditures for improving the internal and external environments especially in factories for manufacturing drugs and medicine. This is to prevent pollution and to protect the health of the employees and of the surrounding society ... Solid wastes are removed periodically... Additionally, we get rid of medicines that expired through a company that is specialized in this and performs this process in far-away places and slots with the approval of the government. This prevents pollution that might be produced if our company gets rid of these expired products by itself in our factories. This pollution can be water pollution (sewage systems) or by burning in the air (Financial Manager, Pharmaceuticals sector – FM3)*

Other examples are:

*... this [environmental responsibility] is a very important dimension for our company. The environmental role of our company is fundamental ... We... are very active players in environmental protection (Financial Manager, Transport & Communications sector – FM4)*

<sup>368</sup> Those 7 respondents covered 6 industries from those represented by the sampled companies. ‘Contracting and Real Estate’ and ‘Textiles, Garments and Leather’ were not represented here.



TABLE 10.2  
SOCIAL RESPONSIBILITIES RECOGNISED

Position	Industry	Code	ENV	COM	CUS	EMP	LEG	GOV	Other
Financial Manager	Contracting & Real Estate	FM1	✖	✓		✓	✓		
Financial Manager	Textiles, Garments & Leather	FM2	✖	✓		✓			✓
Financial Manager	Pharmaceuticals	FM3	✓	✓		✓	✓		
Junior Accountant	Transport & Communications	JA	✖	✓	✓				
Financial Manager	Transport & Communications	FM4	✓	✓	✓	✓	✓		
Health and Environmental Affairs Manager	Transport & Communications	H&EAM	✓	✓				✓	✓
Financial Manager	Transport & Communications	FM5		✓	✓	✓	✓		✓
Chief Financial Officer	Food & Beverages	CFO1	✓	✓		✓	✓		
Chief Financial Officer	Food & Beverages	CFO2	✖	✓		✓			✓
Financial Manager	Tourism	FM6	✓	✓	✓	✓	✓		
Financial Manager	Chemicals & Plastics	FM7	✓			✓			
Financial Manager	Cement	FM8	✓	✓		✓	✓	✓	
TOTAL			7	11	4	10	7	2	4

✓ Responsibility specifically addressed by the interviewee

✖ Responsibility specifically denied by the interviewee

ENV To protect the local ecological environment and provide services accordingly.

COM To tackle the interests of the Egyptian community and provide services accordingly.

CUS To identify and deal with the interests of customers or consumers.

EMP To engage in and respect the interests of employees and provide services accordingly.

LEG To comply with related legislation and even to go beyond legislation on occasions.

GOV To address responsibility towards the government and the state.

Other Addressing responsibilities other than the above (will be mentioned within the text of the chapter)

✖ The above expressions are a distillation of what the interviewees seemed to intend to convey that they meant



*...there are many contributions by our company in serving the environment surrounding it ... We took several procedures to help decrease pollution of the environment. We are also in the process of moving all the factories into the desert outside the inhabited areas so that any pollution wouldn't affect the residents of the area ... We are also undergoing a new project ... In this project we use environmentally friendly machinery using the natural gas ... The environmental endeavours are proceeding in good direction not bad (Chief Financial Officer, Food & Beverages sector – CFO1)<sup>369</sup>*

*...we are still doing our best to decrease pollution and help people ... We installed extra filters to prevent dust pollution ... The new modified enginery and machines that we recently installed does not cause dust or exhaust (Financial Manager, Cement sector – FM8)<sup>370</sup>*

Three interviewees; in the following industry sectors: 'Contracting and Real Estate', 'Food and Beverages', and 'Transport and Communication'; did not feel that they had much in the way of detailed environmental interaction and mentioned that their types of activities do not have direct negative impact on the environment giving the impression that for this reason they do not recognize any responsibility towards the environment:

*As a contracting and real estate company, which is engaging in building housing units, its nature doesn't include the company in those that have many environmental services ... our contracting company, by nature, has no use of filters or environmental friendly machines (Financial Manager, Contracting & Real Estate sector – FM1)<sup>371</sup>*

*... we are a clean industry and we don't have any polluting activities (Junior Accountant, Transport & Communications sector – JA)*

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<sup>369</sup> This interviewee gave me the latest annual report saying that it includes everything that they have done concerning the environment. Once I opened the annual report after leaving the company, I found the last several pages are a separate section about environmental achievements, activities, and initiatives. All of the pages are empty schedules with titles "environmental projects completed" and with big font size in every page the word "Not Available" or "Not Existing". Moreover, in their annual reports in the sample of this study, nothing environmental was disclosed in 2000 and 2001 which are the two years with annual reports available for this company in the sample of this study. This interviewee gave the impression of feeling being attacked environmentally and was very defensive. He contradicted himself in that although he admitted that they have social and environmental activities undertaken and that they only disclose according to the law requirements, he gave me this latest annual report trying to convince me that they do disclose other than the mandatory requirements.

<sup>370</sup> Although this interviewee talked in detail about environmental initiatives of the overall cement industry, the annual report of his company did not include this but made only minimal disclosures mainly concerning environmental policy and ISO 14001.

<sup>371</sup> This company provided no environmental information in any of its annual reports for the 4 years (1998-2001). Their belief is reflected in their disclosure.



*We don't have industrial pollution ... All the waste of our production process is sold as by-products (Chief Financial Officer, Food & Beverages sector – CFO2)<sup>372</sup>*

Another interviewee, in the 'Textiles, Garments & Leather' industry, presenting a very narrow understanding of environmental pollution and environmental effect, and thus denying having a responsibility towards the environment stated that:

*There could be pollution caused by us if our gins are within the inhabited areas where people live because dust is produced from cotton while ginning. But, in our case, all our sites are located outside inhabited areas (Financial Manager, Textiles, Garments & Leather sector – FM2)<sup>373</sup>*

From the comment of one of the interviewees, he gives the impression that all he believes environmental responsibility is about is making assertions by management:

*... the announcement of the company that its products don't have any negative effect on the environment in which it is present. This indicates the company's carefulness for the environment purity and nicety, and not harming it (Financial Manager, Chemicals & Plastics sector – FM7)<sup>374</sup>*

The most detailed explanation concerning environmental responsibilities tended to come from the 'Cement', and the 'Transport and Communication' companies. Indeed, this 'Transport and Communication' company was the only respondent with a Health and Environmental Affairs Manager and appear to be the most able to provide detail concerning the company's responsibility towards the environment and how this is discharged. The environment

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<sup>372</sup> Analysis of the annual reports of this company revealed that there is 'waste-related' disclosure although not extensive.

<sup>373</sup> This company did not make any environmental disclosure in its annual reports in the sample for the years 1999 and 2000.

<sup>374</sup> This interviewee, although didn't seem to know so much about the subject, wanted to give the impression that he knew everything and that the company is doing well on social and environmental issues. He said what he thinks I wanted to hear. He mostly talked about health and safety of employees as well as environmental impacts of products which both were not actually disclosed in his company's annual reports. This company, however, made some disclosure – in at least one year – in its annual reports concerning mandatory disclosures other than VAS.



appeared to be a really important issue for this company and they claim to be a clean company<sup>375</sup>:

*Our company is considered a clean company and mostly there is no negative impact on the environment and society ... We are amongst the first companies that have had a dedicated department for environmental issues ... [which] has its own objectives and targets as well as its own manpower ... [and is] involved in anything concerned with environmental pollution and ... the environment ... Our system helps save energy, which in turn saves resources ... and time ... There are also many environmental programs implemented by our company ... we have “waste paper collection” ... We are proud as well to be the only company in whole of Egypt that sends empty printers cartridges to be recycled in Germany (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

This interviewee also expressed that they have exerted efforts and spent time in educating people, including their employees, about environmental issues:

*We also help in increasing people’s awareness of environmental issues through conducting environmental culturing programs ... Internally through training sessions, conferences, brochures and printed material. Externally through colloquiums, cooperation with NGOs and the government ... We also take a role in increasing the awareness of personnel in governmental bodies ... We open new venues for them. ... This is achieved in the form of colloquiums in all cities where we explain environment laws and how it is to be applied, explain what is meant by environment and what are environmental protocols (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

In addition, he mentioned about their continuous cooperation with other parties in implementing projects as well as potential engagements:

*... For example, there was a campaign adopted by [a] newspaper with some city councils to clean beaches and streets of summer resorts. We contributed to cleaning that of Alexandria, Matrouh, Port Said and Esmailia cities ... We are also about to start a huge strategic project with others. This project requires huge investments ... and this is why we cannot do it on our own. In this project, used and expired mobile phones batteries will be collected from all over Egypt and sent to UK to be recycled ... A second potential project is to improve the environmental scenery in new cities and tourist places ... by installing our antennas and transmission stations in artificial tree, which are more or less natural looking ... [and] are locally manufactured. This is also*

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<sup>375</sup> This was also the interview with the least interruptions and the most informed. This explains the relatively long quotations from the conversation with this interviewee. This interviewee, however, gave the impression of being proud and defending the image of his company. He alluded to deserving being applauded for their initiatives.



*not to distort the landscape (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

One interviewee in the tourism industry constraining environmental responsibility to the providence of good work environment for employees and landscaping:

*As to the environmental dimension, it is concerned with the society and the environment in which employees are living ... Sometimes there are agricultural activities such as planting some trees ... (Financial Manager, Tourism sector – FM6)<sup>376</sup>*

One company financial manager applauded endeavours undertaken by its industry:

*Cement companies are from the first industrial companies that took effective procedures to prevent environmental pollution from dust suspensions from furnaces chimneys (Financial Manager, Cement sector – FM8)<sup>377</sup>*

Only three interviewees in the ‘Cement’ and ‘Transport and Communication’ industry sectors alluded to the ISO 14001 certificate:

*We, as a department, had a role in making EMS be employed in the company. In 2000, we got the ISO 14001 certificate (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

*... we have our ISO 14001 certificate framed and hung all over the company at the entrance of every department (Financial Manager, Transport & Communications sector – FM4)<sup>378</sup>*

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<sup>376</sup> However, in this company’s annual reports, no information is disclosed regarding either their environmental activities or Health and Safety of their employees.

<sup>377</sup> This interviewee seemed to be giving a lecture about cement industry for which he has prepared. He was giving history of the cement industry. It seemed that he prepared written responses ahead of time. He was actually reading from a paper most of the time. This might be the case as the intermediate person told him that what I am seeking is general information about the social and environmental issues of the cement industry rather than specific to his company so that he does not feel threatened. This company, however, disclosed about ISO 14001 certificate in both of its annual reports included in the sample of annual reports for this study.

<sup>378</sup> All over the company, at the entrance of every section or department in every floor, there was, on the wall in a frame, the ISO 14001 certificate granted to the company for its environmental efforts.

### 10.3.2 Community (COM)

All but one of the twelve respondents suggested that they recognise a responsibility towards the local community. Whether the interviewee was a financial manager, a chief financial officer or a health and environmental affairs manager, all recognised this issue and each industry sector was represented with the exception of ‘Chemicals and Plastics’.

Most interviewees viewed responsibility towards the community as primarily concentrated in providing donations – to, for example, hospitals – and mentioned it briefly within the course of the interview. This was best explained in the following responses<sup>379</sup>:

*... we do give donations to needy places and philanthropy institutions (Financial Manager, Contracting & Real Estate sector – FM1)*

*As to community services and donations we do donate to philanthropy institutions and organizations and we share in building hospitals and mosques, etc. but these are for small amounts (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*Social activities include many things that relate to the society ... For example, we contribute to social associations and institutions and we give donations to different parties (Chief Financial Officer, Food & Beverages sector – CFO2)*

Only one interviewee, a Financial Manager in a Transport and Communication company, mentioned about donations in monetary terms:

*... donations increased from one million pounds last year to three million pounds (Financial Manager, Transport & Communications sector – FM4)*

Some, all from the Transport and Communication industry sector, also saw responsibility discharge towards the community as a form of sponsorship of activities and events in the local community:

*On the social dimension, our company was one of the sponsors of the sport event of football when Egypt was playing with Tunisia (Financial Manager, Transport & Communications sector – FM4)*

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<sup>379</sup> In the annual reports of these companies that were analyzed in this study, no disclosure was found regarding charity or donations – except for CFO2. This was not even in compliance with the minimum legal requirements as donations disclosure is mandatory.



*With regard to the society ... we sponsored many cultural [and] sports events, musical concerts and many other entertainment activities ... we shared in the universities campaign against smoking (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

Only one of the interviewees, also in the Transport and Communication sector, argued about the misperceptions of social responsibility towards the society being framed within the boundaries of traditional donations and sponsorships and explicitly noted that the fulfilment of responsibility implies being flexible to embrace emerging issues rather than being restrained to particular issues:

*As the time passed, people started to realize that there are many other activities to be done and are worth spending money on. We started to take suggestions of people into account and implement it. Examples of things that deserved the money more are: charitable projects, building hospitals, contributing to orphanages, contributions and donations to cancer treatment hospital, contributions and care to disabled and special needs people. We also provided special needs students at universities with equipment for disabled (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

In spite of all the interviewees alluding to community social responsibility concentrated on donations and sponsorships, some provided examples of social responsibility duty towards community fulfilled in ways beyond these with more clarifications. The only health and environmental affairs manager in the sample of interviewees had the maximum share in this. He gave details of how the company shares in encouraging superiority at university, and researchers as well as the education process ... etc. This company provided one of the examples of local community responsibility outside of donations and sponsorships. There are other examples as well. Typical of the responses were:

*We also encourage intelligent graduates by providing ... monetary incentives ... In addition, we [are] ... financing two researchers in each university with six thousands pounds annually each and for two years ... We help in facilitating education and serving scholastic acquirements by improving studying laboratories in faculties. We ... bought equipment for laboratories of ... Universities. We, as a department worked hard to get the approval of the delegated manager to finance these laboratories with some*

*equipment and machinery ... (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

*... Another example is that all the old furniture of our hotels, when replaced with new furniture, is given to orphanages and there are many other social activities that take place (Financial Manager, Tourism sector – FM6)*

The only Health and Environmental Affairs manager also recognised the responsibility towards the society to educate them in social and environmental issues:

*As a social role, our company provides these services concerning increasing peoples' awareness of social and environmental issues as a contribution in eclaircissement, culturing and enlightenment ... People have to deal with social and environmental issues with complete awareness (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

A financial manager of a Transport and Communications company also identified some of the social activities that went on with their community as including encouraging employee involvement with community activities and helping out in different occasions. This was explained as follows:

*The company also encourages its employees to share with needy and suffering people their celebrations and occasions. For example, during Ramadhan<sup>380</sup> there is always a campaign to join orphans in orphanages and cancer patients in cancer treatment hospital breaking their fasting (Financial Manager, Transport & Communications sector – FM4)*

Most of the community work done as a facet of discharge of social responsibility was alluded to in the interviewees' speeches as only relevant to the community in the smaller area where the company is located rather than expanding to the rest of the Egyptian community. The following quotes are representative:

*Concerning the environment surrounding the factory, our company shares in the pavement of roads and streets. Two years ago there was an agreement with the county to pave all the bypasses and sideways around our company. We also share in fixing any faults in the sewage system of the county. Moreover, we pay premiums and gratuity for the cleaners of the county so*

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<sup>380</sup> Ramadhan is the fasting month of Muslims.



*that they care for cleanness and tidiness around the company (Financial Manager, Pharmaceuticals sector – FM3)<sup>381</sup>*

*As regards the society, we share with localities and municipalities in the pavement of roads and in providing social services in the area where the factory is located (Chief Financial Officer, Food & Beverages sector – CFO2)<sup>382</sup>*

Still two of interviewees viewed spending time training and employing the youth as an aspect of social responsibility being charged towards the community. One of which provided detailed explanations of related activities and services including educating people about the industry:

*This [social services] includes ... employing youth (Financial Manager, Contracting & Real Estate sector – FM1)*

*... the technology used in industries far precedes what is taught at universities in some cases ... We found that there is a time gap of at least three years ... To help in decreasing this gap, we provide training sessions and lectures to ... students, with practical application in sites. They ... become familiar with the latest technology in the industry so that when they graduate they find no such gap existing anymore ... we ... are represented in committees responsible for examining and evaluating graduation projects of students ... During the summer vacation for universities, we provide summer traineeship for students over two months. Each month we train from 16 to 20 students in our sites ... Those students are given 600 pounds during the training period as a further incentive ... (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

### 10.3.3 Customers (CUS)

Only four interviewees particularly indicated that they believe they have responsibilities towards their customers and consumers<sup>383</sup>. These were from the service industries (namely, Transport and Communications, and Tourism Industry sectors) and were all financial managers. However, none of these interviewees gave much in-depth discussion of the nature or the extent to

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<sup>381</sup> The annual reports of this company did not include or refer to anything concerning community involvement activities in any year.

<sup>382</sup> Their annual reports had some disclosures made concerning charity donations, and the community involvement activities. They also disclosed about employee benefits and services provided, and consumer related issues.

<sup>383</sup> Only one of those interviewees had his company's annual reports included in the sample of this study and it made no reference to any sort of customer/consumer related information.

which they reveal their responsibility towards their customers. References were very brief and were illustrated as follows:

*Other than that we do care for our customers who are our audience. We take care of them ... through our salesmen (Financial Manager, Transport & Communications sector – FM5)*

*We, as an organization, have a social dimension. This includes issues concerning ... customers... As to the customer, we make sure that the environment is fit for his reception; the room is fit from different aspects (Financial Manager, Tourism sector – FM6)*

#### 10.3.4 Employees (EMP)

All interviewees but two specifically expressed a view suggesting responsibilities owed to employees when asked about what they and their companies understood by the term ‘corporate social and environmental disclosure’<sup>384</sup>. Their responsibility towards their employees was manifested in their discussion of the services and activities they provided to their workforce and were issues mentioned by both financial managers and chief financial officers. The answers spanned all industry sectors comprising the sample.

The interviewees indicated the responsibility towards employees and services provided to them accordingly as an important aspect of the social dimension:

*Social [implies] ... the humanism aspect for employees concerning their merits and social services provided to them such as health treatment, cultural activities, training, attending conferences and skills development. Also, from the entertainment aspect, trips and entertainment trips and visits (Financial Manager, Pharmaceuticals sector – FM3)*

*[Our]...company started to conduct a survey on the satisfaction of their employees in all their branches ... They ask about whether employees are satisfied with the work environment and conditions, their complaints, their suggestions for any possible improvements (Financial Manager, Transport & Communications sector – FM5)*

*We, as an organization, have a social dimension. This includes issues concerning employees ... social issues include discussing their problems, issues concerning their income and rights. All are issues related to Human Resources ... We are concerned that all the needs of our employees are met. (Financial Manager, Tourism sector – FM6)*

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<sup>384</sup> It is worth reminding ourselves that the question in the interview asked about corporate social and environmental disclosure but the answers primarily focused on corporate social and environmental responsibility.



There has also been an emphasis on human resources as being an area of investment and an important element of capital for the company.

*Nowadays the Egyptian investor invests in human power and employment as his investment of capital (Financial Manager, Tourism sector – FM6)*

Although all interviews elaborated on different areas of responsibility towards employees, however, not much specific details are given and they just discussed areas from the surface. There has also been great emphasis on areas specified in labour law such as health and safety, medical treatment, summer resort and other sorts of entertainment (see Section 2.6). On the other hand, however, some interviewees emphasized as well on further education and training aiming at skills development. The following responses describe the above:

*For employees, we have a private fund for them to which they contribute. Regarding the entertainment activities, there are trips and summer resorts ... We provide our employees with benefits such as health treatment, clothes, etc. ... In the past as well, we used to give each driver and each office boy their uniform to wear (Financial Manager, Textiles, Garments & Leather sector – FM2)<sup>385</sup>*

*Social activities include many things that relate to ... our employees. ... in respect of employees, we provide them with many services that will increase their welfare. We provide them with health care and treatment, summer resorts, entertainment, trips, transport facilities to and from work and their homes, pilgrimage and minor pilgrimage to Makkah; and many other activities and services (Chief Financial Officer, Food & Beverages sector – CFO2)*

*... There was also before a newsletter issued periodically for employees. Nowadays, there are cultural courses for employees conducted annually. Employees are categorized according to education level and according to their job descriptions and each category after that is provided with courses that measure up with their level of education to get them familiar with what the company is all about, what it is doing, any recent developments and achievements, their rights and duties towards the company ... There are also advanced courses to teach employees and train them on how to act and react in production areas and in case of an emergency to protect product safety and the environment. There are also higher-level courses. These are*

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<sup>385</sup> All of these activities are not disclosed in their annual reports. Contrary to all other interviewees' companies, this is the only company that didn't disclose anything under employee other in any year of the sample although it claimed to be disclosing on employee fringe benefits and on donations.

*specialized courses for engineers, another for accountants, further for pharmacists, etc. These are courses in their areas of specialization (Financial Manager, Pharmaceuticals sector – FM3)*

One interviewee in the Transport and Communication Industry was the only interviewee to provide quantitative and monetary evidence regarding employees:

*The company has spent last year 10 million L.E. on training and education. The company also doesn't specify what certificates their employees should take. It gives them complete freedom to choose what is of interest to them to study and pays 80% of the cost of the course. It sponsors MBA and CPA programs. It also sends employees abroad for training and invests heavily in education ... At the moment, there are 1700 employees recruited by our company and we have the lowest turnover rate. For all of these employees, the company provides health insurance for them, their families and their parents. Even those who leave the company want to come back and work here again (Financial Manager, Transport & Communications sector – FM4)*

Another interviewee emphasized in details sharing their employees their different celebrations and occasions as well as stressing the importance of cultural development dimension:

*There are many activities arranged for employees from which are sports activities, social activities, cultural activities and training. We develop employees intellectually and mentally. The level of the employee mentality is reflected on the customer. Employees' cultural development affects his/her professionalism. ... All these issues are Human Resources Management responsibilities. These responsibilities include providing many services and benefits to the employees. ... These benefits reach a large percentage of the employees. Many got married on the company's debit. Many as well had their homes destroyed by the earthquake and the company bought them new houses as the employees couldn't afford to buy a new house. Moreover, in occasions such as the Great Bairam and the Small Bairam, all employees are given meat and cookies... During Ramadhan we make a breakfast where supervisors and managers serve the subordinates ... Once we know about an employee facing a problem, we try to solve it... These activities and other social niceties such as attending their weddings and expressing our consolation in case of death ... Another thing I want to add is that among the services that we provide to employees is that in case of any death in the family of any of our employees, we carry all the expenses. (Financial Manager, Tourism sector – FM6)*



An interviewee, in the Textiles, Garments and Leather industry, alluded to protecting employees from negative impacts of the industrial operations and compensating them accordingly for bad working environment:

*Employees are exposed to this environmental pollution but they are given milk to purify their chests. They are also given pollution allowance for this, included in their salaries (Financial Manager, Textiles, Garments & Leather sector – FM2)*

A number of interviewees mentioned in greater depth the importance of being responsible towards employees. Moreover, all interviewees mentioning about employees and responsibility towards them recognized that their own company provided good working conditions, services, ... etc. to their employees and gave the impression that they are the only ones or amongst the few that do this:

*Our company is also one of the best, if not the best, in attracting qualified employees through providing very attractive packages upon recruitment. It provides its employees with many compensation benefits. Moreover, the company is amongst the pioneers in implementing Employee Share Option Plans (ESOP) for the management personnel ... (Financial Manager, Transport & Communications sector – FM4)*

*Our company has put a budget for training of employees ...and the fund if not spent all of it; the remaining part is spent on organizing parties and entertainment events for the employees. Not anybody or any company can do this (Financial Manager, Transport & Communications sector – FM5)*

Unexpectedly, one interviewee mentioned very generally about employment of disabled employees<sup>386</sup>:

*...We also employ a percentage of disabled employees (Financial Manager, Transport & Communications sector – FM5)*

Some interviewees stressed the importance of good treatment of employees and making them feel as if it is all one family. They noted that friendly and homely atmosphere felt by employees would affect their morale and loyalty to

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<sup>386</sup> This issue was not disclosed by any Egyptian company in the sample of this study in any annual report (see Section 7.5.4). However, it is worth mentioning that the annual reports of this particular company were not included in the sample due to non-availability. It is, nevertheless, a requirement of the law that 2% of the total workforce be allocated to disabled people (see Section 2.6). However, many companies do not comply and there are cases of discrimination even within governmental organisations.

the company. An apparent deep personal concern for proper treatment for employees was given as follows:

*[Our delegated manager] shares and joins all employees their wedding parties, all their celebrations and occasions, from the Chairman to the youngest office boy (Financial Manager, Transport & Communications sector – FM4)*

*We also work to increase awareness inside the company of the importance of sharing in decision making which results in enhancing the loyalty and belonging within the company (Chief Financial Officer, Food & Beverages sector – CFO1)*

*Social services ... have its effects on employees and their morale. When employees feel that they had all their rights fulfilled and their needs met, this has its positive effect on the production (Chief Financial Officer, Food & Beverages sector – CFO2)*

*... Social issues [involves] for example, ... the announcement by the company of its congratulations to one of its employees for his/her promotion to an upper level post or for his receiving a special appreciation from the country or the government. This indicates the pride of the company of its employees' success in his/her public and private life indifferently. This shows the strong social attachment inside the company and the extent of its importance to the company ... Moreover, the announcement by the company that it is going to organize a collective dinner for all its personnel. This signifies how much the company cares for social relations among their members (Financial Manager, Chemicals & Plastics sector – FM7)*

Surprisingly, only two interviewees mentioned the negative aspects of economic reform at the country level especially privatisation program on employees and their redundancy as well as on services provided to them. This was the only negative aspect mentioned by interviewees concerning employees. They seemed to be blaming the government for the deteriorating social and environmental initiatives and activities especially regarding employees as it is the government who initiated the privatisation program which in turn led to working towards the implementation of early retirement scheme. This is all due to the fact that when companies are privatised they are put under more economic pressures. More surprisingly was that even those interviewees did not mention any thing about taking care of the employees made redundant because of privatisation of companies and early retirement scheme.



*When this company was a state-owned company ..... , there were many social activities ..... especially for employees but after privatisation many of these activities ceased and most of these activities no longer exist (stopped for good) ... in our company sports activities and trips for employees decreased significantly since privatisation ... Moreover, included in social activities and social role of the company is increasing number of employees. In our case, the opposite is exactly the case, since privatisation the number of employees decreased from 1000 before privatisation reaching 250 now. All done through early retirement scheme and the profit decreased. There is no settlement now for youth employees, no peace of mind. Even now there is more competition among employees. There was before the feel of all employees as one family, which was enhanced through trips and entertainment days. But nowadays, nothing of this exists. Even employee productivity decreased (Financial Manager, Contracting & Real Estate sector – FM1)*

*When the state before privatisation owned the company, there used to be a specific mask worn by our employees but not any more nowadays. (Financial Manager, Textiles, Garments & Leather sector – FM2)*

In response to a trigger by the researcher, two interviewees admitted that occupational injuries do happen and employees are compensated accordingly<sup>387</sup>:

*Injuries do happen and all our employees are insured against this type of injuries. These are called occupation injuries and danger. The employee gets the compensation amount in case of an injury (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*These injuries that occur in the factories are directed to the Health Insurance bodies and hospitals (Financial Manager, Pharmaceuticals sector – FM3)*

### 10.3.5 Legislation (LEG)

More than half (7 out of 12) of the interviewees suggested that they felt that companies should have a social responsibility to, at least, abide by the requirements of law. This was manifested within the course of the interview when interviewees mentioned about themselves abiding by legal requirements concerning some of the social and environmental issues. This mostly related to environmental issues (e.g., landscaping) and employee issues. These interviewees were from the Contracting and Real Estate; Transport and

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<sup>387</sup> None of the interviewed companies mentioned anything about health and safety of employees in their annual reports included in the sample of this study.

Communications; Food and Beverages; Tourism; and Cement industries.

Comments are provided as follows:

*There are some activities that are complementary to housing activity. This includes leaving spaces between any two buildings and cultivating this by trees, gardens, etc. (green parts). These complementary activities are mandatory, controlled and determined by law (Financial Manager, Contracting & Real Estate sector – FM1)<sup>388</sup>*

*Our company has reconciliated its situation to adhere to compliance conditions according to Environmental Law (Financial Manager, Pharmaceuticals sector – FM3)*

*There is a law that has recently passed obliging every company to have a fund for training employees with a budget not less than 1% of the net profit. There is also a law that obliges companies to recruit a specific percent of its employees from handicapped and disabled people (Financial Manager, Transport & Communications sector – FM5)*

*We are also in compliance with the new Environmental Law No. 4/1994 and there aren't any problems with this (Chief Financial Officer, Food & Beverages sector – CFO1)*

*We are in compliance with all regulations professionally and concerning health aspects. There is control and review from the Ministry of Health and from the Ministry of Tourism (Financial Manager, Tourism sector – FM6)*

*We abide by all the requirements of the Environmental Affairs Ministry and that of the Environmental Law (Financial Manager, Cement sector – FM8)*

One of the interviewees, a Financial Manager in a 'Transport and Communication' company, implied responsibility to go beyond legislation:

*There are requirements mandated by the Ministry of Environmental Affairs, which we have complied with and exceeded (Financial Manager, Transport & Communications sector – FM4)*

### 10.3.6 Government (GOV)

Only two interviewees (the Financial Manager of a Cement company and the Health and Environmental Affairs Manager of a Transport and Communication company) acknowledged the feeling of being responsible

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<sup>388</sup> This interviewee also claimed to be disclosing according to law requirements. He gave as an example 'donations' disclosures. However, reviewing the annual reports of this company, no disclosure was found concerning donations despite it being a mandatory requirement. However, some minor disclosure was provided concerning the community. The company, nevertheless, undertook other mandatory CSD – employee data, pension data, employee profit share, directors information, employee benefits provision but not VAS.



towards the State represented by governmental bodies and authorities in terms of helping them with doing and providing social services to the people of the country:

*The government on its own is not capable to do everything. There should be a role played by the business sector and it depends on good enlightenment (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

*We are all one society and we have to unite in building and developing our country ... The government is not itself liable to do all of this on its own. This is one Egyptian society and entails the unity of all (Financial Manager, Cement sector – FM8)<sup>389</sup>*

Although one interviewee recognized that they have a social responsibility towards the local community, he returned and contradicted himself by stating that it is the government's responsibility to solve all problems and remove all negativities:

*The country has a responsibility towards the general public but companies do not (Chief Financial Officer, Food & Beverages sector – CFO2)<sup>390</sup>*

### 10.3.7 Other Responsibilities And Comments (Other)

Only one Financial Manager in the Transport and Communication industry identified responsibility towards building and developing the country as a whole with emphasis on culture development and saving natural beauty and historic relic:

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<sup>389</sup> Although this interviewee acknowledges having a responsibility towards the government, he attacked it within his interview that it is the government and its associated authorities who should be blamed for deteriorating social and environmental issues due to lack of competent management and effective organization from the part of these authorities.

<sup>390</sup> This interviewee was very contradictory in his talk and at times sarcastic. Although he says that his company undertakes many social activities and disclose about them in their annual report, he comes back and says that this is the responsibility of the government and that the general public have no right to CSD and that their own responsibility is providing the society with products they like. Again, he says that CSD is useless as 'so what, and who cares' if they make CSD, then assures its importance and that it enhances transparency saying: "*Surely it is important. If there were a clear view of everything, people wouldn't have lived in this anxiety and concernment, which they feel now. Disclosure is a necessity. There is no transparency now. It is unquestionable that disclosure is important*". He did not show interest in the topic during the interview. It seemed also that he sometimes spoke on behalf of his company and sometimes spoke from his own personal perspective which might be the reason behind the so many contradictions realized during the interview and from analyzing the interview transcript.

*We also contributed in saving drowned antiquities in Alexandria Port and in the protection of the coral reefs in the Red Sea (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

A sole financial manager, when invited by the researcher to mention more details about their corporate social and environmental issues, refused for secrecy reasons:

*These are confidential things but I can only say that we do have social and environmental role (Financial Manager, Transport & Communications sector – FM5)<sup>391</sup>*

Despite their original assertions of expressing having responsibilities towards employees and the community, two interviewees came back and contradicted their earlier stance saying that it is not their business. They held the traditional view and explicitly mentioned that their business is curbed to providing products to the society by which, they imply, they are fulfilling their social responsibility towards it. This perspective was common among interviewees working in 'Food and Beverages' and 'Textiles, Garments and Leather' sectors:

*Of course, we do benefit the society; we contribute to the production of cloths and clothes from cotton. We export abroad and this brings foreign currency to the country. We also give the seeds to those who squeeze it and produce oil and soap. All these are social benefits (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*Our responsibility towards the public is to provide them with products which they like its taste. Other issues, such as the social and environmental issues, are issues of concern by the company and those very closely related to these issues and activities. An example is the Ministry Of Health. The relationship between the company and those concerned parties is of no importance to the general public. The public does not have any right against the company but have against the country and its government (Chief Financial Officer, Food & Beverages sector – CFO2)*

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<sup>391</sup> This interviewee didn't seem to be very much interested in the topic and didn't seem to know much about it. However, he wanted to give the impression that his company is the best and that he is an important person in the company. It was obvious though that he never thought about the issues. However, by the end of the interview he indicated that he finds the issue of social and environmental disclosure very appealing to him and that he might have a more positive view towards it in the future stating: "I want to say that this topic about social and environmental disclosure is novel to me. This is something actually very good".



The following two sections; 10.4 and 10.5; will cover, respectively, the reasons, obstacles or detriments as to why interviewees have negative perceptions and attitude towards corporate social and environmental responsibility and disclosure, and the description of rationale in terms of reasons, factors or motivations mentioned by interviewees behind supporting, favouring, and undertaking social and environmental responsibility as well as providing accounts for it in terms of disclosure.

## **10.4 NEGATIVE PERSPECTIVES ON RESPONSIBILITY AND DISCLOSURE**

Generally interviewees expressed negative views towards corporate social and environmental responsibility or disclosure. The interviewees have put forward several reasons as to why they are not in favour of corporate social and environmental responsibility or disclosure. Table 10.3 summarises reasons given by interviewees for not supporting or undertaking corporate social and environmental responsibility or disclosure when asked to offer motives for not embracing CSD. Interviewees provided multiple grounds behind non-CSD which are at times conflicting.

### **10.4.1 Cultural And Socio-Economic Traits (N1)**

Three quarters of the interviewees referred to Egyptian cultural traits and Islamic<sup>392</sup> religion justifications for doing but not disclosing good deeds. These interviewees were from the Textiles, Garments and Leather; Pharmaceuticals; Transport and Communications; Food and Beverages; Tourism; and Cement industry sectors and held a range of positions. They gave the view that corporate social and environmental disclosure is against the nature and social fabric of the people of the country.

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<sup>392</sup> Islam is the dominant religion in Egypt. More than 90 percent of the Egyptian population are Muslims (see Section 2.3.2). In Islam, it is not the case that people should expect rewards or credit from other people for their so-called good deeds but rather they are expecting rewards from God. Thus, they are accountable to God. This is also not to make those needy places or people to whom the good is done to feel humiliated or ashamed. Given this belief, people are usually likely to question and get cynical about the real motives of those who explicitly announce that they are socially and environmentally responsible.



**TABLE 10.3**  
**NEGATIVE ATTITUDES RECOGNIZED**

Position	Industry	Code	N1	N2	N3	N4	N5
Financial Manager	Contracting & Real Estate	FM1	✓	✓	✓	✓	
Financial Manager	Textiles, Garments & Leather	FM2	✓		✓	✓	✓
Financial Manager	Pharmaceuticals	FM3	✓	✓	✓	✓	✓
Junior Accountant	Transport & Communications	JA	✓	✓	✓		
Financial Manager	Transport & Communications	FM4			✓	✓	
Health and Environmental Affairs Manager	Transport & Communications	H&EAM	✓			✓	
Financial Manager	Transport & Communications	FM5	✓			✓	✓
Chief Financial Officer	Food & Beverages	CFO1		✗	✓	✓	✓
Chief Financial Officer	Food & Beverages	CFO2	✓		✓	✓	
Financial Manager	Tourism	FM6	✓	✓	✓	✓	
Financial Manager	Chemicals & Plastics	FM7				✓	
Financial Manager	Cement	FM8	✓			✓	✓
<b>TOTAL</b>			<b>9</b>	<b>4</b>	<b>8</b>	<b>11</b>	<b>5</b>

- ✓ Factor specifically addressed by the interviewee as a reason behind non-CSD
- ✗ Factor specifically denied by the interviewee as a reason behind non-CSD
- N1 Cultural and Socio-Economic Traits
- N2 Shareholders Attitudes and Influence
- N3 Erosion of Primary Focus on the Financial Statements
- N4 Absence of Legal Requirements
- N5 Other Negative Perspectives (will be mentioned within the text of the chapter)

They also mentioned that sometimes other parties benefiting from their donations, for example, request them not to disclose about it. Here, it is preferred that if a company is doing something, they just do it and keep quiet about it. Other commentators saw disclosure of social and environmental activities as unimportant within the Egyptian society. Thus, no need is there for disclosure as nobody cares from their point of view and sometimes it is unacceptable to disclose as it can cause some embarrassment. Examples of the common argument put forward in support of *not disclosing* were<sup>393</sup>:

<sup>393</sup> Interviewees did not seem to know exactly why or why not they are disclosing. Some gave contradictory reasons. They can not themselves decide which reasons or factors are the most influential in terms of decisions to (not) undertake CSD. For example, FM6 said about religious factors that anything we do is our relationship with God and should not be published, while at the same time added the need for compulsory requirements and how important it is to know about all aspects of the company. Both explanations are, however, a presentation of the Egyptian culture. Chapter 11 will shed more light on this issue. Moreover, he also mentions that investors are not interested in such disclosures and that the company will not benefit from



*This is something between you and your conscience or between you and your God. I should not disclose such activities (Chief Financial Officer, Food & Beverages sector – CFO2)*

*There are some companies that do share in these [social and environmental] activities for God's sake ... We as a company sometimes give some help to needy employees but we don't include it explicitly [in the annual report] to avoid them being embarrassed ... It is nonsense that we disclose that each employee is given a bottle of milk to protect his chest from the negative effect of cotton dust ... These [disclosing] companies have nothing to do (Financial Manager, Textiles, Garments & Leather sector – FM2<sup>394</sup>)*

*We sometimes disclose these things [environmental activities] ... However, in some cases, our contributions in services provided in the county are performed and provided at the request of specific bodies when these bodies don't have enough funds. These bodies don't want us to disclose our contributions. Examples are in the case of pavement of roads, hiring tractors to remove rubbish and cleaning the surrounding area ... This is a problem that we suffer from and we need government interference here for the protection of the external environment but we cannot disclose this ... [Concerning injuries] these are not disclosed in the annual report explicitly ... I don't think that this issue of injuries is of any importance to outsiders. Moreover, in the case of nondisclosure, if any employee is injured or suffered in any way, (s) he is the one who will disclose everything (Financial Manager, Pharmaceuticals sector – FM3)<sup>395</sup>*

*Sometimes our support to governmental organizations entails that our contribution be concealed. These organizations don't want us to disclose that we shared in this or that and we say "Ok, Fine". We agree because we didn't contribute on condition that our names appear ... sometimes we*

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CSD as the governmental authorities do not care while again emphasising that corporate social activities improve the image of the company – not specifying towards who though.

<sup>394</sup> Some of the statements and arguments of this interviewee are in conflict with each other. While arguing that it is nonsense to disclose details of social activities, she comes back and says "Disclosures by companies in Egypt are very little and not enough. It is necessary to say everything about the company and why not? We as a company, we say everything. We don't conceal anything ... Everything should be disclosed. It is very important". She seemed to be confused, never admitted her ignorance of the issue maybe feeling ashamed to do so even after explaining the topic to her. She was very conservative in talking to avoid saying anything that could be taken against her, trying to be in a safe or secured position by trying to be very careful in choosing what to talk about. Generally speaking, she didn't care about CSD and didn't remark any need for that.

<sup>395</sup> This company actually discloses (from their annual reports in the sample) what the interviewee says they do disclose and does not disclose what he says there is no need for such disclosure. For example, no disclosure is provided concerning human resources injuries, however, disclosures relating to the environment and to employee fringe benefits and training is actually disclosed in their annual reports. This interviewee, despite mentioning that they disclose all good and bad news, comes back to contradict this by saying that they do not disclose anything that could be embarrassing to them or to others. However, see footnote 381. Although this company actually discloses on social and environmental issues, the interviewee says that this is mainly directed towards external/global investors and customers not local shareholders or stakeholders. He thus argues that if a piece of information is not important – from their viewpoint – to those interested they don't disclose it.



*engage in very sensitive issues that authorities perceive our disclosure of our contributions as advertisement (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)<sup>396</sup>*

An interviewee, with reference to negative news, mentioned:

*Of course in any company any negative news are likely to be concealed and if it is unintentionally known by the public, we will say that these people are liars and nothing like this ever happened. This is the nature of our society. Nobody in our society says that (s)he is bad or that (s)he has done something wrong. We, as members of the society, never admit our mistakes or else we will be required to correct it which most of us are not willing to do ... In general in Egypt, there is no disclosure about negativisms and negativities (Chief Financial Officer, Food & Beverages sector – CFO2)*

Referring to discharging responsibility – rather than particularly to disclosure – in terms of social and environmental activities, two financial managers alluded to a social aspect concerning the Egyptian society that economic aspects have priority over social and environmental responsibility issues<sup>397</sup>:

*Actually, employees prefer to take money [as an allowance for work pollution] other than the mask or the milk [which might not be as important] (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*... Abroad it might be the case that social and environment disclosure became important. But as to Egypt, we have not reached this level yet. There are many other priorities that we have not achieved yet ... In Egypt, most of the people; their social and environment levels are below poverty line. They only care for how to stay alive and survive. They don't think about more*

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<sup>396</sup> This interviewee seemed very genuine in feeling socially responsible arguing that business has a duty towards the society. They appear to be very particular about environmental and social concerns in the country. As mentioned before, this interviewee is also the most informed.

<sup>397</sup> Due to deteriorating economic conditions in Egypt (see Sections 2.3.5 and 2.5), people usually won't care about social and environmental issues, let alone reporting – especially low level people (in terms of living standards and poverty) who can barely feed themselves and who constitute the majority of the population. Those people would only think on how they will be able to feed their families and children. So, the most important thing to care about is finding and maintaining their jobs, their salaries and their income or increasing it. They won't care about CSD or even responsibility. This is, however, despite the many talks directed towards corporate social responsibility in the media and the many conferences been held in Egypt but rather seem to be directed to specific elite of people. Moreover, on the government and State level, priority is given to economic development and income generating activities, activities that can generate more jobs, employing more people and, in turn, increasing the standard of living of the people. Even recently, during the presidential elections of 2005, all campaigns of all candidates tended to concentrate and put more weight on such issues as creating more jobs, working towards improving the economic conditions of the people and the country as well as increasing living standards (Darwish, 2005; Yaacoub, 2005). All of this does not encourage CSD.



*than that. Nobody care about social and environmental issues. In the short run, there is no hope for these issues to gain more importance. We as a country think about maintaining stability in economy and gaining independence in our political and economic decisions. Maybe there is some hope in the long run. Everything step by step (Financial Manager, Transport & Communications sector – FM5)*

*Also the economic status of the country has an influence on everything including social and environmental activities. For example, we may want to buy modern environmental friendly machinery but this is imported and is very expensive (Financial Manager, Cement sector – FM8)*

#### **10.4.2 Shareholders Attitudes And Influence (N2)**

Four interviewees expressed their concerns over shareholders' attitudes to certain social and environmental disclosures as a conjunction to their attitude towards corporate social and environmental responsibility in general. They expressed their perception of the lack of demand for social and environmental information from the shareholder group as a detriment to disclosing corporate social and environmental information in the annual reports<sup>398</sup> with more concentration on economic issues:

*... what I can see is that investors are not interested in social and environmental responsibility information ... [they] want a penny today ten pennies tomorrow (Financial Manager, Tourism sector – FM6)*

*We cannot do anything without approval of shareholders or else it means that we are abusing their money. They are the ones to say what to be done and what not to be done. It is all their money ... shareholders and investors are keen to know the financial position of the company as well as the price of their shares. It is their money and they have to know what happens to it; whether it is increasing or decreasing ... I don't think [shareholders care to know about the social and environmental activities and investments of the company]. Any investor wants to increase his money as much as possible. Any shareholder is looking for the increase in share prices (Junior Accountant, Transport & Communications sector – JA)<sup>399</sup>*

However, one interviewee, a CFO in a 'Food and Beverages' company, disagreed with the above:

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<sup>398</sup> Interestingly, all these four interviewees were actually contradicting what they said before in terms of social and cultural traits by assuring now that it is all about the attitude of the shareholders.

<sup>399</sup> From this interviewee point of view, financial issues are the most important and nobody cares about other things.

*Current shareholders do care [about social and environmental activities and issues disclosure]. We disclose, in the general meeting, the percentage of our contributions. There is commendation from shareholders for what we are doing and there are requests in the general meeting to increase our contributions to social and environmental activities (Chief Financial Officer, Food & Beverages sector – CFO1)<sup>400</sup>*

#### **10.4.3 Erosion Of Primary Focus On The Financial Statements (N3)**

Relating to the above, there have been concerns amongst the interviewees that reporting on social and environmental issues in the financial statements and the annual report would make it less focused in fulfilling the economic and financial requirements of their claimed main target audience: shareholders, investors, capital owners and listing authorities. These groups are not meant to be interested in these issues (see Section 10.4.2).

Five interviewees emphasized the exclusive focus of the annual report and accounts to be given to shareholders and listing authorities:

*Investors, shareholders, analysts of the reports on our company [are our main audience] ... With regard to our company, our annual report will be targeted to the educated investor not for the general public but for the person sophisticated enough to understand the annual report (Financial Manager, Transport & Communications sector – FM4)*

*We are required to disclose to CASE, CMA and shareholders. If we didn't disclose we are penalized ... We disclose shareholders' capital (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*... disclosure assuages shareholders that their funds are managed in a right way and that it yields expected profits (Financial Manager, Pharmaceuticals sector – FM3)*

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<sup>400</sup> Probably, this interviewee said what he thought would please me and make me happy as he was not interested in the subject. This interviewee was not willing to accept being interviewed but was forced as he couldn't say no to intermediate person. He was reluctant to speak and did not feel comfortable at all. He almost threw me out, maybe also because he seemed not to be in a good mood. At the beginning of the interview, he explicitly admitted ignorance of CSD despite the fact that their company made some voluntary CSD. I got the impression that he just wanted to frustrate me thinking that I might give up and leave without undertaking the interview. He was not very much convincing trying to give the impression that both the company and their shareholders are socially responsible. See also footnote 369.



Five interviewees expressed their views that they see disclosure in financial statements and accounts as an adherence and compliance with the laws and regulations even if it included mandatory CSD requirement:

*We disclose all what is required by the Company Law. We disclose our financial position every three months (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*We are required by CASE and CMA to make some disclosures in the newspapers and to them. This is what we disclose and we have to comply with these requirements or else authorities can cancel our registration in the stock exchange. These disclosure requirements are modified and updated every year (Junior Accountant, Transport & Communications sector – JA)*

*We follow the law requirements and regulations as well as the guidelines of our auditor. We, as a joint stock company, are required to disclose our financial statements, our profit and financial position (Financial Manager, Tourism sector – FM6)<sup>401</sup>*

*There is the Environmental Law No. 4/ 1994, which requires each company to have an environmental register (Financial Manager, Pharmaceuticals sector – FM3)*

#### 10.4.4 Absence Of Legal Requirements (N4)

Taking the above argument further, regarding annual report and financial statements disclosures being compliance-related, interviewees explicitly mentioned that no legal requirements are currently present which mandates social and environmental responsibility or disclosure. This was the most cited reason for not undertaking CSD. They sometimes, however, recommend it:

*There aren't any mandatory requirements for social disclosures in Egypt. There should be formal governmental agencies [entities] that require all companies to undertake social and environmental activities and which makes the society of core importance ... There should first be laws passed that obligate companies with performing or undertaking specific types of environmental and social activities which could then be followed by disclosure requirements ... Country laws control and govern more (Financial Manager, Contracting & Real Estate sector – FM1)*

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<sup>401</sup> Analysis of the annual reports of this company reveals that they do not comply with the minimum legal requirement, let alone undertake voluntary disclosures. Mandatory CSD such as: donations, employee data (salaries and numbers), VAS (this item is absent from all reports of interviewed companies), pension data, and employee benefit provisions, are all absent from their annual reports. The only mandatory disclosure undertaken relates to employees' profit share, and directors' data. Minimal voluntary information is provided and is all in employee other.

*No company can do this [entertainment activities for employees] unless there is a law that obliges companies to do this or that ... in general, law is a key determinant of disclosure ... There isn't any mandatory requirements. We only disclose about the number of employees ... Law organizes it all (Financial Manager, Transport & Communications sector – FM5)*

*This is not included in the disclosure requirements of the CASE or the CMA ... We disclose according to the requirements and instructions of CMA (Chief Financial Officer, Food & Beverages sector – CF01)*

Despite giving many reasons and justifications for not disclosing about social and environmental issues on the basis of lack of mandatory requirements, most interviewees expressed their support for the case of additional mandatory disclosure regulations and laws. Again, they are giving the impression (and it can be inferred from their sentences) that the lack of legal requirement for corporate social and environmental disclosure is the issue behind not disclosing. This view was prevalent amongst all except one of the interviewees:

*I strongly support mandatory disclosure as we already do say what we are doing and we do it already ... If they say "public disclosure" and they want an increase in disclosure, Ok. Why not? It is our pleasure to do so (Financial Manager, Transport & Communications sector – FM4)*

*I would appreciate a mandatory law. Why do we refuse! If we refuse, it means that there is something wrong in our contributions or that the receivers of my contributions took from me unwillingly and reluctantly. If I don't want to disclose, it means that there is bad intention and not legally correct. Everything should be clear to everybody: the acceptor, the donor and the beneficial (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)<sup>402</sup>*

However, some had some reticence concerning mandatory disclosures<sup>403</sup>.

They expressed their concerns over legal requirements by arguing that:

*[mandatory disclosure requirements] will not have a powerful influence, as people do not care. The rhythm of life is very fast (Financial Manager, Textiles, Garments & Leather sector – FM2)*

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<sup>402</sup> Although this interviewee seemed really socially responsible but, like others, his agreement to mandatory disclosure reveals respect for power which represent the formal culture. Their agreement to mandatory disclosure seemed not to be due to a true belief of its need but rather not to appear doing something bad by refusing or being against the will of the authorities.

<sup>403</sup> Despite agreeing to comply with mandatory CSD if any, those respondents had some concern. They were, however, reluctant to say "No, we don't agree to mandatory disclosure". See also footnote 367.



*We are afraid of mandatory requirements and become concerned. If this mandatory law required a minimum limit, it will be easy to apply and feasible to comply with. But, if what is required is too much information, it will be difficult to analyse and to include with the financial statements. It becomes an obstacle in preparing the required financial statements in the very limited time usually given, especially that the records of companies in Egypt are not detailed in such a way that outshoot social and environmental aspect from being read from the first time. It requires more analysis and details from records and registers, which requires more time ... There should also be grace period for complying with this requirement. It should not be out of a sudden and there should be a transitory stage, at least a year ... (Financial Manager, Pharmaceuticals sector – FM3)*

In having to comply with any additional laws if existing, some suggested different forms or rather preferred different media for mandatory disclosures other than the annual report with only one calling for a separate specific and detailed standalone social report. Different viewpoints are expressed by the following comments:

*It should be the case that the current accounting system as a whole which is prevailing and is followed [in action] in Egypt and by the Egyptian companies, be changed and added to it a separate item for social and environmental costs included in the system ... I would suggest, in case of mandatory disclosure requirements, that this be in the form of a separate report but it should be specified exactly what information is required to be disclosed and in a simplified form that can be prepared easily in short time so that this requirement doesn't present a barrier or obstacle to disclosure. For example, in the field of work environment, it can be stated that what is required is (1)... (2)... (3)... In case of protecting the environment, it is (1)... (2)... (3)... and so on. This makes it simple to prepare the report and doesn't need much effort and time (Financial Manager, Pharmaceuticals sector – FM3)*

*I would think that [social and environmental disclosure] takes the form of newspaper disclosure (Financial Manager, Transport & Communications sector – FM4)*

Concerning actual social and environmental disclosure practice, most interviewees noted that information about social and environmental issues is only included within other financial statements items, if at all. Most if not all of their comments about how they disclose about these items agree with the legal requirements currently prevailing, mostly relevant to donations and employees salaries and benefits:



*Yes, the financial statements show an item for salaries and benefits given to employees. All this appears in the annual report ... Also, included are services and fringe benefits provided to employees ... these [injuries costs] ... could be included as cost figure "health insurance costs" ... All these are considered part of the whole of the annual report but not in details ... We sometimes disclose these things [environmental activities] that I talked about above (Financial Manager, Pharmaceuticals sector – FM3)*

*Yes, we do [disclose about our social issues], in our balance sheet [financial statements] (Chief Financial Officer, Food & Beverages sector – CFO2)*

Only two interviewees – in the Pharmaceuticals, and Cement industry sectors – explicitly stated undertaking voluntary environmental disclosure:

*... what has been achieved in the field of the ecological environment is included in the annual report. Examples ... are ... information on quality improvement, ISO 9001, information on work environment management improvement, ISO 14001 EMS (Financial Manager, Pharmaceuticals sector – FM3)*

*We report ... in ... our annual report ... about our ISO certificates and our initiatives in the environmental sector ... as well as on our website (Financial Manager, Cement sector – FM8)*

Some interviewees noted that disclosure about their social and environmental activities could take place in other than the corporate accounts, for example; in press, audio and visual media. Others stressed that employees know about it internally and the public knows about it in the place where the activity takes place through word of mouth. Some as well mentioned about the website. Their views, which give the thought that they want to make it clear that the annual report is not the suitable communication media, were expressed by the following comments:

*... there are ... courses for employees ... to get them familiar with what the company is all about, what it is doing, any recent developments and achievements, their rights and duties towards the company ... I would like to add to all of the above that our company has constructed a website and we do disclose some information on it (Financial Manager, Pharmaceuticals sector – FM3)*

*Sometimes we do [disclose about social issues] in the press or TV (Junior Accountant, Transport & Communications sector – JA)*

*As regards the social activities such as donations to cancer treatment hospital or sponsorship of sports events, usually publicity takes place in newspapers. However, proper disclosure is in the place of the event itself.*



*For example, it is well known in the cancer treatment hospital that our company has donated millions of pounds over several years ... We disclose on our website and in newspaper (Financial Manager, Transport & Communications sector – FM4)*

*Even if we didn't disclose or say anything about our social and environmental activities, it is known implicitly at places where activities take place. This is unintended disclosure (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

*We disclose during the general meeting of the company. We disclose about the donations to the society and the environment. This is not published but is said and disclosed in the general meeting (Chief Financial Officer, Food & Beverages sector – CFO1)*

*We, as employees of the company, feel what the atmosphere is. We feel as if we are one family ... is not of any concern to anybody else (Financial Manager, Tourism sector – FM6)*

One interviewee, despite agreement, explicitly mentioned their not having the intention for future public disclosure as it is known through other sources:

*In respect of social and environmental disclosure, there isn't any plan for disclosure. There is no plan to publish that the company has done something social or that it is sponsoring cancer treatment hospital. All these activities are known and disclosed where they take place. Sometimes, our social activities are published in newspaper. Media Relation department personnel make their own contacts and make sure that there are always journalists present at the event site to cover it (Financial Manager, Transport & Communications sector – FM4)<sup>404</sup>*

#### **10.4.5 Other Negative Perspectives (N5)**

Overall, approximately one half of the respondents in our sample noted being hindered by reasons other than the four main disincentives mentioned above. One interviewee in the Cement industry noted that increased public awareness of the environment in particular made it unnecessary to disclose anything or report about it as people already are aware of everything and they know how to get this information:

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<sup>404</sup> This company explicitly mentioned that they do not prepare an annual report and that all they have are the financial statements. Despite admitting that they have no plan for future CSD, this interviewee agrees to mandatory requirements but in the form of newspapers disclosure. He tried to give the impression that they are socially responsible. However, from his words and from contradictions in his talk, one could get the notion that they always make sure people know about positive activities for advertisement, image building, and propaganda although they deny it. He also mentions that they disclose bad news (however, he meant financial) in order to protect their image against rumours that they are concealing something.

*Everyone will know. The society has changed than before. Ignorance is not as before. People now have more intellect and knowledge. Even if the company didn't disclose anything, there are review and control authorities. The world is now exposed and nothing can be hidden (Financial Manager, Cement sector – FM8)*

Another Financial Manager in the Tourism industry had another opinion:

*[disclosing on social and environmental activities and issues] is not of any benefit to the government ... I don't see any benefit that the organization can gain from disclosing on social and environmental activities (Financial Manager, Tourism sector – FM6)*

In relation to a perceived resistance to disclosing information on employees injuries (which is not required by the Egyptian law), one company Financial Manager noted about avoiding excess information:

*There is no need to write many tables and figures. We are not going to make a social survey or study. The employee takes his compensation and that is all ... People will not be able to read all these things. They simply can not. They will read this or that or the other thing. They only want a brief summary that gives them a whole picture (Financial Manager, Textiles, Garments & Leather sector – FM2)*

Others also expressed the concern of already disclosing too much:

*We disclose more than what is required. We disclose our financial position, our financial statements, future projections and future related parties transactions. The level of disclosure of the company is very high (Chief Financial Officer, Food & Beverages sector – CFO1)*

Another Financial Manager in the Transport and Communications industry made an implied reference to profile, having little retail presence, and size factor having an influence:

*It all depends also on the business with which we are engaged ... as to [name of a company] for example, every family and every house uses its products. So disclosure depends on customers. Another example is [another company name], which has only one customer. So, it doesn't need to provide any disclosure (Financial Manager, Transport & Communications sector – FM5)*



## 10.5 POSITIVE PERSPECTIVES ON RESPONSIBILITY AND DISCLOSURE

However, in spite of general consensus amongst most interviewees concerning their negative attitudes towards corporate social and environmental responsibility and disclosure in the annual report, they realize that there are some companies in Egypt that do practice some social and environmental responsibilities and disclose about their social and environmental activities. Interviewees realizing this, started to give their perceptions about why these companies say anything about their social and environmental activities. Included in the following comments also are explanations given by interviewees as to why they themselves engage in some social and environmental activities and disclose accordingly if any. The view that companies disclosing such information are triggered by corporate self-interest was shared by quite a number of respondents who noted that this self-interest could be manifested in different ways as will be discussed shortly. The following subsections discuss different motivations behind CSD.

Arguing for not disclosing, one of the factors mentioned by an interviewee is not aiming for advertisement. From the point of view, he disagrees with disclosure, as the main aim of the company is to produce their products.

**TABLE 10.4**

**POSITIVE ATTITUDES RECOGNIZED**

Position	Industry	Code	M1	M2	M3	M4	M5
Financial Manager	Contracting & Real Estate	FM1	✓	✓	✓		
Financial Manager	Textiles, Garments & Leather	FM2	✓		✓		
Financial Manager	Pharmaceuticals	FM3	✓	✓	✓		
Junior Accountant	Transport & Communications	JA	✓				
Financial Manager	Transport & Communications	FM4	✓	✓	✓	✓	
Health and Environmental Affairs Manager	Transport & Communications	H&EAM			✓		✓
Financial Manager	Transport & Communications	FM5	✓	✓	✓	✓	
Chief Financial Officer	Food & Beverages	CFO1		✓		✓	
Chief Financial Officer	Food & Beverages	CFO2	✓	✓	✓		
Financial Manager	Tourism	FM6	✓	✓		✓	
Financial Manager	Chemicals & Plastics	FM7	✓	✓			
Financial Manager	Cement	FM8		✓	✓		✓
TOTAL			9	9	8	4	2

- ✓ Factor specifically addressed by the interviewee as a reason behind CSD
- M1 Enhancement of General Corporate Image
- M2 Economic Benefit
- M3 Duty Owed To The Society
- M4 Influence of Top-Level Executive Management
- M5 Leading Other Companies



### 10.5.1 Enhancement Of General Corporate Image (M1)

Of those interviewees, five expressed their thought that corporate social and environmental activities and its disclosure is intended as a means to reflect and promote a good image and reputation of the disclosing company as well as defending and/or maintaining it. It is seen as a type of advertisement (but contrast this with Section 10.4.1). These views are expressed in various terms and words:

*... Disclosure can also be considered a method of promotion ... in case of social and environmental disclosure ... One of the things or the factors that can positively affect a company's reputation and its business is to have a positive social and environment role and say about it (Financial Manager, Transport & Communications sector – FM5)*

*With reference to negative environmental disclosure, this results in getting around the harmful effect of the company's products on some people. This protects its good reputation and publicity (Financial Manager, Chemicals & Plastics sector – FM7)*

*Others do this as a means of advertisement and showing off (Financial Manager, Textiles, Garments & Leather sector – FM2)<sup>405</sup>*

Arguing for not disclosing, one of the factors mentioned by an interviewee is not aiming for advertisement. From his point of view, he disagrees with disclosure, as the main aim of those who disclose is to promote their companies:

*There is nothing, in what we do, that we want to conceal or that deem necessary to conceal. However, our aim is not to advertise for being socially responsible. We take our obligations seriously and not only talk about them, like other organizations ... Propaganda is not the issue. We are here to provide the service and to help as much as we can (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

A number of interviewees felt that undertaking corporate social and environmental activities and disclosing accordingly could be used as a means

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<sup>405</sup> This interviewee was attacking socially disclosing companies as if they were wrong in undertaking CSD as, from her viewpoint; they are not genuine or honest. She gave the impression that her company is better than the others even if it is not undertaking CSD. Linked to social and religious traits, FM1 also gave the impression that using CSD as a means of advertisement is shameful and is considered cheating and something he won't agree to. He feels diffident to embrace CSD.



of and opportunity to address and attract employees as well as express the company's approach towards its staff. This is also considered a means to maintain good image. Typical views are remarked as follows:

*There is also another issue concerning employees in case of recruitment. If there are two companies offering the same salary and equal working hours (priority to these), employees start to look for other benefits such as: private health service, trips, social and health services, location of the company or factory, whether it is well ventilated with favourable working conditions. All these affect the decision of the employee with regard to where to work; in which company, given that the salary and working hours are the same (Financial Manager, Contracting & Real Estate sector – FM1)*

*[Disclosing about social issues especially concerning employees] is an expression of its concern for its employees as related to social disclosure. This provides an incentive for them to work more and an incentive to increase and enhance social connections among its employees which will in turn benefit the spirit of the one team within the company (Financial Manager, Chemicals & Plastics sector – FM7)*

Generally speaking, one interviewee expressed that undertaking environmental activities in particular helps make people feel in high spirits:

*The environment is an issue of concern to all people ... People seeing that the business sector is keen to have a sound role in the environment and society gives them the feeling that there is an output for their work and for what they are doing ... We handle the environmental issue seriously ... Its [i.e., disclosing on social and environmental responsible activities and issues] importance is in revealing to the public that there are companies which, are willing to share and contribute to the development process and community service (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

An interviewee, in the Textiles, Garments and Leather industry sector, explicitly had reservations about whether corporate social and environmental disclosure does in fact reflect actual social and environmental responsibilities discharged by the disclosing company. She supported the view that it is more about influencing public perception as an attempt to present that they are socially responsible rather than a reflection of reality and thus considered misleading being seen as a PR activity:

*There are some companies that disclose things they never did such as donations to hospitals or cancer institutes (Financial Manager, Textiles, Garments & Leather sector – FM2)*

Another interviewee from the Pharmaceuticals Industry expressed the same concern. He was sceptical about disclosing reality and called for social audit:

*Moreover, in case of social and environmental disclosure, if a company said that it has done this, this and this, what proves that these things are actually done? So, there should be social audit where a social auditor approves that all what is written has actually been done; or, this duty should be included among the duties of the auditor of the company ... (Financial Manager, Pharmaceuticals sector – FM3)*

Two interviewees, in the Transport and Communication industry, explicitly mentioned that their company has a policy of always responding to attacks especially in the media. They gave the impression of defending the image of the company by disclosing due to pressure from media:

*Sometimes we are attacked in the press and media. We have to respond immediately ... whenever we are attacked, we respond. So, these things are occasionally known (Junior Accountant, Transport & Communications sector – JA)*

*Concerning environmental issues, we disclose as much as we can especially whenever we are attacked, we respond. We also make sure the environmental impacts of our projects are well understood and then show how we are addressing them ... Yes, these are problems that we created, and we don't run away from them ... But this is not an ongoing process. It happens only occasionally. All of the above provides loyalty building and promotion (Financial Manager, Transport & Communications sector – FM4)*

### 10.5.2 Economic Benefit (M2)

Defending the image of the company is said by the interviewees to yield some sort of economic benefit directly or indirectly. Interviewees mentioned increases in commercial benefits in terms of sales and profits, increases in employee productivity, or attracting foreign investors<sup>406</sup>, which all at the end of the day leads to a kind of economic advantage. Thus, here interviewees note 'economic benefit' realised as a motivator for discharging social and environmental responsibility and accounting for it. The company according to

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<sup>406</sup> One of the personal contacts who helped with collecting annual reports for this study mentioned that usually companies that undertake CSD are motivated by decisions to make international share offers or list on international stock markets.



derived economic benefit selects social and environmental activities. This view was pervasive amongst three quarters the interviewees sampled. Interviewees gave the following comments:

*Even the companies that disclose on any social and environmental issues do not do this out of their feeling of being responsible but rather it is a service from which they are expecting to gain a benefit in return. If there is no expected financial benefit at the end, no company will disclose more than what is required by law ... [Disclosure about donations] also does affect their sales and consumers buy more as they think they are sharing in these donations as well ... [disclosing about donations] encourages consumers to increase their purchases of the company's products. They benefit from this by supporting and maintaining their reputation and image which in turn increases its sales (Financial Manager, Contracting & Real Estate sector – FM1)*

*Disclosure might be important and beneficial to highlight the company role in protecting the environment and also developing employee skills. Basically, it benefits the company before the society ... When we are producing drugs/medicine, powder volatilizes. If it is controlled through modern technology, the percentage of waste decreases and volatilization is prevented ... The main benefits of environment protection are to decrease volume of pollution to decrease volume of waste whether through the air or production. This in turn has its effect on decreasing production cost and at the end is reflected in increased profits. (Financial Manager, Pharmaceuticals sector – FM3)*

*Social services largely affect the company's productivity [through employees] ... We also provided services to Luxor city so that we get their assistance in opening sales outlets ... people do sometimes disclose such issues for their own personal benefit to tell people "I did this" and get the return (Chief Financial Officer, Food & Beverages sector – CFO2)*

*... as a general rule, if the employee is satisfied, relaxed and doesn't think about any problems, this will improve his/her performance and will in turn be reflected on customer satisfaction ... This [investment in employees] all led that our turnover rate is very very low almost none ... This way we guarantee that the employee will not engage in fraud. When we approach employees' social and financial problems and help in solving it, is better than if the employee himself tries to solve these problems and fails (Financial Manager, Tourism sector – FM6)*

However, one interviewee strongly disagreed with corporate social and environmental responsibility having an economic target:

*In addition, as long as economic purpose predominate Corporate Social Responsibility, the purpose from Corporate Social Responsibility is not achieved and its benefit on the society is not recognized. Corporate Social Responsibility should be for the sake of corporate social responsibility itself.*

*For example, if sponsoring musical concerts exceeds a certain limit, it becomes a waste. Funds and money should be directed towards activities that are really needed by the society and there are many needy people. There are many projects, NGOs and different levels of people who really need business help. If these are not satisfied, then corporate social responsibility has not achieved the purpose behind it. There should be balance between heads (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

In expressing their preferred media of disclosure or reporting, two interviewees mentioned that they viewed the annual report as directed to the international or outside world and not to the local community. They added, emphasizing environmental information; that any specific social or environmental information included in the corporate annual report are, they claim, of interest to international investors and thus, the aim of any such disclosure is to attract foreign and international investors and enhance international trade and dealings. CSD is illustrated as an important ingredient in affording firm's access to certain markets:

*... we do care to convey this information to the external world especially multinationals and international companies that deal with our company. This is of importance to us as in pharmaceuticals industry most dealings depend on agreements "under license" to manufacture their products in our company and factories. These international companies care for the work environment and that this environment is suitable for manufacturing their formulation of medicines. This at the end leads to an increase in this type of agreements and dealings and developing existing ones. It also helps in pumping new investments and is applicable to cases of exporting. This is because exporting depends mainly on the quality of the product and that medicine is manufactured according to the specifications of 'Good Manufacturing Production' GMP ... Competition in the export market depends on quality ... so that we are capable of entering competition in international markets. Thus, being granted ISO certificates and disclosing about these certificates benefits the company in all the above (Financial Manager, Pharmaceuticals sector – FM3)*

*We report on some of our activities though not in details ... where we disclose about our ISO certificates and our initiatives in the environmental sector. However, these annual reports mostly target foreign investors ... (Financial Manager, Cement sector – FM8)*

An interviewee supports the above by arguing that economic difficulties have an impact on undertaking social and environmental activities and thus, larger



and more profitable companies are more likely to pursue social and environmental activities and undertake CSD accordingly:

*In the past, our company had a very great role in these activities when the revenue was high. The Egyptian market was doing very well and we used to achieve very good targets. But these days with the increase in competition, our market share started to decrease and accordingly social and environmental activities started to decrease at the same rate ...These [companies that have social and environmental activities] are the very big and well-known companies and those active companies ... as this costs money (Financial Manager, Transport & Communications sector – FM5)*

*... profitability is very much related with social and environmental activities. If the company's profitability is high, this encourages the company to contribute to improving the environment. But our company does not gain much profit to engage in these types of activities that costs a lot. It all depends on profitability (Financial Manager, Contracting & Real Estate sector – FM1, responsibility)*

*... as a large company, which has an influence on the economy of Egypt, we are very active players in environmental protection ... as it is the largest company in the country and has great influence on the country and on its economy (Financial Manager, Transport & Communications sector – FM4, responsibility)*

### **10.5.3 Duty Owed To The Society (M3)**

It was acknowledged by three interviewees that they owe something back to the society and that they have a duty of responsibility towards it regardless of the financial interest. This duty was recognised by interviewees from the Transport and Communication industry and the Cement industry:

*The social dimension of the company is a fundamental and essential thing for our company and is not used as a means of advertisement and we don't exploit the social activities performed by us for our benefit ... Its importance lies primarily inside our company. Our company is the most socially responsible in the country. (Financial Manager, Transport & Communications sector – FM4)*

*We contribute because we feel responsible to do so ... companies have to realize that their ultimate objective should not be profit. They don't have to financially benefit from their services to the society. They have a duty and responsibility to serve the society ... [and disclosure] enhances transparency (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

*There are also things that emerge out of our feeling of being responsible. As an oriental society, Egyptian society nature is its inclination or tendency*

*towards the good as an Islamic society. It is in our blood (Financial Manager, Cement sector – FM8)*

One interviewee in the Contracting and Real Estate industry sector mentioned that the *type of industry* in which the company operates has a great influence on undertaking environmental activities, noting that polluting companies has a duty to undertake actions and account for these actions. Other interviewees in different industries share this view:

*But for environmental activities, it depends on the industry sector ... This relates more to cement companies, which are nationwide known to be the most polluting industry in the country (Financial Manager, Contracting & Real Estate sector – FM1, responsibility)*

*There are some companies that are heavy polluters. These companies should disclose if they accidentally polluted air, water, etc., as this pollution will negatively and directly affect others. It is their duty. Those others have the right to know. Also, the company has to take its precautions (Chief Financial Officer, Food & Beverages sector – CFO2)*

*From my point of view, [social and environmental disclosure] is very important. Its importance lies in the necessity of this kind of disclosure as we are producing a very sensitive product, which is linked with the general health (Financial Manager, Pharmaceuticals sector – FM3)*

#### **10.5.4 Influence Of Top-Level Executive Management (M4)**

Interviewees also point out that recognition and pursuit of broader responsibilities towards the various constituents of the society as well as the disclosure of relevant information in the corporate reports can be determined and triggered by the personal initiatives of the top-level management personnel:

*Our delegated manager is the first one who manifests his social dimension ... From [his] viewpoint ..., it's corporate governance or not exactly corporate governance but more social responsibility of the company. For him, this is the biggest mission and he is always putting it before his eyes (Financial Manager, Transport & Communications sector – FM4)*

*these are the directions of the headquarter (Financial Manager, Transport & Communications sector – FM5)*

*The social aspect is related to a great extent to the management of the company (Chief Financial Officer, Food & Beverages sector – CFO1)*



### 10.5.5 Leading other companies (M5)

It has also been mentioned that undertaking social and environmental activities and disclosing about it can encourage others to join by setting an example for others to follow:

*This might encourage other companies to enter the field of social service and follow our initiatives ... we are among the leaders in this area. (Health and Environmental Affairs Manager, Transport & Communications sector – H&EAM)*

*Knowing this triggers other companies to share and contribute (Financial Manager, Cement sector – FM8)*

## 10.6 SUMMARY AND CONCLUSION

This chapter presented the results of the interviews according to the interview guide in Chapter 9, Appendix 9.1. An attempt was made to obtain the opinion of corporate managers on CSD and its desirability. The chapter establishes the views of managers on the disclosure of social and environmental information in annual reports and the need for a regulated practice to guide such disclosure. The chapter also sheds light on how companies for which the interviewees work implement responsibilities to the wider society. This chapter explained how the *initial* set of themes was derived (Section 10.2).

The transcripts analysis revealed that although interviewees acknowledged having wider social responsibility than just being confined to shareholders, they had difficulty in going in depth as to what such responsibilities entail<sup>407</sup>. Responsibility was acknowledged mainly and more commonly to community (11 out of 12 interviewees), employees (10 interviewees), the environment (7 interviewees), and compliance to legislations (7 interviewees).

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<sup>407</sup> Rather than directly providing a definition of CSD to the participants, it was sought to first obtain their perception of the term at the outset, thereby assessing their understanding of CSD and related issues. It was then that the researcher explained the term to those who – from their responses – could be known that they knew nothing about the term or explicitly admitted such ignorance. Despite explaining what is meant by CSD, it was more often than not their choice to talk about corporate social and environmental responsibility and activities rather than related disclosure. Recognition of various responsibilities were, however, not always explicitly mentioned but rather the researcher extracted the existence of such responsibilities from the interview transcripts where interviewees alluded to issues relating to the nature of social responsibility held which emanated during the interview conversation. Some interviewees didn't realise that they were disclosing social information.

Responsibilities to customers and the government were less frequently alluded to (see Table 10.2).

In addition, there was generally an overwhelming negative perception among respondents about the need for corporations to provide information on environmental and social issues in corporate annual reports despite the fact that almost all of them agreed to comply with mandatory CSD requirements would there be any – however, maybe reluctantly just not to appear as being against any governmental initiatives. Different rationales were identified as supporting their negative attitude towards CSD (see Section 10.4 and Table 10.3) and thus, hindering them from embarking on CSD.

Lack of CSD regulation was seen as a significant disincentive with it being a widely held viewpoint – held by 11 out of 12 interviewees – regarding ‘so why bother?’ (Section 10.4.4). A recurring theme in arguments supporting no disclosure was that the corporation was complying with all of the current laws and regulations; therefore it did not need to do any more. There was also a strong and consistent view among respondents that socio-cultural aspects hinder CSD (Section 10.4.1). Social and cultural characteristics of the Egyptian society are believed by three-quarters of the interviewees not to be promoting such kind of disclosures which could prove being counterproductive to the disclosing firm due to Islamic religion beliefs. A common view among organizational participants was that, above and beyond, economic goals have the priority at State and individual levels.

Furthermore, it is acknowledged by two-thirds of the interviewees that the financial statements and annual reports, which are mostly directed towards financial users, shareholders, and governmental statutory authorities, are not meant to be for CSD. This is because these groups, which are commonly acknowledged as the principal audience of business and are perceived to be the key users of the financial statements and annual reports, are, as mentioned by the interviewees, not interested in and don’t care about this information or broader social issues but rather are after profit and value maximisation



(Section 10.4.2 and 10.4.3). The annual report is seen as reporting to shareholders not to the public at large and if shareholders are not interested why bother disclose then. It is revealed that corporate managers follow the directions of the shareholders and owners who suppress and pressurise them. They are thus emphasizing the lack of personal choice regarding social responsibility issues and defending their eagerness for economic benefits and results as what is required from them is to maximise shareholder wealth and to focus on short-term financial results. All these reasons given by the interviewees tended to run counter to CSD considerations and reveal the predominance of the economic role of business organisations. Contrary to what is expected, none of the 12 managers interviewed explicitly mentioned not disclosing on social and environmental issues because they never deeply thought about it before despite that this might well be a possibility.

In spite of the existence of a general negative attitude towards CSD, interviewees identified some motivations that would encourage companies to disclose on social and environmental issues (see Section 10.5, Table 10.4). They felt that business organisations could embrace CSD due to its likelihood to enhance the firm's image and reputation (9 out of 12 interviewees) (Section 10.5.1). This in turn, they argue, might have a positive influence on the direct economic results and short-term benefits achieved by the companies (9 interviewees) (Section 10.5.2). Thus, the incentives for CSD are primarily economic and public relations rather than accountability oriented. A number of the participants asserted that companies owe a duty to inform the society of its social and environmental initiatives as well as undertaking such activities either as a remedy action or as a sense of responsibility (Section 10.5.3). A minority of interviewees point out that CSD is influenced by the top-level management personal sense of social obligation (4 interviewees) (Section 10.5.4) or is motivated by the desire to lead other companies (2 interviewees) (Section 10.5.5).

There is great conflict and contradictions recognised in the talks of the interviewees from which it might be inferred and which reflects a tension

between the social goals and requirements to meet strict financial criteria. Interviewees also found difficulty in articulating the motives behind CSD (non-) practice. Moreover, generally speaking, from the analysis of the annual reports of Egyptian companies (Chapter 7), it is found that companies do not disclose what their individual interviewees say they are doing or are reporting. Neither reflects the other, with very few exceptions regarding some issues of some companies. It sounds like interviewees think that assertions by management are all that is needed - even if those assertions are untrue which is really quite interesting.

Chapter 11 will provide an interpretation – in an analytical shape – of the research findings reported in this chapter and Chapter 7 in light of the framework, motivations supporting the study, and the particular research questions outlined in Chapter 1. The link between CSD practices (see Chapter 7) and the motivations behind (non) CSD as explained by the interviewees (Chapter 10) will be further analysed and explained.



# **CHAPTER 11**

## **INTERPRETING THE FIELDWORK AND IMPLICATIONS OF FINDINGS**

### **11.1 INTRODUCTION**

The previous chapter set down the Egyptian corporate managers' perspectives on the need for, and the motivation behind, CSD undertaken in corporate annual reports. The chapter also shed light on the social responsibilities recognised by Egyptian companies towards its different stakeholders. These are realised from the issues that participants say their companies are engaged in – or perform – concerning social and environmental issues.

It can be inferred from the previous chapter that Egyptian companies – as represented by their corporate managers – acknowledge responsibility to undertake social and environmental activities to an extent – though managers are mixed on this – but it is not apparent and there is no evidence that Egyptian corporate managers acknowledge accountability and accept the principle of accounting for those actions.

From the interviewees' perspectives, CSD or the dearth of CSD practice in Egypt is being derived by a wide range of motives. Some of which are conflicting, some of which are involved in economic self-interest and capitalism, some of which are involved in socio-cultural traits, some of which are involved in decency, some of which are involved in legal requirements, and some of which are involved in Islamic values.

This chapter is mainly concerned with considering the results of the content analysis (Chapter 7) and the semi-structured interviews (Chapter 10) in light of the contextual cultural characteristics of Egypt – compared to the UK – as outlined in Chapters 2 and 3. In doing so, the fourth research question (Section 1.3) is specifically addressed. This research question is outlined as follows:

To what extent can employing the lens of international differences offered by international accounting and the Western social accounting theories support the CSD practices witnessed and the explanations put forward for these practices in Egypt?

The first two research questions were dealt with in Chapter 7 while Chapter 10 dealt with the third question.

The chapter is structured as follows. Section 11.2 considers how the Egyptian corporate managers' perspectives on CSD assist in explaining CSD practice of Egyptian companies from 1998 to 2001. Section 11.3 illustrates how cultural dimensions of Hofstede-Gray cultural theory (see Chapter 3) may perhaps provide some explanations concerning CSD practice in Egypt taking into consideration the managerial perspectives on CSD. Section 11.4 displays whether SEA theories – namely: stakeholder theory, legitimacy theory, and political economy theory – could provide any explanations for CSD practice in Egypt. Finally, the chapter is concluded in Section 11.5 which leads into Chapter 12.

## **11.2 UNDERSTANDING CSD PRACTICE OF EGYPTIAN COMPANIES IN LIGHT OF THE FIELDWORK FINDINGS**

The review in Chapter 8 of the international literature on social and environmental reporting demonstrated a widely-recognised phenomenon: voluntary disclosure by corporations in annual reports appears to be a largely developed country phenomenon. Furthermore, it is widely recognised that substantive disclosure is typically associated with the very largest companies, (see, for example, KPMG, 2005).

Consequently, it came as little surprise that Egyptian companies (at least as represented by the sample obtained here) undertake relatively low levels of voluntary social and environmental disclosure. That the levels are significantly lower than those manifest in the UK is no surprise at all (see Section 7.6).



This section considers how the perspectives of the interviewees regarding CSD assist in providing further explanations for the CSD practice in Egypt from 1998 to 2001 resulting from the content analysis in Chapter 7. Recalling from Chapter 7, the overall level of CSD in Egypt is found to be consistently very low (Section 7.2). Interviewees' perspectives on lack of CSD reveal that this low level is mainly due to the absence of legislation mandating CSD (Section 10.4.4). However, from Chapter 7, it was found that even issues and themes that were legally required to be disclosed in the annual report (for example, the VAS and a 2-year list of beneficiaries to whom donations were given) were not totally complied with by the Egyptian companies (Section 7.3). This lack of compliance is, however, not totally explained from the fieldwork findings (participants' perspectives) as there is a consensus amongst the interviewees that they all recognise responsibility to comply with legislation (Section 10.3.5), adhere to legal requirements, and comply with all annual report disclosure requirements, or otherwise they would be penalised (Sections 10.4.3 and 10.4.4). However, this is not true from the annual reports.

Even for the individual companies that were interviewed and whose annual reports were analysed, there were contradictions between what they actually disclose and what they say they disclose or what is required by law (see Chapter 10). Even though these respondents insist that they comply with legal requirements, their annual reports do not reflect this, with the exception of few instances of few issues for specific individual companies. We can only speculate that this might be due to that the laws and regulations of mandatory disclosure requirements are not in reality strictly enforced by any means. This makes legal requirements more tempting to be ignored and not comprehensively followed by companies if they believe, from their point of view, that it is of no additional benefit to the disclosing company.

However, the interviews offer some more detailed – and potentially significant – explanation for how the context of Egyptian reporting would act to yet further lower the level of disclosure we found. That is, first, it becomes clear that pursuit of a basic level of economic development and provision of the

basic economic necessities<sup>408</sup> so fundamentally dominates the thinking of the managers (Section 10.4.1) that it is tempting to infer that social and environmental issues are, in actuality, a “luxury” that Egypt cannot yet afford. To the extent that this is the case, we should be surprised by any social and environmental responsibility concern at all, let alone disclosure on such concerns and issues.

Equally, the Islamic and Egyptian culture influences raised by interviewees would lead us to anticipate discovering virtually no social and environmental disclosure (Section 10.4.1). That is, one can see from the interviews that, all other things being equal, an Islamic sensitivity would counsel managers to avoid any disclosure that might appear like self-congratulatory<sup>409</sup> especially regarding donations and community-involvement activities (Section 10.4.1). Good Islamic practice would be to undertake such acts as one could but be quiet about them – the only one who would need to know is Allah (God). God is the only one to reward them for their good deeds or punish them for their bad deeds. Accountability is, thus, mainly demonstrated to God in Islam as God is monitoring everything (Uddin, 2003, Haniffa et al., 2002). (It would require further research between say Egypt and a non-Islamic country at a similar state of development to test the extent to which this suggestion has substance).

Thus, despite there being no legislation insisting upon such acts (other than that directly relating to employees and the environment) (Section 2.6), we find in the interviews many examples of corporate responsibility undertaken, primarily, to support the less well off and the infrastructure of the society. As far as it was possible to assess in the interviews, actions undertaken of a broadly charitable nature were commonplace and, indeed taken for granted by

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<sup>408</sup> It is also the case at the government level, as economic ambitions have the priority with concentration being on improving the living standards of people, fighting unemployment, increasing wages and salaries, controlling prices and general improvement of the economic conditions of the country (see Chapter 2).

<sup>409</sup> An important point is that Islam, even as it encourages charitable activities, encourage Muslims not to act for the purpose of publicity: as the Qur'an says “if ye disclose charity, even so it is well, but if ye conceal them, and make reach those really in need, that is best for you” (Qur'an 2:271 as cited in Maali et al., 2003:24).



the interviewees. This almost paternalism in Egyptian companies strikes the author as a very normal aspect of Egyptian and Islamic life.

But the world is not such a pure or simple place. Companies – especially those with private shareholders – are creations, not of Islam but of capitalism (see, Rice, 1999). As such, managers are required to serve the needs of shareholders above all. Further still, several interviewees mentioned the need to attract foreign support and even foreign investment. Such foreign interest is unlikely to be attracted by manifestations of Islamic charity and modesty.

As we saw from the conversations with Egyptian corporate managers, the interviewees offered some explanations as to why some companies might be involved in CSD (Section 10.5). The motives provided by the interviewees might help provide explanations as to why a minority of Egyptian companies undertake CSD (especially voluntary though minimal and insubstantial) as revealed from content analysing their annual reports (Chapter 7; Section 7.5).

For example, undertaking environmental disclosure by some companies could be explained by the allusion of interviewees that environmental disclosure in particular is directed to the international consumers and foreign investors (Section 10.5.2) who would be encouraged, from the point of view of the interviewees, to make business with companies that are environmentally aware. However, the low level and quality of environmental disclosure (Section 7.5.1) reveals that environmental disclosure is mainly aimed for to portray a positive corporate image rather than reflect true status (Section 10.5.1) which, thus, could provide an explanation that the main aim is to attract foreign investment. The shallow understanding of environmental issues by the majority of the participants with less observable environmental impacts revealed in their acknowledgement that their company does not pollute the environment and that their industry is a clean one (Section 10.3.1). In addition, denying having a responsibility towards the environment as an issue, can provide, at least, a partial explanation for the dearth in this type of disclosure. Examples of such allegations are as follows:

*... we are a clean industry and we don't have any polluting activities (Junior Accountant, Transport & Communications sector – JA)*

*There could be pollution caused by us if our gins are within the inhabited areas where people live because dust is produced from cotton while ginning. But, in our case, all our sites are located outside inhabited areas (Financial Manager, Textiles, Garments & Leather sector – FM2)*

Similarly, regarding consumer disclosures, the overall absence of reporting on consumer related issues (Section 7.5.2) is compatible with the rather marginal, general emphasis placed on responsibilities to customers and consumers by interviewed corporate managers (Section 10.3.3). Likewise, the limited sense of responsibility towards the local community, though widespread, expressed in terms of community-relating initiatives taking place as noted by the interviewees (Section 10.3.2) and associated with a sense of some duty owed to the local community (Section 10.5.3), is not totally reflected in reporting as evident from the observed modest reporting on such issues (Section 7.5.3). Having said that, it is noticed that the limited reporting undertaken is, nevertheless, in congruence with the responsibilities and initiatives remarked by the participants, for example, donations though mandatory, sponsorships, and employment of youth (Sections 10.3.2 and 7.5.3).

The nominal employees-related, especially voluntary, disclosure (Section 7.5.4) can also be to some extent explained by the prevailing view among corporate managers that the annual report is a document mainly directed towards shareholders and investors (Section 10.4.3). The existence of some voluntary employee related information in the annual reports of the Egyptian companies about – or to – the workforce which comprises words of thanks directed to the employees for their efforts (Section 7.5.4.4) manifests the above. Managers are seeking to convey to the external investor that this is a successful firm. However, corporate managers indirectly convey this message through expressing gratitude to their hard working employees and saying that their employees contributed to the success and economic achievements accrued by the companies and thus deserve a word of thanks. This agrees with the mainly economic concentrated perspective prevailing amongst corporate



managers bearing in mind that such disclosure was included among thanks to shareholder, investors and governmental authorities (Section 7.5.4.4); the main audience from the managers' perspective (Section 10.4.3).

The Egyptian companies are thus concerned with improving its reputation and image in front of domestic and foreign investors in addition to employees and consumers for economic reasons (discussed below). The most commonly cited motive for undertaking CSD by Egyptian companies is that relating to the aim to, and the belief that this will, enhance the corporate image and reputation (Section 10.5.1). In spite of the fact that the participants did not explicitly mention to whom they want to improve their reputation, it can probably be inferred from the interviews that this is targeted towards employees, consumers, governmental authorities, and external investors or customers. Here, CSD in corporate annual reports is seen as a public relation puff with the main aim is to advertise for the company where CSD value appears to rest in its likelihood to give an impression of being socially and environmentally responsible rather than reflect any real or factual responsibility (but see above where CSD is seen as inappropriate). Yet, this motive could provide explanation to the voluntary CSD found in some of the Egyptian corporate annual reports (Section 7.5). It also helps in explaining why most disclosures are in good or neutral form rather than in the form of bad news (Chapter 7, Appendix 7.1). Of course, if a company wants to improve or maintain its image, it would concentrate on the good deeds and not on the harm that it causes to others, to the society, or to the environment.

More to the point, the fear of less than perfection coincides with the fear to lose business, whether domestic or foreign. Allusions within the interviews were made to the fact that Egyptian people look for perfectionism and would never admit any mistakes. Thus, any bad news is unlikely to be published and even if known accidentally, these would be denied (Section 10.4.1). This provides a potentially strong explanation for the dominance of self-laudatory and neutral CSD with bad news almost non-existent in the Egyptian corporate annual reports (Chapter 7, Appendix 7.1; Section 7.4).

Hence, we begin to see a tension in the narrative emerging between the conversations and the actual disclosures. Besides, there were contradictions within the conversations themselves. It also seems – and one is led to hypothesise – that at times some managers were talking from the corporate business perspective while at others they were talking from a personal compassionate perspective and their viewpoints where the outcome of the moment rather than being a widely held corporate perspective. Here, most of the interviewees however felt that undertaking CSD for image enhancing is not something to be proud of or to go for but rather is something opportunistic, self-serving, more likely to bring shame and should be avoided (Section 10.5.1). CSD has to be, from their point of view, mainly for altruistic reasons if it is to be embraced (Section 10.5.1). To them, to undertake CSD for reputation enrichment is something bad which they wouldn't encourage and that if a company is confident enough and has not done something wrong, it does not need to enhance its image or build reputation. Or it might equally be that their views are deeply held and that disclosure is not seen as part of the problem.

Initially, we need to recognise that voluntary disclosure is not a self-evident activity. Why would an organisation undertake such onerous disclosure when there are so many more pressing concerns requiring a busy managers' attention? Certainly the levels of mandatory disclosure required are not obviously onerous and a clear theme from the research overall is that there would appear to be very little demand for social and environmental disclosure from any financial participant or the government itself.

Shareholders as well as governmental authorities are meant to be the most recognised stakeholders, the most powerful, the most concerned about by the managers, and the ones to whom the annual reports and financial statements are directed. Since this group of stakeholders is not concerned about CSD – as stated by the participants (Section 10.4.2) – then it is questioned why they include something that is of little interest to whom the annual report is directed



and focused (Section 10.4.3). This, as a result, helps explain the deficiency in CSD witnessed in Chapter 7. As investors and authorities are interested in financial information and the economic results only, the managers of the Egyptian companies find no need to wear away the focus of the annual report and the financial statements by disclosing on social and environmental activities and initiatives (Section 10.4.3). Thus, it is perceived and stressed by Egyptian corporate managers that the annual report is accordingly an inappropriate medium for CSD (Section 10.4.4). On top, allusions were made to the annual report being inappropriate for reasons of excess information (Section 10.4.5) as well as it being a compliance document in addition to its prime focus on shareholders (Section 10.4.3).

It is worth alerting ourselves that the motivations for disclosure in developed countries come from the complexities of capitalist democracies and whilst Egypt is a long way from calling itself such a system, it is beginning to experience some of the manifestations of the Western experience and, generally speaking, this is where we find the motivations for Egyptian disclosure and, indeed, much of the contradictions that emerged through the research.

With the above, and from Chapter 2 (Section 2.3.3), in addition to findings from the interviews (Chapter 10), it can be realised that endogenous (Islamic/Egyptian) and exogenous (Western) influences on the Egyptian society and the Egyptian mentality – and in turn – CSD, co-exist (this also explains why not all managers are telling the same story). This impact is manifested in corporate managers' reference to disclosing through other media channels, some of which are acquired from the West such as: websites, newspapers, and internal reporting, while others are basically traditional and more of an Egyptian characteristic such as: through activity and through word of mouth which plays a significant role in communication.

Thus, the suggestion given by some managers of alternative preferred media of disclosures such as newspapers or internal reports (Section 10.4.4) signifies

another promising explanation for the low level of CSD found in the annual reports of Egyptian companies. The above can also provide a valuable explanation as to the decrease of the CSD as a percentage of the total annual report pages over the whole period of study (see Section 7.2; the footnote). This could be explained by the perceptions stated by the interviewees of the annual report being a compliance document (Section 10.4.3) and thus the information comprising the main focus of the annual report has priority over any voluntary social and environmental information due to the fear of excessive information disclosed in the annual report (Sections 10.4.3 and 10.4.5).

Moreover, the absence of any equal opportunity disclosures or disabled employees information (Section 7.5.4) and negligible information disclosed on employees' consultation (Section 7.5.4.3) may also be explained by managers' reference to disclosing through internal reporting, websites or newspapers (Section 10.4.4).

The importance of communication through activity and word of mouth is revealed in that interviewees noted that they have responsibility towards stakeholders other than the investor and shareholder group which is manifested in the various activities carried out by their companies towards these stakeholder groups regarding social and environmental aspects (Section 10.3). However, this responsibility is mainly confined to *action* rather than providing *accounts* in form of CSD in the corporate annual reports. This might be explained in a way that the participants recognise and feel that they are accountable in terms of providing or undertaking social and environmental activities but, however, they do not feel they owe disclosure accountability (see Sections 10.4.4 and 10.4.5).

Recalling from Chapter 2 (Section 2.5), Egypt has started an era of economic reform moving more towards a capitalist system as defined by Western capitalism. Since capitalism has at its core economic goals, this has been reflected in the conversations with the corporate managers. Linked to the



above drive regarding attracting investors, economic benefit is alluded to as an important aim from engaging in CSD (Section 10.5.2). This has been referred to as taking place in different forms which all at the end will have a positive impact on the bottom line. With particular reference to employees, voluntary employee-related disclosures such as: benefits provided to employees in the form of health care, sport activities or other services are believed to influence productivity of employees as well as to attract qualified employees. This could provide an explanation regarding the voluntary employee disclosures provided in the corporate annual reports of the Egyptian companies (Section 7.5.4). Regarding disclosures on consumer- and community-related information, it is alleged by the respondents that this would influence sales as consumers will feel that by buying the products of the company, they are contributing to such activities (Section 10.5.2). This might thus explain why some companies provide consumer and community involvement information on a voluntary basis (Sections 7.5.2 and 7.5.3). Similarly, and as explained before, environmental disclosures are aimed to attract foreign investors and customers.

This economic concern was also manifested within the conversations where corporate managers who mentioned Islamic principles as not encouraging CSD and they would feel ashamed of themselves publicising their deeds which should be undertaken in accordance with the orders of God. They included a concern that publishing about philanthropic and altruistic issues which Islam does not encourage could harmfully affect their image and reputation which could in turn negatively affect their economic interests (Section 10.5.1).

From the above, it can be concluded that perspectives of the interviewees – negative and positive – can help explain the overall pattern of the low level of CSD. The participants' viewpoints also help in providing an understanding of the existence of some CSD in some corporate annual reports of Egyptian companies on a voluntary basis. The next section will provide an illustration of international differences influence on CSD – within the framework of

Hofstede's and Gray's cultural theory – taking into considerations perspectives of the corporate managers interviewed. The next section will start by a recap of the cultural characteristics of the Egyptian society. Occasional comparisons with the UK CSD and cultural characteristics will be provided.

### 11.3 CULTURAL INFLUENCE ON CSD PRACTICE IN EGYPT

Chapter 3 (Section 3.4) outlined the cultural features of Egypt as one with strong uncertainty avoidance, large power distance, collectivistic nature, and more inclined towards masculinity rather than feminist. According to Gray (1988; see also Section 3.7), the accounting values that link to the above cultural constructs are that of secrecy, conservatism, statutory control, and uniformity. Thus, the Egyptian companies are expected to publish low level of disclosure, unreliable information, of low quality, with little consideration for accuracy and adequacy of published information, as they do not feel the obligation to disclose more information and in a totally reliable form.

The UK is, indeed, located at the opposite end of the continuum of the above mentioned dimensions of cultural characteristics. The UK is characterised as having weak uncertainty avoidance, small power distance, individualistic, and more feminine culture. In addition, the accounting values of Gray (1988) distinguishing the UK are those of transparency, optimism, professionalism, and flexibility (Section 3.7).

The content analysis of corporate annual reports in Chapter 7 provides some evidence of cultural influence on corporate social disclosure by Egyptian companies as compared to the UK companies. The overall low level of total CSD and its main categories compared to the UK (Section 7.6) can be explained by that *secrecy* characterises information disclosure in a large *uncertainty avoidance*, strong *power distance*, and *collectivist* culture like that of Egypt.



Moreover, the overall quality of social and environmental information disclosed being mostly declarative rather than financial or quantitative, and reflecting positively on the disclosing business organisation information rather than providing negative information (Chapter 7, Appendix 7.1) can also be explained by some cultural variables. This low quality and unreliable information disclosed is a characteristic of a *collectivist* society which does not feel an obligation to disclose adequate accurate information except to the stakeholders closely involved with the firm rather than external parties (Gray, 1988). It is also a characteristic of a conservative society like that of Egypt.

Besides, being a culture characterised as one with strong *uncertainty avoidance* and large *power distance* entails it being a formal *statutory* society where the law rules. Thus, it should be the case that Egyptian corporations adhere to mandatory disclosure requirements strictly as the Egyptian culture entails. However, it is found, from content analysing the annual reports in Chapter 7, that level of compliance with disclosure regulation is quite low in some mandatory issues (Section 7.3). The overall level of mandatory disclosure is more or less equal to that of voluntary disclosure (Sections 7.3 and 7.4). Therefore, it is difficult to infer whether being a *statutory* system is reflected in disclosure. Moreover, despite being a formal society which entails adherence of law, being also an *uncertainty avoidant* society is characterised by feeling comfortable when there are laws and structure to follow even if these rules are ineffective, thus not followed, or do not work (Hofstede, 2001). Ineffective rules are still defended since they satisfy an emotional need for formal structure as they are better than having no rules at all<sup>410</sup> (Hofstede, 1991, Sims and Gegez, 2004). Most of the interviewed Egyptian corporate managers supported any mandatory CSD requirements (see Section 10.4.4).

In addition to all the above, a typical characteristic of high *uncertainty avoidance* is *conservatism* and the resistance to change. This is evident in that,

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<sup>410</sup> In a weak uncertainty avoidance culture such as that of the UK, rules are more likely to be followed. This may explain the large disparity in mandatory CSD practices between Egypt and the UK (Section 7.6).

even companies that undertake some CSD on a voluntary basis, they do not change the wording of the disclosure from year to year, and even across companies very slight change in wordings is observed (Chapter 7, Section 7.5.4.2). Using the same phrasing over years and to an extent across companies reveals the high *uncertainty avoidance* nature of the Egyptian people who are characterized as being worried about uncertainty in the future and would prefer structured situations due to a need for extremely rigid and unambiguous situations (Steger et al., 2002). To a high uncertainty avoidant society, 'what is different' and uncertain is dangerous (Hofstede, 1991; MacArthur, 1996) and threatening, therefore there is little participation in voluntary issues. In uncertainty avoidant cultures, there is low tolerance for any new or deviant ideas where creative approaches are not welcomed and innovators feel constrained by laws (Hofstede, 1991, 2001). This explains the unwillingness of Egyptian corporations to try and embrace CSD at the risk of failure.

The perspectives of corporate managers interviewed in this study (Chapter 10) could also provide some insights which would provide some support for Hofstede-Gray framework influence. Inferences could thus be made whether or not there is any evidence that would suggest that CSD is influenced to an extent by the distinctive culture of the Egyptian society. The perspectives of CSD (Chapter 10) are now used in conjunction with cultural explanations of disclosure outlined in the international accounting literature in Chapter 3 and briefly discussed above in order to attempt to gain some understanding and provide some explanation of the CSD practice described in Chapter 7, in which case, the fourth research question will be addressed (see Section 1.3).

Going back to the comments made by the interviewees concerning their negative perspectives towards CSD, it can be realised that being a strong *uncertainty avoidant* society which entails being a culture of a formal *statutory* nature where the laws and regulations play an important role in disclosing, participants first and foremost remark that the law does not require business organisations to disclose about their social and environmental



activities, and that if there were any mandatory CSD requirements, they would adhere and follow it (Section 10.4.4). Thus, these comments include statements which exhibit a preference for mandatory requirements rather than disclosing voluntarily. The comments are thus associated with – and support – strong *uncertainty avoidance* influence and *statutory control* (but see above concerning actual disclosure found in the annual reports as analysed in Chapter 7). Hofstede (2001) also mentions that from the characteristics of *uncertainty avoidant* societies is that laws should be broken if unjust which could provide an explanation for the low level of compliance with mandatory CSD requirements. In support, the participants mentioned about avoiding causing embarrassments to people by not disclosing on the donations or help these people received from them due to cultural characteristics (Section 10.4.1). In accordance, this could mainly explain the lack of adherence (Section 7.3) to the legal requirement to disclose in detail a report including a list of beneficiaries to whom donations were given (see Chapter 2, Section 2.6). A typical comment which included support for statutory control and strong uncertainty avoidance is provided by the following statement:

*No company can do this [entertainment activities for employees] unless there is a law that obliges companies to do this or that ... in general, law is a key determinant of disclosure ... There isn't any mandatory requirements. If there are any mandatory requirements, we will comply with it... if there is a legal requirement, nobody can break the law (Financial Manager, Transport & Communications sector – FM5)*

In addition to being more inclined to comply with laws and regulations, strong *uncertainty avoidance* culture, like that of Egypt, is more concerned about the confidentiality and secrecy of information disclosed (other than to managers and financiers) (Perera and Mathews, 1990). Although most managers interviewed identified various constituents to whom they alluded they owe social responsibilities (Section 10.3), many of the participants struggled to identify in depth what these responsibilities exactly involved. This gave a sense that while they acknowledge having responsibilities to broad stakeholders, their principal responsibility is towards shareholders who were their most explicit and vital concern (Section 10.4.3). Secrecy was also

explicitly identified in a comment by an interviewee who refused – during the interview – to mention anything about his company's social and environmental activities on the grounds that this is confidential information (Section 10.3.7). This concern about secrecy and confidentiality to other broad stakeholders is also supported by the comments made by the interviewees where they always say that they disclose to shareholders and that their shareholders are the most important user or stakeholder. This in turn implies refraining from being involved in CSD as shareholders do not demand any CSD. The following statement would seem to reflect the above:

*... this [public disclosure of financial statements and accounts] is mostly directed towards current and potential shareholders (Chief Financial Officer, Food & Beverages sector – CFO1)*

Statements in support of strong *uncertainty avoidance* were as well clearly present in comments requiring guidance on how CSD is to be undertaken (Section 10.4.4) as deviant ideas are considered dangerous – by strong uncertainty avoidant societies – and any deviance from prescriptive norms is less tolerated (Rice, 1999). A typical representative quotation example is as follows:

*It should be the case that the current accounting system as a whole which is prevailing and is followed [in action] in Egypt and by the Egyptian companies, should be changed and added to it a separate item for social and environmental costs included in the system ... I would suggest, in case of mandatory disclosure requirements, that this be in the form of a separate report but it should be specified exactly what information is required to be disclosed and in a simplified form that can be prepared easily in short time so that this requirement doesn't present a barrier or obstacle to disclosure ... This makes it simple to prepare the report and doesn't need much effort and time (Financial Manager, Pharmaceuticals sector – FM3)*

Over and above, being a country with a strong *uncertainty avoidance* culture, it is argued that religion provides security and that it is closely related to and influences the cultural fabric of a country (Hofstede, 1983c; Bakhtari, 1995; Christie et al., 2003). Religion thus affects cultural values (Lewis, 2001) and religious beliefs are a subset of those total beliefs and are therefore a part of culture (Baydoun and Willett, 2000). Islam is the dominant religion in Egypt



(Section 2.3.2) and it is argued that in Islamic countries low level of disclosure is expected despite those social and ethical issues are placed ahead of individual profit maximisation in Islamic tradition (Hamid et al., 1993) and individuals are expected to feel socially responsible for others in the society (Lewis, 2001).

Linking to the religious influence on CSD, in Chapter 7, it was found that the majority of the Egyptian companies printed Islamic messages, prayers, quotes from Islam holy book; the Qur'an, in their annual reports (Section 7.5.6). Moreover, it was mentioned by the interviewees that according to the Islamic beliefs, good deeds should not be disclosed as this is the relationship between the person and God (Section 10.4.1). Therefore, from the participants' point of view, it is not appropriate to disclose on social and environmental issues. The disclosure of the prayers and verses from the holy book reveals the Islamic identity (Haniffa, 2002) in that it could be a way to demonstrate accountability not only to fellow humans but ultimately to Allah, and may possibly be a reflection of a search for a relief of the uncertainty associated with the Egyptian culture. It thus also explains the avoidance and reluctance of undertaking CSD and suggests that religious beliefs affect managerial behaviour regarding disclosure (Angelidis and Ibrahim, 2004); e.g., opening the annual report with prayers and 'In the Name of Allah (God)'. It can be inferred here that uncertainty avoidance explains these types of disclosure, as well as lack of general CSD. The following comment is an example of the statements which exhibited support for religious influence:

*All of these activities are done and performed secretly and not publicly. This is our religious system. It should be the case that when you do well to anybody you don't tell anybody else ... This is our relationship with God. (Financial Manager, Tourism sector – FM6)*

*Collectivism* also supports the lack of CSD and the refrainment of companies to embrace CSD. This is because, as explained above, collectivist societies do not disclose information except to the closest parties who are directly involved with its activities. These parties are mainly investors and governmental

authorities as outlined by the participants (Section 10.4.3). A comment that would not be incompatible with *collectivism* notes:

*Our responsibility towards the public is to provide them with products which they like its taste. Other issues, such as the social and environmental issues, are issues of concern by the company and those very closely related to these issues and activities ... The relationship between the company and those concerned parties is of no importance to the general public. The public does not have any right against the company but have against the country and its government (Chief Financial Officer, Food & Beverages sector – CFO2)*

It is suggested in the literature that economic conditions of the country and culture are related (Bloom and Naciri, 1989) and that the level of the economic development in a country has an impact on the corporate disclosure practices of that country (Cooke and Wallace, 1990; Doupnik and Salter, 1995). Moreover, Hofstede (1991) argues that there is a relationship between the national wealth and *collectivism* where the lower the wealth of a country, the more *collectivist* it is and in turn the more conservative and secretive when applying to disclosure. During the interviews it was mentioned and alluded to by the participants that economic issues have priority over social and environmental issues where people, for example employees, would be more concerned about getting money rather than about reading on social and environmental activities and services (Section 10.4.1). This may well reflect the collectivist nature of the Egyptian culture which is, as noted above related to the economic environment.

Despite that *collectivism* calls for care for society and the environment (Hofstede, 2001) and thus collectivist societies are more concerned about social responsibility considering broader needs of society (Thorne and Saunders, 2002) which could be inferred from the participants' discussions on social issues of concern to Egyptian corporations (see Section 10.3), priority of economic and financial issues deems social responsibilities of secondary ranking which is in effect reflected in terms of disclosure being of lower levels and restricted in case of CSD with priority to financial disclosures. Duty of giving back to the society is often perceived to be secondary to the economic duties and is also, in a way, dependent on economic achievements (Sections



10.5.2 and 10.5.3). A typical opinion that reflects this economic collectivist nature is as follows:

*Actually, employees prefer to take money [as an allowance for work pollution] other than the mask or the milk [to purify their chests which might not be as important] (Financial Manager, Textiles, Garments & Leather sector – FM2)*

*... profitability is very much related with social and environmental activities. If the company's profitability is high, this encourages the company to contribute to improving the environment. But our company does not gain much profit to engage in these types of activities that costs a lot. It all depends on profitability (Financial Manager, Contracting & Real Estate sector – FM1, responsibility)*

Also, relating to following the law and avoiding ambiguous situations in congruence with being an *uncertainty avoidant* formal society and a *collectivist* culture which emphasize business and accounting practices that are generally accepted within their own country, participants commented that they are following CMA and CASE requirements which are considered the generally accepted disclosure requirements which is to be followed by all Egyptian listed companies equally (Section 10.4.3), thus, promoting conformity and harmony as well as avoiding confrontation (Hofstede, 1991; Sims and Gegez, 2004) or criticism due to CSD. Hence, not disclosing social and environmental information is believed to be a way to keep away from uncertain dangerous conditions as these disclosures are not required by CASE and CMA. Comments which support this cultural explanation include:

*This is not included in the disclosure requirements of the CASE or the CMA ... We disclose according to the requirements and instructions of CMA (Chief Financial Officer, Food & Beverages sector – CF01)*

*We are required by CASE and CMA to make some disclosures in the newspapers and to them. This is what we disclose and we have to comply with these requirements or else authorities can cancel our registration in the stock exchange (Junior Accountant, Transport & Communications sector – JA)*

In addition to the above, and as argued by Hofstede (2001), in collectivist cultures, lots of things are self-evident with very little to be said or written. During the interviews, it was referred to that everybody is now more

knowledgeable – through word of mouth as well as through corporate activities – even if the companies do not disclose (Section 10.4.5). This could as well explain the low level of Egyptian CSD (see Chapter 7) and is consistent with *collectivism* cultural dimension (see also discussions in Section 11.2).

Lack of CSD in Egypt can also be explained by strong *power distance* variable of the Egyptian culture where respect is given to those who hold power and status, and thus nothing can be followed without their consent referring to centralised decisions. It is noted by participants in the interviews undertaken in this study that shareholders and owners have the upper word regarding social and environmental activities and their disclosures (Section 10.4.2). This links to formality relating to following mandatory requirements promulgated by authorities to avoid punishment – as discussed above – as a sign of large power distance culture where subordinates are generally afraid and unwilling to disagree with their superiors (Hofstede, 1991, 2001). It is thus mentioned by the interviewees that due to them following and obeying shareholders orders with no expectation of being consulted, and due to that shareholders themselves are not interested in CSD but rather in financial issues<sup>411</sup>, then this is the reason behind not actively engaging in CSD. This is also reflected in actual disclosure that ‘thanks to employees’ is in most times preceded by ‘thanks to shareholders, governmental authorities and ministers, and lenders’ which reflects ranking by status (Section 7.5.4.4). In addition to shareholders influence, top-level management are expected to have an impact as well, as outlined by interviewees (Section 10.5.4) due to respect for hierarchy in a large power distance society. Thus, power distance dimensions aids in providing a possible explanation for the lack of CSD mainly to preserve power inequality (Gray, 1988) and is supported by the following commentary:

*We cannot do anything without approval of shareholders or else it means that we are abusing their money. They are the ones to say what to be done*

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<sup>411</sup> As the economic and financial performance is still the criteria against which the company is evaluated, the company does not care to give much attention except to its economic performance and related disclosure thereafter as its principle activity. Moreover, the Accounting and Auditing Professional Bodies or organizations have not given the social disclosure issue its deserving attention yet. Thus, companies are not encouraged to disclose.



*and what not to be done ... It is their money and they have to know what happens to it; whether it is increasing or decreasing ... I don't think [shareholders care to know about the social and environmental activities and investments of the company]. Any investor wants to increase his money as much as possible. Any shareholder is looking for the increase in share prices (Junior Accountant, Transport & Communications sector – JA)*

Despite that a *masculine* culture like that of Egypt calls for more disclosure, the content analysis results, in terms of low disclosure level, in Chapter 7 does not provide support for *masculinity* cultural dimension. Masculine society is at the same time characterised by aiming for perfection where no failures are accepted with even being an average considered being a failure. This can be related to the lack of negative news in the annual reports of the Egyptian companies with information that is positive and neutral in nature dominating (Chapter 7, Appendix 7.1). Besides, it is mentioned during the interviews that admitting wrong doings is not in the Egyptian culture (Section 10.4.1). This can thus be explained by the cultural influence of *masculinity*. The following comment reflects and supports *masculinity* of the Egyptian culture:

*Of course in any company any negative news are likely to be concealed and if it is unintentionally known by the public, we will say that these people are liars and nothing like this ever happened. This is the nature of our society. Nobody in our society says that (s)he is bad or that (s) he has done something wrong. We, as members of the society, never admit our mistakes or else we will be required to correct it which most of us are not willing to do ... In general in Egypt, there is no disclosure about negativisms and negativities (Chief Financial Officer, Food & Beverages sector – CFO2)*

Although the Egyptian culture has some of the *feminine* culture characteristics such as sympathy for the weak and the unfortunate, in addition to giving importance to the quality of life and environment which suggest more concern for social responsibility issues, it has characteristics of the *masculine* society which shows more concern for financial material success, economic growth, less participation in voluntary activities, and people preferring more salary to shorter working hours or better working conditions. This also agrees with above discussion concerning relating *collectivist* culture to economic development. The economic reform and privatisation of the public sector policy in Egypt in 1991 (see Chapter 2, Section 2.5) has resulted in increased

competition in the Egyptian market which aided in the conversion of the Egyptian society from being more feminine to being more masculine. Egypt, as a developing country, has changed towards an economic policy of privatisation towards free-market capitalism after many years of a socialist era (see Chapter 2).

From all the above discussions in this section, it can thus be inferred that there is some cultural influence on CSD in Egypt. The significance of such influence is however, beyond the scope of this study.

## **11.4 IMPLICATIONS FOR INTERPRETATIONS OF CSD PRACTICE IN LIGHT OF SEA THEORIES**

In this section, explanations for the CSD practices of Egyptian companies in the context of disclosure theories offered in the social and environmental reporting literature (Chapter 4) is considered. As mentioned before in Chapter 4 (Section 4.7), no single theoretical perspective is adopted in this study but what is sought here is rather an understanding of whether findings reported in the previous two sections can provide any support to CSD theories. This section will also demonstrate how any single theoretical angle may not be utterly able to explain the phenomenon of CSD found in this study.

### **11.4.1 Stakeholder Theory**

The stakeholder theory (Section 4.4) – in its positive managerial sense – seems to provide a good explanation for the Egyptian CSD practices. Although managers identified various constituents to which they perceived recognised responsibility (Section 10.3), the prevailing topmost recognised responsibility seemed to be directed towards shareholders and governmental authorities who are not interested in CSD as alluded to by the corporate participants during noting their perspectives on CSD (Sections 10.4.2 and 10.4.3). That is, the stakeholders with power (investors and the Government) are not perceived as wanting CSD<sup>412</sup>. Those who might want CSD (although they probably do not

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<sup>412</sup> Moreover, these stakeholders are powerful enough to request information they seek directly from corporate managers (Naser et al., 2006).



as none of the interviewees mentioned about or referred to any pressure from any of these broader groups for social and environmental disclosure), have no recognisable power.

As a consequence, while managers may recognise a responsibility towards broader society regarding actions, they are not inclined to reflect this – or acknowledge accountability – through accounting for these activities by means of reporting in corporate annual report. Furthermore, the annual report is not recognised as an appropriate medium as it has a different focus (Section 10.4.4). Moreover, socio-economic cultural context of Egypt does not encourage CSD (Section 10.4.1). The only time we see any social and/or environmental disclosure for any individual company is because a new stakeholder – the overseas investors and international customers – might be interested. Those international stakeholders are thus supposed to be managed through CSD (Section 10.5.2). This is commensurate with the managerial stakeholder theory.

#### **11.4.2 Legitimacy Theory**

The legitimacy theory does not appear to be backed by CSD practices in Egypt for any of its four legitimating strategies (Section 4.5). Due to the low levels of overall CSD, as well as of its specific and individual elements, in Egyptian corporate annual reports (Chapter 7), it does not seem that CSD assist in educating or informing the ‘relevant publics’ about any actual or intended changes in performance and activities. Moreover, as there is a perception amongst the corporate managers interviewed that the society could be sceptical about CSD due to cultural influence (Section 10.4.1), then CSD could not be perceived to change the perceptions of the public concerning the actual performance, deflect the society’s attention from issues of concern, or change the external expectations of performance. In addition to the above explanation for lack of support for legitimacy, the annual report is not perceived as the appropriate medium of disclosure among most of the interviewees (Section 10.4.4) and thus, not an appropriate legitimating mechanism. Therefore, interpretations of CSD using legitimacy theory does

not appear to apply within the Egyptian context to manage reputation (similar to Irish findings, see O'Dwyer, 2002).

Having said that, there is mild support for the little CSD undertaken in corporate annual reports, being a legitimization means directed towards foreign and international investors and customers as some managers mention that CSD in the annual reports are mainly directed towards such users (Section 10.5.2). However, for the local community and society, cultural perspectives suggest that the acceptable means of legitimization is through undertaking actual social and environmental activities – as well as through the word of mouth – rather than reporting on these initiatives<sup>413</sup>.

#### **11.4.3 Political Economy Theory**

Political economy theory (Section 4.6) appears to be supported by the non-disclosure rather than the disclosure or limited disclosure of social and environmental issues. The absence of CSD in annual reports could be interpreted using the lens of the political economy theory as a state where corporate managers discretionally refrain from disclosure if it is not in harmony with or detrimental to the interest of the business organisation reflecting a bourgeois political economy (Gray et al., 1996; Adams et al., 1995a). This view stems from the corporate managers interviewed in this study due to the prevalent perception amongst them that the socio-economic and cultural traits of the Egyptian society does not encourage CSD (Section 10.4.1) and it could thus have a negative impact on the disclosing company performance which is consistent with the political economy theory. The theory is also supported by the fact that most of the CSD undertaken is in the form of positive or neutral news and having a declarative nature (see Chapter 7, Appendix 7.1).

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<sup>413</sup> Deegan and Rankin (1997) suggest that the use of CSD as a legitimating way is dependent on the demand of CSD by the society and actually making use of it which does not seem to be the case in Egypt.



Moreover, in line with political economy theory perspectives (Section 4.6), the complex nature of the disclosing context works better in explaining CSD. Hence, the broader social, political, and economic Egyptian structures and pressures can help provide an explanation for CSD practices in Egypt. In actuality, the political economy theory provides one suggestion that would allow us to combine the various – and contradicting – explanation for CSD practices in Egypt. As explained above (see Sections 11.2 and 11.3), in Egypt it is the nature of its political and legal structure being a formal hierarchical society under statutory control, the state of its development prioritizing basic life and survival essentials, its increasing move towards capitalism and economy liberalisation, plus the Islamic theme of decency and modesty, which goes a long way to explaining what is happening. The combination of these explanations matches political economy theory standpoints.

The above endeavour to relate various theoretical perspectives to the results of the current study illustrates that one might be losing on data explanations if the choice was to exclusively apply one theoretical outlook and totally ignoring the other standpoints as this might result in favouring some explanations at the expense of other, not necessarily less important, explanations. It also reveals that CSD theories do not apply equally to developed Western and less-developed non-Western contexts such as Egypt. Naser et al. (2006) argues that support to CSD theories is related to the economic development stage of the country concerned and that support would be more in developed countries.

## **11.5 CONCLUSION**

In this chapter, interpretations of the results emanating from this study are provided along with implications concerning these interpretations to complete answering the research questions outlined in Section 1.3. The chapter starts by outlining the potential explanations for the CSD levels found in Chapter 7 based on the perspectives of the Egyptian corporate managers interviewed in this study concerning corporate social responsibility and disclosure. The chapter then goes on to discuss cultural influence on CSD and whether Hofstede-Gray cultural theory helps explain patterns of CSD in Egyptian

annual reports on a general basis. Finally, the application and implications for CSD three main theories were briefly considered along with the above explanations. The following chapter brings the findings of the study to a close, concludes the thesis, and outlines the limitations of the study. It also makes some recommendations for future research and finalises the current study.



*PART E*

*CONCLUSIONS*

# **CHAPTER 12**

## **REVIEW OF THE THESIS AND THE MAIN FINDINGS**

### **12.1 INTRODUCTION**

The preceding chapter covered the interpretation of the fieldwork results which provided some explanations of the CSD practice in Egypt answering the fourth research question of this study (Section 1.3). It is found that the Egyptian political, legal, economic, and socio-cultural context help provide sensible explanations for CSD practice in Egypt. The previous chapter also revealed the complex nature of the drive for CSD. In this concluding chapter, we return to our motivation for this study, review our results, and take a step back to try to place them in perspective. This chapter concludes with the findings of this research outlining the major contributions of the study and attempts to suggest some implications to build up and promote social accounting and accountability in Egypt. The chapter also outlines a number of limitations of the study and finalises with some suggestions for potential future research.

### **12.2 SUMMARY OF MOTIVATIONS AND THE RESEARCH QUESTIONS OF THE STUDY**

The motivation for undertaking this study is primarily concerned with exploring social accounting in Egypt – CSD practices in the annual reports of the Egyptian corporations – as seen through the Western social accounting (see Chapter 4) as well as Mathews and Perera's framework for social accounting drawn from international accounting and its treatment of and reference to, amongst other things, the cultural variables and values of Hofstede (1980) and Gray (1988) (see Chapter 3). This is investigated through recording the actual CSD in the corporate annual reports followed by an examination of the motivations behind the decision to pursuit – or refrain from undertaking – CSD. The research questions explored (Section 1.3) are as follows:



1. What are the patterns and levels of CSD in the annual reports of Egyptian corporations?
2. How are these different from CSD experienced in Western contexts, in particular, the UK?
3. What explanations are offered by corporate managers to (or not to) undertake CSD in Egypt?
4. To what extent can employing the lens of international differences offered by international accounting and the Western social accounting theories support the CSD practices witnessed and the explanations put forward for these practices in Egypt?

To explore these, the study examines and provides a description of CSD in Egyptian corporate annual reports comparing it to the UK annual reports (Chapter 7). It also investigates the motivations behind (non-) CSD undertaken by the Egyptian companies through managerial perspectives (Chapter 10). By doing this, the current research addresses the first three research questions outlined above and in Chapter 1, Section 1.3.

In interpreting and providing explanations for the findings of the two empirical investigations (Chapters 7 and 10), Chapter 11 answers the fourth research question (see above) and provides insights into the extent that CSD theories (see Chapter 4) could provide any explanations or could be supported by CSD undertaken by Egyptian companies. In Chapter 11, we also found that the country's state of development in addition to the Egyptian culture and Islamic explanations were useful in making more sense of the CSD practices than could be made exclusively from the usual standard Western theories.

The following sections summarises the main findings and contribution of this research. It has, however, to be mentioned that this study is exploratory and thus, the generalisability of the results is limited. Nevertheless, although this study is not without limitations (see Section 12.6), the results do offer some interesting points.

## 12.3 MAIN FINDINGS

This section with its subsections summarises the main findings of the study along with the principal results arrived at from the interpretation of the findings. It starts by summarising the actual CSD practices found from content analysing corporate annual reports. Then it goes on to discuss the outcome from managerial perspectives on CSD trying to extract interpretations offered by the international accounting literature, the Egyptian culture and Islamic influence, and discusses whether current CSD theories can provide any explanations for CSD in Egypt.

### 12.3.1 CSD Practice

In Chapter 7, a picture of Egyptian CSD is presented. This picture is not entirely unexpected. There is social disclosure in Egypt though patchy and low in level and quality. It is noticed that all companies in the sample had some form of social disclosure with the bulk of disclosure in textual form; fewer examples of quantitative data are produced in the annual reports. The overall disclosure appears to be declining and dominated by employee-based reporting. There is, however, widespread charity-based reporting<sup>414</sup> and a fluctuating incidence of environmental disclosure. Disclosure about consumer and products is slight. These patterns are to a great extent similar to the evidence from the literature (see Section 8.4.2). Nevertheless, the increasing incidence of environmental disclosure evident in many European and international studies including the UK was not evident in Egypt.

The value added statement holds a significant place in Egyptian disclosure which is in line with other African and Asian countries (see Sections 8.3.5 and 8.4.2). However, although VAS disclosure is a mandatory requirement, it is disclosed by a small proportion of companies. It is also noticed that Egyptian CSD is not limited to the mandatory requirements for disclosure, however ironically, non-compliance with mandatory disclosure requirements occurred in a small but potentially significant proportion of companies. What is found is

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<sup>414</sup> The dominance of employee-based reporting and the widespread charity-based disclosures can be mainly attributed to the fact that these are mandatory requirements.



a general failure to disclose mandatory issues and an intermittent tendency to disclose voluntary issues. In most cases, it is observed that CSD in Egypt is less satisfactory and poor in quantity and quality.

Although there are similarities in patterns of disclosure between Egypt and the UK, levels and incidences of disclosure differ between the two countries. UK and Egypt are similar in general overall patterns such as the dominance of employee disclosure followed by community and environmental information with consumer disclosure the least popular and the dominance of employee appreciation and training concerning voluntary employee other disclosure. Nevertheless, CSD practices analysis reveals disparity between Egypt and the UK when considering details of disclosures (e.g., employees disable, equal opportunity, employee profit share, sport profit share, VAS, employee benefit provision, sustainability, energy, employee consultation, prayers as a general other disclosure) where some themes are existent and prevailing among companies of one country but not the other. Some of these differences are explained by differences in mandatory CSD requirements.

Differences also exist between both countries in terms of the least and most popular subcategories within the main categories as well as within voluntary and mandatory subcategories in general. Moreover, trends over time are not similar. For instance, the increasing trends in environmental disclosure in the UK were not found in the Egyptian sample. Overall, the quality and quantity of CSD in Egypt is, generally speaking, lower than that of the UK in nearly all main issues (see Section 7.6). In addition, UK companies are found to be more in compliance with law than Egyptian companies in terms of proportion of companies disclosing mandatory requirements. Surprisingly, although there is a reasonable amount of mandatory disclosure requirements, Egyptian companies don't comply with it. Egypt relied less on regulations compared to the UK where volume of CSD indicates greater influence by disclosure regulations. CSD in the UK corporate annual reports is largely a function of mandatory requirements. In addition to that Egyptian CSD is low in level and

not widely paraded, notions of responsibility don't quite match what is disclosed (see Chapter 11).

Managerial perspectives (Chapter 10) reveal that the low level of CSD in Egyptian annual reports is mainly due to lack of mandatory disclosure requirements<sup>415</sup>. However, the non-compliance with the existing mandatory disclosure is not explained from the fieldwork undertaken. Interviewees also alluded to the cultural and Islamic context in Egypt which does not encourage the disclosure of social and environmental activities or performance where such disclosure would seem suspicious. Moreover, it was mentioned that the low economic development level deems financial and economic issues of more priority. Economic concerns take precedence over social and environmental responsibility issues. Adds to this is the power of the financial users and stakeholders, e.g., shareholders and investors, lending bodies. Thus, it is perceived and stressed by Egyptian corporate managers that the annual report is accordingly an inappropriate medium for CSD as it is mainly directed to financial stakeholders.

Having said the above, it is noticed that managerial perspectives and attempts to explain Egyptian CSD practices are shot through with contradictions and are confused. Whilst, on one hand, there is a need and desire, from interviewees' standpoint, to enhance the reputation and image of the disclosing company as well as to express the respect due to the organisation – what they have done and their duty to their organisation – mainly for economic self-interest and, on the other hand, a concern to convey to external investors and customers that the company adopts the Western standards, there are also many views within these few interviews that suggest self-laudatory disclosure is a shameful thing to do – from an Islamic point of view – and should not be seen in corporate annual reports. An overall story of the subject

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<sup>415</sup> This is consistent with Naser and Abu Baker's (1999) findings from Jordan and Al-Khater and Naser's (2003) findings from Qatar who found that CSD is not widely undertaken by companies in Jordan and Qatar due to lack of mandatory requirements for CSD.



of CSD in Egypt as synthesised and extrapolated from the findings will be discussed below.

### **12.3.2 CSD Theories Interpretations**

From the findings of Chapter 7 and Chapter 10, and from investigating whether CSD in Egyptian corporate annual reports and corporate managers perspectives on CSD support any of the current CSD theories, it is revealed that the various CSD practice theories – namely, stakeholder theory, legitimacy theory, and political economy theory – are unable to entirely explain the results of this study. However, some support to CSD theories explanatory power is revealed.

From the positive managerial stakeholder theory perspective, it seems to be the case that CSD non-practice is a means of powerful stakeholder management in the Egyptian context, i.e., shareholders, investors and the Government, who do not seem to be interested in CSD. An exception to this is those disclosing companies that direct CSD to newly emerging powerful external stakeholders, i.e., international investors and customers who might be interested in CSD. Those international stakeholders' perceptions are thus expected to be managed through CSD (Section 11.4.1).

Interpretation of CSD using legitimacy theory does not appear to apply within the Egyptian context, again, with the exception of CSD being a legitimation means directed towards foreign and international investors and customers (Section 11.4.2). Regarding political economy theory, non-CSD appears to support a bourgeois political economy where self-interest entails refraining from disclosure. The political economy theory is also supported by the mixture of the Egyptian socio-political, cultural, economic and legal context which helps explain the confused picture of CSD practices in Egypt (Section 11.4.3).

### **12.3.3 CSD ≠ Disclosure!! – The Story Of CSD In Egypt**

In examining CSD in Egypt through the lens of international accounting interpretation, one has come to speculate that there are three layers to the

interpretation. Although our primary focus is being on the Mathews and Perera's framework of linking social accounting to international accounting (Section 3.8); Hofstede-Gray cultural framework (see Chapter 3), this is only one of the strands which would seem useful in explaining what is going on.

As we saw in Chapter 8 (Section 8.4.2), the international literature would suggest that Egypt has more in common with other LDCs which vary in cultural dimensions (see Hofstede, 1983b). So, the similarities Egypt has with other developing countries seem to transcend issues like culture. Accordingly, maybe issues to do with levels of development and the absolute size of corporations are in fact more important or at least as important. Equally, it is obvious through the interviews (Chapter 10) that an Islamic variable is also at work here. This is not what this thesis sought to explore initially; these are things which have emerged from it. Therefore, in this section, I am going through the discussion of each of those; first, the development and size levels, second, the Islamic variable, and third, the cultural issue.

Concerning development and size issues, no doubt the developed world which shows better levels and quality of CSD are themselves higher in the level of development and larger in the absolute size of their corporations than the LDCs with whom Egypt shares levels of poverty and small corporate sizes. This would provide an explanation that CSD practices in Egypt are more broadly similar to that of other LDCs than to that of the more developed nations. Even if we go back to the literature and compare figures, we will find that the Egyptian figures (quantity and percentages) are closer to those of developing countries – which seem to have similar levels of development and size – than to the developed ones. In an attempt to catch up with the development in the world, developing countries look like fighting time to move towards globalisation and capitalism. This entails being influenced by the Western capitalist and development mentality – and indeed thinking it is the only model possible – with more focus on economic issues. The aim would seem to be achieving better levels of economic development over time. In an LDC, the emphasis in legislation and in corporate behaviour is on managing



and increasing the company's economic policies, concern over the poverty of the country which is generally speaking increasing and rising as the government is arguing. Therefore, social disclosures are likely to be less important. Thus, powerful stakeholders seem to be investors, shareholders and perhaps the government (see Chapters 10 and 11). From the interviews (Chapter 10), we knew that those do not seem to be interested or demand extensive social and/or environmental disclosures. Nevertheless, seeking better economic development through globalisation includes also attracting more foreign investments as well as increasing exportation. One means could be through social and environmental disclosure if of interest to externals as discussed in Chapter 11.

In tension with the above, the Islamic values – as raised by the interviews – do not seem to encourage publishing self-laudatory information especially what relates to financially helping others and the community (see Section 11.2). This tension between the Islamic values and the Western capitalist values – and as discussed in Section 11.2 – provides an explanation in the contradictions seen within the interviews as well as that between the interviewees' words and what their companies actually disclose; the activity itself.

Taking the discussion to the third issue regarding cultural variables and Hofstede-Gray model, it is quite interesting that Hofstede-Gray's framework looks as though it is really helping in providing explanations for CSD practices (see Section 11.3). But when we get down to the level of what would be disclosed and what not to be disclosed, it doesn't help so much. One is beginning to hypothesise and think that Hofstede's (1980) functionality doesn't work and it probably doesn't have much in a way of a powerful explanatory factor. We have not been able to see, nor could we see apparently, direct explanations of the cultural variables. We explore this possibility in Chapter 11. Hofstede-Gray framework might explain the very specifics but there is no way that it is developed well enough to try and say whether, for

example, a large power distant society is more likely to disclose on employee consultation issues, etc.

From all the findings in this study, including the difficulties of collecting annual reports of Egyptian companies, the low level of Egyptian CSD, the partial or non-compliance with legal disclosure requirements, the conversations with the corporate participants in my own country; Egypt, and from all the investigations that took place during this research, one have come to realise another finding; that disclosure generally is a not-equivalent concept. The very fact that I could not initially get hold of the annual reports simply in Egypt, and that I needed contacts and personal connections with credentials in order to acquire “*disclosure*”, suggests that there isn’t disclosure in the same sense of the West. The very notion of information being conveyed is different; the formal process of communication is different in Egypt than in the UK. This means that the notion of disclosure is different and that it doesn’t translate from the UK to Egypt to mean exactly the same thing (see also Hanafi and Gray, 2005). This was in actuality unexpected. Theories of the West regarding explaining the motives behind disclosure; why companies provide information, do not work here because what we are discovering is that companies are not willing to produce information in Egypt<sup>416</sup>.

I wonder if the combination of the things discussed before (i.e., the level of development, the Islamic values, the Egyptian cultural variables, etc.) which leads to whatever Egyptian culture is – which is perhaps more subtle than what Hofstede suggests – had lead to this notion that in fact formal disclosure through annual reports is considered a strange thing to do in Egypt. What is missing from the normative point of view is accountability channels. We don’t know if channels of accountability exist in Egypt. But if they exist, they are very different. There may be other ways in which Egyptian companies discharge accountability. But the annual report is considered as such a strange

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<sup>416</sup> However, although Western theories are based on different ideas, they are not impossible. Hence, our nudge towards stakeholder, legitimacy, and political economy theories allows some notion (see Section 11.4).



and unique way, as far as I can tell, within Egypt, that to look for social disclosure there is actually the wrong place. The formal social accounting process has little meaning in the Egyptian context. It might well be the fact that Egyptian social disclosure actually is an irrelevance as it currently stands. There is so little of it, it is so ill-defined, it is so ill-used, and it is so ill-scattered that actually to treat it as an active phenomenon is actually misleading. We should actually be looking to it as a source of absence; that disclosure through Egyptian annual reports – which is a secret – wouldn't matter even if there were numerous amounts of data included. It still wouldn't matter because there is nobody being allowed to look at them. So whatever it is, it is not actually disclosure. The interesting question is still positioned as to why information gets out there in the annual reports at all.

Admittedly, Hofstede's cultural lens guides us to think that the answer – as to why CSD is not disclosure at all in Egypt – lies in something to do with issues like secrecy, power distance, collectivism and community base, familiar basis, being a statutory system, and with concern over authority. This is the key to Egypt and may well be the key to other countries too that in fact disclosure isn't disclosure as we understand it in the UK with the openness, transparency, optimism, weak uncertainty avoidance, and small power distance. However, given the minimal mandatory disclosure witnessed in the Egyptian corporate annual reports, the authority issue is puzzling because the failure to comply with mandatory disclosure legislation is much unexpected given how and what Hofstede represent about power distance and formality. So, although culture therefore – as yet undefined work – is probably relevant to our explanation here (Adams and Kuasirikun, 2000; Buhr and Freedman, 2001; Newson and Deegan, 2002; Andrew et al., 1989; Haniffa and Cooke, 2005; and Williams, 1999), I begin to speculate maybe after all that Hofstede is not actually telling us anything about social disclosure here and that Mathews and Perera's suggestion although interesting as a useful lens, is not actually going to help us predict social accounting.

Social accounting is more uniquely dependent on finer issues at the level of the country. Although the cultural and Islamic issues appear to have some influence, are helpful on total disclosure, explain a bit, and are important in terms of understanding and certainly in guiding forward as discussed above, one has to say that there are also issues relating to levels of development and sizes (and industry, see Chapter 8) of the companies that are getting more interesting, much more important, and are indeed better more powerful explainers – though not formally tested.

## **12.4 IMPLICATIONS OF FINDINGS FOR FUTURE CSD PRACTICE IN EGYPT**

This study may have regulation and policy implications. It is also informative for researchers and standard setters alike. The above findings would suggest that if CSD in corporate annual reports is left as a voluntary practice to be adopted, it is unlikely that the practice will be improved or be of any substance (increase in incidence or quality) in Egypt in the near future unless it is in the self-interest of the corporation and under its full control. Any attempts to build up the practice may be destined to failure as long as it is left in the managerial hands. From this evidence, it would appear that there is neither enthusiasm from the business community nor any pressure or encouragement from the society, for reasons that are mostly socio-economic cultural, to promote transparency. It would rather be more of advertising, public relations, and image building (Gallhofer and Haslam, 1997) by being selective and partial. This form of reporting would not promote the public interest and thus cannot be justified from a societal perspective (Gray et al., 1996; Bebbington et al., 1999) as it would not provide more information about corporate social and environmental activities.

Therefore, for more accurate and reliable form of CSD or account of corporate social and environmental activities, there has to be authoritative powerful pressure on management to encourage and require such practice to be developed. In previous chapters, we have seen that there is some legislation governing disclosure on some corporate social issues (see Chapter 2, Section



2.6). Nevertheless, we have found that Egyptian companies more often than not fail to comply with such legislative disclosure requirements (see Chapter 7, Section 7.3). Hence, policy 'One' has to be enforcing the disclosure laws and insisting on compliance. This may possibly be achieved through continually monitoring and penalising failure to disclose.

Secondly, we have discovered that although some CSD through corporate annual reports may be produced, these annual reports – if at all existed – are not released to the public (see Hanafi and Gray; Chapter 6). Here, a central policy question arises about the appropriate means whereby we can hold companies to account for their social and environmental aspects; what is the best way to produce corporate social and environmental data. Systems of accountability need to be explored to discover which of those might be more in the public interest. This involves questioning whether the annual report is the right mechanism; whether we need other forms of accountability (e.g., verbally, through the television, on the newspaper, or physically), or whether we need to make the corporate annual report a much more widely defined and distributed document, i.e., that the annual report becomes *disclosure* and overcomes the secrecy that we have discovered.

The above policy implications are an attempt at an evolution of a system to provide an account of corporate social and environmental activities in Egypt. It is a good start, given the managerial perspectives on CSD, which could provide a backbone of at least some constructive change in CSD in the Egyptian context; where all disclosure requirements are complied with and every Egyptian company produces an annual report with social and environmental disclosure.

## **12.5 CONTRIBUTION OF THE RESEARCH**

This study makes a number of contributions to the literature. This research has primarily contributed to the literature on social accounting research, especially with respect to developing countries. It has also contributed to international accounting research literature regarding international differences influence on

disclosure practices. Firstly, and as the major and primary contribution, this research is an early, if not unique, as far as can be ascertained, large-scale investigation into Egyptian CSD practices adding to the small, but growing, literature on LDCs, particularly emphasising the triangulation of disclosure practices versus fieldwork studies. It combines both qualitative and quantitative methodology making use of interviews in addition to the content analysis of corporate annual reports, to explore in detail CSD undertaken by companies.

A further major contribution lies in the thesis; in the conclusions discussed in the above section. That is that social accounting is such a complex activity and that there are a number of conflicting motivations behind CSD. To focus on only one motivation is too simplest strategy. What we actually need is some combination of a deeper understanding of culture or a better understanding of how Hofstede-Gray, Mathews and Perera play out, levels of development, issues of size, and religion in addition to any other contextual influences at the level of the country. There is some combination here that we do not have in a functional sense that plays out. Finally, this research contributed in outlining that disclosure means different things in different contexts.

## **12.6 LIMITATIONS OF THE STUDY**

Like any other research, and as noted in the introduction, this study is not free from limitations which need to be recognised. Every piece of work is limited. The present study has several limitations. These many types of limitations associated with the current study are theoretical, analytical, cultural, and weaknesses.

We are limited by theorizing about CSD in Egypt; by what we actually know. We are also limited by our samples and by the analysis we can perform on these samples. The study includes mainly quoted companies because they are believed to make improved disclosures because of their investor orientation and statutory obligations. Thus, in terms of sample composition, our sample is far from random and is clearly focused on listed, large companies (see



Chapters 6 and 9). While these companies are likely to be the leaders of tomorrow and, thus, their practices are germane to the evolution of CSD, they may not reflect the general business CSD practices. This sample cannot as well allege to be representative of all Egyptian quoted companies, although it does represent over 35 percent of the market capitalisation of the Exchange at any one year during the period of study 1998-2001.

One of the main problems for research in this area is access to data. The type of data used in this study is often less easy to acquire in the case of developing countries than in the case of developed countries. Due to the many difficulties of data (annual report) collection (see, Chapter 6; Hanafi and Gray, 2005), we are also limited by what is an “annual report”. The data used to undertake this study is not perfect and the results from using it must be treated with caution. Consequently, no reliable statistical inferences can be drawn from this sample. The sample of the annual reports as well as that of the interviewees are constrained by the availability and accessibility (see, Chapter 6; Chapter 9; Hanafi and Gray, 2005) which might have injected some bias. It is not clear, however, in which direction these restrictions would bias the results. Moreover, given the difficulty of obtaining reports and conducting interviews in a developing country like Egypt where corporate culture is yet to develop, the above limitations seem to be inevitable. Belal (2001) and Xiao (1999) reported a similar type of difficulty in collecting data. The author thinks that it is not possible to go beyond this. From a practical point of view, this study relied on the only available data. These results should be viewed as preliminary until they can be replicated using other cases.

Despite the above, the disclosure sample seems to cover a reasonable proportion of the largest listed companies covering almost all industry sectors (see Appendices 6.4 and 6.5). Moreover, as evidenced from Section 8.4.1, findings from this sample regarding corporate size and industry influences on CSD tend to reflect that of the international literature which suggests that the sample is perhaps more generalisable than we thought. In addition, and with particular reference to the interviews, there is a degree of repetition in some of

the interviews which suggests that these views are unlikely to be unique. This would suggest that our samples could be deemed representative and, thus, generalisable. In any case, as an exploratory beginning, the samples provide preliminary evidence on which to build. The results do serve as a starting point for other researchers describing CSD and investigating motivations behind voluntary corporate social and environmental disclosure.

In addition to the above limitations, we are further constrained by cultural limitations; the author is in a foreign country, working under different set of circumstances, and struggling to cross the barriers. She had to do research and fieldwork in a country which is not used to fieldwork and which is not used to annual reports. The researcher had to do interviews with people who are not used to be interviewed especially not by a woman.

Besides, and apart from the normal limitations associated with interview research, this exploratory study is subject to additional caveats. As mentioned in Chapter 9, being given access to undertake interviews was conditional upon not offending interviewees in any way either directly or indirectly<sup>417</sup>. What is more, one had to undertake interviews under supervision without asking any question. Moreover, the use of the perceived nearest equivalent in translation might lead to a blurring of meaning or loss of significant difference in the concepts (Evans, 2004). Therefore, prudent interpretation was exercised given the exploratory nature of this research.

Above all, the researcher had her own personal weaknesses and her personal preferences. The quality of the intellectual analysis that one can bring to the issue is always limited; somebody else is going to read material and will see something new and exciting that we haven't seen.

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<sup>417</sup> It is worth reminding ourselves that personal contacts were key elements in undertaking this research as they were the main means to getting access due to the reluctance of corporate managers to be interviewed and many requests were turned down.



## 12.7 FUTURE RESEARCH POTENTIAL

Given the conclusions demonstrated earlier, we have now got a more subtle understanding that social disclosure in corporate annual reports is perhaps not the issue of interest. It seems that there is a different conception of the issues than just what is in the annual report. Other forms of accountability and other channels of communication with different stakeholders are to be explored. Thus, more future research in this area will be valuable and could proceed in a number of directions including the following two ways.

One is to look at issues of social responsibility and accountability within an Egyptian context. Here, one wants to study ‘culture’; what it means and how it is explained, and then think about social accountability and responsibility in that connection. This would give a different story. It would also provide a more comprehensive picture and a better understanding of the nature of – as well as the mechanism which underpin – the development of corporate social accountability in the Egyptian context.

The other way would be to focus much more on the State and the Egyptian Government in terms of what they think ‘accounting’ and the ‘annual report’ is actually about and to focus on the ‘annual report’ as a document. This entails answering questions including: why is the annual report produced, who is it distributed to, how is it put together, what are the government views on the annual report as a document, why there is the law, why does the country require this disclosure if it doesn’t monitor the extent to which companies produce it, and why don’t the governmental agencies monitor the law.

Clearly, additional study on the above two issues is needed. It is hoped that this research will stimulate more studies in the above potential avenues of future research directions. This may further inform any further suggestions for the development of social accounting in the Egyptian context and could also be applied in other developing countries.

## 12.8 SUMMARY

This chapter has outlined and concluded on the findings and resultant interpretations of this research. It is concluded that it is unlikely that CSD could develop voluntarily within the Egyptian context without the interference of the government with more enforceable laws. This is largely due to the socio-economic and cultural features of the Egyptian society which does not encourage or facilitate such disclosure initiatives in addition to the increasing influence of the Western economic policies and capitalism. It is suggested that the level of development of the country and the absolute size of the companies are crucial factors and are providing better explanations for CSD. The study also came to cautiously conclude that the motivations for social disclosure in Egypt is a hoax as what people say as being the motives behind CSD are massively contradicting and that Egyptian “disclosure” is actually not disclosure.

The chapter also suggested some implications for future CSD development and encouragement practical efforts. The main and overall contributions of the study to the literature are summarised along with the limitations associated with conducting the study. The chapter also outlined some future potential research directions to develop the current research.



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# *APPENDICES*



## APPENDIX 2.1

**Number Of Companies Listed On CASE At Year-End, Market Capitalization (L.E. Billion) And As Percentage Of GDP**

YEAR	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Number of companies listed on CASE at year-end	627	656	674	700	746	646	650	861	1033	1076	1110	1151	983	795
Market capitalisation (L.E. billion)	8.8	10.8	12.8	14.5	27.4	48.1	70.9	83.1	112.3	119.8	110.3	120	172	234
As percentage of GDP	6.7	8.2	7.4	7.2	12.2	18.8	25.4	30.5	36.8	35.3	30.2	31.1	42.4	52.6

**Sources:** CMA (2002), NBE (2002); MOFT (2002, 2004), ACCCE (2006), MOEFT (2001), MOE (2000).



## APPENDIX 2.2

### Key Economic Indicators (1996 - 2003)

YEAR	1996	1997	1998	1999	2000	2001	2002	2003
Real GDP Growth Rate	5.0	5.3	6.1	5.4	5.9	3.4	3.2	3.2
Average Annual Inflation (%)	7.3	6.2	3.8	3.8	2.8	2.4	2.4	3.2
Unemployment Rate (%)	9.2	8.8	8.8	8.1	7.7	8.3	9.0	8.7
GDP per capita (L.E.)	3,955	4,303	4,556	4,726	5,013	5,214	N.A.	N.A.

Sources: MOFT (2004, 2002), MOEFT (2001)



**APPENDIX 2.3**  
**Sectoral Output As Percentage Of Total GDP (1995 - 2002)**

YEAR	1995	1996	1997	1998	1999	2000	2001	2002
Total Commodity Sector	49.08	48.90	48.30	48.20	48.50	47.80	47.80	47.90
Agriculture	16.78	17.25	17.00	16.90	16.60	16.20	16.20	16.30
Industry & Mining	17.45	17.65	17.60	18.20	18.90	19.30	19.50	19.60
Petroleum & Products	7.92	6.90	7.10	6.10	6.00	5.50	5.30	5.20
Electricity	1.96	1.90	1.70	1.80	1.80	1.80	1.90	1.90
Construction	4.97	5.20	4.90	5.20	5.20	5.00	4.90	4.90
Total Production Services of which:	32.58	32.60	33.60	33.20	33.30	34.10	34.00	33.50
Transportation	10.31	10.00	9.20	9.10	9.10	9.00	9.30	9.10
Trade, Finance, and Insurance	20.78	21.10	22.80	22.80	22.70	23.30	23.00	22.90
Hotels and Restaurants	1.49	1.50	1.60	1.30	1.50	1.80	1.70	1.50
Total Social Services	10.43	18.39	10.30	18.24	18.30	18.20	18.20	18.50
Housing and Real Estate	1.81	1.80	1.80	1.80	1.80	1.90	1.90	2.00
Utilities	0.36	0.39	0.40	0.40	0.40	0.40	0.40	0.40
Social Insurance	0.06	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Government & Social Services	8.20	16.1	8.00	16.30	16.00	15.80	15.80	16.00
Other	7.91	0.51	7.80	0.36	(0.10)	(0.10)	0.00	0.10
TOTAL SERVICES	50.92	51.10	51.70	51.80	51.50	52.20	52.2	52.10

**Source:** MOFT (2004)



## APPENDIX 2.4

### Corporate Social Accounting In Egypt

Research concerned with corporate social responsibility performance and disclosure in Egypt followed several directions. Many Egyptian researchers from as early as 1970s argue that social responsibility accounting is an inevitable and essential part of the accountants' tasks (see, for example, Mousa (1977), Rajab (1981), El-Shafei (1984), Abdel Mageed (1984), Abo Khalil (1987), Mansour (1996), Shaheer (1998))<sup>418</sup>. There have also been many arguments in the Egyptian academia in favour of social accounting and auditing (see, for example, Osman (1978), El-Naghy (1979), Ebeid (1980), El-Khateeb (1981), Mahmoud (1983), Zein Eldin (1988), Abdel Rahman (1996), Allam (1996)). It would seem that all Egyptian academic researchers in favour of corporate social responsibility and related disclosure are affected by Western literature (see, Refaei, 1979; Abdel Rahman, 1997; Fouad, 1988; Nammar, 1982; Refaei, 1985; Abdel Hameed, 1987; Shaheer, 1998; Hussein, 1994; Issa, 2000).

A number of researchers recommended development and improvement in legislations to take place and be enforced concerning social responsibility (Refaei, 1979; Abdel Rahman, 1997), social accounting disclosure (Mansour, 1996; Diab, 1995; Swelam, 2001) and social auditing (El-Naghy, 1979; El-Banna, 2002). However, some were more concerned with environmental issues rather than social themes in its wider sense (see, Abdrabo et al., 2002). Also, recommendations relating to training (Mohamed, 1998) and inclusion of relevant issues in academia were expressed (Abdel Rahman, 1997), in addition to increasing people's awareness (Radhi, 2001). Several calls were made for undertaking related research on corporate social accounting in Egypt (Refaei, 1979; Mansour, 1996; El-Sabagh, 1997). This, it is argued will develop social accounting in Egypt (El-Sabban, 1978).

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<sup>418</sup> Surprisingly however, and until the present, to the best of my knowledge, there isn't a single course in any university in Egypt that covers social and/or environmental accounting at any level. Thus, the awareness is not reflected on higher education which is mainly concerned with teaching traditional financial accounting courses.



The above seems to reflect a concern about the social and environmental impacts of business organizations and the need for maintaining a balance with the economic aspects. It also reflects what seems to be awareness of the problems facing the Egyptian society and of the importance of social responsibility and accountability.

In terms of fieldwork undertaken in Egypt, a number of studies examined and discussed perceptions of social responsibility, social disclosure and decision-making usefulness of social information disclosure. Refaei (1985), the earliest study of perceptions of managers regarding social responsibility, conducted a study on all Public Sector industrial companies in Mansoura<sup>419</sup> through a questionnaire distributed to 200 Board Of Directors members, and managers. He found that a minority supports the new direction of discharging social responsibility.

In 1979 Refaei, using a questionnaire covering top and middle level management in six Egyptian state-owned companies, studied the response of business organizations concerning their social responsibility towards the environment in which they operate. To 'raise the social, cultural and economic level for the environment through contributing in solving its problems' represented the last rank as the main objective to be achieved by the company. Economic objectives represented the highest ranking. The study also revealed that organizations that share in polluting the environment don't take any responsibility to decrease pollution or remedy what it caused on the grounds that, 'it is costly' and that 'it is the responsibility of the government'.

Zein Eldin (1988) covered the organizations' perception towards their duties in sharing to solve some of the latent problems that exist without their direct involvement in creating it. Respondents usually blamed the government for problems such as pavement of streets, which have an effect on employees

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<sup>419</sup> A city in Egypt.

transportation, frequent power failure, bad sewage systems, unqualified employees, deficiency in employees' transportation means. Reasons given by respondents for not sharing in solving these problems – according to their relative importance – are as follows: unnecessary additional cost burden, organization not qualified to deal with these problems, contributing in these activities distracts the organization from its main purpose, and lastly, lack of authority to undertake such actions. However, Refaei (1979) and Zein Eldin (1988) refuted all reasons cited by the sample members for not undertaking social responsibility. The conclusion from these studies is that social objectives importance is relatively low compared to other objectives as revealed from the responses of the subjects (Oqdah, 1985).

Abdel Rahman (1997) studied the social responsibility of business organizations in Egypt in terms of its elements and the obstacles that impede organizations from undertaking it. From a questionnaire distributed to managers and board members, he found that 'owners' rights' is on the top of their concern followed by employee welfare, consumer protection, environment protection, and relation with society respectively. He found that social objectives are relatively unimportant, relative to economic objectives, for managers. He recommended that the awareness of managers is to be increased through training sessions and passing legislation that encourages and provides incentives to organizations to bear its responsibility as well as considering the issue more in academia.

Mansour (1996), emphasizing environmental issues, studied the extent of company's concern for its environmental responsibilities and related disclosure. This study is conducted through a questionnaire distributed to 60 Board of Directors members and managers of Public Business Sector industrial companies located in the area of Helwan and Shoubra Elkheimah<sup>420</sup>. The study gives the following recommendations: increase in concern over the

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<sup>420</sup> Pollution levels exceeding local and international allowed limits characterize these two districts.



systematic provision of more accounting information concerning environmental activities of companies.

In a study conducted by Fouad (1988), using a questionnaire distributed to the employees at different levels of an Egyptian metallurgy company, he found that the majority agreed on that the company does not disclose any social information, which they consider very important. However, respondents not considering it important argued that there is no legal obligation; it requires extra work that will be a financial burden on the company, lack of experience, and difficulty of measuring social costs and benefits.

In a study by Abdel Hameed (1986) through a questionnaire distributed to 1500 employee in an industrial Egyptian company, to examine the need of reports by employees as stakeholders in the company, he found that most employees<sup>421</sup> prefer annual reports prepared by monitoring agencies under which the company is assigned to guarantee accurate, organized, unbiased and reliable information. However, it is also revealed that high level management refuses either directly or indirectly that separate financial reports be prepared for employees to provide them with their information needs. Oqdah (1985) found that social information has no effect on management decisions or by external employees of local government organizations responsible for allocating government aids to companies (see also, Radhi, 1991).

In addition to the above research on social responsibility, and although there has not been internationally published research (as far as I am aware) on Egyptian CSD, locally (or regionally) published research has been carried out in Egypt and other Arab countries discussing CSD and related issues, however, without providing details of patterns or level of disclosure. Kayed (1986) surveying the annual reports of Saudi companies and through questionnaires found that the attention given to CSD is very limited. Similarly,

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<sup>421</sup> 90% of the employees surveyed expressed their need for separate financial reports, which include information about salaries, fringe benefits, fairness in distribution of benefits, probability of change and promotion for them, and other similar information.

in Egypt, Abdel Hameed (1987) analyzed the annual reports of some of the Egyptian Public Business Sector companies and found that there is not enough concern for social performance disclosure. In addition, Radhi (2001) concludes that the concern and consideration for corporate environmental disclosure, in particular, is still in its infancy in Egypt. In agreement, Issa (2000) found the following when content analyzing annual reports for 1995 to 1999: quantitative environmental disclosure in the annual reports is very limited as only one company disclosed on its environmental performance in the form of provision for environment pollution in the Balance Sheet. However, other companies that own instruments for environmental protection include it with machinery item rather than as a separate item in the Balance Sheet. Moreover, about 10% of the sample disclosed environmental information in the Board Of Directors report in a qualitative form. The rest of the sample did not disclose any environmental information<sup>422</sup>.

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<sup>422</sup> Issa (2000) also found that companies that had environmental activities were keener to disclose about their activities and that their previous environmental disclosure forced it to continue to disclose to improve and maintain its image in front of those concerned parties.



## APPENDIX 3.1

### Support For Gray (1988)

It can be said that there are widespread significant, however, sometimes rather partial, supports to Gray's model, which has been consistently described as valuable in analysing the association between culture and accounting.

There appears to be a consensus as to the significance of the Collectivism versus Individualism dimension in the predicted direction. Results of different studies indicate that disclosure increases with Individualism, which is consistent with Gray's hypothesis (see, Roxas and Stoneback, 1997; MacArthur, 1996; 1999; Gray and Vint, 1995; Zarzeski, 1996; Archambault and Archambault, 2003 but see, Salter and Niswander, 1995).

Power Distance dimension, although showed consistency with Gray's model in some studies (see, for example, MacArthur, 1996; 1999; Archambault and Archambault, 2003)<sup>423</sup>, it was, however, not significant in others (see, for example, Gray and Vint, 1995; Salter and Niswander, 1995) with Zarzeski (1996) stating that Power Distance is associated with increased disclosure<sup>424</sup>.

Similarly, Archambault and Archambault (2003) found opposite direction than predicted for Uncertainty Avoidance<sup>425</sup>. On the other hand, while some studies such as MacArthur (1996, 1999) found partial consistency or insignificance, many studies found Uncertainty Avoidance to be of significant influence (for example, Roxas and Stoneback, 1997; Gray and Vint, 1995; Zarzeski, 1996; Salter and Niswander, 1995).

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<sup>423</sup> Williams (2004), however, investigated cultural influence, inter alia, on the disclosure on the 'year 2000 technological dilemma' and found that only power distance had a significant impact.

<sup>424</sup> Zarzeski (1996) comments that the reason that Power Distance showed an opposite sign than predicted might be that in her study Power Distance was moderately correlated with Individualism.

<sup>425</sup> Archambault and Archambault (2003) attributed the observed increase in disclosure with Uncertainty Avoidance to multi-collinearity. They called for further development efforts controlling for a variety of factors.

In relation to Masculinity, it was partly supported by MacArthur (1996, 1999), Gray and Vint (1995), Salter and Niswander (1995), and Archambault and Archambault (2003). However, Zarzeski (1996) found it to be significant. Nevertheless, other authors consider the link between Masculinity and disclosures to be more questionable or less important. For example, Gray (1988) does not view Masculinity as an important determinant of financial reporting and disclosure practices. Hope (2003) supports this assertion that the relation is unclear. Similarly, Haskins et al. (2000:5 as quoted in Hope (2003:232) state, “We believe that it [i.e., masculinity versus femininity] does not bear on financial reporting attitudes”.



## APPENDIX 4.1

### Functionalist Economic Theories And CSD

Researchers such as Bowman (1973), Buzby and Falk (1979), Blacconiere and Patten (1994), Epstein and Freedman (1994), and Friedman and Miles (2001) advocated the 'decision usefulness approach'. Here, firms are seen as providing social information because it is useful to stakeholders, mainly, investors, creditors, and shareholders. It is argued that these traditional financial users find social disclosures beneficial and relevant in making their investment, *inter alia*, decisions (see, Dierkes and Antal, 1985).

Gray et al. (1995a) have classified such type of studies into two forms. One is what is called 'ranking' studies where users surveyed are asked to rank information, including social information in terms of their perception of its importance to determine whether it is demanded by them for their decisions (see, e.g., Longstreth and Rosenbloom, 1973; Deegan and Rankin, 1997). This approach, however, does not explain why firms produce social disclosures that are ranked as not important by respondents. Nevertheless, overall, results revealed at least moderate importance of social information (e.g., Milne and Chan, 1999; Deegan and Rankin, 1997; Firth, 1978; Benjamin and Stanga, 1977; Buzby and Falk, 1978; Belkaoui, 1980).

On the other hand, market studies deals with examining the information content of CSD mainly through its effect on share prices movements (see, e.g., Spicer, 1978a, b; Stevens, 1984; Patten, 1990; Freedman and Stagliano, 1991; Blacconiere and Northcut, 1997). Here, what is mainly investigated is the relationship between CSD and market reaction/performance. Gray et al. (1995a) have, however, argued that the results of such studies tend to be mixed, inconsistent and/or inconclusive (see also, Ullmann, 1985; Richardson et al., 1999) with some studies suggesting a positive relationship (e.g., Belkaoui, 1976; Ingram, 1978; Anderson and Frankle, 1980; Jaggi and Freedman, 1982; Shane and Spicer, 1983) while others indicate a negative association (e.g., Mahapatra, 1984) or no clear relationship (e.g., Freedman

and Jaggi, 1986). The results appear to be strongly influenced by the samples available, time frame of the study, media of disclosure used (internal and external), and the statistical tests employed.

A third form of decision usefulness studies assesses the validity and reliability of social disclosures in terms of quality by evaluating them on the basis of firms' social performance (e.g., Rockness, 1985; Freedman and Wasley, 1990). Ullmann (1985) concluded that no definitive statement regarding the social disclosure-social performance relationship could be made. As with previous forms, results are mixed and inconclusive with some studies concluding that no correlation exists between performance and disclosures (e.g., Ingram and Frazier, 1980; Wiseman, 1982; Freedman and Jaggi, 1982, 1996) while others found positive correlation (Bowman and Haire, 1976). Still others found a negative correlation (Fry and Hock, 1976) justifying the reluctance of investors to use this information in their investment decisions.

'Agency theory' and 'positive accounting theory' have also been used to study CSR (see, e.g., Bowman and Haire, 1975). According to such economic theories, social disclosure, as part of the overall disclosure by the firm, is seen as a means by which managers and the firm reduce agency costs (see, for example, Ness and Mirza, 1991) emanating from potential regulatory pressure (Adler and Milne, 1997). Based on Watts and Zimmerman (1986), many studies (e.g., Belkaoui and Karpik, 1989; Ness and Mirza, 1991) have tried to relate CSD to the organisation's welfare and political exposure.

Although some of the variables considered by such theories to be related to social disclosures (especially those related to the economic performance or profitability, size and type of industry) are found to be associated with some aspects of CSR, this approach has been widely criticized as lacking concern for the normative vein and rather accepts the existence of a free market whose failure is a primary motivation behind CSR according to Gray et al. (1995a). Milne (2002) argues that the CSR literature based on positive accounting theory has, to date, failed to offer any substantive evidence whatsoever to



support the view that firms' managements use social disclosures in pursuit of their own wealth interest. Gray et al. (1995a:51-52) dismiss economic theories of CSR, considering that the "central assumption that all actions are motivated by a morally degenerate form of short-term self-interest seems not only empirically implausible but also highly offensive".

## **APPENDIX 6.1**

### **General Information Sought From Correspondences During Initial Data Collection Process**

The following is a list of information sought as triggered by the general interest in the social responsibility and environmental aspects (of the very widest nature) of Egyptian companies and any related data:

1. Any companies that issue a separate social or environmental or sustainability report.
2. If there are any regulations or laws that require any Egyptian firms to disclose (in the Annual Report or wherever) any social or environmental information – that the author might not be aware of.
3. Information about Islamic Banks in Egypt, Islamic investment funds and ethical investment funds, if any. This was thought to be useful, if available, as the listings by these funds would be a helpful indicator of some aspects of social performance.
4. What environmental institutions (probably non governmental organisations [NGOs thereafter] that care about the environment) do we have in Egypt? It was thought that this particularly would be the most easy to get information on since the issue of environment and environmental pollution is taking a huge space of media and country policy. The introduction of Law No. 4 for the year 1994, which is called the “Environmental Law”, as well as creation of a new ministry in 1996 “Ministry of Environmental Affairs” represents an evidence for this increased awareness.
5. Trade unions and their reactions towards issues such as: employee rights, consumer rights, community rights and what they actually do. The actions and listings of trade unions were expected to be helpful in evaluating social activities of companies and as a measure of an aspect of social performance.
6. Any other groups that produce data on aspects of corporate social responsibility, e.g., pressure groups, charity groups, human rights



institutions. Again, the actions or any available listings prepared by these groups or institutions could be helpful in evaluating social activities of companies and might be a good indicator of an aspect of social performance.

7. Any High Authority Body that provide information on levels of charitable giving of companies or that evaluate companies on the basis of social and environmental issues/performance rather than on economic issues or performance or any available index. These might have also been useful, if available, as providing a measurement of an aspect of social performance – as external information.

All contacts approaches agreed on the non-availability of information on any corporate environmental or social performance aspect and that to get such information, companies have to be contacted individually. It was also stressed that no indices existed that rank companies on any measure of any aspect of social or environmental performance. In addition, it was mentioned that none of all the companies in Egypt issue a separate social or environmental report.

Contacts also assured that there is nothing called Islamic funds in Egypt as well as non-existence of Ethical Funds and that the main reason for Funds to invest in any company is the company's financial strength and its ability to produce returns. The case that it may be complying with the Environmental Law or has ISO 14001 certificate makes no difference. All that is present in Egypt are 22 Mutual Funds, none of which is either Islamic or Ethical. Another reply stated that the investment portfolio of any fund is totally dependent upon the fund manager strategy. Contacts, hence, suggested that I get a list of all funds and then ask them individually. However, no information could be obtained about investment funds. Nevertheless, through browsing through the Internet, I found an Egyptian company (a Financial Investment company) that had an "Islamic Fund" and "Portfolios managed in accordance with Sharia'a (Islamic) Principles". It also said on its website that we can get an information pack for this fund and portfolios through emailing the person responsible. I did email him of course but, unfortunately, I received neither

any response nor the information pack although I have written my address in Egypt in case it would be expensive for them to send it to Glasgow.

Regarding NGOs, it was said that there are some NGOs, which are dedicated for environment, and they do some good programs on environment protection and raising awareness about importance of having clean environment. However, further details were not available of their contact details. In addition, there used to be an NGO for consumer protection and it used to issue a weekly newspaper but not any more. Regarding Trade Unions, it was stated they are not active. The Ministry Of Social Affairs was recommended as a potential source of some indicators of social aspects of companies. Yet, no contacts were found to facilitate access.



## **APPENDIX 6.2**

### **Working With Files To Construct A Sheet Of Companies' Contacts (April 2002)**

During the first stage of data collection, which was mainly trying to get whatever information available concerning social and environmental aspects of Egyptian companies, I received some files from different contact people. These files mainly contained contact information of the companies. Other files also contained market capitalisation information for companies along with Reuter's codes. I started to formulate my own excel file with the information I need.

In one of the emails received, a zip excel file was attached which was a list of all companies listed on CASE with information about address, telephone and fax numbers of each company. However, much of the information about addresses, fax and telephone numbers were not correct because these change often<sup>426</sup>. I needed to check this information from other sources as will be discussed later. Another excel file received was the market capitalisation information of all listed companies for the years 1998 until 2001<sup>427</sup>. A further excel file was received which contained the Reuter's codes for companies. These codes were later useful in searching for companies on websites obtained to correct any contact information.

Other than these files, other material received was a Company Directory, however, not the latest. Moreover, several websites were received which, I was told, might have some information about companies. These websites were used to get some contact information of the companies, which proved helpful at a later stage trying to find correct addresses, faxes and telephone numbers of companies. These sites were used at different points of time to check for correctness of addresses and phone/fax numbers using either the company

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<sup>426</sup> This was realised as phone and fax numbers are currently seven digits but used to be six digits before beginning contacts. So whenever a six digits number is faced, it can be inferred that this is the old number and has definitely changed.

<sup>427</sup> This was mainly a computerised copy of the CASE yearly Handbook.

name or the Reuters code. However, still not all companies were found and not all information was correct as well. Most websites contained information which was not up-to-date.

As to the Company Directory, it was mainly a financial yearbook issued by a company called Kompass Egypt but for the year 1998/1999 (i.e., not the latest). This directory proved helpful in finding and checking addresses for some companies, telephone and fax numbers, email or websites if available, Reuter's code as well as knowing the different industry sectors and the classification of companies according to these sectors. However, this information was not available for all companies. Not all companies as well were found in this directory. Websites and Kompass Directory were used to complete each other. Moreover, lists of 100 most active companies for the four years were received from one of the contact people.

As all the files that I received are in Arabic language, it was difficult to read the information included in the files and understand what is there from a computer that does not have Arabic Windows or Arabic Microsoft Office installed on it. Thus, a computer had to be found first from where these files could be read. This was neither available in the department nor at mine. After searching for such a computer for a long period of time amongst friends where I will be able to read, print and write in Arabic, one was found at The Language Centre in Glasgow University. As this computer was mainly for the use of the staff at Glasgow University, agreements were made with the people in charge to use and print from that computer. However, printing directly from excel files was not successful for reasons that were not known to anybody and anything to be printed from excel files was to be first copied into a word file and then printed from there. This, however, took very long time printing all files received.

After printing these files and reading the information in it, the market capitalisation file was then used to manually delete any company that belongs to a financial industry (Banks, Insurance Companies, Funds, Financial



Services companies, Stock Brokers)<sup>428</sup>. Afterwards, this printed file was used to create a new market capitalisation file after excluding all financial sectors. As the files did not include information about which industry sector each listed company belongs to, any confusion arising as to whether this is a financial industry company or organisation, reference was made to a Kompas directory or websites received to ensure that no company is deleted that does not belong to the financial sectors. Reuters code and industry sector for each company was added manually referring to Kompas 1998-1999 yearbook as well as some websites.

Subsequent to having files that only contain information that relates to the manufacturing and services companies excluding any companies relating to the financial sectors, what was available then is the population from which the sample is to be selected. However, to make it easier in selecting the sample and in subsequently contacting the companies, a new file had to be prepared that had to be created from the Arabic version into an English version in addition to the Arabic section, arranging the companies in each year according to market capitalisation in a descending order, now excluding financial sectors. A sheet was made for each year. Each sheet contained the following information: Reuter's code, Industry in English, Name of the company in English, Telephone number, Fax number, Name of the company in Arabic, Address of the company in Arabic and Market capitalisation. As mentioned before, any information missing from the computerised files was completed either from different websites or from Kompas 1998-1999 yearbook Directory<sup>429</sup>.

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<sup>428</sup> Industries included are: Agriculture; Building Materials, Refractories & Wood; Cement; Chemicals & Plastics; Consultancy & Services; Contracting & Real Estate; Engineering & Electronics; Fertilisers & Pesticides; Food & Beverages; Metallurgy; Mills; Oil & Gas; Paper, Packaging & Publishing; Pharmaceuticals; Social, Health & Cultural Services; Textiles, Garments & Leather; Tourism; Trade & Distribution; Transport & Communications.

<sup>429</sup> Searching for the company in Kompas directory or in the Arabic excel file printed was not an easy task as companies were not arranged in alphabetical order but were according to industry in the directory. Thus, the company name has to be searched for in the index, find its industry categorisation and then search in the section of that industry for the company.

Writing information in Arabic language was also a problem as there was no Arabic keyboard available not even at the Language Centre of Glasgow University. I searched for a solution for writing in Arabic and was successful to find a web site where there is an Arabic keyboard where words and sentences can be written in a specific location designated for this by clicking with the mouse on each character. After writing in this designated area, everything written was copied and then pasted in the required cell in the excel file. At this stage, a computerised excel file of the population of companies for years 1998-2001 was available, with a separate sheet for each year, with some information manually written on the printed file in case any difficulties arose.

From the printed file, a manual record of the targeted sample was to be prepared<sup>430</sup>. This was done on double A3 papers. It contained the following information: Reuters code; 1998, 1999, 2000, 2001 orders: according to its ranking according to market capitalisation; Industry in English and Arabic; Email address / website; Name of the company in English and in Arabic; Telephone number of Administration/Main Office as well as that of Factory/Other Branches; Fax number of Administration/Main Office as well as that of Factory/ Other Branches; Address of Administration/Main Office in English and in Arabic; Address of Factory/ Other Branches in English and in Arabic. This information was completed from the above finished file, Kompass directory and from websites.

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<sup>430</sup> This was subsequently converted into computerised form.



## **APPENDIX 6.3**

### **Responses Received From Contacting Companies**

#### **FIRST STAGE: FAXING**

- A positive fax received from one of the companies that sent its annual reports was as follows:

“WITH REFERENCE TO YOUR FAX DATED 17/6/2002 CONCERNING SENDING COMPANY’S ANNUAL REPORTS FOR YEARS 98/99- 99/2000-2000/2001 FOR THE CONTRIBUTION IN THE PHD.

WE WOULD LIKE TO INFORM YOU THAT THE COMPANY WOULD BE GLAD TO COOPERATE WITH EGYPTIAN STUDENTS ABROAD. THE COMPANY WILL ALSO SEND THESE REPORTS TO YOU ON THE ADDRESS IN CAIRO MENTIONED IN YOUR FAX. IN CASE YOU NEED ANY OTHER INFORMATION THE COMPANY WOULD BE GLAD TO ANSWER YOU BACK AS FAR AS IT IS POSSIBLE.

THE COMPANY WOULD LIKE TO HAVE THE HONOUR TO INCLUDE YOUR PHD TO OUR LIBRARY, IF NOT; THE COMPANY WOULD WELCOME YOU TO GIVE A LECTURE CONCERNING THE RESULTS OF THE PHD.”

(Abu Qir Fertilizers and Chemical Industries)

- An email was received apologising for the confidentiality of the data requested saying:

“Regarding the letter you sent today to Mr. [A], the director of the finance department for Dream Park, it is not applicable to send any Annual Reports or statements special for the finance for any year for it’s confidential. If you need anything necessary, you can determine an appointment to meet Mr. [A]”  
(Dream Park Amusement)

- Another email received was:

“Thank you for your interest in Mobinil. Unfortunately we do not have an Annual Report published yet. I can only provide you with what is on our website of financial information on the investor relations page (website). Please let me know if I could personally be of further help”. (Mobinil)

- A phone call was received from a company saying that their factory is still under construction and that they do not have annual reports yet.

## **SECOND STAGE: FAXING AND MAILING LETTERS**

- Emails received usually gave the impression of information being confidential:

“Thanks for your letter on the subject. Please be advised that I discussed your request with our senior management, and I regret to tell you that disclosure of this information is denied except to:

Cairo & Alexandria Stock Exchanges

Dr. [A] – Chairman

4A El Sherifein St., Postal Code 11513,

P.O.Box 358 Mohamed Farid

Cairo, Egypt

Phone: + (202) 3959200

+ (202) 3928526

Fax : + (202) 3924214

Website : [www.egyptse.com](http://www.egyptse.com) <<http://www.egyptse.com>>

Therefore I recommend that you direct your request to this organization and you can obtain all information you need for your research. And once again I am very sorry for not being of a great help to you.



With all my best wishes to you, please accept my best regards,” (Eveready Energiser).

- A further example:

“With reference to your letter, on the above captioned subject (Request for Annual Reports for the year 1998, 1999, 2000, 2001- For Victoria United Hotels), please be advised that we do not disclose such report to third parties which we do not know any thing about. Although our reports has been handed to be reviewed and audited by the officials in Egypt, we do not disclose it to parties with whom we have no relation.

We wish you a very good luck in your research and career”. (Victoria United Hotels).

- A company which sent its annual reports said they have got social and environmental activities, which are not sufficiently reflected in the reports sent as these reports’ sections and clauses are based on “Company Law”. However, as they are located in one of the new cities, which is 10<sup>th</sup> of Ramadhan city in Sharkia governorate, they undertake a great role in their society whether in the city or in other cities or towns of the governorate in fields like: services, social and sport activities as well as protection of the environment, and other aspects. (All Weiler Al Farid Pumps)

### **THIRD STAGE: SENDING EMAILS**

- The two replies received were as follows:

“Kindly be informed that for access of Annual Reports and financial statements of ExxonMobil you will have to contact CMA (Capital Market Authority) in Cairo, as they do have the authority over the disclosure of such reports and statements regarding our company” (ExxonMobil Egypt).

“We are in the process of publishing our Annual Report for 2001, as soon as it is published, I will send both copies to your address”

They have actually sent 2000 Annual Report which was downloadable from their site as well and by the beginning of 2003 they sent 2001 Annual Report. (Orascom Telecom Holding).



## APPENDIX 6.4

### Final Sample For Content Analysis By Number Of Companies And Number Of Annual Reports

Number Of Companies By Industry Represented In The Final Sample

INDUSTRY	NO. OF COMPANIES
Agriculture	2
Building Materials, Refractories and Wood	3
Cement	7
Chemicals and Plastics	3
Consultancy and Services	0
Contracting and Real Estate	9
Engineering and Electronics	8
Fertilizers and Pesticides	4
Food and Beverages	9
Metallurgy	6
Mills	7
Oil and Gas	1
Paper, Packaging and Publishing	1
Pharmaceuticals	11
Social, Health and Cultural Services	0
Textiles, Garments and Leather	7
Tourism	1
Trade and Distribution	1
Transport and Communications	2
<b>Total</b>	<b>82</b>

The Number Of Annual Reports Collected By Industry And Year

INDUSTRY	1998	1999	2000	2001	TOTAL
Agriculture	1	2	2	2	7
Building Materials, Refractories and Wood	1	3	3	3	10
Cement	3	6	7	6	22
Chemicals and Plastics	3	3	3	3	12
Consultancy and Services	0	0	0	0	0
Contracting and Real Estate	7	9	7	7	30
Engineering and Electronics	7	8	7	7	29
Fertilizers and Pesticides	4	4	4	3	15
Food and Beverages	7	7	8	6	28
Metallurgy	5	5	5	5	20
Mills	5	6	6	5	22
Oil and Gas	0	1	1	1	3
Paper, Packaging and Publishing	1	1	1	1	4
Pharmaceuticals	9	11	11	10	41
Social, Health and Cultural Services	0	0	0	0	0
Textiles, Garments and Leather	6	7	7	5	25
Tourism	0	1	1	1	3
Trade and Distribution	0	0	1	1	2
Transport and Communications	1	2	2	1	6
<b>Total</b>	<b>60</b>	<b>76</b>	<b>76</b>	<b>67</b>	<b>279</b>



**APPENDIX 6.5**  
**List Of Companies Used In Final Sample For CSR Content Analysis**

Industry	1998	1999	2000	2001
Agriculture	<ul style="list-style-type: none"> <li>El Arabia For Land Reclamation</li> </ul>	<ul style="list-style-type: none"> <li>Cairo Poultry</li> <li>El Arabia For Land Reclamation</li> </ul>	<ul style="list-style-type: none"> <li>Cairo Poultry</li> <li>El Arabia For Land Reclamation</li> </ul>	<ul style="list-style-type: none"> <li>Cairo Poultry</li> <li>El Arabia For Land Reclamation</li> </ul>
Building Materials, Refractories and Wood	<ul style="list-style-type: none"> <li>Orascom Construction Industries (OCI)</li> </ul>	<ul style="list-style-type: none"> <li>El Ezz Porcelain (GEMMA)</li> <li>Orascom Construction Industries (OCI)</li> <li>Egyptian Glass Company</li> </ul>	<ul style="list-style-type: none"> <li>El Ezz Porcelain (GEMMA)</li> <li>Orascom Construction Industries (OCI)</li> <li>Egyptian Glass Company</li> </ul>	<ul style="list-style-type: none"> <li>El Ezz Porcelain (GEMMA)</li> <li>Orascom Construction Industries (OCI)</li> <li>Egyptian Glass Company</li> </ul>
Cement	<ul style="list-style-type: none"> <li>Suez Cement</li> <li>Helwan Portland Cement</li> <li>National Cement</li> </ul>	<ul style="list-style-type: none"> <li>Suez Cement</li> <li>Alexandria Portland Cement</li> <li>Helwan Portland Cement</li> <li>Assiut Cement</li> <li>National Cement</li> <li>Misr Beni Suef Cement</li> </ul>	<ul style="list-style-type: none"> <li>Suez Cement</li> <li>Alexandria Portland Cement</li> <li>Helwan Portland Cement</li> <li>Torah Cement</li> <li>Assiut Cement</li> <li>National Cement</li> <li>Misr Beni Suef Cement</li> </ul>	<ul style="list-style-type: none"> <li>Suez Cement</li> <li>Alexandria Portland Cement</li> <li>Torah Cement</li> <li>Assiut Cement</li> <li>National Cement</li> <li>Misr Beni Suef Cement</li> </ul>
Chemicals and Plastics	<ul style="list-style-type: none"> <li>Paints and Chemicals Industries (PACHIN)</li> <li>Nile Match &amp; Prefabricated Houses</li> <li>Misr Chemical Industries</li> </ul>	<ul style="list-style-type: none"> <li>Paints and Chemicals Industries (PACHIN)</li> <li>Nile Match &amp; Prefabricated Houses</li> <li>Misr Chemical Industries</li> </ul>	<ul style="list-style-type: none"> <li>Paints and Chemicals Industries (PACHIN)</li> <li>Nile Match &amp; Prefabricated Houses</li> <li>Misr Chemical Industries</li> </ul>	<ul style="list-style-type: none"> <li>Paints and Chemicals Industries (PACHIN)</li> <li>Nile Match &amp; Prefabricated Houses</li> <li>Misr Chemical Industries</li> </ul>

Contracting and Real Estate	<ul style="list-style-type: none"> <li>Nasr City Housing and Development</li> <li>Development &amp; Engineering Consultants</li> <li>Industrial and Engineering Projects</li> <li>United Housing &amp; Development</li> <li>Giza General Contracting &amp; Real Estate Investment</li> <li>Alexandria for Real Estate Investments</li> <li>Six Of October Development &amp; Investment (SODIC)</li> </ul>	<ul style="list-style-type: none"> <li>Nasr City Housing and Development</li> <li>Development &amp; Engineering Consultants</li> <li>Industrial and Engineering Projects</li> <li>El Shams Housing &amp; Urbanisation</li> <li>El Kahera Housing</li> <li>United Housing &amp; Development</li> <li>Giza General Contracting &amp; Real Estate Investment</li> <li>Alexandria for Real Estate Investments</li> <li>Six Of October Development &amp; Investment (SODIC)</li> </ul>	<ul style="list-style-type: none"> <li>Nasr City Housing and Development</li> <li>Development &amp; Engineering Consultants</li> <li>El Shams Housing &amp; Urbanisation</li> <li>El Kahera Housing</li> <li>United Housing &amp; Development</li> <li>Giza General Contracting &amp; Real Estate Investment</li> <li>Six Of October Development &amp; Investment (SODIC)</li> </ul>	<ul style="list-style-type: none"> <li>Nasr City Housing and Development</li> <li>Development &amp; Engineering Consultants</li> <li>El Shams Housing &amp; Urbanisation</li> <li>El Kahera Housing</li> <li>United Housing &amp; Development</li> <li>Giza General Contracting &amp; Real Estate Investment</li> <li>Six Of October Development &amp; Investment (SODIC)</li> </ul>
Engineering and Electronics	<ul style="list-style-type: none"> <li>Egyptian Electrical Cables</li> <li>Misr Conditioning (MIRACO CARRIER)</li> <li>All Weiler Al Farid Pumps</li> <li>International Electronics</li> <li>Cairo Precision Industries (OLYMPIC ELECTRIC)</li> <li>Power Egypt (CAC)</li> <li>Nissan Egypt</li> </ul>	<ul style="list-style-type: none"> <li>Egyptian Electrical Cables</li> <li>Misr Conditioning (MIRACO CARRIER)</li> <li>All Weiler Al Farid Pumps</li> <li>International Electronics</li> <li>Cairo Precision Industries (OLYMPIC ELECTRIC)</li> <li>Power Egypt (CAC)</li> <li>Delta Industries (IDEAL)</li> <li>Nissan Egypt</li> </ul>	<ul style="list-style-type: none"> <li>Egyptian Electrical Cables</li> <li>Misr Conditioning (MIRACO CARRIER)</li> <li>All Weiler Al Farid Pumps</li> <li>International Electronics</li> <li>Cairo Precision Industries (OLYMPIC ELECTRIC)</li> <li>Power Egypt (CAC)</li> <li>Delta Industries (IDEAL)</li> </ul>	<ul style="list-style-type: none"> <li>Egyptian Electrical Cables</li> <li>Misr Conditioning (MIRACO CARRIER)</li> <li>All Weiler Al Farid Pumps</li> <li>International Electronics</li> <li>Cairo Precision Industries (OLYMPIC ELECTRIC)</li> <li>Power Egypt (CAC)</li> <li>Delta Industries (IDEAL)</li> </ul>



Fertilizers and Pesticides	<ul style="list-style-type: none"><li>• Abu Qir Fertilizers and Chemical Industries</li><li>• Egyptian Chemical Industries (KIMA)</li><li>• Egyptian Financial and Industrial Co. (EFIC)</li><li>• Kafr El Zayat Pesticides &amp; Chemicals</li></ul>	<ul style="list-style-type: none"><li>• Abu Qir Fertilizers and Chemical Industries</li><li>• Egyptian Chemical Industries (KIMA)</li><li>• Egyptian Financial and Industrial Co. (EFIC)</li><li>• Kafr El Zayat Pesticides &amp; Chemicals</li></ul>	<ul style="list-style-type: none"><li>• Abu Qir Fertilizers and Chemical Industries</li><li>• Egyptian Chemical Industries (KIMA)</li><li>• Egyptian Financial and Industrial Co. (EFIC)</li><li>• Kafr El Zayat Pesticides &amp; Chemicals</li></ul>	<ul style="list-style-type: none"><li>• Abu Qir Fertilizers and Chemical Industries</li><li>• Egyptian Financial and Industrial Co. (EFIC)</li><li>• Kafr El Zayat Pesticides &amp; Chemicals</li></ul>
Food and Beverages	<ul style="list-style-type: none"><li>• Al Ahram Beverages Company (ABC)</li><li>• Misr Oils and Soap</li><li>• Egyptian Starch and Glucose M.F.L</li><li>• El Nasr Dried Agricultural Products</li><li>• Savola Sime Egypt</li><li>• International Food (HOSTESS)</li><li>• Bisco Misr</li></ul>	<ul style="list-style-type: none"><li>• Al Ahram Beverages Company (ABC)</li><li>• Misr Oils and Soap</li><li>• Egyptian Starch and Glucose M.F.L</li><li>• El Nasr Dried Agricultural Products</li><li>• Savola Sime Egypt</li><li>• International Food (HOSTESS)</li><li>• Bisco Misr</li></ul>	<ul style="list-style-type: none"><li>• Al Ahram Beverages Company (ABC)</li><li>• Misr Oils and Soap</li><li>• Egyptian Starch and Glucose M.F.L</li><li>• Eastern Tobacco</li><li>• El Nasr Dried</li><li>• Agricultural Products</li><li>• Savola Sime Egypt</li><li>• Extracted Oils &amp; Derivatives</li><li>• Bisco Misr</li></ul>	<ul style="list-style-type: none"><li>• Misr Oils and Soap</li><li>• Egyptian Starch and Glucose M.F.L</li><li>• Eastern Tobacco</li><li>• Savola Sime Egypt</li><li>• Extracted Oils &amp; Derivatives</li><li>• Bisco Misr</li></ul>
Metallurgy	<ul style="list-style-type: none"><li>• Alexandria National Iron &amp; Steel (ANSDK)</li><li>• Al Ezz Steel Rebars</li><li>• Egypt Aluminium (Misr Aluminium)</li><li>• Egyptian Iron &amp; Steel</li><li>• Arab Iron (Steel) Factory</li></ul>	<ul style="list-style-type: none"><li>• Alexandria National Iron &amp; Steel (ANSDK)</li><li>• Al Ezz Steel Rebars</li><li>• Egypt Aluminium (Misr Aluminium)</li><li>• Acro Misr for Metallic Scaffoldings &amp; Frameworks</li><li>• Egyptian Iron &amp; Steel</li></ul>	<ul style="list-style-type: none"><li>• Alexandria National Iron &amp; Steel (ANSDK)</li><li>• Al Ezz Steel Rebars</li><li>• Egypt Aluminium (Misr Aluminium)</li><li>• Acro Misr for Metallic Scaffoldings &amp; Frameworks</li><li>• Egyptian Iron &amp; Steel</li></ul>	<ul style="list-style-type: none"><li>• Alexandria National Iron &amp; Steel (ANSDK)</li><li>• Al Ezz Steel Rebars</li><li>• Egypt Aluminium (Misr Aluminium)</li><li>• Acro Misr for Metallic Scaffoldings &amp; Frameworks</li><li>• Egyptian Iron &amp; Steel</li></ul>
Mills	<ul style="list-style-type: none"><li>• East Delta Flour Mills</li></ul>	<ul style="list-style-type: none"><li>• East Delta Flour Mills</li></ul>	<ul style="list-style-type: none"><li>• North Cairo Mills</li></ul>	<ul style="list-style-type: none"><li>• North Cairo Mills</li></ul>

	<ul style="list-style-type: none"> <li>• South Cairo &amp; Giza Mills &amp; Bakeries</li> <li>• General Silos and Storage</li> <li>• Middle &amp; West Delta Flour Mills</li> <li>• Middle (Central) Egypt Flour Mills</li> </ul>	<ul style="list-style-type: none"> <li>• South Cairo &amp; Giza Mills &amp; Bakeries</li> <li>• General Silos and Storage</li> <li>• Middle &amp; West Delta Flour Mills</li> <li>• Middle (Central) Egypt Flour Mills</li> <li>• Alexandria Flour Mills &amp; Bakeries</li> </ul>	<ul style="list-style-type: none"> <li>• East Delta Flour Mills</li> <li>• South Cairo &amp; Giza Mills &amp; Bakeries</li> <li>• General Silos and Storage</li> <li>• Middle &amp; West Delta Flour Mills</li> </ul>
Oil and Gas		<ul style="list-style-type: none"> <li>• Natural Gas and Mining Project (Egypt Gas)</li> </ul>	<ul style="list-style-type: none"> <li>• Natural Gas and Mining Project (Egypt Gas)</li> </ul>
Paper, Packaging and Publishing	<ul style="list-style-type: none"> <li>• Middle East Paper (SIMO)</li> </ul>	<ul style="list-style-type: none"> <li>• Middle East Paper (SIMO)</li> </ul>	<ul style="list-style-type: none"> <li>• Middle East Paper (SIMO)</li> </ul>
Pharmaceuticals	<ul style="list-style-type: none"> <li>• Pfizer Egypt S.A.E.</li> <li>• Amreyah Pharmaceuticals Industries</li> <li>• Egyptian International Pharmaceutical Industries Company (EIPICO)</li> <li>• Medical Union Pharmaceuticals</li> <li>• Arab Drugs &amp; Chemicals Industries (ADCO)</li> <li>• Cairo Pharmaceuticals and Chemical Industries</li> <li>• Alexandria Pharmaceuticals and Chemical Industries</li> <li>• Swiss Pharma (Novartis Pharma)</li> </ul>	<ul style="list-style-type: none"> <li>• Pfizer Egypt S.A.E.</li> <li>• Amreyah Pharmaceuticals Industries</li> <li>• Egyptian International Pharmaceutical Industries Company (EIPICO)</li> <li>• Medical Union Pharmaceuticals</li> <li>• Arab Drugs &amp; Chemicals Industries (ADCO)</li> <li>• Cairo Pharmaceuticals and Chemical Industries</li> <li>• Alexandria Pharmaceuticals and Chemical Industries</li> <li>• Memphis Pharmaceuticals and Chemicals Industries</li> <li>• Swiss Pharma (Novartis Pharma)</li> </ul>	<ul style="list-style-type: none"> <li>• Pfizer Egypt S.A.E.</li> <li>• Amreyah Pharmaceuticals Industries</li> <li>• Egyptian International Pharmaceutical Industries Company (EIPICO)</li> <li>• Medical Union Pharmaceuticals</li> <li>• Arab Drugs &amp; Chemicals Industries (ADCO)</li> <li>• Cairo Pharmaceuticals and Chemical Industries</li> <li>• Cairo Pharmaceuticals and Chemical Industries</li> <li>• Alexandria</li> <li>• Swiss Pharma (Novartis Pharma)</li> </ul>



	<ul style="list-style-type: none"> <li>Nile Pharmaceuticals and Chemical Industries</li> </ul>	<ul style="list-style-type: none"> <li>Nile Pharmaceuticals and Chemical Industries</li> <li>T3A Pharmaceutical Group</li> </ul>	Pharmaceuticals and Chemical Industries <ul style="list-style-type: none"> <li>Memphis Pharmaceuticals and Chemicals Industries</li> <li>Swiss Pharma (Novartis Pharma)</li> <li>Nile Pharmaceuticals and Chemical Industries</li> <li>T3A Pharmaceutical Group</li> </ul>	Pharmaceuticals and Chemical Industries <ul style="list-style-type: none"> <li>Swiss Pharma (Novartis Pharma)</li> <li>Nile Pharmaceuticals and Chemical Industries</li> <li>T3A Pharmaceutical Group</li> </ul>
Textiles, Garments and Leather	<ul style="list-style-type: none"> <li>Alexandria Spinning and Weaving (SPINALEX)</li> <li>Oriental Weavers for Carpets</li> <li>United Arab &amp; Bolivara Spinning, Weaving &amp; Silk (UNIRAB)</li> <li>El Nasr Clothes and Textiles (KABO)</li> <li>Misr American Carpet Mills (MAC)</li> <li>Nile Cotton Ginning</li> </ul>	<ul style="list-style-type: none"> <li>Alexandria Spinning and Weaving (SPINALEX)</li> <li>Oriental Weavers for Carpets</li> <li>United Arab &amp; Bolivara Spinning, Weaving &amp; Silk (UNIRAB)</li> <li>El Nasr Clothes and Textiles (KABO)</li> <li>Misr American Carpet Mills (MAC)</li> <li>Arab Trading and Cotton Ginning</li> <li>Nile Cotton Ginning</li> </ul>	<ul style="list-style-type: none"> <li>Alexandria Spinning and Weaving (SPINALEX)</li> <li>Oriental Weavers for Carpets</li> <li>United Arab &amp; Bolivara Spinning, Weaving &amp; Silk (UNIRAB)</li> <li>El Nasr Clothes and Textiles (KABO)</li> <li>Misr American Carpet Mills (MAC)</li> <li>Arab Trading and Cotton Ginning</li> <li>Nile Cotton Ginning</li> </ul>	<ul style="list-style-type: none"> <li>Alexandria Spinning and Weaving (SPINALEX)</li> <li>United Arab &amp; Bolivara Spinning, Weaving &amp; Silk (UNIRAB)</li> <li>El Nasr Clothes and Textiles (KABO)</li> <li>Misr American Carpet Mills (MAC)</li> <li>Nile Cotton Ginning</li> </ul>
Tourism		<ul style="list-style-type: none"> <li>Pyramisa Hotels and Resorts</li> </ul>	Pyramisa Hotels and Resorts	<ul style="list-style-type: none"> <li>Pyramisa Hotels and Resorts</li> </ul>
Trade and Distribution			Export & Development Trading Co. (EXPOD)	<ul style="list-style-type: none"> <li>Export &amp; Development Trading Co. (EXPOD)</li> </ul>

			Trading Co. (EXPOD)	Trading Co. (EXPOD)
Transport and Communications	<ul style="list-style-type: none"> <li>Canal Shipping Agencies</li> </ul>	<ul style="list-style-type: none"> <li>Orascom Telecom Holding (OT)</li> <li>Canal Shipping Agencies</li> </ul>	<ul style="list-style-type: none"> <li>Orascom Telecom Holding (OT)</li> <li>Canal Shipping Agencies</li> </ul>	<ul style="list-style-type: none"> <li>Orascom Telecom Holding (OT)</li> </ul>



## APPENDIX 6.6

### Bias Test

Annual Report	English E	Arabic A	Difference D = E-A	Rank Of Absolute Difference	Rank Of Positive Difference T+	Rank Of Negative Difference T-
Suez Cement 1998	1.71	1.70	0.01	1	1	
Suez Cement 1999	0.84	0.77	0.07	6	6	
Suez Cement 2000	1.99	2.04	-0.05	3.5		3.5
Suez Cement 2001	2.03	2.00	0.03	2	2	
Pfizer Egypt 1999	1.15	1.10	0.05	3.5	3.5	
PACHIN 1998	1.86	1.80	0.06	5	5	
ANSDK 1998	2.54	2.63	-0.09	7		7
ANSDK 1999	2.40	2.30	0.10	8	8	
					$\Sigma(+)=25.5$	$\Sigma(-)=10.5$

To test for any significant differences between the volume of the content analysis for the Arabic and English versions of the eight annual reports for which available are the English and Arabic versions, Wilcoxon matched pairs signed ranks test<sup>431</sup> is used.

The hypothesis test is:

The null hypothesis:

$H_0$ : There is no difference between the volume of content analysis of the two groups of English and Arabic annual reports sample.

The alternative hypothesis:

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<sup>431</sup> See Wright (2002).

H<sub>a</sub>: There is a difference between the volume of content analysis of the two groups of English and Arabic annual reports sample.

$$Z = \frac{T - n(n-1)/4}{\sqrt{n(n+1)(2n+1)/24}}$$

Where

n = number of observations in the sample, and

T = minimum of  $\Sigma(+)$  which is the sum of the ranks of the positive differences or  $\Sigma(-)$  which is the sum of the ranks of the negative differences.

$$Z = \frac{10.5 - 8(8-1)/4}{\sqrt{8(8+1)(16+1)/24}}$$

$$Z = \frac{-3.5}{\sqrt{51}} = 0.49 \cong 0.50 \quad \text{p-value} = 0.617$$

At significance level of 5 %, Z is statistically insignificant (0.617 > 0.05)

Since Z is statistically insignificant, we cannot reject the null hypothesis. Thus, it is accepted that no significant differences are present between the content analysis volumes of two groups of samples (the English and Arabic versions of the annual reports).

The computed value of the statistic (10.5) is more than the critical value (6) at 5 % level of significance<sup>432</sup> for the sample size n = 8. Therefore, we cannot reject the null hypothesis.

In conclusion, statistics does not suggest that there are significant differences between the volumes of content analysis of both samples; the English version and the Arabic version. Thus, it does not really make any difference whether the annual report analysed is in English or in Arabic.

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<sup>432</sup> Aczel and Sounderpandian (2002).



## APPENDIX 6.7

### Categories Of Disclosure Employed In Content Analysis Of Annual Reports<sup>433</sup>

The following seven main categories and the further sub-categories broadly follow the categorisation of Gray et al. (1995b) study with slight modifications.

(1) ENVIRONMENTAL DATA:

*Broken down into:*

- Environmental policy (ENVPOL)
- Environmental audit (ENVAUD)
- Waste, packaging, pollution, spills, emissions, etc. (WASTE)
- Financially-related data (elements) of environmental issues (including contingencies) (ENVFIN)
- Sustainability and sustainable development (SUSTB)
- Energy (ENERGY)
- Environmental other (other environmental issues) (ENV)

(2) CONSUMER/PRODUCT DATA:

- Information relating to consumers/customers/products (CONS)

(3) COMMUNITY DATA:

- Charitable donations (CHARITY) and where individual donations are itemised (CHARITYINDIV)
- Involvement with the community (COMM)

(4) EMPLOYEE-RELATED DATA:<sup>434</sup>

- Employee details (EMPDATA)

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<sup>433</sup> Adapted from Gray et al. (1995b:96-99) and as updated from CSEAR website. Slight modifications are added as relevant to Egyptian context and in view of national laws and regulations.

<sup>434</sup> “Statement on employment in Southern Africa – Apartheid” as a field is void since official end of apartheid. As the period covered by annual reports is from 1998 until 2001, which is after official end of apartheid, therefore this sub-category is no more relevant and is excluded.

- Details of pensions arrangements and payments (PENSION)
- Arrangements for consultation with employees (CONSULT)
- Details on the employment policy for disabled persons (DIS)
- Statement of Value Added (VAS)
- Details of Health and Safety at Work (HANDS)
- Employee share Ownership Schemes (SHAREPP)<sup>435</sup>
- Statements of Equal Opportunities (EQUALOP)
- Other data relating to employees or employment (EMPOTHER)<sup>436</sup>

(5) DIRECTORS' DATA:

- Details of Directors' Emoluments and Remuneration including Pensions and Share Options (DIRECTOR)

(6) CORPORATE GOVERNANCE:

- Details concerning arrangements for corporate governance (CORPGOV)

(7) GENERAL OTHER: ANY OTHER RELEVANT DISCLOSURE

- Catch-all category for anything 'obviously' social disclosure but not captured elsewhere (GENMEMO)

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<sup>435</sup> "Employees' profit share" (PROFIT) is recorded separately as this is a mandatory disclosure under Egyptian legislation.

<sup>436</sup> "Provision for employees' benefits" (EMPBENman) is recorded separately as this is a mandatory disclosure under Egyptian legislation. This is simply the cost incurred in the provision of employee non-financial benefits as a total figure.



## APPENDIX 6.8

### The Decision Rules For The Categories Of Social Disclosure<sup>437</sup>

#### (1) ENVIRONMENTAL DATA:

##### **Environmental policy:**

- Actual statement of policy;
- Statements of formal intentions;
- General statements of “the company will, the company does” nature,
- Compliance with Environmental laws and regulations and related discussions, adherence plans<sup>438</sup>.

##### **Environmental audit:**

- Reference to environmental review, scoping, audit, assessment, including independent attestation;
- Environmental Management Systems (ISO 14000, EMAS, etc.) including efforts and contracts;
- Targets in general (specific details likely to fall into next section).

##### **Waste, packaging, pollution, etc.: Environmental-product and process related:**

- Waste(s);
- Eco-efficiency;
- Packaging and take-back;

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<sup>437</sup> Adapted from Gray et al. (1995b:96-99) and as updated from CSEAR website. Explanations for non-relevance or relevance are provided in light of Egyptian context and as presented in Egyptian rules and regulations in force. Although there are some similarities between UK and Egypt mandatory disclosures for social and environmental issues, it is obviously the Egyptian Company Law and Listing regulations which are considered when deciding whether a disclosure falls under mandatory or voluntary categories.

<sup>438</sup> This is a newly added rule. This item of disclosure fits in ‘Environmental policy’ category. It was also found in almost every annual report disclosing anything related to environmental issues. The rule was added after consultation and in agreement with CSEAR personnel.

- Pollution and emissions- air (dust), water, noise, spills, visual quality, including any attempts to identify, improve, control, treat or prevent;
- Recycling;
- Carbon sequestration, climate change
- Products and product development, improvements in products (including products that care for and help protect the environment);
- Land contamination and remediation (financial below);
- Except insofar as it is part of the business (e.g., waste disposal or environmental technology);

**Environmentally financially-related data:**

- Reference to financial/economic impact;
- Investment and investment appraisal;
- Discussion of areas with financial/economic impact;
- Discussion of environmental-economic interaction;
- Contingencies, provisions;
- Environmentally-related loans, grants; costs of purchasing and installing environmental friendly machines and equipment; maintenance and consultancy costs<sup>439</sup>.

**Sustainability:**

- Any mention of sustainability,
- Any mention of sustainable development, UNCED, Rio etc.
- Discussion of full cost accounting<sup>440</sup>, formal consideration of externalities, ecological footprint.

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<sup>439</sup> These are newly added to decision rules of 'Environmentally financially-related data'. These are added in consultation and agreement with CSEAR personnel.

<sup>440</sup> "EU 5<sup>th</sup> Action Programme" which is originally included on CSEAR website does not apply to the Egyptian case and thus is excluded in this study.



**Energy:**

- Energy usage, (split with climate change)
- Energy saving and conservation
- Use/development/exploration of new sources, efficiency, insulation etc.
- Except as insofar as it is part of the business (e.g., oil exploration companies)

**Environmental other:**

- Landscaping;
- Public amenity provision;
- Involvement with initiatives and schemes;<sup>441</sup>
- Environmental education (*note: care should be exercised noting the overlap with community*);
- Environmental awards; employee environmental training and awareness; partnerships between environmental research institutions and business<sup>442</sup>.

**(2) CONSUMERS/PRODUCT DATA:**

- Product and customer safety;
- Consumer complaints;
- Specific consumer relations (over and beyond “our duty to the customer”);
- Provision for disabled, aged, etc. customers;
- Provision for difficult-to-reach customers;
- Product quality certification information e.g., ISO 9001<sup>443</sup>.

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<sup>441</sup> Specific schemes (business-in-the-environment, ACBE) relevant to UK and referred to in Gray et al. (1995b) are excluded from the decision rules due to non-relevance to the Egyptian context.

<sup>442</sup> These are newly added to the decision rules of ‘environmental other’. They are found in some Egyptian annual reports and do not fit in any of the above environment-related categories. These rules are added in consultation and agreement with CSEAR personnel.

<sup>443</sup> This rule is newly added to ‘consumer/product’ decision rules. Consistent with Hackston and Milne (1996), discussions relating to the quality of goods and services are only included as a CSR if the disclosure contains verifiable change in quality such as: accreditation of the

### (3) COMMUNITY DATA:

#### **Charitable Donations<sup>444</sup>:**

- Donations in currency or in kind to registered charities or others within the Company Law;
- Donations ditto by/through employees;<sup>445</sup>
- Zakat payment<sup>446</sup>.

#### **Community:**

- Excluding charities;
- Any reference to community (including expression of responsibility to community) and/or social involvement or commitment outside the labour force;
- Employee involvement with above if company support is apparent;
- Schools, arts, sport, sponsorship<sup>447</sup>, working with voluntary organisations;
- Schemes for taking on and helping young unemployed, business-in-the-community, secondment of staff<sup>448</sup>;

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ISO 9000 quality certificate. ISO 9001 is included following Hackston and Milne (1996) because it would appear to reflect and verify quality issues on the product (Hackston and Milne, 1996). See also, Gao et al. (2005). It is difficult to know whether this leads to an incompatibility to the 'consumer/product' category from the CSEAR database. This is a very important item in case of LDCs as there aren't any means for customer/consumer protection and quality of products measures are not strictly followed. Thus, it is very sensitive of an issue to be considered a CSD item or subcategory. ISO 9000 certificates are essential in the Egyptian society as a sign of consumer protection through good product quality as there is no effective consumer protection law in Egypt. It is related to health and safety issues of consumers as quality of the product can affect the health of consumers and their safety. Moreover, it is related to packaging quality which indirectly has an effect on the ecological natural environment.

<sup>444</sup> By law, it is forbidden in Egypt for any company to provide any kind of donation to any political party or else it will be considered void (Company Law 159/1981). Thus, 'reference to and amount of political donations' is omitted from the decision rules.

<sup>445</sup> The scheme (GAYE) referred to in Gray et al. (1995b) is not relevant to Egypt and thus omitted for this particular rule.

<sup>446</sup> This is newly added to decision rules. Zakat (also Zakah) is one of the five pillars of Islam and is an obligation to give alms (Naser and Abu Baker, 1999). Zakat is a levy imposed divinely on Muslims. See more details in Clarke et al. (1996).

<sup>447</sup> All sponsorship activities (mostly sports) are included regardless of whether or not this is purely advertisement.



#### **(4) EMPLOYEE-RELATED DATA:<sup>449</sup>**

##### **Employee data:<sup>450</sup>**

- Statutory (average) numbers employed by category;
- Statutory wages (salaries) excluding pension and social security costs;

##### **Pension data:<sup>451</sup>**

- Commitments for pensions.
- Pension and social security costs

##### **Consultation with employees:<sup>452</sup>**

- Action with respect to informing employees, consulting employees, encouraging (and engaging in) employee participation and communication;
- Increasing employee financial and economic awareness;
- Excludes profit sharing and employee share option plans (ESOPs), etc.

##### **Employment of disabled:**

- Employment of disabled persons (including retraining);

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<sup>448</sup> The Gray et al. (1995b) decision rules referred to a specific scheme (YTS) relevant only to the UK in this particular rule. This was omitted as it is not relevant given the Egyptian context of this study.

<sup>449</sup> As “Employment in South Africa” is no more relevant as it is void since the official end of apartheid, this category was dropped with consultation with researchers in CSEAR and CSEAR website.

<sup>450</sup> Included in the original Gray et al. (1995b) are: ❶ statutory numerical analysis of employees > £ 30,000, and ❷ average numbers employed by geographic area, which are based on UK legislation. However, as these are not required by equivalent legislation in the case of Egypt, both are omitted.

<sup>451</sup> The original Gray et al. (1995b) decision rules referred to disclosure of statutory particulars of commitments for pensions. There is no equivalent piece of legislation relating to disclosure of pension data in Egypt. Thus, reference to the statutory nature of these pension data is not included in the decision rules used in this study. This category is mandatory in its whole.

<sup>452</sup> Similarly, as the above footnote, no equivalent legislation for disclosure of issues relation to consultation with employees exists. Therefore again, reference to statutory nature of these consultation data is not included here.

- Distinction between registered/unregistered disabled is not relevant here.

#### **Value added statement:**

- Any reference to the creation *and* distribution of value added;
- Any statement headed Value Added or Added Value;
- Any statement with “distribution” to employees and state (not including shareholders).

#### **Health and safety at work:**

- Health and safety at work;
- Toxic hazards (e.g.) to employees *and the public*;
- Any reference to Health and Safety law and/or inspection;<sup>453</sup>
- Information to employees, training in Health and Safety issues;
- Accidents, injuries;

#### **Employees’ share ownership:<sup>454</sup>**

- Participation of employees in share schemes, employee share option plans (ESOP) where employees does not mean directors;
- Schemes/reference must be to employees (exclude if reference is to executive or directors only);
- Loans for this purpose but not *directors*;
- Employees’ Profit share<sup>455</sup>.

#### **Equal opportunities:**

- Equal opportunities;
- Racial equality;
- Sexual equality.

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<sup>453</sup> COSHH in Gray et al. (1995b) does not apply to Egyptian data and so, is excluded from the decision rules.

<sup>454</sup> SAYE options which are included among the decision rules of Gray et al. (1995b) are not relevant or applicable to Egypt. Thus, these are excluded from the decision rules for this study.

<sup>455</sup> To remind ourselves; this item is recorded separately as it is a mandatory requirement in Egypt.



**Employee other:**

- Provision for employees' benefits<sup>456</sup>;
- Anything else on employees not covered above;
- For example: staff turnover; thanks to employees<sup>457</sup>; length of service; pensioners; pensions beyond coverage of statutory material<sup>458</sup>; employee trends/statistics by sex, age, for more than two years and more than statutory; statement of employment policy(ies)<sup>459</sup>; redundancy; changes in salaries/wages;
- Employees' fringe benefits; employee training; sport activities profit share; early retirement; loans, awards and prizes to employees<sup>460</sup>.

**(5) DIRECTORS' DATA:**

- Statutory disclosure of directors' emoluments, remuneration, short-term benefits, bonuses including pensions;
- Directors and executives share option scheme and share benefits;
- Loans to directors<sup>461</sup>;
- Interests in shares;
- Any options granted to directors;
- Long term incentive schemes (e.g., share related);

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<sup>456</sup> This item is recorded separately as it is a mandatory requirement in Egypt.

<sup>457</sup> This includes recognition, appreciation of efforts, and praise to employees as well as employee motivation. Thanks to governmental bodies, or ruling representatives and like, which is adjacent to employee thanks, is taken account of but not included as a CSR and not added in its volume measurement.

<sup>458</sup> This also includes post-retirement benefits other than pensions such as: private pension plans, private post retirement funds, and collective insurance.

<sup>459</sup> This includes policies relating to human resource development, recruitment, compensation, bonus, promotion, attraction and retention.

<sup>460</sup> These are newly added to the decision rules. They are not uncommon in Egyptian annual reports and do not fit in any of the other employee-related data categories. They are added in consultation and agreement with CSEAR personnel.

<sup>461</sup> By law, it is forbidden in Egypt for any company to provide any cash loan to any of its 'Board of Directors' members (Company Law 159/1981).

- Any share related issue re directors.

(Exclude personal, responsibility details and pictures).

## (6) **CORPORATE GOVERNANCE:**

- General statements of compliance/non-compliance with various codes;
- Separate report by auditors on corporate governance;
- Section(s) in main audit report indication compliance/non-compliance with codes.

## (7) **GENERAL OTHER:**

- Anything else;
- For *example*: corporate objectives, mission statement; statement of social responsibility; code of practice on behaviour of trans-national corporations; ethics; political statements (need/approval/disapproval of government policy, control of unions), value of trans-nationals/companies; value of company to community, society, nation, economy; money transactions with government/ revenue authorities<sup>462</sup>; any national, political and social issues that interact with the business;
- AA 1000;
- SA 8000;
- Thanks to God (Allah), prayers, verses from the holy book ‘Qur’an’<sup>463</sup>.

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<sup>462</sup> Since the term “Inland Revenue” which is expressed by Gray et al. (1995b) does not apply to Egyptian context, this term is exchanged with “Revenue Authorities” term.

<sup>463</sup> This is a newly added item. These disclosures are not uncommon in Egyptian annual reports. They reflect an Islamic influence and identity on the writing style. Here, managers reveal their accountability to God. The item is added in consultation and agreement with CSEAR personnel.



### General Guidelines in recording the disclosure:

- Include only specific statements not implied meanings.
- All disclosures must specifically relate to the company and its actions, they cannot be general background information about an action.
- Repeated disclosures are to be recorded each time they appear or are discussed.
- Reasonable allowance for margins and blank areas of pages are to be associated with text, pictures, etc. covering the areas of disclosure<sup>464</sup>.
- Innovations in products or services should not be included unless they specifically benefit the customer (e.g., through safety) or the community or environment (e.g., through recyclable packaging), while also being beyond what is necessary to compete in the marketplace or attract business.
- All disclosures that fit within the categories and its subcategories are to be included no matter how much it is advertising.
- If a disclosure has more than one possible classification, it should be classified proportionately and thus, split between categories or subcategories according to the volumes occupied by each, from the most recognised theme until the least emphasised.
- Productivity (of employees) is not included at all, as it is regarded as an economic measure.
- Discussion of directors' activities is not to be included as a discussion on employees but rather in the separate category 'Directors'.
- When a CSD contains monetary and non-monetary quantitative disclosure, classify CSD as the dominant type of evidence (monetary or non-monetary quantitative). When there is an equal amount of monetary and non-monetary quantitative disclosure in a sentence, classify the CSD as monetary quantitative disclosure. Declarative disclosures are the least powerful. That means these are not to have the priority in case of multiple types in one disclosure item.

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<sup>464</sup> This blank portion is actual part of the disclosure as it is part of the written communication and is assumed to have an opportunity cost (Gray et al., 1995b). However, this is only done with official annual reports but not constructed annual reports. This is because blank portions of pages in case of constructed annual reports are not deliberate.

**APPENDIX 6.9**

**Summaries Of Primary Disclosure Categories Of Analysis**

**TOTAL SOCIAL REPORTING (ISSUES):**

**TOTAL CSR =**       Environmental Data +  
                          Consumer/Product Data +  
                          Community Data (including General Other) +  
                          Employee-related Data +  
                          Directors’ Data +  
                          Corporate Governance.

**ENVIRONMENTAL DATA =**   Environmental policy +  
                                      Environmental audit +  
                                      Waste, packaging, pollution, etc +  
                                      Environmentally financially-related data  
                                      + Sustainability +  
                                      Energy +  
                                      Environmental other.

**CONSUMER/PRODUCT DATA =**   Consumers, customers, products.  
**COMMUNITY DATA =**           Charitable donations +  
                                      Community +  
                                      General other.

**EMPLOYEE-RELATED DATA =**   Employee data +  
                                      Pension data +  
                                      Consultation with employees +  
                                      Employment of disabled +  
                                      Value added statements +  
                                      Health and safety at work +  
                                      Employees’ share ownership  
                                      (including mandatory  
                                      Employees’ profit share) +  
                                      Equal opportunities +



Employee other (including  
mandatory Provision for  
employees' benefits).

**TOTAL SOCIAL REPORTING (NATURE):**

**Total of CSD (CSRTotal) = ManTotal + VolTotal**

**MANDATORY TOTAL (ManTotal) =** Charitable donations +  
Employee data +  
Pension data +  
Value added statement +  
Employees' profit share +  
Provision for employees' benefits  
+ Directors' data.

**VOLUNTARY TOTAL (VolTotal) =** everything else  
All environmental data +  
All consumer/product data +  
Community +  
Consultation with employees +  
Employment of disabled +  
Health and safety at work +  
Employees' share ownership  
(excluding mandatory  
Employees' profit share) +  
Equal opportunities +  
Employee other (excluding  
mandatory Provision for  
employees' benefits) +  
Corporate governance +  
General other.

**MANDATORY EMPLOYEE-RELATED DATA (ManEmp) =**

Employee data +  
Pension data +  
Value added statements +  
Employees' profit share +  
Provision for employees'  
benefits.

**VOLUNTARY EMPLOYEE-RELATED DATA (VolEmp) =**

Consultation with employees +  
Employment of disabled +  
Health and safety at work +  
Employees' share ownership  
(excluding mandatory  
Employees' profit share) +  
Equal opportunities +  
Employee other (excluding  
mandatory Provision for  
employees' benefits).



## APPENDIX 6.10

### Corporate Social Reporting By Legislation In Egypt

Area of Disclosure	Information to be Disclosed	Relevant Legislation
Employees	Two-year comparison of number of employees and total salaries in the Board of Directors Report.	Company Law No. 159/1981.
	Pension Fund and Social Security Costs	Capital Market Law No. 95/1992
	“Employees’ Profit Share” in Profit Appropriation Statement.	Company Law No. 159/1981 and Capital Market Law No. 95/1992
	Separate “Provision for Employees’ Benefits” costs either in Financial Statements or Notes.	Capital Market Law No. 95/1992
	“Cash Payments To Employees” in Cash Flow Statement (Salaries).	Capital Market Law No. 95/1992
	“Value Added Statement”	Capital Market Law No. 95/1992
Charity/ Community	Two-year comparison donations report in Board of Directors Report.	Company Law No. 159/1981.
Directors	“Board Of Directors Remuneration” in Profit Appropriation Statement.	Company Law No. 159/1981 and Capital Market Law No. 95/1992
	“Salaries and Attendance/Transport Allowances of Board Of Directors” in the Income Statement.	Company Law No. 159/1981 and Capital Market Law No. 95/1992
	“Any monetary transactions with Directors” in The Notes To The Financial Statements.	Capital Market Law No. 95/1992
	Any Debit or Credit Accounts for Board Of Directors in the Balance Sheet.	Capital Market Law No. 95/1992

### APPENDIX 6.11

#### Structure Of Grid Used To Measure Volume Of Disclosure

[illegible]



## APPENDIX 6.12

### Quality Categorisation

#### NEWS CATEGORISATION:

The categorisation of “news” must be subjective but it generally complies with the following in terms of meaning conveyed to the receiver:

- **Neutral:** Statement of policy or intent within statutory minimum with no details of what or how; or statement of facts/figures whose credit/discredit to the company is not obvious - which are unaccompanied by editorialising.
- **Good:** Statements beyond the statutory minimum, which include (for example) specific details where these details have a creditable or neutral reflection on the company; or any statements /photos /analysis /discussion, which reflect credit on the company; or upbeat analysis/discussion/ statements.
- **Bad:** Any statement which reflects/might reflect discredit on the organisation including, for example, numbers made redundant (if redundancy is spoken of as a human rather than an economic act) and any increase in accidents or figures that indicate a discreditable trend.

#### TYPES OF DISCLOSURE (evidence for first three types):

Disclosure was classified as:

- **Monetary quantitative:** if it contained and was primarily related to financial disclosure of actual financial numbers.
- **Other quantitative:** if it contained and was primarily related to actual numbers of a non-financial nature. Simply put, it is the information of quantity.
- **Declarative:** otherwise disclosure, which does not fit within the previous two categories and which is mainly qualitative in nature.
- **Auditable:** if given access to the organisation, it would be possible to confirm the statements made. This means that information disclosed can, in principle, be audited and verified by a third party. This does not require that the data be confirmed.

APPENDIX 6.13

Content Analysis Form

NAME:	SECTOR:	YEAR			TOTAL PAGES/ ACCPP:	
CATEGORY		PP	EVID	AUDIT	NEWS	MEMO
Environmental Policy						
Environmental Audit						
Waste, Packaging, Pollution, etc.						
Environmentally Financially-related Data						
Sustainability						
Energy						
Environmental Other						
Consumer/Product						
Charitable Donations						
Community						
Employee Data						
Employees' Profit Share						
Pension Data						
Consultation with Employees						
Employment of Disabled						
Value Added Statement						
Health and Safety at Work						
Employees' Share Ownership						
Equal Opportunities						
Employee Other: Provision for Employees' Benefits						
Other						
Directors' Data						
Corporate Governance						
General Other: In the name of God, Qur'an, prayers						
Other						

TURNOVER (Turnover):  
CAPEMP (Capital Employed):  
NOEMPLOY (Numbers Employed):  
MKTCAP (Market Capitalization):  
NEBIT (net earnings before interest and taxation):



Company name (NAME)

Sector (SECTOR)

Total number of pages contained in the annual report (TOTALPP)

Total number of pages allotted to reporting the financial statements and purely financial data (ACCPP)

For each category of social and environmental disclosure there would be typically five fields for:

Number of pages; page proportion (PP)

Type of disclosure, whether data are declarative, quantitative or monetary (EVID)

Auditability (AUDI or AUDIT)

Whether data provide neutral, good or bad news (NEWS)

A memorandum field for any comments regarding data (MEMO)

**APPENDIX 7.1**

**News Categorization And Type Of CSD From 1998 To 2001 (Egypt)**

**ENVIRONMENTAL DISCLOSURE**

Category	Environmental policy	Environmental audit	Waste, packaging, pollution, etc.	Environmentally financially-related data	Energy	Environmental other
Incidences of disclosure (out of 279)	39	33	35	31	4	32
New Categorisation:						
Neutral	1	3	0	10	0	7
Good	38	30	35	21	4	25
Bad	0	0	0	0	0	0
Type of disclosure:						
Monetary	0	0	0	31	0	0
Quantitative	0	0	9	0	0	8
Declarative	39	33	26	0	4	24
Auditable	5	27	9	31	0	12

**CONSUMER/PRODUCT DISCLOSURE**

	Consumer/Product
Incidences of disclosure (out of 279)	81
New Categorisation:	
Neutral	8
Good	72
Bad	1
Type of disclosure:	
Monetary	19
Quantitative	0
Declarative	62
Auditable	21

**COMMUNITY DISCLOSURE**

	Community
Incidences of disclosure (out of 279)	14
New Categorisation:	
Neutral	3
Good	11
Bad	0
Type of disclosure:	
Monetary	2
Quantitative	6
Declarative	6
Auditable	10



VOLUNTARY EMPLOYEE-RELATED DISCLOSURE

Category	Consultation with employees	Health and safety at work	Employees' share ownership	Voluntary employee other
Incidences of disclosure (out of 279)	2	32	119	255
New Categorisation:				
Neutral	0	5	119	101
Good	2	25	0	148
Bad	0	2	0	6
Type of disclosure:				
Monetary	0	5	63	149
Quantitative	0	6	53	6
Declarative	2	21	3	100
Auditable	0	11	119	225

APPENDIX 7.2

News Categorization And Type Of CSD From 1998 To 2000 (UK)

ENVIRONMENTAL DISCLOSURE

Sub-Category	Environmental policy	Environ-mental audit	Waste, packaging, pollution, etc.	Environmentally financially-related data	sustainability	Energy	Environ-mental Other
Incidences of disclosure (out of 300)	239	179	211	38	41	47	159
New Categorisation:							
Neutral	235	178	140	34	33	34	100
Good	4	1	65	1	8	13	56
Bad	0	0	6	3	0	0	3
Type of disclosure:							
Monetary	0	0	2	19	0	0	2
Quantitative	0	0	47	8	4	10	8
Declarative	239	179	162	11	37	37	149
Auditable	11	173	92	30	5	16	17

CONSUMER/PRODUCT DISCLOSURE

	Consumer/Product
Incidences of disclosure (out of 300)	73
New Categorisation:	
Neutral	66
Good	5
Bad	2
Type of disclosure:	
Monetary	0
Quantitative	2
Declarative	71
Auditable	5

COMMUNITY DISCLOSURE

	Community
Incidences of disclosure (out of 300)	230
New Categorisation:	
Neutral	110
Good	120
Bad	0
Type of disclosure:	
Monetary	23
Quantitative	30
Declarative	177
Auditable	63



VOLUNTARY EMPLOYEE-RELATED DISCLOSURE

Sub-Category	VAS	Health and Safety at work	Equal opportunities	Employee other
Incidences of disclosure (out of 300)	2	196	215	229
New Categorisation:				
Neutral	2	135	202	142
Good	0	53	13	86
Bad	0	8	0	1
Type of disclosure:				
Monetary	2	3	0	1
Quantitative	0	15	0	3
Declarative	0	178	215	225
Auditable	2	60	13	9

MANDATORY EMPLOYEE-RELATED DISCLOSURE

Sub-Category	Employee (+ pension) data	Consultation with employees	Employment disabled of	Employees' share ownership
Incidences of disclosure (out of 300)	300	278	239	262
New Categorisation:				
Neutral	300	263	210	261
Good	0	15	29	1
Bad	0	0	0	0
Type of disclosure:				
Monetary	300	0	0	57
Quantitative	0	0	0	197
Declarative	0	278	239	8
Auditable	300	119	27	258

CHARITABLE DONATIONS DISCLOSURE (Mandatory)

		Charitable donations
Incidences of disclosure (out of 300)		275
New Categorisation:		
Neutral		273
Good		2
Bad		0
Type of disclosure:		
Monetary		275
Quantitative		0
Declarative		0
Auditable		275

CORPORATE GOVERNANCE DISCLOSURE (Mandatory)

	Corporate Governance
Incidences of disclosure (out of 300)	300
New Categorisation:	
Neutral	300
Good	0
Bad	0
Type of disclosure:	
Monetary	1
Quantitative	1
Declarative	298
Auditable	295

DIRECTORS' DATA DISCLOSURE (Mandatory)

	Directors' data
Incidences of disclosure (out of 300)	300
New Categorisation:	
Neutral	300
Good	0
Bad	0
Type of disclosure:	
Monetary	239
Quantitative	60
Declarative	1
Auditable	300



**APPENDIX 8.1**

**Average Volume And Incidence Of CSD For Each Size Group**

	Small size group (below average)	Small size group (Excluding KIMA)	Large size group (above average)
Total CSD	2.35 (100)	2.16 (100)	1.84 (100)
Mandatory CSD	1.25 (100)	1.22 (100)	0.63 (92)
Voluntary CSD	1.10 (99)	0.94 (99)	<b>1.21 (94)</b>
Environment- related CSD	0.09 (23)	0.08 (23)	<b>0.20 (53)</b>
Consumer/product -related CSD	0.09 (25)	0.09 (25)	<b>0.14 (42)</b>
Community- related CSD	0.26 (91)	0.27 (91)	0.13 (67)
Voluntary Community- related CSD	0.02 (4)	0.02 (4)	<b>0.04 (9)</b>
Employee-related CSD	1.73 (100)	1.53 (100)	1.21 (100)
Voluntary Employee-related CSD	0.76 (95)	0.59 (95)	<b>0.75 (91)</b>
Directors-related CSD	0.19 (91)	0.19 (91)	0.14 (78)

**Note:**

- Figures in brackets represent the percentage of companies in each size group disclosing in the relevant category.

## APPENDIX 8.2

### Average Volume And Incidence Of CSD For Each Industry Group

	Low-profile group	High-profile group	High-profile group (Excluding KIMA)
Total CSD	1.71 (100)	2.90 (100)	2.57 (100)
Mandatory CSD	1.07 (98)	1.16 (98)	1.10 (98)
Voluntary CSD	0.64 (97)	1.74 (98)	1.46 (98)
Environment-related CSD	0.03 (14)	0.22 (50)	0.22 (50)
Consumer/product-related CSD	0.01 (11)	0.21 (52)	0.22 (52)
Community-related CSD	0.22 (86)	0.25 <u>(85)</u>	0.25 <u>(84)</u>
Voluntary Community-related CSD	0.02 (5)	0.04 (6)	0.04 (6)
Employee-related CSD	1.26 (100)	2.05 (100)	1.70 (100)
Voluntary Employee-related CSD	0.46 (92)	1.13 (97)	0.84 (97)
Directors-related CSD	0.19 (87)	<u>0.16</u> (89)	<u>0.17</u> (89)

Note:

- Figures in brackets represent the percentage of companies in each industry group disclosing in the relevant category.



## **APPENDIX 9.1**

### **Outline Questions Addressed As Part Of The Interview Guide**

What are your perceptions of CSR disclosure?

- What does your company understand by the term “corporate social disclosure”?
- What does the company see as the key issues?

What are your perceptions of disclosure generally?

- Do you see an importance for corporate information disclosure to the public? Why? Why not?
- What are the key determinants of disclosure by your company?
- Do you see current disclosure practices/regulations sufficient and adequate?
- What are your company’s preferred forms of disclosure (annual report, special leaflets, stand alone reports, advertising etc.)? Why?
- What role do you see the annual report serving?

Why do companies report what they do in terms of social and environmental activities? In other words, why do they undertake CSR? Why not for other issues?

- From your point of view, do you see any importance for disclosing on social and environmental responsible activities and issues? Why? Why not?
- Does your company report on social issues? What issues if any?
- Why does your company report on these issues? Can you explain to me what led the company to decide on such a policy of (non) disclosure?
- Who are the principal target audiences for such disclosure?
- What are your views on the use of the annual report as a means for disclosing social and environmental information?
- What are you expecting from corporate social disclosure?

- Are there any issues on which the company would be likely to refuse to disclose? What sorts of issues and why?
- Have you any clear view why the company does NOT report on X, Y (Giving examples that are missing)?
- Why do you believe some companies use the annual report for disclosing on social and environmental information?

What are your perspectives as to future direction of CSR in Egypt?

- What do you see as the main issues on disclosure for Egypt?
- To what extent do you see social and environmental disclosure as important to Egypt and the Egyptian way of life?
- How do you see the future of CSR in Egypt?
- What mandatory requirements for social disclosures are there in Egypt at the moment?
- Would you support additional mandatory social disclosure? If so of what sort? Why/ Why not?
- What plans does the company have for further disclosure?

The above questions provide the basis for the issues and questions that the researcher would have ideally aimed and liked to cover if time and interest permitted. Other issues of relevance have also been raised such as the lack of governmental support as well as obstacles due to economic underdevelopment. The order in which the above questions were asked varied for different interviews but all interviews were begun with the first question listed above. Care was taken not to ask more than one question at a time. Moreover, the wording and phrasing of questions varied at some points where questions had to be asked unthinkingly to maintain the flow of the talk. However, the researcher ensured that they are worded clearly.