



TRENDS IN RESPONSIBLE BUSINESS PRACTICE AND SOCIAL ENTREPRENEURSHIP: AN OVERVIEW OF THE ARAB REGION

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The American University of Beirut
Suliman S. Olayan School of Business



The American University in Cairo,
Gerhart Center for Philanthropy
and Civic Engagement

The following partners, listed in alphabetical order, graciously financially supported this study:

Arab Fund for Arts and Culture
Arab Human Rights Fund
Aramex
Coca Cola
Danagas
Deloitte
Egyptian Corporate Responsibility Center
Emirates Foundation
Hikma Pharmaceuticals
King Khalid Foundation
Mansour Foundation for Development
Nestle
Silatech

In addition to the financial and in-kind support of the study's partners, the following individuals and organizations, listed in alphabetical order, provided the study's team with in-kind support, in the form of hosting interviews, focus groups discussions, and supporting with outreach to the study's target interviewees:

Alexandria Business Association
Amr El-Abd, SooraBook
Asma Mansour, Tunisian Center for Social Entrepreneurship
Jamil Wyne, Wamda Research Lab
Karim Samakie and Andrea Lorenzin, Oasis 500
Medea Nocentini, Consult and Coach for a Cause
Monaem Ben Lellahom, Sustainable Square
Nazer Group

This report would not have been successful without the dedication and support of its team of authors and researchers, listed in alphabetical order:

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We are especially grateful to Ms. Ghuzayyah Hjazi and Ms. Noaf Hijazi of Analyseize who led the study's data collection, synthesis, and analysis.

We are also immensely grateful for the invaluable technical advice and support of Dr. Tony Sabbagh and Ms. Amal Ghandour.

Special thanks go to the report's technical editor, Ms. Nihal Sharara, and graphic designer Mr. Ahmed Aiyad, Tycho.

EXECUTIVE SUMMARY

This report presents the results of the first of its kind study specifically designed to investigate the evolving understanding and practice trends of corporate responsibility (CR) and social entrepreneurship in the Arab region. Research objectives were to identify trends in CR and social entrepreneurship; understand and assess the enabling environment; provide recommendations for future engagement; and use research results to stimulate dialogue and exchange best practices. The study was implemented over a 14-month period by a partnership composed of Ahead of the Curve (ATC), The American University of Beirut (AUB), represented by the Olayan School of Business; and The American University in Cairo (AUC), represented by the John D. Gerhart Center for Philanthropy and Civic Engagement.

The study targeted decision-makers and stakeholders in the CR and social entrepreneurship fields in Egypt, Jordan, Lebanon, the Kingdom of Saudi Arabia (KSA), Qatar, Tunisia, and the United Arab Emirates (UAE). Adopting a qualitative approach, the study relied on focus group discussions (informal roundtable discussions); and in-depth interviews (one-to-one discussions).

I. Corporate Responsibility: In the field of CR, a total of 124 in-depth interviews and 8 focus group sessions were conducted with decision-makers/upper management of private sector companies in the 7 countries. The majority of companies were large, with the exception of Tunisia where the majority were SMEs, and Qatar where an equal number of large companies and SMEs were interviewed. A large proportion of the sample is focused in the services sector (Jordan, Qatar, Egypt, and Lebanon), while the majority of companies in the KSA are conglomerates, and a large proportion in Tunisia are in the ICT field. Most of the companies were either local or national in nature.

1. Good Governance: The study examined company governance and transparency practices, including CR management models and practices, sustainability reporting and stakeholder engagement. The vast majority of companies reported having a board in place (all of the companies in the UAE), for family-owned businesses it may be composed of family members. Of the companies that reported having a BoD, the vast majority reported also having governance codes and guidelines, which appears more influenced by company size than by geographic scope of operations. Companies with a BoD and governance codes and guidelines are mostly large companies with senior management represented on the board. Around half of companies with a BoD reported having an independent member on their Board (with the UAE and Lebanon having the highest number of companies with independent board member representation); this was minimal in Egypt, Qatar, Tunisia and Jordan. Companies that have senior management representation on the BoD, an independent member, or an environmental, social and governance (ESG) board member are mostly large in size.

Investigating whether companies have a designated position for managing CR, the study found that a minority of companies did not have any position or department to coordinate CR and sustainability efforts. The remaining companies were divided into those that have created a function and department/division that is dedicated to CR and a much larger proportion that allocate the CR function to other already existing departments and functions within the company (this varied across the sample). The majority of large companies (and conglomerates) have a designated person handling CR function (most common in the UAE, rarest in Jordan, KSA and Lebanon), while only a small minority of SMEs do so. In the case of smaller companies, CR functions tend to be distributed among multiple existing departments (including Human Resources, Marketing, and in some cases the company's Chief Executives).

The majority of companies reported adopting some type of management system, belonging to several main categories: General Business Performance and Quality; Environmental, Social and Governance performance; Environmental Performance; Health and Safety; and sector-specific management systems; under all categories, the International Organization for Standardization's (ISO) Systems were the most commonly adopted ones. Most companies that adopt management systems report having more than one, with the majority adopting them for business performance and quality management purposes. Many companies adopt sector specific, health, safety, and environmental performance related management systems, with only a small minority adopting comprehensive standards encompassing environmental, social and governance performance together. The majority of companies that adopt management systems are large companies - with only a few SMEs - mainly in the health and pharmaceutical, agriculture, and energy sectors; a minority of smaller manufacturing, construction and real-estate companies do not adopt management systems. Compliance with responsibility standards and initiatives was not common. A minority of mainly large companies comply with standards and initiatives such as the Global Reporting Initiatives (GRI) Sustainability Reporting Standards and the United Nation's Global Compact (UNGC) Principles.

The levels of reporting and transparency across the entire cohort of interviewed companies remain minimal, however; this reflects the state of corporate accountability in the region, and the need to drive an accountability agenda forward. As for transparency, the majority of companies do not issue sustainability reports; those that do are mainly large in size or multinationals. The UAE had the largest number of reporting companies. Regarding stakeholder engagement, the majority reported engaging at least one stakeholder group in some way. Stakeholder engagement methods include: direct meetings; electronic communication (emails, internal communication channels, and social media); surveys; phone calls and SMS; and events. Slightly more large companies reported engaging with stakeholders, as compared to SMEs. Most of the companies focus on engaging shareholders, employees, and clients on topics centered on business performance and employee performance and needs. Some companies reported engaging with suppliers, while only a very limited number engage with local communities about the impact of their company's operations, or their social investment projects. An even lower number reported conducting a comprehensive stakeholder engagement exercise that covers their entire operation; those that do so believe in the value of this practice.

2. Human Resource Management: The study examined the status of Human Resource Management (HRM), and assessed the HRM practices that are in place, including employee compensation, negotiation mechanisms, employee Health and Safety measures, employee training and capacity building, and company efforts to secure a culture that ensures equal opportunity and supports diversity and non-discrimination. The majority of companies confirmed having a human resource policy; with HRM policies more prevalent in large companies than in small and medium sizes ones, independent of the scope of operations or sector. The majority of companies abide by local standards for wages and benefits, with only a few complying with international standards (mainly multinationals in the consumer goods and ICT and media sectors, in the UAE, Egypt,

Lebanon and Tunisia). Insurance (mainly health insurance and medical coverage) is the most dominant type of employee benefit in all companies, followed by bonus systems and family benefits, in all countries, with the exception of Egypt. Instead, large local companies and SMEs in various sectors in Egypt tend to offer employees interest free loans or money in cases of emergencies or need. Retirement plans were prevalent in Jordan and Lebanon; with transportation benefits commonly found in Egypt, Tunisia and Lebanon. For companies in Qatar, UAE and KSA that rely heavily on a foreign labor force, housing accommodation and free home travel are significantly prevalent employee benefits, not found in Lebanon, Tunisia, Egypt and Jordan. Benefits packages that go beyond the regional norm were mainly offered by multinational companies. There is a visible difference in employee benefits between high-income countries (Qatar, the UAE and the KSA) as opposed to middle-income countries (Lebanon, Tunisia, Egypt and Jordan).

More than half of the companies interviewed confirmed having mechanisms for receiving feedback between workers and management. The most dominant mechanisms of receiving feedback between workers and management across the sample of companies are not anonymous, and are based on one-on-one interactions. Formal feedback and negotiations through committees was commonly reported in Tunisia, which also leads in labor union representation.

Most companies confirmed training employees in health and safety procedures (mainly in UAE, Qatar and Egypt, less so in KSA, Tunisia and Jordan), almost equally prevalent in large companies and SMEs and mostly prevalent in multinational companies, mainly in the energy, construction and real estate, and health and pharmaceuticals sectors. The majority confirmed providing employees with required health and safety equipment. The riskier the operations of the company, the more the company abides to strict rules for H&S. Adherence to health and safety protocols is linked to industry type. The vast majority of companies confirmed investing in general employee training, in all seven countries, in both large companies and SMEs, and across companies operating across different geographic scopes (multi-national, regional, local). Surveyed companies in the GCC have more advanced and costly training programs, with the UAE leading in this area.

Close to half of the companies interviewed confirmed adopting a non-discrimination and equal opportunity policy, which was not significantly prevalent across the seven countries, and is mostly evident in large multi-national companies. With regards to preference for local recruitment in the UAE, Qatar and KSA, several companies do so in conformity with national government laws. Women obtained fewer employee benefits than men in some of the companies interviewed; such discriminatory practices were least prevalent in Tunisia. A significant percentage of companies commented on having non-discrimination hiring practices in relation to gender, race, religion and disabilities that are enforced by government regulations. Only half of the companies interviewed confirmed tracking diversity in terms of gender, religion, nationality and age most notably in the UAE, Egypt and Qatar.

3. Environmental Performance: The majority of companies interviewed confirmed having a green office policy. A minority of companies confirmed compliance with environmental standards and/or having environmental certifications (mainly large and multinational companies in the agricultural and energy sectors). Egypt leads in compliance, followed by the UAE; potentially the result of more prevalent energy crises and governmental regulations in these countries respectively. Lebanon and KSA demonstrated the lowest adherence to environmental standards. Tracking material use (raw or packaging materials) was not widespread, with less than half of the sample having this practice, mainly large companies in the energy and health and pharmaceuticals sectors. Half of the sample confirmed tracking overall energy consumption, mainly large companies in the energy, manufacturing and agricultural sectors. Half of the sample tries to provide energy-efficient or renewable energy based products and services. Engagement in these types of initiatives is mainly found in large companies; in the agriculture, manufacturing and energy sectors.

While there are companies that are exerting various efforts to reduce emissions, these efforts are still nascent, not very innovative, and mainly limited to simple exercises. Tracking carbon footprints is not a common practice for the companies that were interviewed, but it was present in large companies and multinationals, in the energy, manufacturing, and healthcare sectors. Only a minority of the companies interviewed (mainly large multinationals) confirmed that they track the environmental impact of the modes of transportation they use (over half of the companies interviewed in Egypt do so). Tracking water usage was uncommon, and mostly prevalent in the agriculture sector, followed by the healthcare, and energy sectors.

4. Human Rights and Supply Chain Management: A minority of the sample have implemented a policy that gives preference to locally based suppliers. The majority of companies that adopt such policies are large companies with more than 250 employees. In terms of actual practice, the majority of companies that practice a preference for local suppliers are large companies (located in Jordan and Qatar). The main reasons stated for preferring locally based suppliers (especially in Jordan, Lebanon, Egypt, Tunisia and the KSA) were convenience and efficiency, supporting the local economy, and feasibility and cost effectiveness. More binding reasons such as government regulations and legal requirements were found in companies operating in the KSA and UAE. In Qatar and UAE - and in Egypt - supporting the local economy was a main driver for preferring local suppliers. The majority of companies interviewed in Jordan, Egypt, UAE and the KSA reported that the lack of availability of local suppliers that meet quality standards is a major barrier; other reasons included lack of local availability of materials and lack of price and cost effectiveness.

Only a minority of the sample confirmed having procedures in place to evaluate and select suppliers according to their ESG performance (mainly large companies, half of whom are multinationals). In Egypt, Qatar and the UAE, there was an equal split between companies that screen suppliers based on ESG performance, and those that do not, with only a minority doing so in the KSA and Tunisia. Only a minority of companies interviewed confirmed having a system for tracking the potential or actual negative impact of their operations on the local community (in Egypt, Jordan and the UAE), the majority of whom are large companies, some multinational. The majority of agriculture companies interviewed also reported tracking the impact of operations on surrounding communities.

5. Social Investment: the majority of companies engage in some form of social investment, with a minority solely engaged in charitable activities. The majority does not have an institutionalized social investment program or structure. Those that do are mainly large regional companies, with some multinationals. Across all countries, companies that run social investment programs are equally divided into those that set an annual budget for such initiatives and those that do not (with the exception of Tunisia where the majority of companies do not). Most companies in Qatar, Lebanon and the UAE have an annual budget for social investment programs. The majority of companies with pre-set social investment budgets are large, with a minority of SMEs. Local companies are less likely to have a set annual social investment budget, whereas their regional and multinational counterparts were significantly more likely to do so. The majority of companies engage in multiple sectors mainly community development, entrepreneurship and employability, and education. Most companies engage employees in their social investment activities, only one third of whom do so in the form of an institutionalized corporate volunteering program (mainly large companies). There is no notable difference among local, regional or multinational companies in that regard. A general observation is that executives are reluctant when it comes to tying core business to social investments, implying that social investments should be for purely 'social' purposes.

6. Benefits & Challenges: Corporate benefits are the main reasons for adopting a framework for CR in all the seven countries, including benefits related to brand image and human resources, and in a distant second place competitiveness and cost; and to a lesser extent those affecting the supply chain. From a social viewpoint, a positive impact on the community was found to be a significant social benefit to CR activities in all seven countries observed. Local challenges and lack of cultural awareness of CR as a comprehensive notion and its benefits are found to be, by far, the most common challenges, followed by lack of government support, dealing with government bureaucracy (Lebanon and Egypt); challenges relating to environmental compliance; lack of resources; increased costs; and finally lack of company strategy.

II. Social Entrepreneurship: A total of 33 in-depth interviews were conducted with the founders of social enterprises, with a focus on social enterprises that aim at achieving social impact using a financially viable business model. While we were able to identify numerous social enterprises in countries like Egypt, Lebanon, Jordan, and the UAE, social enterprises were minimal in countries like the KSA and Qatar. Social enterprises were involved in a variety of sectors, including education, handicrafts, services, environment, agriculture, healthcare, food, tourism, and microfinance. The majority of interviewees were between the ages of 26 and 35 years of age; the vast majority of the was well educated, with 58 percent holding an undergraduate university degree, 39 percent holding a Master's degree and only 3 percent having a secondary or high school degree alone.

Most of those interviewed started their enterprise with one or more business partners; typically friends or former colleagues. The majority of entrepreneurs worked with the private sector prior to starting their own enterprise. The majority of entrepreneurs in our sample based their business model on selling products or services to affluent consumers and, in some cases, companies. Almost all had gone through multiple iterations of their business models before reaching viable and potentially scalable ones. None of the interviewed entrepreneurs, however, had adopted more innovative models that successfully target marginalized segments of society as consumers. Moreover, only a few of the interviewed enterprises have actually scaled their operations and impact to date. Half of the interviewed entrepreneurs started their enterprises using their own money. A few of them continue to rely on their own savings. Remaining entrepreneurs raised finances from a multitude of sources including grants, competition awards, friends and family, among others. Entrepreneurs reported obtaining financing from different sources, including revenue from sales; and grants and/or awards from the private sector, donor organizations, social entrepreneurship support organizations, and in a few cases, governmental organizations. Only three entrepreneurs reported raising additional capital from investors to expand their enterprise.

Social enterprise responsibility practices addressed in the study include governance, stakeholder engagement practices, sustainable human resource management (HRM), environmental sustainability, and social impact articulation, monitoring and evaluation. Results reveal that with the exception of a few, all of the interviewed enterprises consciously adopt at least one sustainability practice. While most of the interviewed enterprises had boards in place, a few reported the presence of active and constantly engaged ones. With regards to stakeholder engagement, nearly half engaged their stakeholders either at inception to better understand their needs, or after launching products or services to gather their feedback. With regards to sustainable HRM, entrepreneurs highlighted the uniqueness of the working environment, employee empowerment, and fair wage practices. With regards to environmental sustainability, some enterprises were created specifically to deal with the region's environmental challenges. Some entrepreneurs were involved in initiatives like tree planting, waste tracking, paper recycling and water conservation. Despite the notable presence of these sustainability practices, the level and rate remain low. All of the social enterprises in our sample, with the exception of one, had clearly articulated impact statements. However, the vast majority only has a basic monitoring system in place.

Social entrepreneurs identified a number of challenges facing them and their businesses, including in the area of financial and human resources, lack of public awareness of what social enterprises are, cultural issues, stakeholder buy-in, lack of support organizations for social enterprises, difficulty forging partnerships, business challenges, and political, governmental and legislative challenges. When asked about the factors and opportunities that helped them overcome challenges they encountered during their journeys, they identified the following strengths: Personal traits, support models, partnerships, human resources, business models, and pro-bono advice and mentorship.

Social entrepreneurs recommendations for enhancing the current ecosystem include an increase in impact funds, low-interest rate loans, and angel investors who are aware of social entrepreneurship and its particular investment needs. Enhancing stakeholder awareness of social entrepreneurship was also an important theme, as was the regulatory environment. Some entrepreneurs viewed the introduction of a specific legal registration status for social enterprises, accompanied by more conducive regulations, as necessary. Other entrepreneurs called for a more effective policy advocacy landscape. In the Gulf, social entrepreneurs would like to see more support organizations in the form of incubators and accelerators that specifically focus on social enterprise, as well as more networking opportunities. Other changes that social enterprises would like to see include affordable business service offerings, an enhanced educational system, more collaboration and partnerships among different stakeholders, and academic involvement in issues related to social entrepreneurship including: impact definition and measurement, needs assessments and other relevant research areas.

RESEARCH DESIGN

A. Approach

This report presents the results of the first of its kind study specifically designed to investigate the evolving trends of corporate responsibility and social entrepreneurship in the Arab region. As such, it provides a unique insight into the realities, opportunities and challenges of corporate social responsibility practice in this part of the world. The research was designed to address the following four objectives:

- Identify trends in corporate responsibility and social entrepreneurship;
- Understand and assess the enabling environment available for this kind of work;
- Provide recommendations for future engagement; and
- Use research results to stimulate dialogue and exchange best practices.

The study targeted the following seven Arab countries: Egypt, Jordan, Lebanon, the Kingdom of Saudi Arabia (KSA), Qatar, Tunisia, and the United Arab Emirates (UAE). While these countries may exhibit differences in many of their social, political and economic conditions, they share many of the same cultural values, and as a group they provide a broad perspective on responsible business conduct in the region. They are also experimenting with different corporate responsibility initiatives, and various manifestations of social entrepreneurship.

The study was implemented over a 14-month period by a partnership composed of Ahead of the Curve (ATC), The American University of Beirut (AUB), represented by the Olayan School of Business; and The American University in Cairo (AUC), represented by the John D. Gerhart Center for Philanthropy and Civic Engagement.

B. Methodology

The study's two main target groups were decision makers in the corporate responsibility fields, and founders of social enterprises in the seven countries of focus. The study relied on a qualitative approach utilizing focus group discussions (FGDs) in the form of informal roundtable discussions, and in-depth interviews in the form of one-to-one discussions.

In-depth interviews provided semi-structured discussions that revealed subjects' thoughts and underlying reasoning, and allowed for detailed exploration of their knowledge, attitudes and behavior. Focus group discussions enabled groups of individuals with common interests or characteristics to discuss and explore their perceptions, opinions, beliefs and attitudes towards corporate responsibility. This qualitative approach allowed researchers to explore attitudes and perceptions with greater depth and nuance than a purely quantitative approach.

Research Methodology Highlights

Duration: Fieldwork was conducted over a 14-month period, between January 2013 and March 2014.

Research Tools: Discussion guides were designed collaboratively by ATC, AUB and AUC.

- **Corporate Responsibility:** One interview guide and one focus group guide were developed for senior company executives.
- **Social Entrepreneurship:** One interview guide was designed for social entrepreneurs.

Sample Size and Selection:

- **Corporate Responsibility: 124 in-depth interviews and 8 FGs were conducted.** The recruitment of research subjects took place through an in-depth screening process; taking into account respondent position, company type, size, location and industry. A detailed letter outlining the research objectives was sent by email to potential respondents, followed by telephone calls to provide further details, and scheduling of interviews.
- **Social Entrepreneurship: 33 in-depth interviews were conducted.** Given the infancy of the sector, a snowballing technique was utilized. Researchers conducted desk research and reached out to organizations that support social entrepreneurship for assistance in identifying social enterprises that are financially viable and social-mission driven. A detailed letter outlining the research objectives was sent by email to potential respondents, followed by telephone calls to provide further details, and scheduling of interviews. Entrepreneurs who were interviewed were requested to recommend other enterprises for participation in the study.

Confidentiality & Ethical Practices: Prior to the interviews, all participants signed a written consent form confirming their willingness to participate in the research. This encompassed audio recording, and guaranteed the confidentiality of the recordings (intended purely for transcription purposes). Any dissemination, distribution, or copying of the audio recordings was strictly prohibited, and all recordings were destroyed upon conclusion of the study.

Documentation of Findings:

- Both in-depth interviews and focus group sessions were recorded in Audio MP3 format.
- All focus groups and in-depth interviews were transcribed using the audio recordings. All transcripts are in English.
- When required, recordings made in Arabic or French were translated into English during the transcription process.

Duration of Interviews:

- **Corporate Responsibility:** The duration of the interviews ranged from 60 minutes up to 140 minutes, depending on the respondent's enthusiasm as well as the amount of information shared.

- **Social Entrepreneurship:** The duration of the interviews ranged from 60 minutes up to 90 minutes, depending on the respondent's enthusiasm as well as the amount of information shared.

Incentive for Participation: No incentives were offered to participants.

Data Grouping & Analysis: Qualitative Content Analysis was used to group transcripts and analyze research findings. Transcripts were examined separately and grouped by arranging the text into content units, placing them into categories that were carefully created and revised by the research team during the analysis process, and based on emerging themes. Grouping and sorting data into categories was carefully conducted by a team of experienced researchers, in order to allow the use of quantitative methods of analysis, without jeopardizing the qualitative nature of the findings.

C. Research Challenges & Limitations

The study presented various challenges to the research team, primarily in the recruitment of participants, the large sample size, and participant's limited technical knowledge of the issues being addressed.

Participant Recruitment is often a major challenge in studies involving human subjects; particularly senior-executives. Recruitment involves various activities, including: identifying eligible participants, adequately explaining the study to them and recruiting the required sample based on the segmentation design. The main challenge faced during the course of the research was related to recruitment, including the following challenges:

- Recruitment of the research participants took longer than anticipated; disrupting the timetable for the research project.
- Reaching out to senior-executives and decision makers required special recruitment efforts including background research on the companies, telephone interviews, involvement of AUB and ATC and the study's partners in reaching out to personal contacts, as well as a detailed letter outlining the objectives and details of the research. One of the main challenges included a high non-response rate by potential participants.
- Recruitment limitations resulted in a challenge to meet the sample size; this is especially the case in countries such as the Kingdom of Saudi Arabia and Tunisia.
- Recruitment challenges also resulted in a difficulty in recruiting enough participants to adequately represent the target population in each country. Whenever possible, the Research Sample took into consideration the sectors predominant in each country. Nevertheless, recruiters had little control over the number of companies interviewed per sector; due to the above-mentioned challenges.

In terms of Data Analysis, the large qualitative sample size coupled with highly open-ended and explorative interviews resulted in a significant amount of text to be categorized and analyzed. This required a lengthy process including a large research team working on extractions and coding.

With regards to terminology, certain terms covered throughout the interviews were unfamiliar to the participants. In many cases, the comprehensive topic of sustainability in terms of governance, environmental, economic and social performance, was not entirely understood by the interviewees, who directed the discussion's focus to social investments.

The scope of this report only covers data and information shared by interviewees (senior management and those qualified to speak on behalf of their companies on these issues). Desktop research to verify or extract additional information related to the companies' sustainability performance was not part of the study's scope, and would have been a challenge given the large number of in-depth interviews conducted.

With regards to Social Entrepreneurship, while we were able to identify numerous social enterprises in countries like Egypt, Lebanon, Jordan, and the UAE, we found it very difficult to recruit entrepreneurs in KSA and Qatar. We struggled to identify five social businesses in KSA and Qatar, and response rates we received meant that we were only able to interview four entrepreneurs in Qatar, and three entrepreneurs in the Kingdom of Saudi Arabia.

CORPORATE RESPONSIBILITY

The overarching objective of the study is to understand the degree to which the region's private sector is driven as much by stakeholders as they are by shareholders. Further to that, this study was used to gain a deeper understanding of how companies approach governance, human resource management, supply chain management, environmental performance and community engagement, all of which are key pillars of a responsible business.

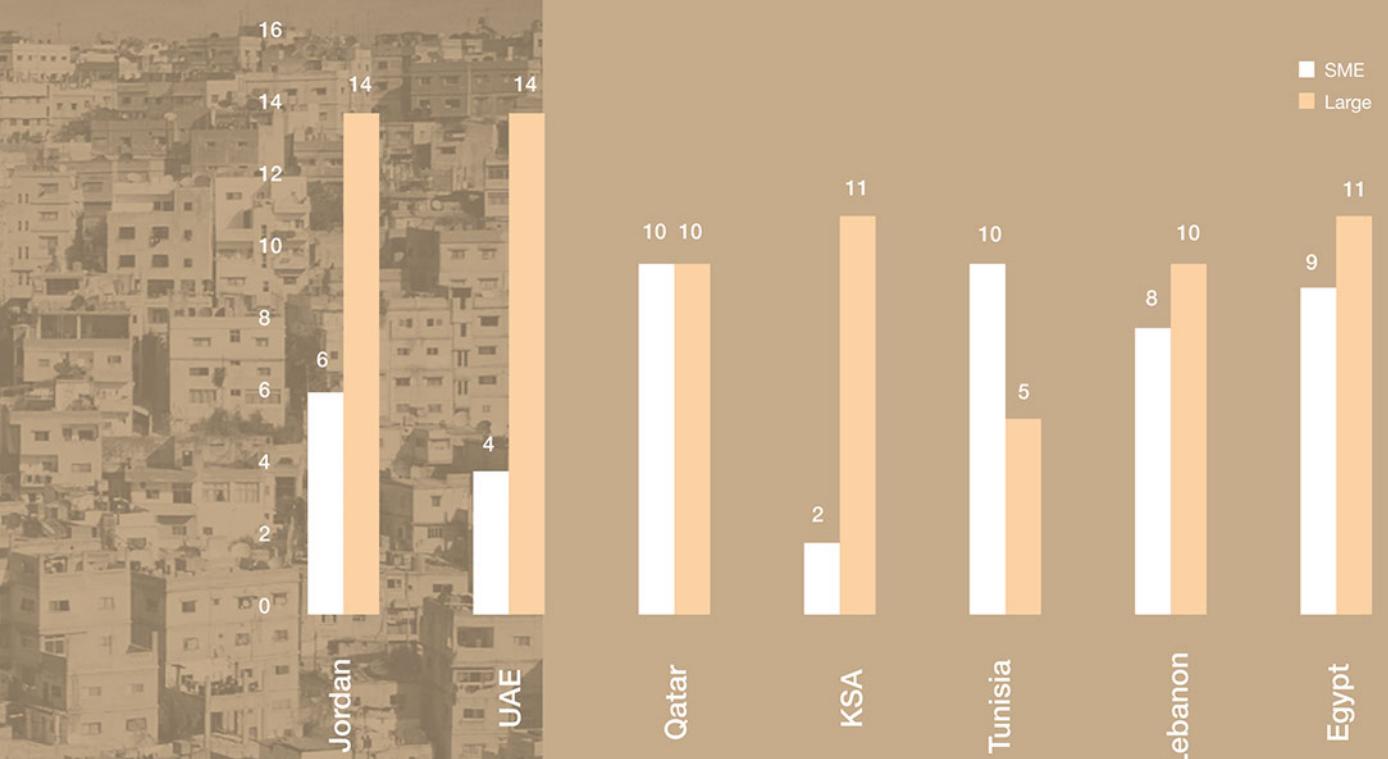
A total of 124 in-depth interviews and 8 focus group sessions were conducted. The main stakeholders were representatives of private sector companies in Egypt, Lebanon, Jordan, Qatar, UAE, KSA and Tunisia. All research respondents were decision makers, holding senior positions or in upper management. Several CEO's General Managers were interviewed, particularly during small and medium enterprise (SME) interviews. Where possible, interviews were scheduled with the designated person managing corporate responsibility and sustainability efforts. Figure 1, below, provides the structure of the sample by country, company size and sector of activity.

Figure 1



- The segmentation of the 124 in-depth interviews by country and size.

Figure 2



- Company segmentation according to whether companies are local, regional or national in nature. Most of the companies participating in the research study were either local or regional.

Multinational
Regional
Local

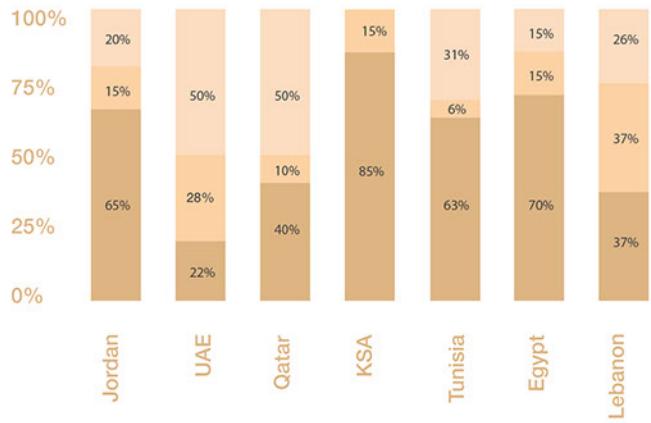
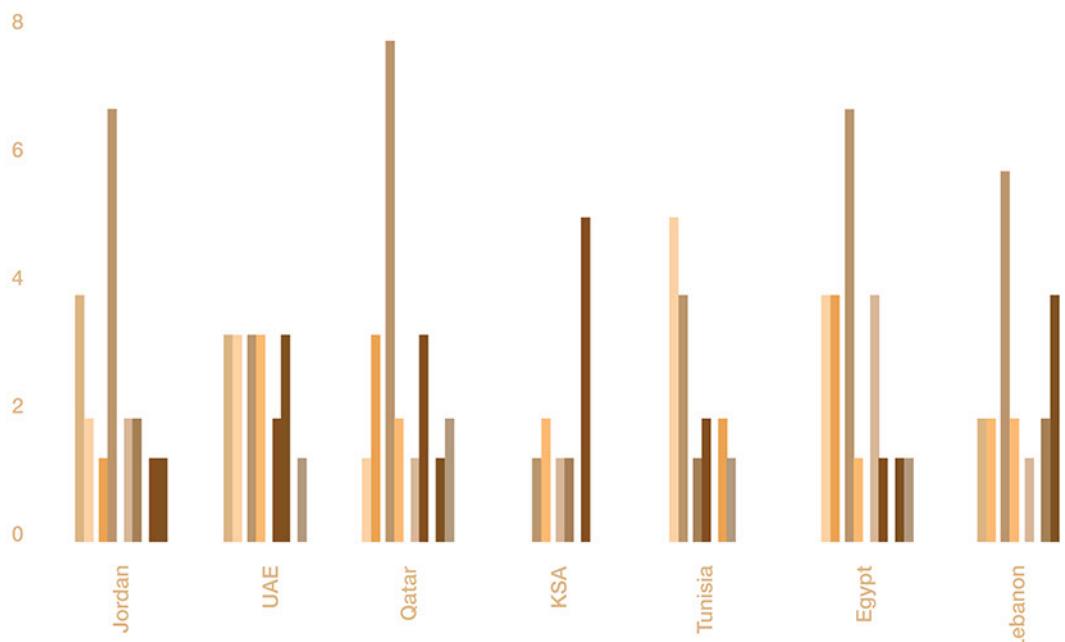


Figure 3

- The segmentation of companies by sector of activity.

Figure 4

Consumer Goods
ICT & Media
Agriculture
Services
Construction & Real Estate
Manufacturing
Healthcare & Pharmaceuticals
Conglomerates
Financial Services
Energy





1

GOOD GOVERNANCE AND ACCOUNTABILITY

The significance of good governance and accountability to the Arab region's private sector is manifold. On the one hand, the region's private sector is dominated by family-owned businesses¹ that are currently undergoing, or will soon undergo, a generational shift. This poses significant threats to a company's sustainability, continuity, and sound decision-making ability². In fact, managing succession remains at the forefront of challenges facing the region's family businesses³.

On the other hand, governmental and non-governmental actors are currently focused on bolstering the region's Small and Medium Enterprise sector (SME). There is, in fact, an upsurge in small enterprises that can potentially grow into medium-sized ones. The importance of good governance at the SME level is often overlooked, making this growing segment of enterprises susceptible to corruption and irresponsible practices⁴.

Finally, transparency, integrity and exclusive economic growth are deeply intertwined root-causes of sociopolitical transitions the entire MENA region is currently witnessing⁵.

1- Korn Ferry Institute (2011). Business Leadership in the Arab World. Retrieved from: <http://goo.gl/4eF2wb>

2- Dickinson, M. (2014). "Being an 'agent for change'." Khaleej Times. Retrieved from: <http://goo.gl/mlqOOV>

3- Pricewaterhousecoopers (2013). "The Family Firm: Central to the success of the Middle East." Retrieved from: <https://goo.gl/V0MtpY>

4- Jafar, B. (December 7, 2014). "Starting up a culture of good corporate governance." National. Retrieved from: <http://goo.gl/KIP9kk>

5- Nadal, N. (2013). "Corporate governance post "Arab spring" in the Middle East and North Africa." Law in Transition. Retrieved from: <http://www.ebrd.com/downloads/research/law/lit13eg.pdf>

A well-governed and accountable private sector is fundamental to sustaining the region's current value creation capacity, and more importantly, to driving it forward. The journey for good governance starts off with the incorporation of functional boards and clear efficient guidelines that ensure responsibility and accountability towards a company's stakeholders. Accountability, however, cannot be achieved without transparency⁶.

This section discusses the cornerstones of ensuring sustainability, responsibility, and accountability, namely: A) Governance practices, B) Transparency practices in the form of Sustainability Reporting and Stakeholder Engagement; and C) CR Management and commitments.

A. CORPORATE GOVERNANCE PRACTICES

1. Having a Board of Directors (BoD)

The value of corporate governance in sustaining the private sector's role in economic value creation within the region is a topic that has been on the sustainability agenda for the past 10 years.⁷ Local and regional organizations like Hawkamah⁸ and the Pearl Initiative⁹ in the UAE, the Egyptian Institute of Directors (EIoD)¹⁰ in Egypt, as well as international organizations such as the International Finance Corporation (IFC)¹¹ and the Center for International Private Enterprise (CIPE)¹² have been leading the way and advocating for the adoption of good governance practices.

One component of effective corporate governance is the presence of a Board of Directors (BoD). As shown in Figure 5, below, the vast majority of companies interviewed reported having a board in place. Some of the interviewed family businesses reported that while a BoD exists, it is composed of family members who are the owners and managers of the company.

► Companies that have a Board of Directors

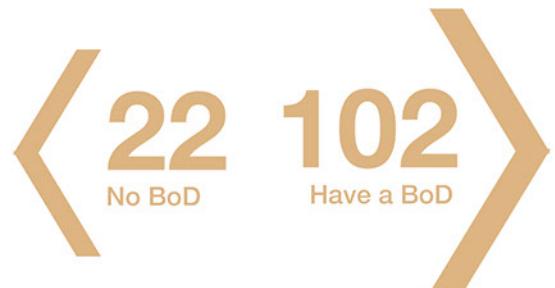


Figure 5

6- Jafar, B. (April 5, 2015). "Badr Jafar: Corporate accountability leads to sustainability." The National. Retrieved from: <http://goo.gl/94Mlms>

7- Nadal, N. (2013). "Corporate governance post "Arab spring" in the Middle East and North Africa." Law in Transition. Retrieved from: <http://goo.gl/kcasLg>

8- <http://www.hawkamah.org/>

9- <http://www.pearlinitiative.org/>

10- <http://www.eiod.org/Codes.aspx>

11- <http://goo.gl/EMZEQP>

12- <http://www.cipe-arabia.org/>

In the case of family businesses that are currently witnessing a generational shift, where the second generation is succeeding the company's founders, interviewees reported that they are working to enhance their governance structure.

“Like any small business, a company starts by being centered on a specific person, but it needs to move beyond that to become a real institution. You have to develop policies, procedures, and systems, so that the company transforms into an institution that continues beyond the lifetime of the founder.” SME, Services Sector, Jordan

These companies also realize that standardizing governance procedures is a challenging process that requires several cultural changes. As one large Egyptian company's representative told us:

“It’s a fundamental change in our corporate culture that represents a separation between ownership and management. It creates new challenges, like how to recruit the right ‘outsiders’. I’m currently trying to identify the right person to be Board Secretary. Transparency is another issue, and I’m concerned about what to disclose and what not to disclose. It also requires a shift in internal data management. We’re not used to producing the required data in the right way and at the right time. These are all inevitable changes if we want the company to sustain itself beyond the lifetime of the founders, but how my father and uncles will react is still unclear.” Large Local Company, Agricultural Sector, Egypt

► Enterprises with a BoD (by Size)

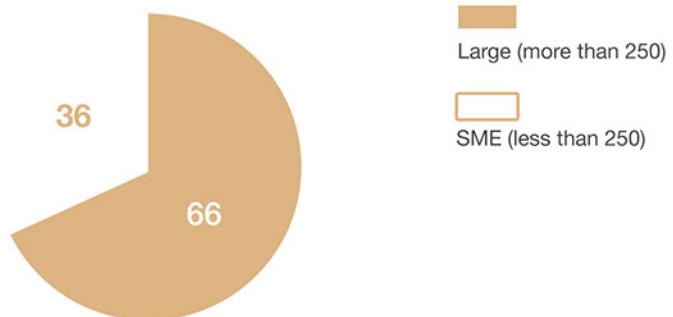


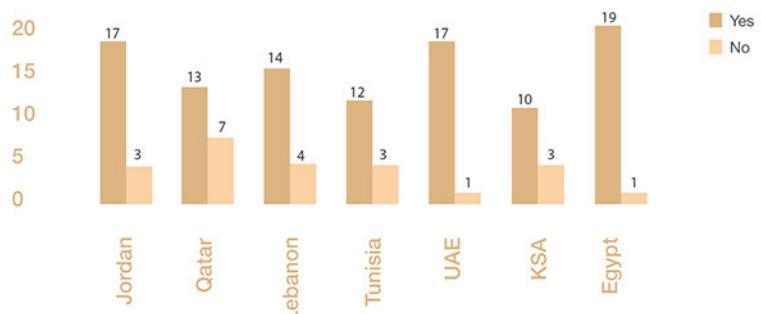
Figure 6

A minority of the companies represented in our sample did not have functional governance structures. Only 8 of the companies interviewed in the large size category do not have a board in place. Figure 6 shows those enterprises with a BoD, by size of enterprise. Figure 7, below, provides a breakdown of enterprises with a BoD by country.

As Figure 7, below, demonstrates, the UAE was the only country where all interviewed companies reported having a BoD, with the exception of one company that was in the process of finalizing its governance mechanisms at the time of the interview. The vast majority of interviewed companies in all remaining countries also reported having a BoD; with the exception of Qatar where 7 out of the 20 interviewed companies reported not having one.

► **Companies that have a Board of Directors (by Country)**

Figure 7



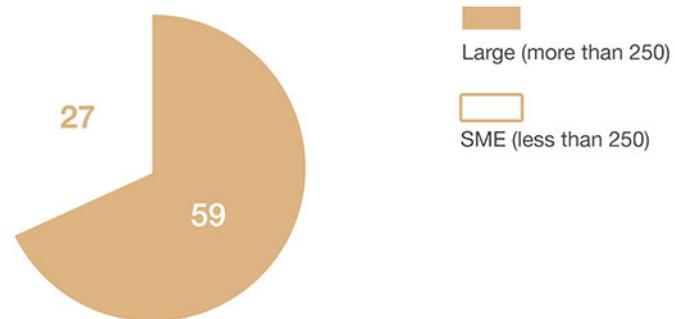
Of the interviewed small companies without proper governance structures it is notable that a number of them do realize the shortcomings of such a practice. The representative of a local SME in the services sector in Lebanon stated, "Not having a proper board in place means that we sometimes make mistakes without realizing it. Not only do we not follow a proper decision making procedure, but we don't have an outsider's perspective either."

2. Governance Codes and Guidelines

Of the companies that reported having a BoD, the vast majority reported also having governance codes and guidelines. Adopting good governance standards is highly influenced by size (Figure 8), rather than geographic scope of operations (Figure 9) and whether companies are local, regional or multinational in nature; companies that have a BoD and governance codes and guidelines are mostly large companies.

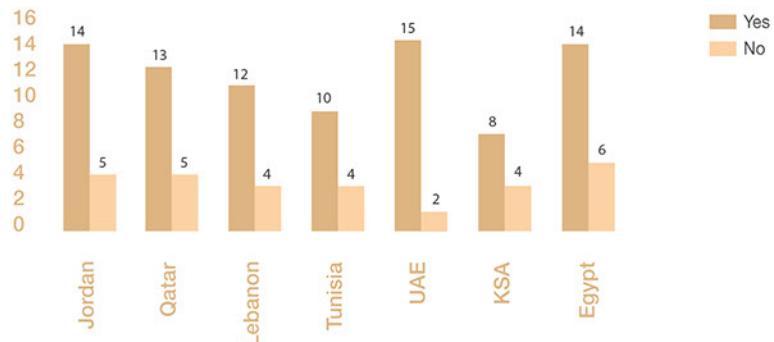
► Enterprises with Governance Codes & Guidelines (by Size)

Figure 8



► Company Governance Codes - Guidelines (by Country)

Figure 9

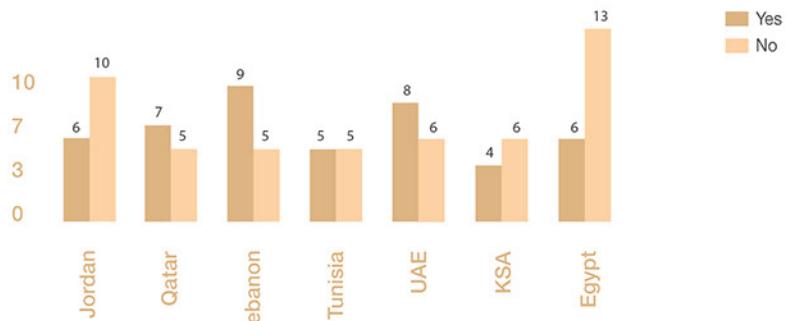


3. Board Composition

The vast majority of companies that reported having a BoD also reported having senior management represented on the board. All BoDs of companies interviewed in Egypt and UAE included representatives of senior management.

► Independent Board Member (by Country)

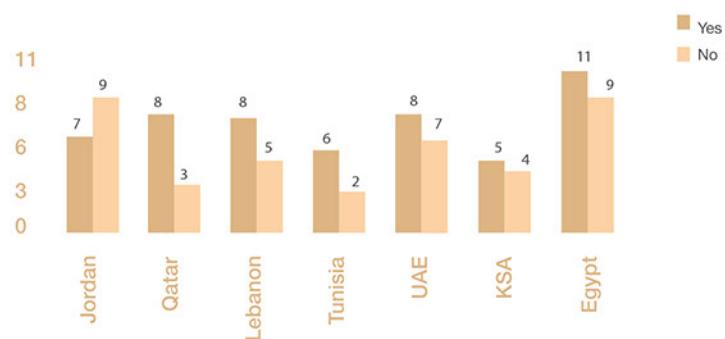
Figure 10



As Figure 10 demonstrates, practices differed regarding the representation of independent (non-executive and non-shareholder) members on BoDs. Around half of companies with a BoD (n=45) reported having an independent member on their Board. The UAE and Lebanon had the highest number of companies with independent board member representation. In countries like Egypt, Qatar, Tunisia and Jordan, the practice of having an independent board member was minimal.

► **ESG Board Member (by Country)**

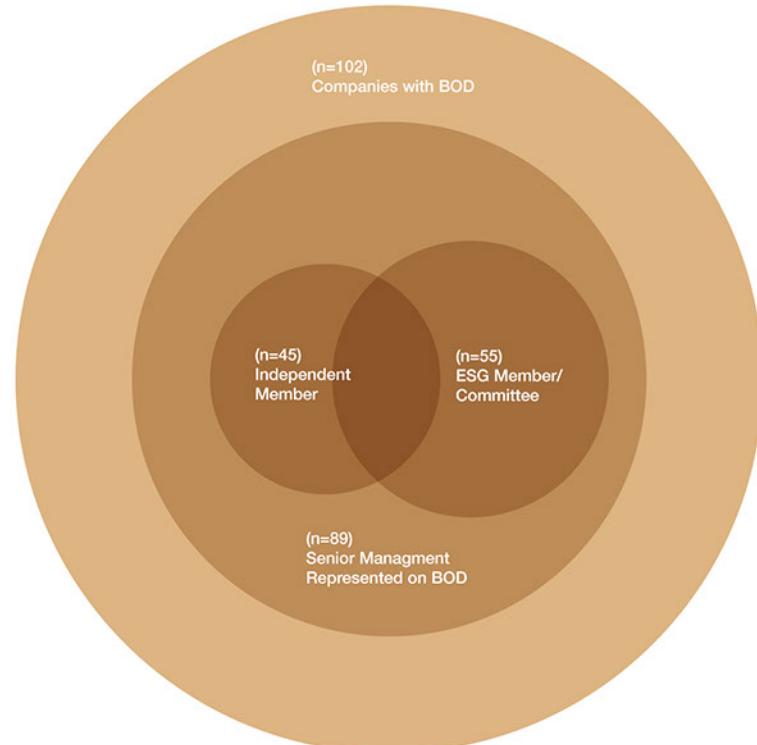
Figure 11



An equal number of companies interviewed reported having a board member or committee that oversees environmental, social and governance performance (ESG), see Figure 11, above. Specifically (n=45) companies reported having an ESG member on their board. Very few companies in KSA, Tunisia and Jordan reported having an ESG member on the board compared to Egypt, the UAE, Qatar, and Lebanon. Figure 12 provides a breakdown of all companies by type of board members.

► **Companies with Independent or ESG members (all Companies)**

Figure 12



► Independent Member on BOD By Company Size



Figure 13

► ESG Member By Company Size

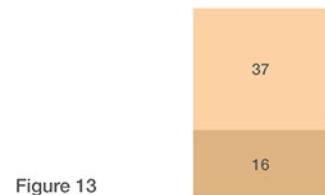


Figure 13

■ SME (less Than 250)
■ Large (More Than 250)

■ SME (less Than 250)
■ Large (More Than 250)

Similar to findings pertaining to other good governance practices, companies that have senior management representation on the BoD, an independent member, or ESG board member are mostly large in size. Figure 13, above, provides findings related to type of BoD by company size.

B. TRANSPARENCY:SUSTAINABILITY REPORTING & STAKEHOLDER ENGAGEMENT

1. Sustainability Reporting

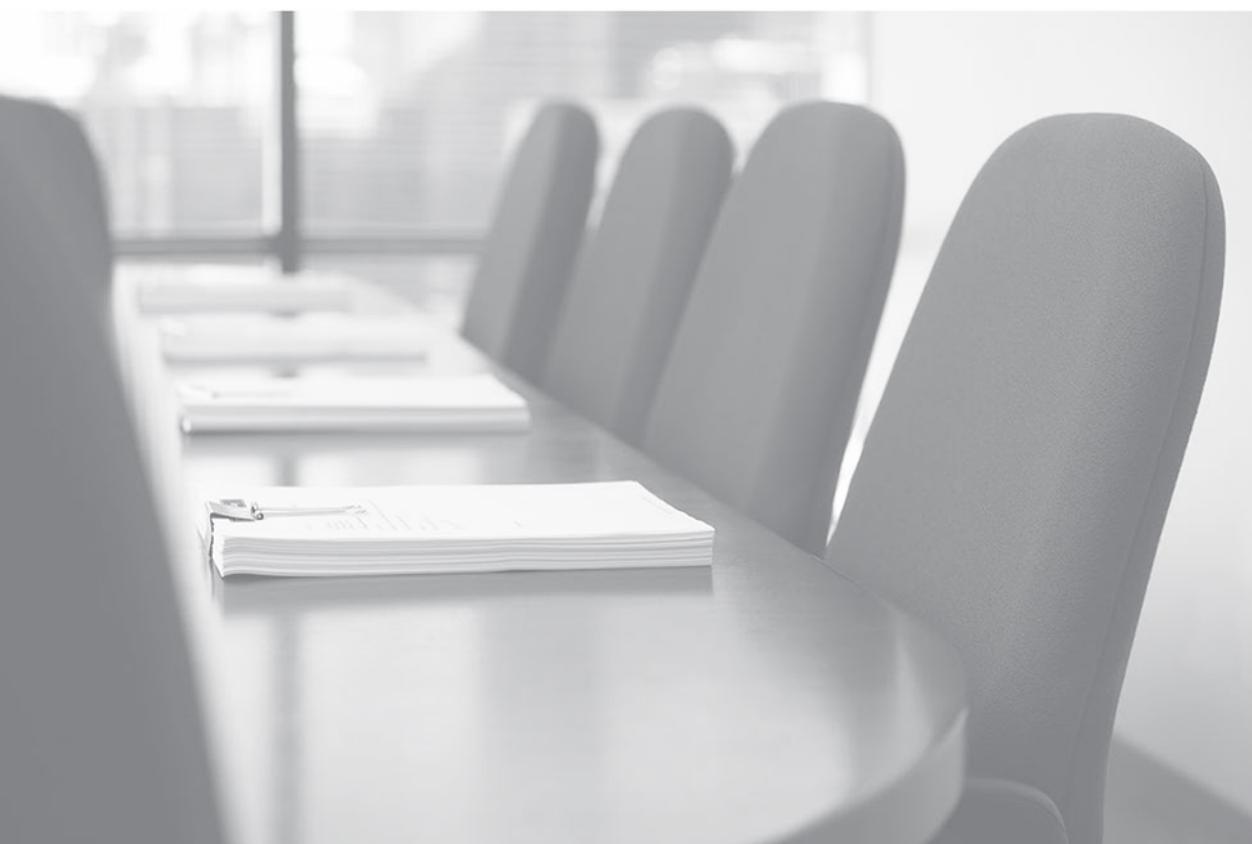
With the rise of concepts such as sustainable competitiveness and responsible consumption patterns, consumers and investors alike are giving more attention to the degree to which corporations abide by ethical and responsible business practices. Sustainability reporting offers a company's wide array of stakeholders the information required to assess a company's financial and non-financial performance. Accordingly, to better understand the degree to which companies in the region are responding to these global trends, we asked companies whether they issue sustainability reports. Figure 14, below, demonstrates the breakdown of companies according to whether or not they perform sustainability reporting.

► Sustainability Reporting (all Companies)



Figure 14

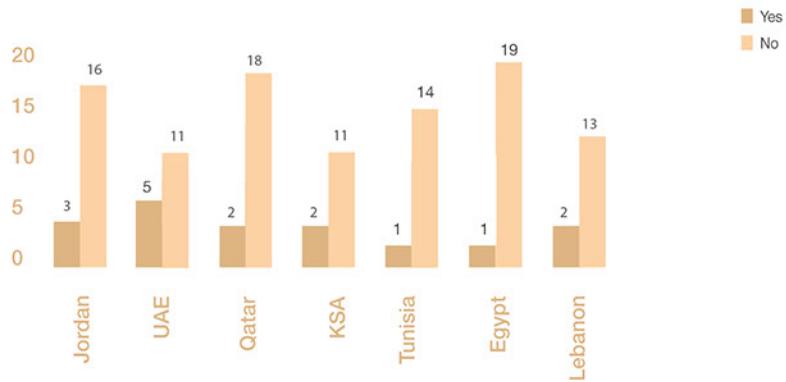
As demonstrated by the figure above, the majority of interviewed companies (n=90) do not issue a sustainability report. Most of the companies that do issue sustainability reports are larger in size or are multinationals. Those large local companies that do issue sustainability reports are leaders and advocates of sustainable business practice within the region and their respective countries.



The country with the highest number of companies issuing sustainability reports is the UAE, which is not surprising given the market's maturity in that regard. A study conducted on Sustainability Reporting Trends across the MENA region also revealed similar results.¹³

► **Sustainability Reporting (by Country)**

Figure 15



2. Stakeholder Engagement

The majority of interviewed companies reported engaging at least one stakeholder group in some way. Slightly more large companies reported engaging with stakeholders, as compared to SMEs. Figure 16 provides a breakdown of stakeholder engagement, by company size, while Figure 16 below, provides a breakdown of the types of stakeholders.

► **Stakeholder Engagement (By Company Size)**

113

Engaging Stakeholders

67 46

Large

SME

Figure 16

Most of the companies interviewed focus on engaging shareholders, employees, and clients. Figure 17, below, provides a breakdown of the types of stakeholders engaged. Topics of stakeholder engagement centered on business performance and employee performance and needs. Some companies reported engaging with suppliers, while only a very limited number of companies reported engaging with local and surrounding communities around the impact of their company's operations, or around social investment projects they engage in. An even lower number of companies reported conducting a comprehensive stakeholder engagement exercise that covers their entire operations ranging from business performance, to interactions with employees, to environmental impact and social investments. These few, however, do believe in the value of such a practice.

“Stakeholder engagement is a dual learning process. Our last consultation included suppliers, including reputable global companies that have been practicing sustainability for a long time. They taught us a great deal, we really learned from the process. We are also engaging with a local sustainability network and we mentor other companies (that haven’t started reporting on their sustainability practices) to help them on where to start and the best steps to take” Large Regional Company, ICT, UAE



Figure 17

As for methods of engaging stakeholders, companies reported using an array of tools and methods (Figure 18). These can be ranked as follows:

- Direct meetings
- Electronic forms of communication including emails, internal communication networks and social media channels
- Surveys
- Phone calls and short messages (SMS)
- Events

► **Most Frequently Mentioned Methods and Topics of Engagement**

Figure 18



C. MANAGEMENT & COMMITMENTS

1. Having a Designated CR Function

To better understand the means by which companies have institutionalized corporate responsibility into their company structure, and to what degree, we asked companies whether they have a designated position for managing corporate responsibility.

► Who Manages CR (by Country)

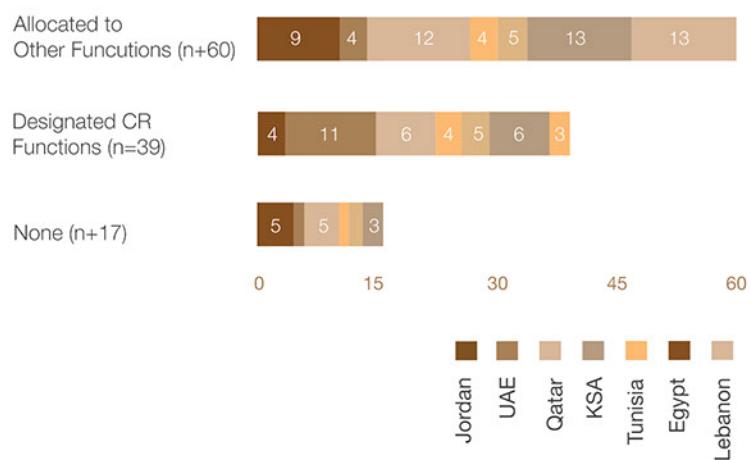


Figure 19

Figure 19, above, demonstrates the distribution of management of the corporate responsibility function for all interviewed companies, by country. Only 17 companies did not have any position or department to coordinate corporate responsibility and sustainability efforts. The remaining companies were divided into two broad categories: 1) those that have created a function and department/division that is dedicated to corporate responsibility or corporate sustainability; and 2) a much larger proportion that allocates the corporate responsibility function to other already existing departments and functions within the company. Other functions and positions that were reported as accountable for corporate responsibility varied across the sample.

While the vast majority of large companies interviewed have a designated person handling the corporate responsibility function within the company, only a small minority of SMEs do so. One reason for this discrepancy is that the scale of operations of larger companies demands a designated corporate responsibility position, and they have the operational structure and resources to accommodate it. Most companies under the 'Conglomerates' category have a designated position/department handling corporate responsibility; this may be explained by the scale and diversity of conglomerates' operations, and their need to centralize corporate responsibility functions. In the case of smaller companies, however, corporate responsibility functions tend to be distributed among multiple departments including Human Resources, Marketing, and in some cases the company's Chief Executives.

The practice of having a designated corporate responsibility function was most commonly reported in the UAE (Figure 19). This is not surprising given a) an enabling legislative environment in the UAE, b) the prevalence of multinationals and international trade in the country, and c) the existence of multiple active business chambers and organizations that raise awareness and offer training and expertise on corporate responsibility. On the other hand, the presence of a designated corporate responsibility function was particularly uncommon amongst companies interviewed in Jordan, KSA and Lebanon.

The majority of companies that do have a designated corporate responsibility function are large companies, yet there was no notable difference between local, regional and multinational companies when it comes to having a designated CR function. In the case of some multinational companies, interviewed executives reported having a regional CR position that directs and oversees the work of the local chapter's CR efforts.

2. Designating CR to Other Departments

With regards to the types of departments/positions tasked with the corporate responsibility function, Figure 20, below, demonstrates that the most common categories include Marketing & Communications, Senior Management, Multiple Departments and Human Resources. Only a minority of companies (n=5) allocate CR responsibilities to other departments such as Quality Control, Operations, Audit or their Corporate Foundation.

► Positions & Departments Responsible for CR

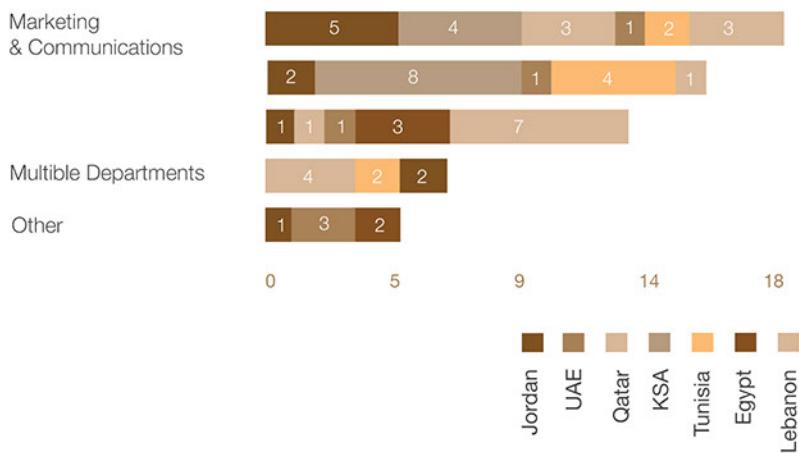


Figure 20

The below table outlines some of the different titles given by companies in reference to CR position/department. The study reveals the diversity of titles used by the interviewed companies, and proves the lack of a common title used amongst such companies.

► Titles of CR Positions/ Departments

Sustainability Supervisor	Social Impact Team
Sustainability Advisor	Community Relations Manager
Head of Sustainable Development	Citizenship Program
Sustainability Development	Talent and Communication
Sustainability and Community sponsorship	HSE manager
CSR Coordinator	ESG advisor/ manager
CSR Department	
CSR Program Manager	
CSR Strategy Manager	
CSR Committee	
CSR, Philanthropy & External Relations	

Table 1

3. Commitments

a. Management Systems

Under all categories, the International Organization for Standardization's (ISO) Systems were the most commonly adopted ones. It is noteworthy that the majority of companies that adopt management systems reported having more than one. The majority of interviewed companies reported adopting some type of management system belonging to several main categories: General Business Performance and Quality, Environmental, Social and Governance; Environmental Performance; Health and Safety; and Sector-specific management systems (Table 2, below).

► Most Frequently Listed Management Systems (all Companies)

Table 2

General Business Performance and Quality	Predominantly the ISO 9000 family
Environmental, Social and Governance	Predominantly management systems: including ISO 26000 and FTSE4Good
Environmental Performance	Predominantly the ISO 14000 series
Health and Safety	Predominantly OHSAS 18001
Sector-specific	Specifically for healthcare, food and agriculture, the financial services, and the aviation sectors

Figure 21, below, demonstrates that the vast majority that do adopt a management system do so for business performance and quality management purposes. Many companies adopt sector specific, health, safety, and environmental performance related management systems. Whereas only a small minority of companies interviewed adopt comprehensive standards that encompass environmental, social and governance performance together.

► Types of Management Systems

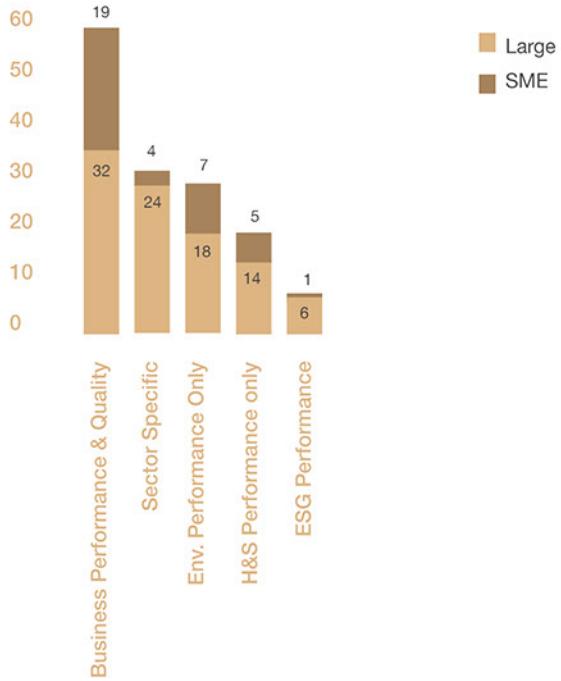


Figure 21

The majority of companies that adopt management systems are large companies (Figure 22, below). There are a few SMEs that adopt management systems, mostly those related to general business performance and quality.

► Companies adopting Management Standards (by Size)

Figure 22



All companies interviewed in the health and pharmaceutical, agriculture, and energy sectors adopt management systems. Surprisingly a minority of manufacturing, construction and real-estate companies do not adopt management systems; these are, however, mostly smaller in size. Moreover, many conglomerates interviewed mentioned that while their subsidiaries adopt management systems, the Head Quarters/management offices do not.

It is also noteworthy that local companies integrated in international supply chains are more likely to adopt management systems; where the adoption is largely driven by the requirements of companies' clients. An SME from the Manufacturing Sector in Egypt explained why his company adopts management systems:

"I have to comply with a certain set of requirements to be able to meet my suppliers' demands, if I do not meet their criteria and requirements, they will stop being my clients. We needed ISO certifications in order to remain in business, so we achieved one certification after the other."

Some companies see the value of complying with international management standards. However, several interviewees shared concerns about the continuous changes witnessed in these systems, and in certain cases the “unrealistic demands” of such standards. As one of respondents stated:

“Even though audits are extremely tiresome, they actually help us identify what is wrong, and how to fix issues we are facing. Our main concern is that sometimes these audits come up with a standard that is impossible to implement on the ground.” SME, Manufacturing, Egypt

On the other hand, companies that are subsidiaries of multinational corporations see the adoption of management systems as a pure marketing and credibility tool, given the fact that their headquarters already have more comprehensive references for quality and efficiency of operations. A large subsidiary of a multinational from the Consumer Goods Sector in Jordan elaborated on this issue;

“It is good for our credentials but it doesn’t really help our operations. Our mother company has its own standards anyway, and we have to abide by those, and to a certain extent our mother company’s standards are more extensive than something like the ISO.” Large Subsidiary of a Multinational, Consumer Goods, Jordan

The below figure illustrates companies that reported adopting management systems according to geographic scope of operations:

► Companies that Adopt a Management System (by Geographic Scope)

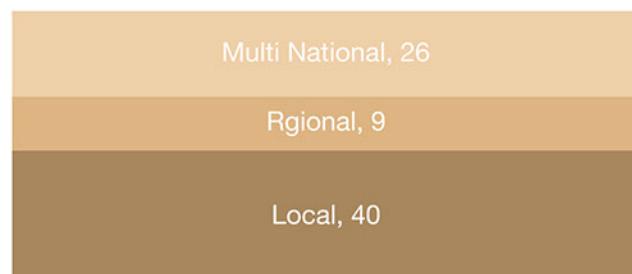


Figure 23

b. Responsibility Initiatives & Standards

As opposed to the adoption of management systems, compliance with responsibility standards and initiatives was not common. Figure 24, below, provides a breakdown of company adoption of responsibility standards. The majority of interviewed companies (n=86) do not comply with any initiatives or standards to enhance their corporate responsibility performance. This reflects on results relayed in the remainder of the report, where the current status of sustainability practices is unconsolidated. In other words, it means that one company may be strongly compliant with best health, safety and environmental sustainability standards, yet may completely overlook transparency, and investments in human capital for example. Moreover, such a situation leaves the “responsibility of responsibility” on a company’s clients; companies are only encouraged to adopt a particular standard if their client requires it to do so. Only a minority of interviewed companies complies with standards and initiatives such as the Global Reporting Initiative’s (GRI) Sustainability Reporting Standards and the United Nation’s Global Compact (UNGC) Principles. These were mostly large companies across the different geographic scope of operations categories.

► Whether Companies Adopt Responsibility Standards

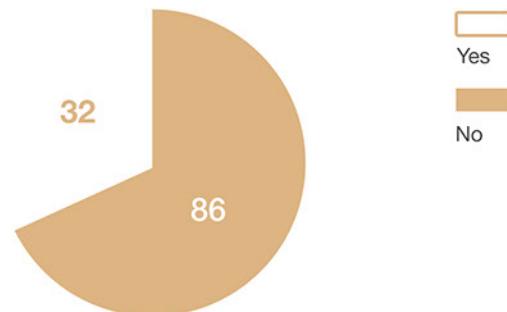


Figure 24

► Enterprises with Governance Codes & Guidelines (by Size)

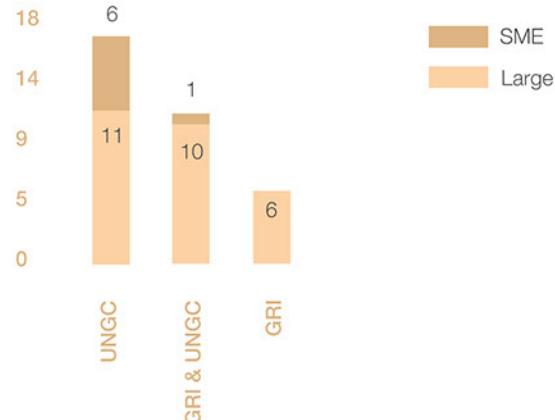


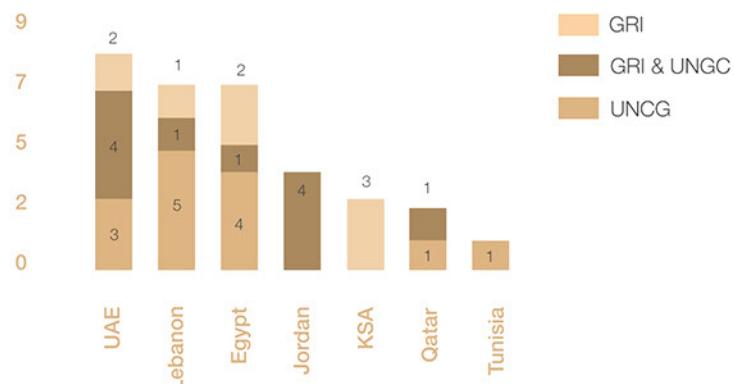
Figure 25

“We started using the GRI because, like many companies, we want to have a benchmark. The GRI offered a detailed benchmark that we felt is suitable for our business. We wanted to abide by detailed globally adopted criteria, and the GRI is the most reputable one in that regard. The rest are not as detailed, if you look at the UNGC for example, it is very simple, it lays out policies that should be adopted, it doesn’t tell you much beyond that. Once you start adopting those policies, you need to move beyond them, to see the bigger picture, and the GRI is very useful in that sense.” Large Regional Company,

In addition to UNGC and GRI, a few regional and multinational large companies, most of which based in the UAE, also comply with other standards. These include International Corporate Governance Network, United Nations Principles of Responsible Investing, UNGC CEO Water Mandate, UNGC Caring for Climate, International Association of Oil and Gas Producers, International Petroleum Industry Environmental Conservation Association and CRISPY Real-estate Sustainability Benchmark. Figure 26, below, demonstrates compliance with responsibility standards across countries:

► Sustainability Standards Adopted (by Country)

Figure 26



14- UNGC is a voluntary initiative by which CEOs commit to aligning their strategies and operations with the basic principles of human rights, labor, environment and anti-corruption.

15- A comprehensive reporting framework that allows organizations to disclose where it stands with regards to adopting best economic, environmental and social aspects of sustainability within its operations.

2

SUSTAINABLE HUMAN RESOURCE MANAGEMENT

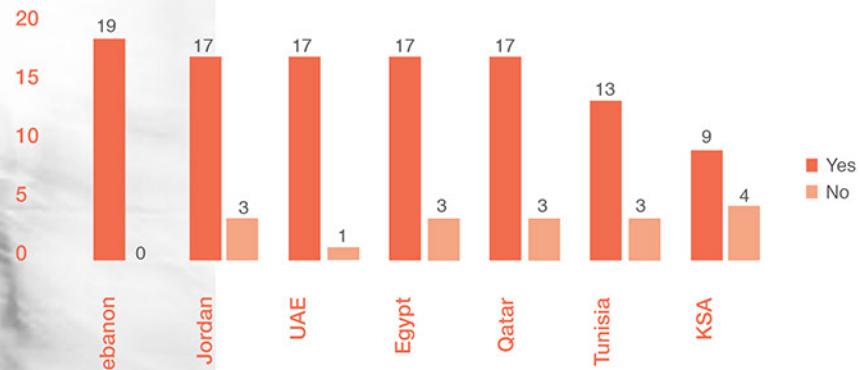
Despite the rising interest in Human Resource Management (HRM) in recent years, its practice is still nascent across the MENA Region. The study examined the status of HRM in various organizations in the MENA region, and assessed the HRM practices that are in place, not only to understand how these institutions are dealing with their human capital, but also to contribute to a greater understanding of the evolution of HRM practices in the region. Accordingly, we investigated the existence of HRM policy, the nature of the compensation commonly offered to employees (including wages and benefits), the mechanisms of negotiation between employees and senior management, company efforts to safeguard and ensure employee health and safety, company investments in their human capital through training and development, and finally company efforts in securing a culture that ensures equal opportunity and supports diversity and non-discrimination. Through the voices of our interviewees, we document how HRM theory manifests itself in practice and explore the constraints and opportunities facing HRM across this region.

A. HRM POLICY

The vast majority of the companies interviewed confirmed having a human resource policy. This is significant in all countries interviewed except for KSA (Figure 27, below). Furthermore, HRM policies have been found to be more dominant in large companies than in small and medium size ones

► **Companies with an HRM Policy (by Country)**

Figure 27



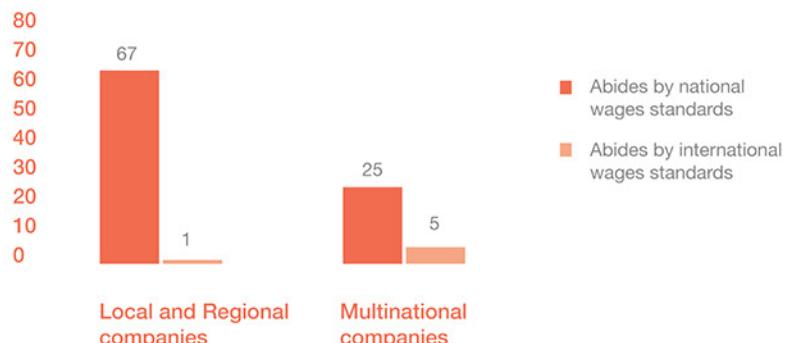
B. EMPLOYEE COMPENSATION (WAGES AND BENEFITS)

1. Standards for Wages and Benefits

The majority of interviewed companies abide by local standards for wages and benefits, with a few complying with international standards. Moreover, companies that reported abiding by international standards for wages and benefits are mostly multinationals in the consumer goods and in the ICT and media sector, dispersed across the UAE, Egypt, Lebanon and Tunisia. Figure 28, below, shows those companies that comply with national and international wage standards according to geographic scope of operations:

► **Companies Compliant with International Wage Standards (by Geographic Scope)**

Figure 28



2. Types of Benefits

Insurance, mainly in the form of health insurance and medical coverage, is the most common type of employee benefit present across all companies. This is followed by bonus systems and family benefits (such as funding employees' children's education) which are notably common benefits in all seven countries, with the exception of Egypt where interviewed companies did not report providing family benefits to their employees. Instead of offering family benefits, large local companies and SMEs from various sectors in Egypt tend to offer their employees interest free loans or money in the cases of emergency or need.

When asked about its employee benefits schemes the manager of a local SME in the services sector in Egypt responded:

“Employees can take loans with 0 percent interest, these loans are usually equivalent to a maximum of 3 months' salary. In those cases where more than 3 months' worth is needed, the employee can still find support.”

Retirement plans were prevalent in the companies interviewed in Jordan and Lebanon where close to half of the companies interviewed in both countries confirmed providing their employees with a retirement plan. For example, in Jordan, the representative of a large multinational company in the services sector mentioned offering a provident pension fund and retirement health insurance for employees,

“In the provident fund the government deducts 10 percent of the employee's salary, and the company sets aside the same amount for the employee. After five years the amount that the company pays may double. So it basically means that the company is saving money for its employees for their retirement, and helping increase it as well.”

Examples of companies that confirmed the provision of retirement plans for their full time employees in Lebanon include large multinational companies in the manufacturing and construction and real-estate sectors. Furthermore, transportation benefits are commonly found in Egypt, Tunisia and Lebanon.

There is a notable difference in employee benefits between two clusters of countries: Qatar, the UAE and the KSA (high-income countries) on one hand and Lebanon, Tunisia, Egypt and Jordan (middle-income countries) on the other. For companies that heavily rely on expatriates and a foreign labor force, such as Qatar, UAE and KSA, housing accommodation and free home travel are significantly prevalent types of employee benefits.

Such benefits were not found in companies interviewed in Lebanon, Tunisia, Egypt and Jordan. For example, large companies in the manufacturing, consumer goods, and energy sectors in KSA, UAE and Qatar all offer free home travel and housing accommodation to their employees. (See Figures 29 and 30). When asked about their full time employee benefit schemes, an interviewee from a large company in the energy sector in Qatar said:

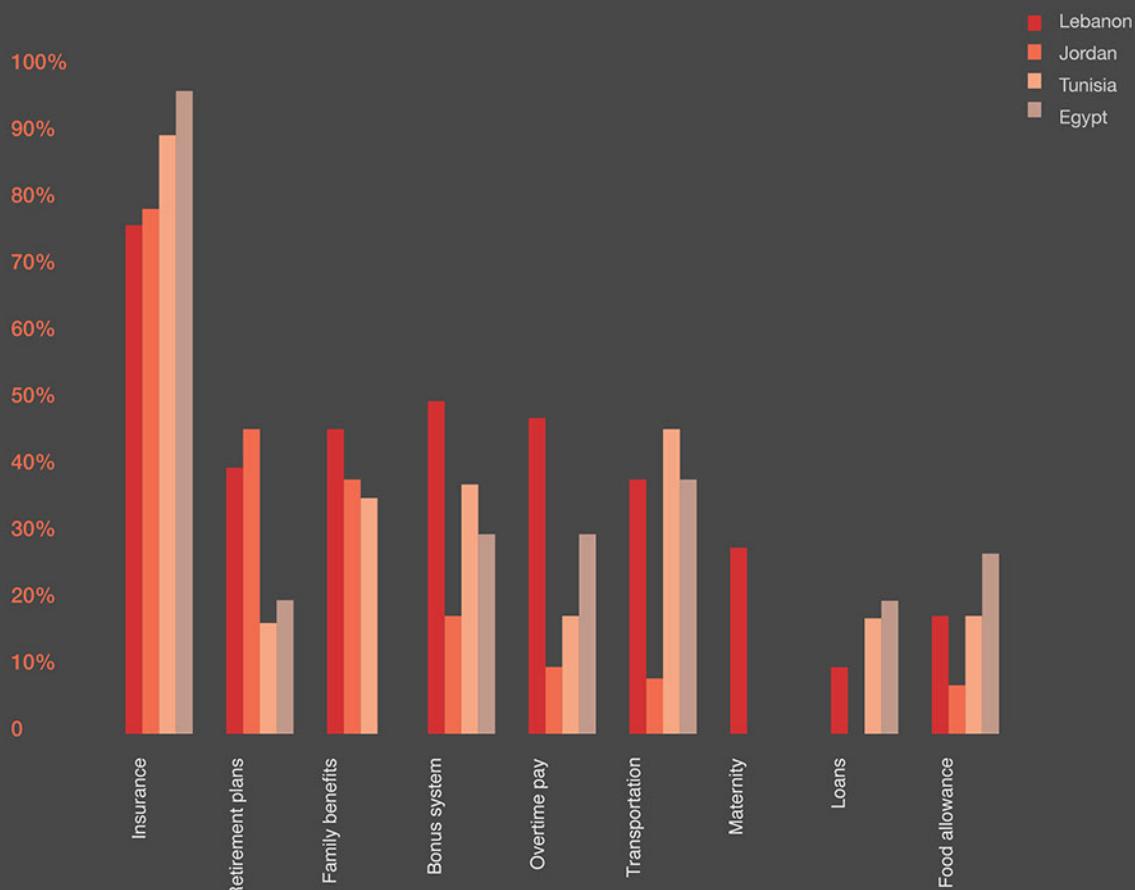
“We provide housing or housing allowance, education assistance for the children of expatriates. Even if the employee's children live abroad, we partially cover their school fees. We provide air tickets for the employee and the family, medical insurance, and life insurance. It's a very comprehensive package”

Benefits packages that go beyond the regional norm were found to be mostly offered by multinational companies; these included gym memberships, spa vouchers and cruise trips. For example, one multinational subsidiary in Qatar in the services sector, offers local spa vouchers and a discount to sports clubs to its employees. Another large multinational company in Tunisia in the ICT and media sector, offers gym memberships to some employees. A third large multinational company in Lebanon in the services sector, takes its employees on cruise trips for team-building purposes.

Finally, in contrast to other countries, Lebanon encompasses the largest variety of employee benefits and has significant prevalence rates with respect to overtime pay and maternity leave respectively.

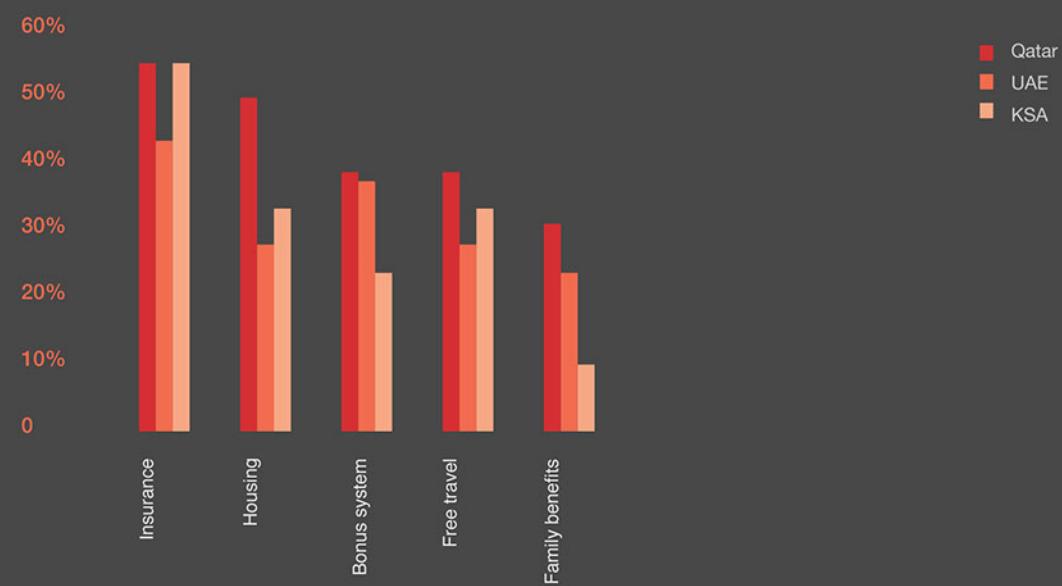
► Types of Employees Benefits in Middle Income Countries

Figure 29



► Types of Employees Benefits in High Income Countries

Figure 30



C. MECHANISMS OF NEGOTIATION BETWEEN EMPLOYEES AND MANAGEMENT

Mechanisms of feedback and negotiation between employees and management give insight into an organization's efforts in ensuring the timely communication, discussion and resolution of emerging issues or significant operational changes with its employees. Through these mechanisms, the organization engages with its employees and their representatives to negotiate and implement needed changes, which may have positive or negative implications for workers.

More than half of the companies interviewed confirmed having mechanisms for negotiation between workers and management. This practice is mostly evident in Jordan and equally prevalent in both large companies and SMEs (51 percent of all the large companies and 45 percent of SMEs).

The most dominant mechanisms of feedback and negotiation between workers and management across the sample of companies are not anonymous, and are based on one-on-one interactions, including:

- Direct interaction with department managers and Human Resources departments, where worker concerns about pay and benefits, performance evaluation, and career development are managed;
- Open door policies;
- Direct engagement with the company's CEO; and
- The use of e-mails (used as a form of negotiation in Lebanon, UAE, Jordan and KSA).

A representative of a regional SME in the financial services sector in Lebanon stated:

“All issues are documented by e-mail. If any employee has a problem/ issue to discuss, he or she can send an email about the issue.”

While such less formal mechanisms are needed, they pose the risk of employees not actually utilizing them out of fear or intimidation. In Lebanon, the representative of a local SME in the services sector, highlighted this issue as follows:

“We want to make the staff’s voice louder, we want it to reach HR directly, without discussing issues they have with operations first. We are really interested in strengthening this culture, but the problem is that the staff themselves are sometimes afraid of contacting HR out of a fear of their managers.”

Accordingly, informal and face-to-face mechanisms must be paired with anonymous and formal grievance mechanisms and procedures. For example, the interviewee of a large local company in KSA in the construction and real-estate sector, commented that

“Employees are forming committees to raise their concerns to the management. The employees themselves come up with solutions and pose them to management.”

Formal negotiations through committees was commonly reported in Tunisia. As for labor union representation, Tunisia is leading on this dimension. Close to half of the companies interviewed in Tunisia confirmed having workers represented by labor unions that act as a negotiation apparatus between workers and management. It is also notable that negotiation through labor unions is more common than an open door policy. When the interviewee of a large local conglomerate in Tunisia was asked about the company's mechanisms of negotiation between workers and management, he replied, “Yes of course, there are unions and committees that represent workers and negotiate with the management in each institution.” Furthermore, the representative of a local SME conglomerate in Tunisia commented

“We have a union at the factory that is elected every 3 years, the union’s members hold a meeting with the general manager to ask for raises, or report any incidents of non-compliance from any worker. This union is also part of the general workers’ union in Tunisia.”

Table 3, below, summarizes the most and least dominant mechanisms of negotiation between management and employees across the countries in our study.

	Mechanism for Negotiation between Management and Employees	Location
Most Dominant	Manager Involvement HR Department	All countries All countries
Least Dominant	Open Door Policy CEO Involvement Committees/ Labor Unions Emails	Lebanon & Jordan Egypt & UAE Tunisia & KSA Lebanon, UAE, Jordan & KSA

D. EMPLOYEE HEALTH AND SAFETY

The companies interviewed fall into the following four categories with regards to compliance with employee health and safety standards:

1. Companies that comply with international standards;
2. Companies that have their own system for safety;
3. Companies that have a local governmental certification; and
4. Companies that do not account for health and safety.

Group 1. Compliance with International Standards

It is evident that compliance with health and safety procedures and protocols within a company depends on the company's nature of operations, and the level of health and safety risk it imposes. Companies with high safety risks tend to abide by international rules and regulations for health and safety or tend to have an international safety management system certification such as the OHSAS 18001 international certification. These are mostly larger companies operating in sectors such as healthcare, construction and energy.

Group 2. Developing an Internal Safety System

The second group is represented by large multi-national companies from various low-risk sectors, such as ICT and media, and financial services. These companies have devised systems for safety that are focused on dealing with emergency situations, including:

- Conducting evacuation drills;
- Employee first aid training and certification;
- Ensuring access to emergency exits and fire extinguishers;
- Providing safety personnel, safety procedures handouts, and audited compliance with safety measures; and
- Having full time and trained doctors or a medical professional at the company's premises.

Group 3. Having a Local Governmental Certification

The third group of companies is mainly composed of large or SME companies with lower safety risks and precautionary requirements, and abides by state safety laws, and getting governmental certification for health and safety procedures from civil defense authorities. Civil defense safety approval usually includes proper access to emergency exits, fire extinguishers, first aid training, and evacuation drill exercises. It is worth noting that a large proportion of this category was based out of Jordan and Qatar; indicating the comprehensiveness of civil defense requirements in both countries.

Group 4. Not Accounting for Health and Safety

Finally, the fourth group of companies includes companies that do not account for health and safety procedures in their day-to-day operations. These companies are mostly small companies in the consumer goods, services, and ICT and media sectors, in other words sectors that do not involve direct risk for employee health. The manager of a local SME in Egypt in the services sector, commented, "We have no procedures in place, the office is in very poor condition."

Another interviewee in a local SME in Jordan in the SME sector commented, "We do not have measures or procedures to ensure the health and safety of our employees. We don't train employees on emergency situations. We have one fire extinguisher which we must have, as we cannot have a license to work in the building without it."

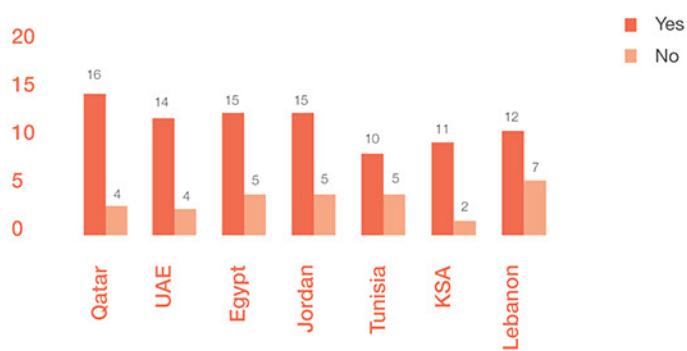
1. Training in Health and Safety Procedures

The majority of companies interviewed confirmed training employees in health and safety procedures. This practice was mainly evident in UAE, Qatar and Egypt and less prevalent in KSA, Tunisia and Jordan.

Furthermore, training employees on health and safety procedures is almost equally prevalent in large companies and in SMEs and mostly prevalent in multinational companies (Figure 31, below). Interestingly, the adoption of this practice is prevalent in companies from all different sectors, the most dominant of which are the energy, construction and real estate, and health and pharmaceuticals sectors.

► Companies that Train Employees in Health and Safety Procedures (by Country)

Figure 31

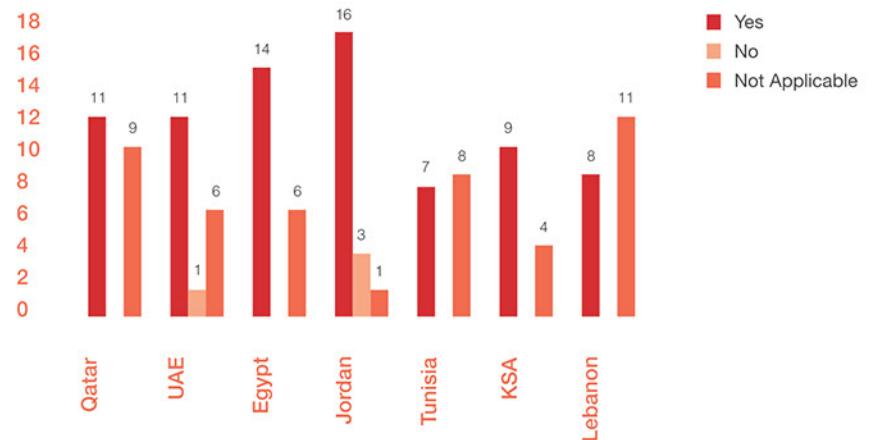


2. Health and Safety Equipment

The majority of companies interviewed to which this issue was relevant confirmed providing employees with needed health and safety equipment (Figure 32). In a country like, Egypt, however, some companies commented that their labor force is resistant to using health and safety equipment, which creates health and safety risks. A few multi-nationals countered this issue by creating stringent penalty systems for not abiding by the company's health and safety standards.

► Companies Providing Employees with Health and Safety Equipment (by Country)

Figure 32



E. INVESTING IN EMPLOYEE TRAINING AND DEVELOPMENT

The vast majority of companies confirmed investing in employee training, evident in all seven countries, in both large companies and SMEs, and across companies operating across different geographic scopes (multi-national, regional, local). Large multinational companies tend to invest heavily in costly employee training. These companies move beyond traditional training practices, and dedicate a significant proportion of resources - in terms of employee time and financial resources - to training and development. Two examples of multinational companies investing in employee training and development are provided below:

- A large multinational company in the consumer goods sector in KSA indicated that training employees is a priority, to the extent that "25 percent of an employees' time is spent on training and capacity building and trainees eventually become trainers themselves."
- At a large multinational company in the services sector in Lebanon, training is mandatory and employees may select the areas of training they are interested in. Furthermore, courses on ethics and sustainability, technical training, Harvard University certificates, and an induction program for new employees are also offered as part of the training policy.

On the other hand, when looking at local SMEs it appears that the training policy, in terms of applied practices, is much less developed than in large companies, with few exceptions. When asked about the company's training practices, the representative of a local SME in the services sector in Egypt, commented: "So far, there is no organized effort for training. For example, every once in a while, the administration staff ask for English courses, while others ask for a computer courses- so it is more on an ad-hoc basis." Another SME elaborated on a common issue, where employees that have received company sponsored training leave the company that invested in their skills, to join larger companies. The representative of the company elaborated:

"We used to offer a lot of training, without any conditions, but trained employees were leaving us, especially to work in neighboring Gulf countries that offer higher salaries than what we can afford in Egypt. We had to implement a system where if an employee wants to attend additional trainings other than the ones already being offered by the company, the cost of that training is treated as a loan. The loan is paid off over an agreed upon period of time, and if the employee wishes to leave the company before this period ends, they must pay back the cost of the training first."
SME, ICT, Egypt

Nevertheless, some local SME companies do slightly better. For example, in Tunisia, a local SME conglomerate dedicates 3 to 4 percent of its budget for training selected employees; and another local SME in the services sector, also sets a budget plan to cover selected employee training requirements and offers employee training certification.

From a high-income country perspective, surveyed companies in the GCC have more advanced and costly training programs, with the UAE leading in this area. The UAE demonstrated companies with training policies that include training through universities, such as INSEAD business school, academies affiliated with Harvard University, and McKinsey & Company, hosting international training at company headquarters, and educational sponsorship policies.

Middle-income countries also provided some interesting examples of employee training efforts. In Lebanon, for example, a large local bank sponsors employees for external training and education. In describing their training policy, the interviewee stated,

"We offer our employees very specialized training. Sometimes, the trainings are provided outside the bank. Selected employees are sent to attend this training. We also offer trainings within the bank. Furthermore, we encourage our employees to apply for certificates such as the CFA or higher education programs, and these are covered by our education sponsorship policy."

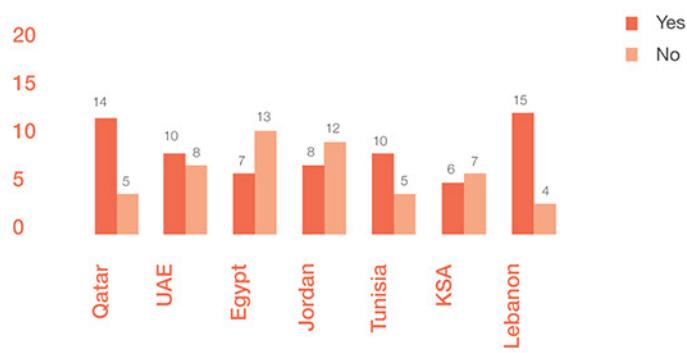
In Egypt, a large local company in the agricultural sector provides different training options for employees. When asked about the company's training policy, the interviewee responded "We do offer training. Not only do we bring trainers to our farms, but we also sponsor courses for employees based on their interests. In some cases we even sponsor their master's degrees". It is worth noting that the founder of this company saw this type of training as necessary, due to the deteriorating nature of agriculture education in the country.

F. EQUAL OPPORTUNITY, NON-DISCRIMINATION, AND DIVERSITY

The majority of companies interviewed to which this issue was relevant confirmed providing employees with needed health and safety equipment (Figure 32). In a country like, Egypt, however, some companies commented that their labor force is resistant to using health and safety equipment, which creates health and safety risks. A few multi-nationals countered this issue by creating stringent penalty systems for not abiding by the company's health and safety standards.

► Companies with an Equal Opportunity and Non-Discrimination Policy (by Country)

Figure 33



The existence of a non-discrimination and equal opportunity policy is mostly evident in large multi-national companies. The representative of a large multinational bank in Lebanon commented,

“We have a code of conduct that is publically available on our website. We strongly emphasize non-discrimination and we have a hotline that can be accessed if anyone feels that he’s been discriminated against or harassed somehow.”

However, it should be noted that in the UAE, Qatar and KSA, several companies mentioned preferring local recruitment in order to abide by national government laws. A large local company in the consumer goods sector in the KSA, commented,

“We ensure equal opportunity, but if we have two employees, Saudi and foreign and they have the same qualifications, we prefer to hire the Saudi because he is an investment for us.”

G. FEMALE PARTICIPATION IN THE WORKFORCE

While discussions about gender inequality have gained global resonance, especially in the business world, gender inequality in the Arab world has persisted amidst social and cultural norms that prevent women from participating in the labor force and achieving decision-making positions. The gender gap in the Arab world is clearly reflected in the unequal access to work opportunities, with a female labor force participation rate of only 22.7 percent, one of the lowest in the world (World Bank, 2013). Low female participation in the work force is a persistent phenomenon despite the significant increase in female Arab adult literacy rates during the last decade.¹⁶ For instance, Gulf countries have relatively high educational ranking achievements, however, these achievements have not been translated to greater female participation in the workforce.

Several reasons have been associated with women's limited advancement in the business world, including employer biases, negative perceptions of women's capabilities, limited provisions for women's professional training, recruitment processes that favor males, and the exclusion of women from informal networking processes. Women's culturally defined gender role as care givers is another obstacle limiting women to the specific responsibilities of motherhood and domesticity. These constraints are further accentuated in the Arab region due to the prevalent patriarchal system that places men at the head of society^{17 18}.

Gender-based discrimination was apparent across all the countries in the study. While many of the interviewed companies link this discrimination to government laws, others link it to the job-related task requirements that favor male employees. Some companies justify gender-based discrimination by linking it to national laws and culture. The representative of a large local company in Qatar, for example, commented "according to Qatari law, we cannot hire females in our business because it is in the transportation and construction fields." This statement not only places responsibility for gender bias on national laws, it also links gender discrimination to job-related task requirements that tend to favor male employees. This is a prevalent attitude in the region. The representative of a local SME in the consumer goods sector in Jordan, when asked about non-discrimination and equal opportunity replied "(our business is) mostly male dominated because of the nature of the job."

It should be noted that while some companies acknowledged the presence of gender discrimination, they could not provide a justification for it. In the UAE for example, women tend to obtain fewer employee benefits than men in some of the companies interviewed. The representative of a large regional company in the ICT and media sector in the UAE, acknowledged,

"Male employees receive more benefits than their female counterparts. The company would only cover children's schooling, or other family related benefits, if the female employee is a single mother. I was shocked when I found out about this, I find it unacceptable. Why treat women differently from men?"

Nevertheless, the study found that a significant percentage of the companies interviewed commented on having non-discrimination hiring practices in relation to gender, race, religion and disabilities that are enforced by government regulations.

Gender discrimination appears to be least prevalent in Tunisia, given that the constitution enforces gender equality and prohibits any kind of discrimination; "All male and female citizens have the same rights and duties. They are equal before the law without discrimination," states article 20 of the new charter of the Tunisian constitution.¹⁹ An interviewee representing a large local conglomerate in Tunisia commented,

"We do not discriminate on the basis of gender and this is not an issue for our company. We don't need to have a code for it because is in the country's constitution. This is not a subject to talk about in Tunisia. We are beyond the stage where this issue needs to be written to be done".

16- It should be noted that the literacy gap between males and females in Arab countries is still one of the highest in the world, with a male rate of 85 percent versus female rate of only 68 percent (UNESCO Institute for Statistics, May 2013).

17- Jamali D., Sidani Y., and Safieddine A. (2005) Constraints facing working women in Lebanon: An insider view, *Women in Management Review*, 20, 8, 581-594.

18- Jamali D. (2009) Constraints and opportunities facing women entrepreneurs in developing countries: A relational perspective, *Gender in Management: An International Journal*, 24, 4, 232-251.

19- <http://www.unwomen.org/en/news/stories/2014/2/tunisia-new-constitution>

3

ENVIRONMENTAL SUSTAINABILITY

The MENA Region is subject to a multitude of challenges faced by individuals, groups, companies and governments alike.²¹ These challenges include the high incidence of poverty, low female labor force participation rates, low levels of private sector development, weak public and corporate governance, ineffective public sectors, high levels of corruption,²² hazardous waste dumping, environmental degradation, and political instability – all of which need to be addressed. These challenges, nevertheless, provide an opportunity for Arab nations to develop a more transparent and effective platform for economic, social and environmental development that will unleash the region's growth potential.

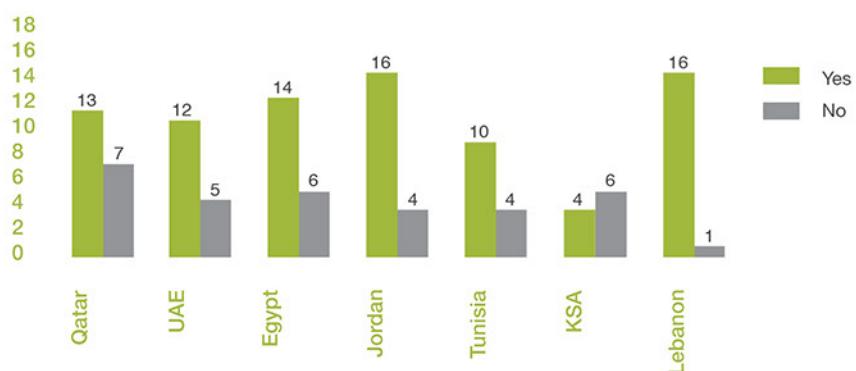
This section focuses on the environmental practices of the companies interviewed, including how they deal with the various environmental issues that are both directly and indirectly related to their core operations, and to what extent their environmental practices are progressive. The study investigated the presence of a green office policy within the companies interviewed, as well as company compliance with environmental standards and certifications; efforts at tracking material usage, including energy and water consumption; practices adopted to reduce emissions, effluents and waste; and efforts at tracking the impact of transportation resulting from companies' operations (if any). We document the environmental trends that are apparent in the region and explore the constraints and opportunities facing environmental protection practices. While there is significant progress towards mainstreaming environmental protection and awareness within core business, there are also enormous challenges and constraints that include inadequate environmental policies, minimal government support or incentives, high cost of investing in energy efficient products, and low customer interest due to high cost of products.

A. GREEN OFFICE POLICY

The majority of companies interviewed confirmed having a green office policy. This is more evident in Lebanon, Jordan and Egypt and less evident in KSA. Figure 35, below, identifies the number of surveyed companies with a green office policy, by country. Green office policies are more dominant in the large companies interviewed (76 percent), and are prevalent across all types of businesses.

► Companies with a Green Office Policy (by Country)

Figure 35



It should be noted, however, that a large proportion of surveyed companies limit green office policy practices to paper recycling efforts, and energy conservation within the company's premises. Broader practices that encompass the company's supply chain, building structures, among other factors, were limited, and perceived as receiving minimal support from governments. For example, the representative of a large local conglomerate in KSA commented:

“We have a green policy that we cannot implement because the regulatory body has not enforced it. The Ministry of Environment needs to put more effort and stringent controls on environmental protection; starting with controlling haphazard littering and up to enforcing recycling. When we tried to recycle, our efforts were wasted, because all our separated waste is just mixed with non-segregated waste after it leaves our premises.”

B. COMPLIANCE WITH ENVIRONMENTAL STANDARDS OR CERTIFICATIONS

By environmental standards, we mean a set of quality conditions that a company adheres to or strives to maintain in relation to an environmental component or function. A company may also choose to voluntarily comply with an environmental certification, or a form of management system that encompasses processes for sustainable environmental management that are indicated by a certification authority. Figure 36, below, identifies companies complying to environmental standards or certifications, by country.

Less than half of the companies interviewed confirmed compliance with environmental standards and/or having environmental certifications. At the country level, we notice that Egypt leads in this respect, with the majority of surveyed companies in Egypt confirming compliance with environmental standards and slightly less than half of those interviewed having ISO standard management systems certifications which have an environmental component. The next country in line is the UAE, where more than half of the companies interviewed confirmed complying with environmental standards. Lebanon and KSA scored the lowest adherence to environmental standards respectively.

► **Companies Complying to Environmental Standards or with Certification (by Country)**

Figure 36

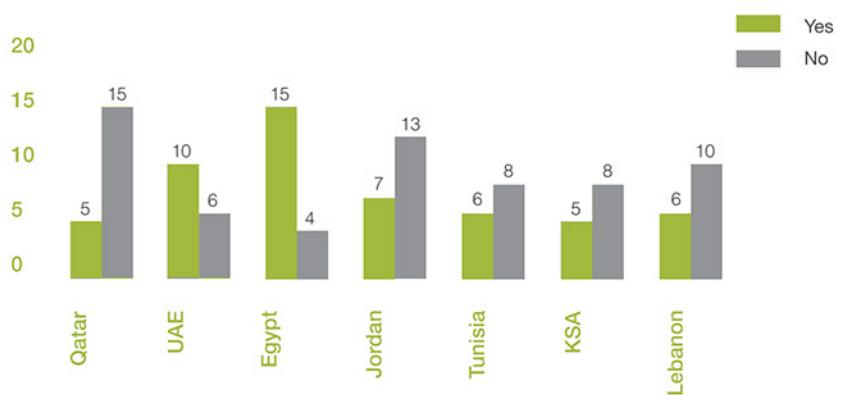
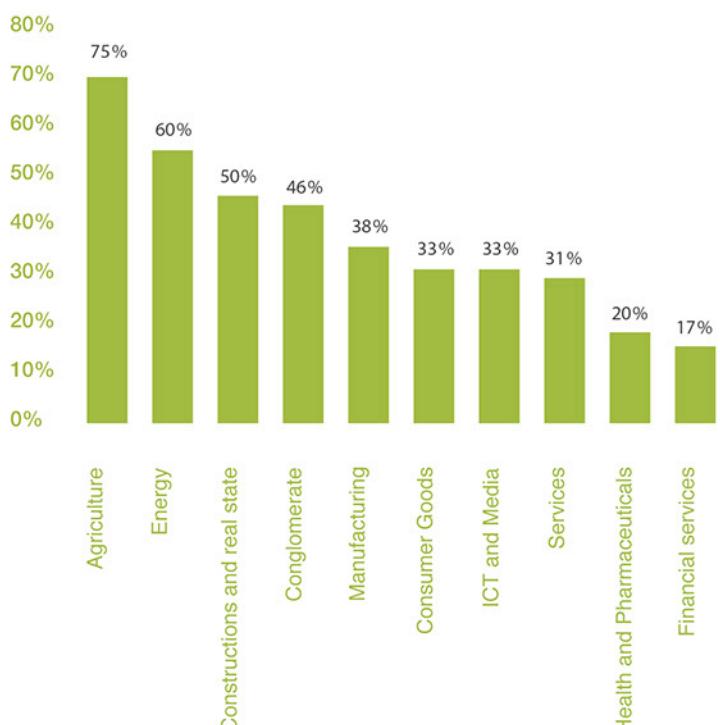


Figure 37, below, demonstrates the percentage of companies that adhere to environmental standards, by sector of operations. Compliance with environmental standards is mainly evident in large and multinational companies and mostly prevalent in the agricultural and energy sectors. As for the other sectors, the percentage scores are lower with financial services scoring the lowest in terms of adherence.

► **Percentage of Companies that Adhere to Environmental Standards (by Sector)**

Figure 37



Survey findings in this regard are in conformity with the results of studies that have been conducted on the link between firm industry/sector and environmental disclosures. Hassan and Ibrahim (2012) argue that firms from industries with a higher environmental impact tend to make more adequate and comprehensive disclosures than companies from less environmentally sensitive industries. Other studies also reveal that industry plays a significant role in determining the quality and quantity of environmental disclosure.²³

In our study, we notice that the energy and agricultural sectors (high environmentally sensitive industries) make the most efforts and disclosures on their environmental practices, given the significant environmental impact, which necessitates measures to reduce their effects on the environment. On the other hand, financial services and health and pharmaceutical companies (low environmentally sensitive industries) do not exert much effort on their environmental practices and disclosures. We also notice the impact of government regulations on company environmental efforts when contrasting the situation in Egypt with that in the KSA, in particular. The Egyptian Environment Affairs Agency (EEAA),²⁴ formulates general environmental policy, prepares the necessary plans for the protection and promotion of the environment. Furthermore, Egypt's Environmental Law No. 4 of 1994²⁵ provides for a mandatory environmental review, to be undertaken by the competent administrative authority according to EEAA's instructions, as part of the approval process for all proposed projects. In the KSA, on the other hand, government rules and regulations pertaining to the environment appear to be non-existent. National environmental regulations (or their absence) have a direct impact on a company's environmental performance. The two examples provided below contrast the situation for a company in Egypt with that of a company in KSA.

A large company in the energy sector in Egypt, has ISO certifications, issues environmental impact assessment reports, is annually audited by a technical advisor, is compliant with national laws and regulations, and has a standard waste management treatment system:

“Locally, we are mandated by Egyptian law to issue an Environmental Impact Assessment (EIA) which is required by the EEAA before pursuing any operational activity. Furthermore, every year, we need to go through an annual audit for our facilities. Internationally, we achieved ISO 14001 environmental standards, OSA 18001, and OHSAS 18001”.

It is worth noting, however, that in Egypt, there is room for violations beyond the company's premises. While governmental authorities set standards for industrial waste disposal, companies often outsource the service, and do not necessarily audit the supplier's adherence to safe disposal practices. The enforcement of laws and regulations remains poor in Egypt, however, which leaves room for violations.

On the other hand, when asked about its environmental compliance, a large local conglomerate in KSA indicated that such measures are very difficult to assimilate due to the lack of effective regulations and guidance from governmental entities:

“We are facing difficulties in complying with international regulatory standards for environmental protection and the main reason is that we need to see more effective enforcement of regulations for protecting the environment and more controls from governmental entities.”

The study's results also indicate that multinationals across the region adhere to international environmental guidelines that are set by their headquarters. For example, the representative of a large multinational bank in the UAE pointed out that it abides by international environmental guidelines like the carbon disclosure project and the equator principles. The bank has also developed a complex environmental program that brings together different institutes to respond to the threat of climate change. Other large multinational companies in the ICT and media sector in Qatar and a large multinational in the services sector in Lebanon, follow their headquarters' international standards for the environment.

21- Jamali, D. and C. Karam (2014), 'CSR in developing countries: a critical review and synthesis', Journal of Management, under review

22- O'Sullivan, A., Rey, M.-E., and Mendez, J.G. (2011), Opportunities and Challenges in the MENA Region, Arab World competitive report 2011, 2012, OECD, 43, 67.

23- Mio, Chiara and Fasan, Marco, The Determinants of Materiality Disclosure in Integrated Corporate Disclosure (December 1, 2013). Department of Management, Università Ca' Foscari Venezia Working Paper No. 2014/9. Available at SSRN: <http://ssrn.com/abstract=2443929>

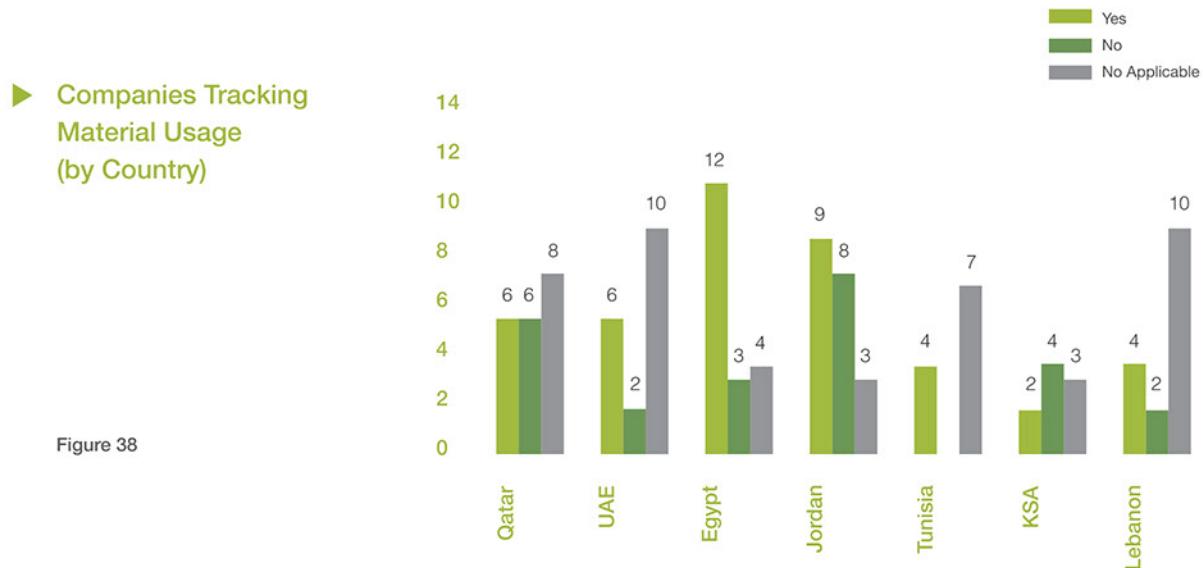
24- <http://www.eeaa.gov.eg/en-us/home.aspx>

25- <http://www.infoprod.co.il/country/egypt2i.htm>

26- Ministry of State for Environmental Affairs Egyptian Environmental Affairs Agency Climate Change Control Department. (2010). "Egypt National Environmental, Economic and Development Study for Climate Change." Retrieved from: <https://goo.gl/uFVZkH>

C. TRACKING MATERIAL USAGE

Investigating a company's efforts to track its material usage provides an assessment of its contribution to the conservation of the global resource base and its efforts to reduce material intensity and increase the efficiency of its operations. Materials refer to raw materials; associated process materials or materials that are needed for the manufacturing process; semi-manufactured goods or parts, including all forms of materials and components other than raw materials that are part of the final product; and materials used for packaging purposes, including paper, cardboard and plastics.



D. TRACKING ENERGY CONSUMPTION

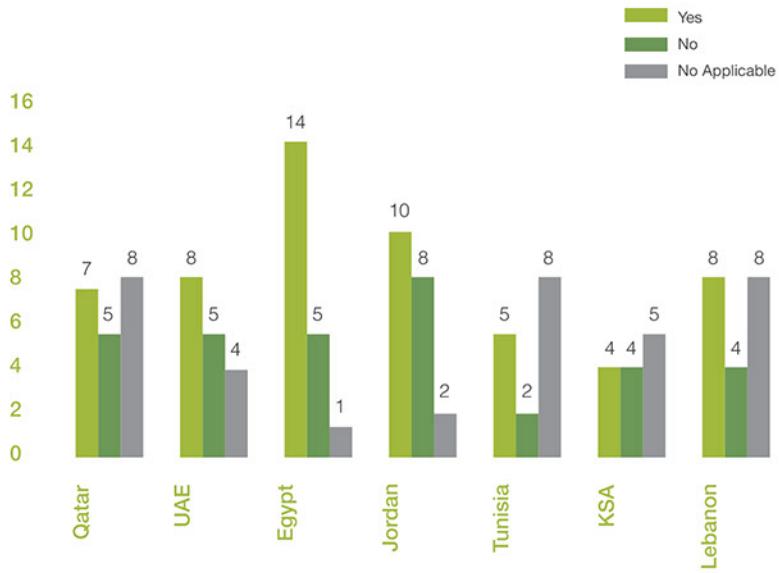
Energy consumption refers to the consumption of multiple types of energy that are used by an organization in its operations. For some companies, energy refers to electricity, where it is the only significant form of energy used. For other companies, energy sources might also include steam or water provided from a district heating plant or a chilled water plant.

Almost half of the companies interviewed for the survey confirmed tracking overall energy consumption. This is mostly evident in Egypt where the majority of companies interviewed confirmed adopting this practice, as opposed to lower rates in other countries, with KSA at the lower end (Figure 39, below).

The practice of tracking material use in terms of raw or packaging materials was not widespread, with slightly less than half of the interviewed companies having a system to track material usage. Notably, in Egypt, the majority of companies interviewed confirmed adopting this type of practice (Figure 38, below). This may be a result of the economic instability faced by the country as a result of successive uprisings. Furthermore, this practice is more significant in large companies, and especially those in the energy, and health and pharmaceuticals sectors.

► Companies Tracking Overall Energy Consumption (by Country)

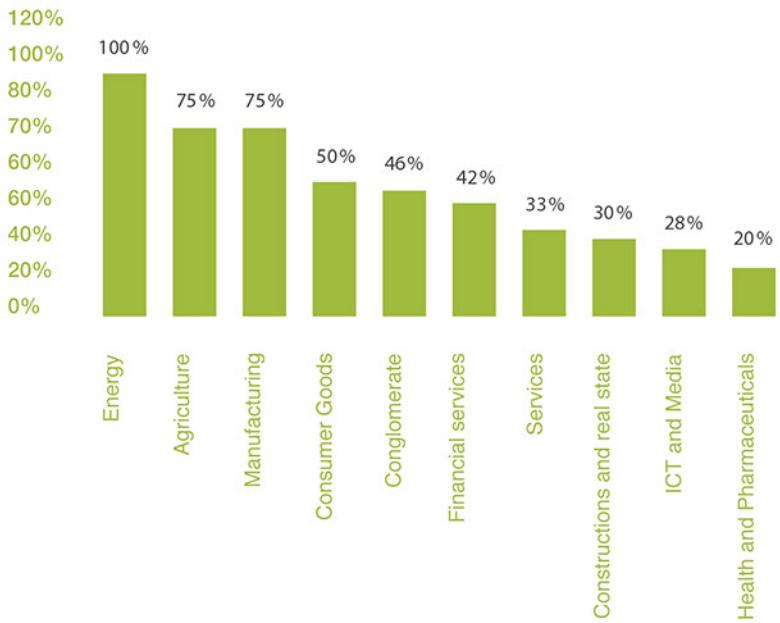
Figure 39



Tracking energy consumption is mostly prevalent in large companies. The most dominant sector that appears to be adopting this practice is the energy sector, with all the companies interviewed from the energy sector confirming tracking their energy consumption, followed by the agricultural and manufacturing sectors (Figure 40, below).

► Percentage of companies Tracking Overall Energy Consumption (by Sector)

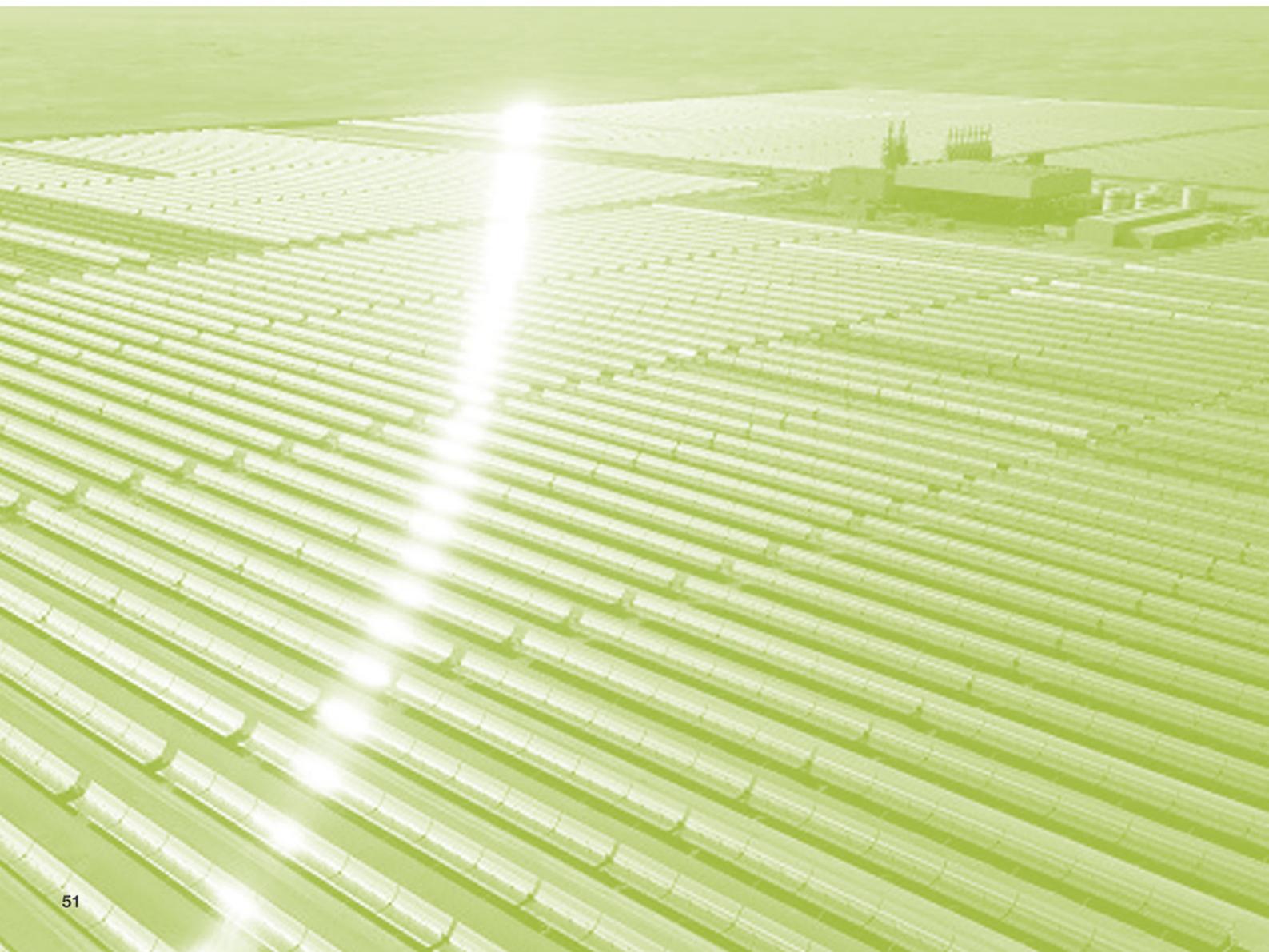
Figure 40



1. Efforts to Reduce Energy Consumption and Engagement in Energy-Efficient Alternatives/Initiatives

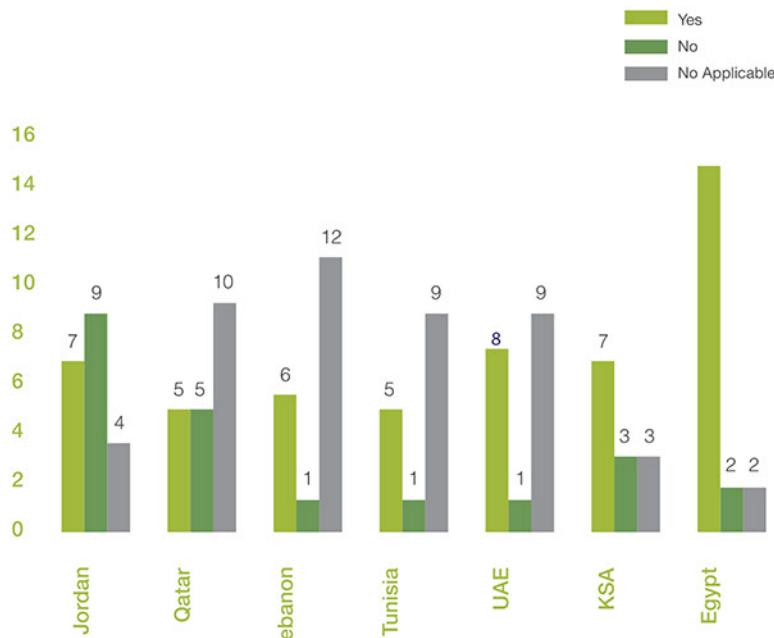
Engaging in energy efficient alternatives or initiatives and providing energy efficient products and services is an important part of an organization's product stewardship initiatives, given that energy consumption is a major contributor to climate change and the burning of non-renewable fuels generates greenhouse gases (GHGs) and causes other environmental impacts. Energy efficient products and services are produced with a reduced amount of energy by the adoption of more efficient technology or production methods, or by using renewable energy sources for the production process. Using energy more efficiently is essential to combatting climate change.

Half of the companies interviewed for the survey engage in initiatives to provide energy-efficient or renewable energy based products and services. Again, this is mainly evident in Egypt where the majority of the companies interviewed confirmed engaging in such initiatives. This may be explained by the country's economic situation and an energy crisis that leads to frequent energy cuts, leading the government to decrease energy subsidies. As for the other countries in the study, this practice is not notably evident (Figure 41).



► Companies Providing Energy Efficient or Renewable Energy-based Products and Services (by Country)

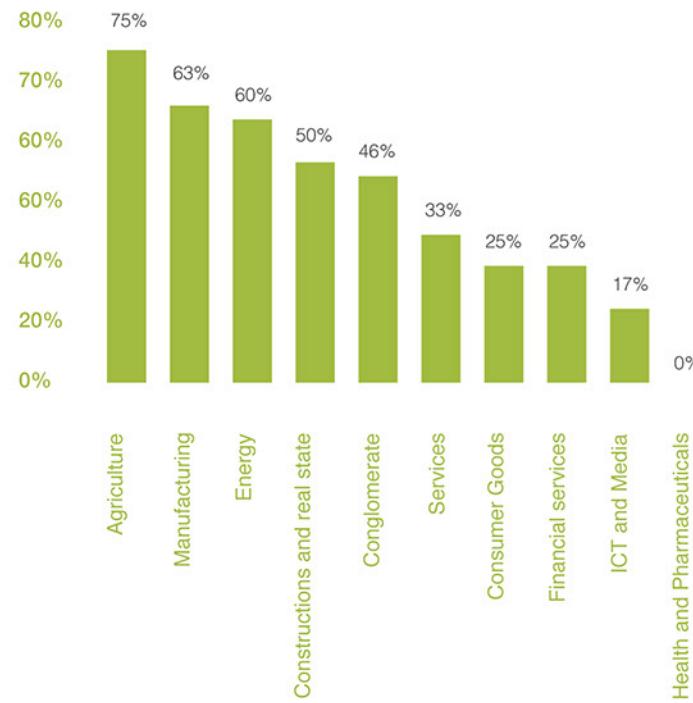
Figure 41



Engagement in these types of initiatives is mainly found in large local companies, as opposed to multinational companies. Furthermore, this practice is dominant in the agriculture, manufacturing and energy sectors (Figure 42, below).

► Percentage of Companies Engaging in Initiatives to Provide Energy Efficient or Renewable Energy-based Products or Services (by Sector)

Figure 42



The study was able to identify several interesting examples of energy efficient initiatives and alternatives that are being implemented by organizations across the various countries in question. Some of these initiatives are highlighted below.



Egypt

A large local agricultural company not only designed an energy efficient chicken production house, but is also exploring the use of renewable energy for heating. As described by the company's representative,

“Our chicken production house was designed to minimize the consumption of fuel. We only use 35 percent of the original consumption required for indoor heating of the production house, because we use MTT (Minimum Transitional Tunnel Ventilation). This not only provides the right temperature for the chickens, but also reduces our consumption of diesel fuel. We’re also investigating the use of heat collectors on our roofs to heat water, which can be used in under-floor pipes to heat the chicken house in the winter.”



UAE

A large regional manufacturing company uses an advanced insulation technology for its facility, which allows for the use of less cooling energy to achieve and maintain a comfortable temperature. Their representative elaborated as follows:

“We are keen on the adoption of green initiatives; we use glass wool which is a very advanced type of insulation technology that minimizes the influence of outdoor heat on the building. We also use road insulation material that also reduce our energy consumption rates. We are lucky because our partners invest millions of dollars in this type of R&D annually”.



Jordan

A large multinational company in the manufacturing sector strives to invest in energy efficient products and reduce energy consumption, the representative of the company elaborated:

“We try to implement efficient routing measures to reduce the use of energy in distribution. We try to minimize leaks and raise efficiencies, and invest in energy efficient appliances.”



Lebanon

While in Lebanon, a large multinational company in the construction and real-estate sector provides energy efficient operations and at the same time reduces its CO2 emissions through one of its projects,

“One of our main initiatives is in Waste Heat Recovery (WHR); which offers significant potential for “CO2 free” power generation.”



Tunisia

An SME in the renewable energy sector provides a clear example of how the Tunisian government supports the production of solar panel systems. As articulated by the company's representative,

“The government supports the solar panels system. We maintain a positive relationship with the National Agency for Renewable Energy, and they pay 20 percent of the cost of our solar panels, and the client pays the rest.”



KSA

Efforts to reduce energy consumption undertaken by a large local company in the manufacturing sector include providing schools with integrated sensors to control lighting and air-conditioning use. According to the respondent, a study showed that those efforts translated into electricity savings of 30 percent and, accordingly, a cost savings of 32 percent. However, the representative also revealed that the cost of electricity in KSA is very low and in turn does not incentivize cut backs on electricity usage as highlighted by the following statement,

“The cost of electricity in KSA is very low, so if you expect a financial benefit from cutting back on electricity consumption, there is little incentive to do it.”



Qatar

A large multinational telecommunications company is reducing its energy consumption and impact on the environment by using clean energy sources. The company is also implementing sustainable office energy consumption system, as highlighted by its representative:

“Our main focus is on our 4G network emissions. However, being in Qatar has helped us because we are powered by the Electricity National Grid, which is powered by LNG, a very clean form of energy, so in comparison to other markets we are on the safe side of producing electricity 4G emissions.”

2. Emissions

Emissions include greenhouse gas (GHG) emissions as well as ozone-depleting substances, NOX, and SOX. These emissions could be classified into emissions that directly result from operations that are owned or controlled by the organization, emissions that indirectly result from the generation of purchased or acquired electricity, heating, cooling, and steam consumed within the organization, and other Indirect emissions that occur outside of the organization.

While company efforts to reduce emissions were not common across the countries in the study, nevertheless, there are efforts that are being made by some of the companies in the sample. An SME in Egypt in the construction and real-estate sector, for example, uses filters to reduce emissions, "We do not track our emissions, but we do have practices in place to reduce emissions, such as using filters for our concrete". Another SME in Egypt in the services sector ensures that all of its trucks meet international European standards on CO2 controlled emissions. Also, a large local agricultural company in Egypt, plants palm trees to offset the carbon emissions.

In the UAE, a large local telecommunications company uses a Green IT feature to promote teleconferencing. Their representative said, "We have a Green IT feature that provides solutions for teleconferencing, which we provide as a service. That means less travel, less cost, less fuel consumption and less carbon emissions." The company also uses hybrid antennas that reduce CO2 emissions by 50 percent. Furthermore, a large multinational company in the manufacturing sector in Lebanon is exerting efforts to monitor its carbon emissions. According to its representative, "Everything that has to do with air emissions is very closely monitored. We do not only opt to meet international regulations, but we also have standards of our own."

While there are companies that are exerting various efforts to reduce emissions, these efforts are still nascent, not very innovative, and mainly limited to simple exercises such as tree planting and teleconferencing, which are not related to core business. Consequently, more Research and Development (R&D) is needed in this sphere to find new ways to reduce companies' emissions and carbon footprint. Collaboration across industries is another area that could be of great benefit in this regard.

Tracking carbon footprints is not a common practice for the companies that were interviewed. Figure 43 provides data on the number of surveyed companies tracking their carbon footprint, by country. In Egypt, there is an equal split between companies that track and those that do not track their carbon footprint. The largest number of companies that do not track their carbon footprint was found in Jordan, while the lowest number of countries tracking their carbon footprint was in the KSA.



► Companies Tracking their Carbon Footprint (by Country)

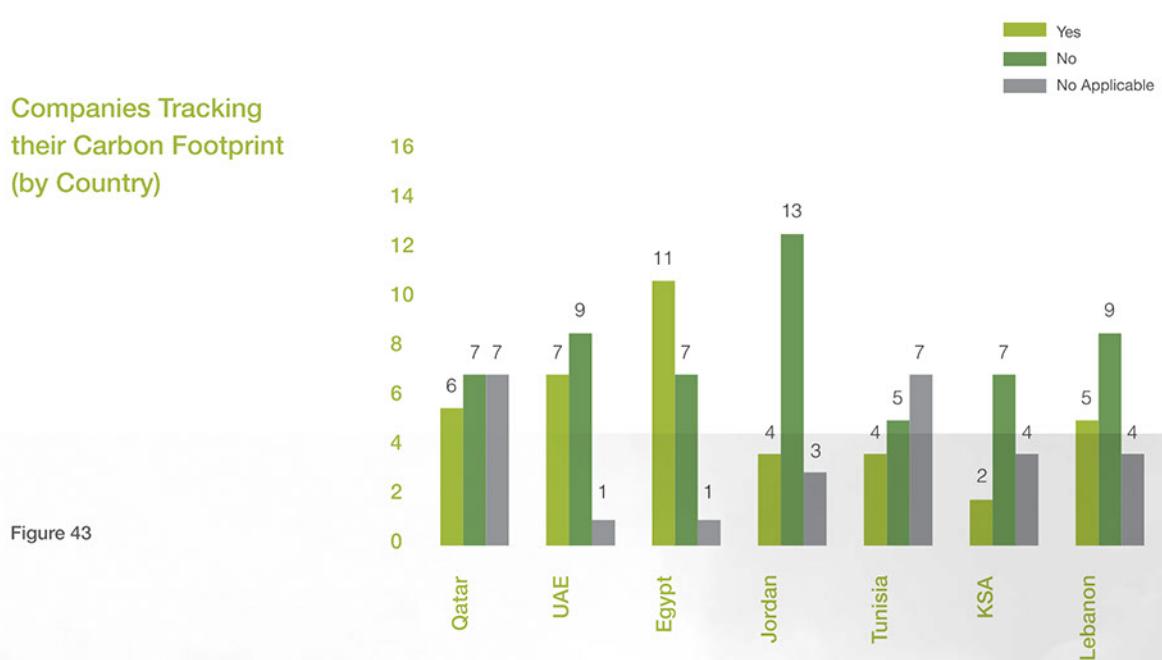


Figure 43

► Percentage of Companies Tracking their Carbon Footprint (by Sector)

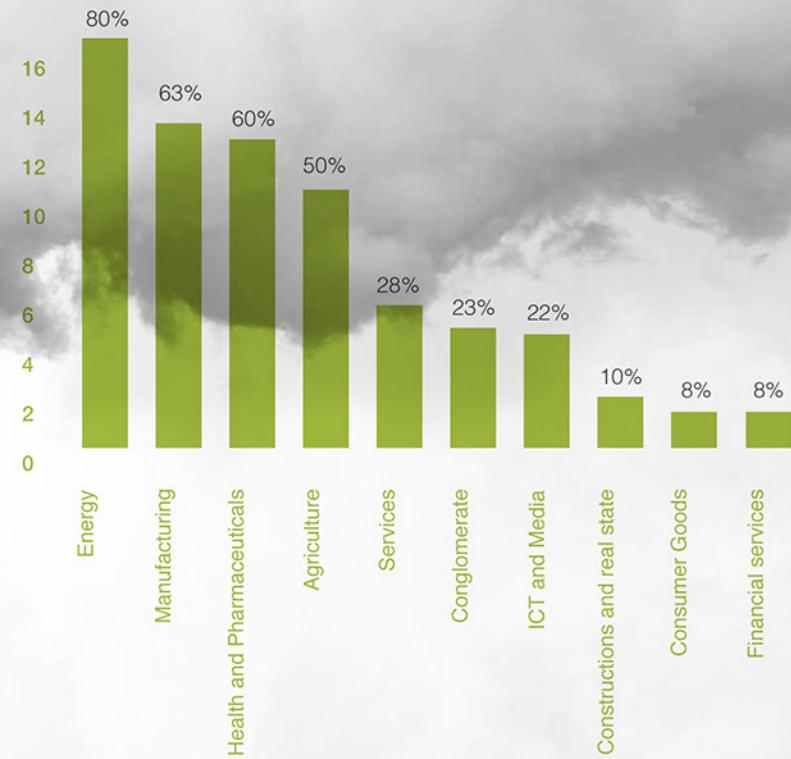


Figure 44

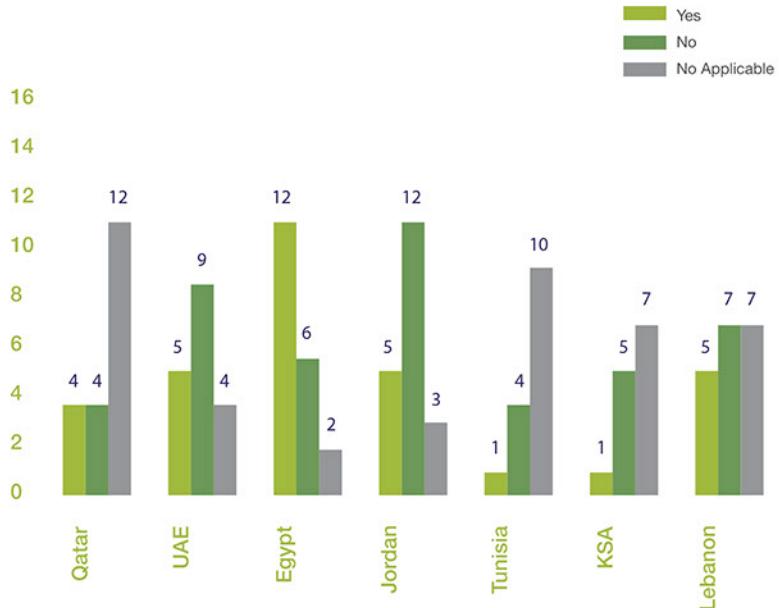
E. TRACKING THE ENVIRONMENTAL IMPACT OF TRANSPORTATION

Assessing the impacts of transporting products, goods, and materials for logistical purposes, and transporting members of the organization's workforce, is part of a comprehensive approach to planning environmental management strategies. Assessing the environmental impact of transportation resulting from the company's operations, particularly for those companies with extensive supply and distribution networks, or that require extensive travel rates on behalf of company executives, allows the company to identify environmental impacts associated with logistics. The latter may represent a major part of the organization's environmental footprint.

Only a minority of the companies interviewed confirmed that they track the environmental impact of the modes of transportation they use. The main cluster composing this percentage are Egyptian firms, where over half of the companies interviewed in Egypt confirmed the adoption of such a

► Companies Tracking Environmental Impact of Transportation (by Country)

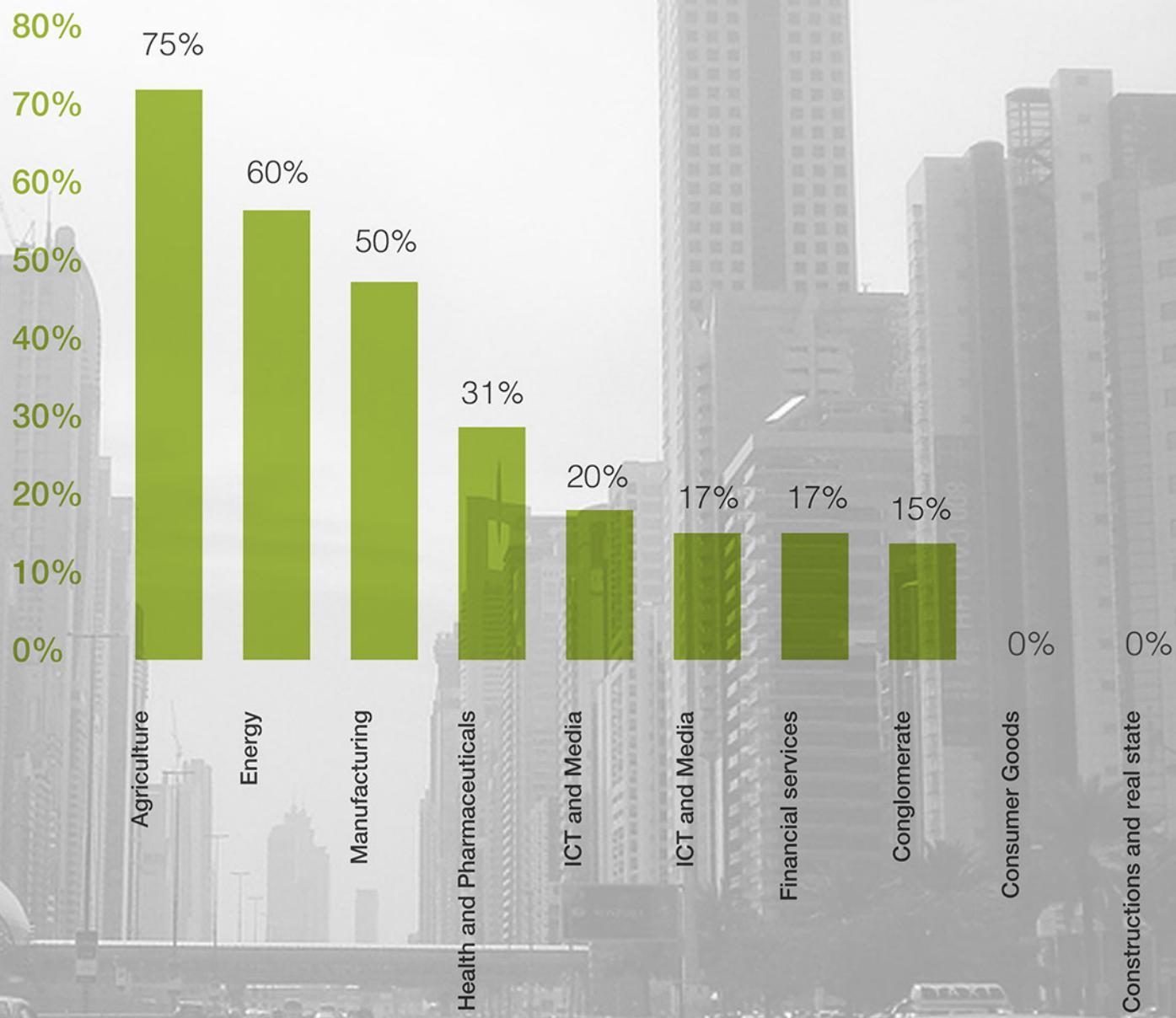
Figure 45



A majority of the companies that track the environmental impact of transportation are large multinational companies. Furthermore, this practice is significantly evident in the agricultural and energy sectors (Figure 46, below).

► Percentage of Companies Tracking Environmental Impact of Transportation (by Sector)

Figure 46



Examples of how organizations are engaging in efforts to reduce the environmental impacts of their modes of transportation are summarized in Table 4, below.

► **Mechanisms to Reduce the Environmental Impact of Transportation**

Table 4

Country	Size	Type	Sector	Mechanism to Reduce Environmental Impact- Transportation
Egypt	Large	Multinational	Services	Internet teleconferencing which cuts back on travel
Egypt	SME	Local	Services	Offers energy efficient transportation service by using European trucks with European CO2 controlled standards
Jordan	SME	Local	Consumer goods	Upgrades truck and car fume filters regularly
UAE	Large	Multinational	Consumer goods	Internet teleconferencing, fuel-efficient vehicles, carpooling techniques, and practices to control fuel consumption.
Qatar	Large	Local	ICT and Media	Internet teleconferencing, fuel-efficient vehicles, carpooling techniques, and practices to control fuel consumption.

In addition, company interviews in Qatar indicate that governmental regulations pertaining to environmental protection and air emissions in particular, create an environment which motivates companies to maintain certain environmental protection efforts. For example, government regulations require certain standards for vehicles; companies that are in the transportation business must conform to these standards. A local SME in the manufacturing sector in Qatar confirmed that they abide by Qatari Law Number 30 of 2002, which provides a base for environmental protection legislation in which the norms and standards related to gas emissions to the atmosphere are legally binding. These standards and norms define the air quality and maximum values of pollutant gases that shall not be exceeded from any source in the country. Furthermore, any development projects including industrial projects are subject to environmental impact approval by the Supreme Council of Environmental and Natural Reserves (SCENR).

E. TRACKING WATER USAGE

Clean freshwater is becoming increasingly scarce, and can impact production processes that rely on large volumes of water. In regions where water sources are highly restricted, especially in the gulf region, looking into an organization's water consumption is essential. An organization's water consumption patterns can also influence its relationships with other stakeholders, and especially surrounding communities.

Figure 47 provides the status of companies regarding water usage tracking, by country. The figure demonstrates that tracking water usage is not a common practice for the companies that were interviewed, with only 38 percent confirming the presence of a system to track water usage. In Egypt, there was an equal split between companies that track, and those that do not track their water usage, whereas in Tunisia, a minority of the companies interviewed confirmed tracking their water usage.

► Companies with a Water Tracking System (by Country)

Figure 47



Figure 48 provides data on the percentage of interviewed companies that have a water usage tracking system in place, by sector. The data shows that tracking water usage is mostly prevalent in the agriculture sector, followed by the health and pharmaceuticals, and energy sectors.

► Percentage of Companies having a System in Place to Track Water Use (by Sector)

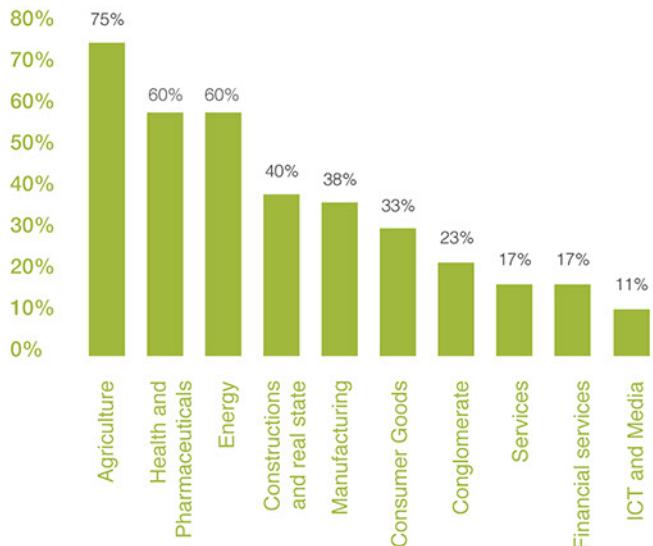


Figure 48

With regards to water conservation, it should be noted that some companies are exerting scattered yet commendable efforts to reduce their water consumption. Examples are provided in the following table.

► Mechanisms to Reduce the Environmental Impact of Transportation

Table 5

Country	Size	Type	Sector	Mechanism to Reduce Water Usage
UAE	Large	Local	Agricultural	In terms of water conservation, this company has irrigation auditors to design irrigation systems that reduce water needs. It also has a water conservation system and uses solar irrigation.
UAE	SME	Regional	Construction and real-estate sector	Adopted green standards to build a greenhouse; and installed built -in atmospheric water generators that create drinking water from humidity.
Lebanon	Large	Local	Financial Services	Installed the dual flush, double button with timers for the lavatory in order to reduce water usage
UAE	Large	Local	Services	Employs irrigation auditors to design irrigation systems to reduce water needs through subterranean weather stations that measure the exact humidity of the water under the soil. These weather stations are not found anywhere else.
Egypt	Large	Local	Agriculture and Consumer Goods	Innovated a zero-water-waste manufacturing cycle at one of its facilities.

G. EFFLUENTS & WASTE MANAGEMENT

Waste refers to both hazardous waste (as defined by national legislation at the point of generation) and non-hazardous waste (all other forms of solid or liquid waste, excluding wastewater). Effluents refer to the planned and unplanned water discharges (excluding collected rainwater and domestic sewage) by destination.

Some of the companies interviewed for the study are making efforts to reduce their effluents and waste. Three examples include one large multinational company in the services sector in Qatar that encourages customers to recharge mobile phone credit in-store, instead of wasting cards; implements paperless registration where all procedures are completed electronically; and recycles all paper and phones. The second example is a large multinational company in Lebanon in the manufacturing sector that monitors its effluents and abides by strict standards for effluents and waste. Finally, another large regional firm in Lebanon in the services sector recycles paper, and uses double-sided printers to reduce paper consumption.



4

HUMAN RIGHTS AND SUPPLY CHAIN MANAGEMENT

A. USE OF LOCALLY BASED SUPPLIERS

Figure 49 outlines the status of companies with regards to having a stated policy on preference for local suppliers, by country. The data shows that only a minority of the companies interviewed in the survey have implemented a policy that gives preference to locally based suppliers. Jordan, Egypt and Qatar had the largest number of companies without a stated policy giving preference to local suppliers. The vast majority of the companies that adopt such policies are large companies with more than 250 employees.

► **Companies with Policy of preference for Local Suppliers (by Country)**

Figure 49

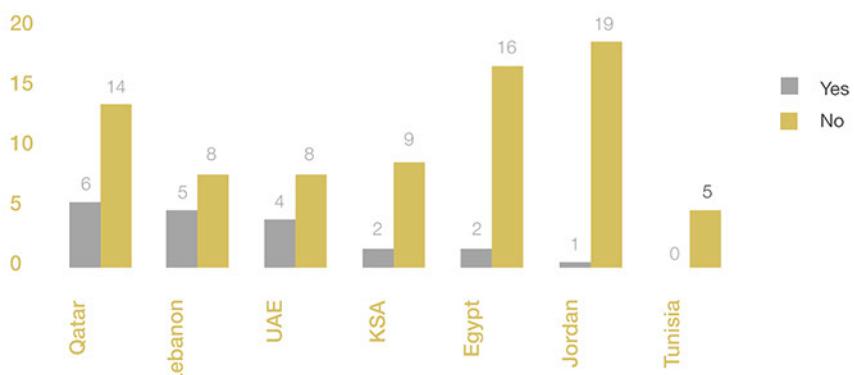
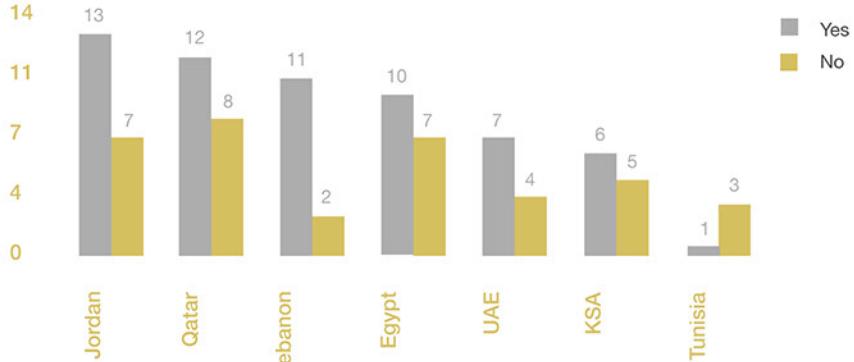


Figure 50, below, provides data on companies that give preference to local suppliers in practice, regardless of stated policy, by country. Half of the companies interviewed confirmed having a common practice that gives preference to local suppliers. The majority of companies that commonly adopt the practice of preferring local suppliers are large companies and companies located in Jordan and Qatar.

► **Companies with Preference for Local Suppliers (by Country)**

Figure 50



In all seven countries, companies that commonly give preference to locally based suppliers are significantly more prevalent than companies having a written policy for doing so. This is a clear indication that most companies do not officially bind themselves with a written policy to favor locally based suppliers but tend to do so inherently. In Jordan, for example, the majority of the companies interviewed confirmed having a common practice for preferring locally based suppliers while only a small minority identified having a related written policy. A respondent from a large multinational company in the UAE in the construction and real estate sector confirmed having a policy for preferring locally based suppliers by noting: "Yes, we have a policy guideline to prefer locally available material and other technical sources if they meet our quality standards. Thus, preference is always given to local suppliers that meet technical standards and expertise."

The main reasons stated for preferring locally based suppliers were convenience and efficiency, supporting the local economy, as well as feasibility and cost effectiveness. More binding reasons for preferring local suppliers such as government regulations and legal requirements were found in the responses of companies operating in the KSA and UAE. For example, the representative of a large regional company in the consumer goods sector in Abu Dhabi, UAE highlighted this fact by noting: "In adherence to the law, we only use the services of companies that are locally registered, we can't work with any service provider that doesn't have a local presence." As for the KSA, the respondent of a large local company in the construction and real estate sector explained that the reason for preferring local suppliers is the government facilitation provided to the company when dealing with such suppliers.

In Qatar, UAE and Egypt, supporting the local economy was a main driver for preferring local suppliers. Convenience, efficiency and cost-effectiveness were also main drivers for preferring local suppliers, across all countries in the survey and especially in Jordan, Lebanon, Egypt and Tunisia. Companies in the KSA also highly emphasized the efficiency and convenience of local suppliers.

"We are committed to maximizing the procurement of goods and services from local small and medium sized businesses to support the local economy. We also strive to recruit up to 30 percent of the workforce from the local community, but this depends on the availability of the needed skills and quality requirements for the projects" SME, Egypt

"We prefer local suppliers from a logistics perspective because we would rather have our suppliers close to our operations. However, most of the raw materials that are used in the production of our products have to be imported." Large local company, Jordan

On the other hand, lack of local availability of materials and an inability to meet high quality control standards appear to be the most common reasons for not preferring local suppliers. This was especially evident in the overwhelming majority of companies interviewed in Jordan, Egypt, UAE and the KSA, which reported that the lack of availability of local suppliers, particularly those that meet the company's quality standards, is a major barrier. One representative from a multinational company lamented the lack of availability of adequate local suppliers, "We face difficulties because we work in a country that is not that industrialized. Locally sourcing raw material is not that easy. We almost get everything from abroad, which is much more expensive because of the shipping and transport costs involved." A subsidiary of a multinational in the health and pharmaceutical sector commented on having internal regulations aligned with the company's headquarters, whereby the headquarters are the primary supplier of required materials.

B. EVALUATING AND SELECTING SUPPLIERS ACCORDING TO THEIR ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) PERFORMANCE

Only a minority of the companies interviewed confirmed having procedures in place to evaluate and select suppliers according to their Environmental, Social and Governance performance (ESG). However, in Egypt, Qatar and the UAE, there was an equal split between companies that screen suppliers based on ESG performance, and those that do not. In KSA and Tunisia, only a minority of companies interviewed screen suppliers based on ESG practice. Moreover, the majority of companies that screen or select suppliers based on ESG practice are large companies; half of which are multinational. The practice of preferring local suppliers was most commonly adopted in the high risk and thus high-material sectors of agriculture, manufacturing, energy and health.

The study assessed the main drivers, barriers and mechanisms for supplier selection according to ESG performance. A main driver for screening suppliers based on ESG performance was meeting the demands and specifications of companies' own clients. Accordingly, the majority of companies that screen suppliers based on ESG performance focus on health, safety and environmental practices. This is in addition to traditional screening processes that focus on quality and cost. Other drivers include: suppliers' ethical standards and human rights practices compliance such as preventing child labor, and safe labor practices.

The respondent of a large regional company in the ICT and Media sector in Egypt highlighted the challenges in finding suppliers that are compliant with ESG standards, as follows:

"Evaluating suppliers according to their ESG performance is difficult in Egypt. We can follow up on human rights policies and procedures with large companies and suppliers. However, with smaller companies and suppliers we can't do this, they won't work with us if we do so."

Other barriers include the fact that CR is a relatively new concept in the region and not many organizations implement these types of responsible business practices. Accordingly, requiring suppliers to adopt enlightened CR practices is not always feasible.

The mechanisms utilized to screen suppliers based on ESG performance included the following:

1. Requiring suppliers to abide by Codes of Conduct and Ethics

Some of the companies interviewed require their suppliers to comply by their Codes of Conduct or Code of Ethics, which typically include clauses on anti-corruption, equality, and respecting human rights. A large multinational company in the consumer goods sector in Qatar elaborated as follows:

“Our suppliers need to be willing to comply with our code of conduct, which focuses on acting with integrity in the market, ensuring ethics in business activities and operating responsibly by ensuring respects, human rights, diversity, and non-discrimination principles in the workplace, the code also addresses issues of anti-harassment, worker health and safety, integrity in the marketplace, quality, and responsible marketing. By asking our suppliers to abide by the same standards, we are ensuring that we are doing business the right way.”

2. Abiding by Environmental and Human Rights Standards

Some companies choose to go beyond internal clauses, and abide by external standards, and in turn expect their suppliers to also comply with these standards. These include the United Nations Global Compact's (UNGC) Ten Principles, and other standards such as the United Nations Global Initiative to Fight Human Trafficking (UNGIFT). The representative of a large local company in the ICT sector in the UAE stated, “Last year we updated our procurement policy to include UNGC principles, so we prefer suppliers who do not discriminate or employ children.” Training and awareness raising efforts are needed for such a practice to be effective, however. An interviewee from a large multinational company in the ICT and Media sector in Egypt that complies with UNGIFT elaborated,

“Preventing child labor is a big issue, it goes beyond basic HR in my view. This is responsible business practice, which is not an option. In fact, one of the important things is how to educate other companies that work with us on human rights and trafficking because people are not familiar with different forms of human trafficking.”

A representative of a KSA-based company from the consumer goods sector reiterated the importance of raising the awareness of other companies in the supply chain, to enable them to abide by ESG performance standards, by saying:

“We don’t expect our suppliers to have a sustainability strategy, however, we work with them in order to help them enhance their performance in that area, especially in what relates to reducing the emissions and carbon footprint of their transportation fleet.”

3. Requiring Supplier Certification

Some companies in our sample also asserted that they require their suppliers to abide by specific management systems and certifications. A large multinational company in the services sector in Jordan, for example, requires its suppliers to adopt specific environmental performance certifications and management systems. Another example is a local conglomerate in Tunisia which requires suppliers to have an ISO certification and has an internal company procedure to select suppliers according to their social and environmental performance; “We have a procedure within the selection process that considers the price, quality, and existence of ISO9001, ISO 14001, and OHSAS 14001 certification. We always request that suppliers have these ISO certifications in order to work with us.”

4. Numerical Assessments

Key Performance Indicators (KPIs): Some companies indicated that they continuously compute KPIs to monitor the performance and compliance of their suppliers. A multinational subsidiary that operates in the services sector in Qatar continuously calculates KPIs for its supply chain and assesses supplier performance accordingly. When asked if they have procedures in place to evaluate and select suppliers and subcontractors according to their social and environmental performance; the multinational subsidiary commented: “Our company has a very strict system for selecting suppliers; we don’t necessarily have to deal with the suppliers everyone uses internationally.”

Sustainability Assessments: Another numerical measurement for businesses is the supplier sustainability index that evaluates all the suppliers of a business based on key sustainability dimensions. A large multinational company in the manufacturing sector in Jordan uses a supplier sustainability index in addition to requiring supplier certifications on health, safety and the environment. The representative of the company noted:

“I introduced a system called the supplier sustainability index where suppliers have to fill a form to provide us with data about their performance against certain sustainability criteria. This forms is a part of our the supplier performance evaluation records. We are in the process of adopting this system, and are gathering data on how this may impact our relationship with our current suppliers. We also check if our suppliers are certified in terms of health, safety and environmental compliance standards.”

One large multinational company in the construction and real estate sector in Lebanon conducts a supplier assessment survey in which social, environmental, human rights, quality and health and safety issues are assessed and a report is issued categorizing suppliers according to their compliance. When asked if they have procedures in place to evaluate and select suppliers according to their social and environmental performance, the company's representative responded: "We conduct a social assessment survey of suppliers and sub-contractors once a year. We ask about social and environmental issues, occupational health and safety measures, human rights protection, quality standards and so on. A report is then issued categorizing our suppliers and sub-contractors

5. Undertaking Supplier Audits

A few companies actually audit supplier performance to ensure adherence with ESG performance standards. A multinational company in the manufacturing sector in Lebanon, however, shed light on the challenges encountered with the following quote:

"We do conduct supplier audits, but it is mainly focused on quality, supply security, occupational health and safety, and food safety. Evaluating suppliers on their social and environmental practices will be done in the near future. All of this will be part of the CSR plan for the next few years. Once we finalize the plan, we will need to request all of this social and environmental performance information from our suppliers."

Another example is provided by a large regional conglomerate in the UAE that audits suppliers' ESG performance on an annual basis. When asked about evaluating suppliers and sub-contractors, the representative responded:

"We audit suppliers once a year and they are given a month to meet our requirements. If they do not, they lose the contract. Our audits also consider labor conditions in the supply chain. We have the best labor accommodation conditions and we audit our suppliers and construction companies to ensure that they provide their labor force with the best health and safety standards and protection measures, accommodation, and treatment according to human rights requirements; this is part of the contract."

C. TRACKING THE IMPACT OF OPERATIONS ON THE LOCAL COMMUNITY

Only a minority of companies interviewed confirmed having a system for tracking the potential or actual negative impact of their operations on the local community. This practice is not a significantly evident phenomenon in all seven countries. However, in Egypt, Jordan and the UAE, close to half of the companies interviewed confirmed having such a system in place, the majority of whom are large companies, some of them being multinational. Finally, the most dominant sector that appears to implement this practice is the energy sector. All companies interviewed from the energy sector confirmed having a system for tracking the potential and actual negative impacts of operations on the local community; this makes sense given the risky nature of the sector's operations, and the high costs affiliated with work disruptions. The majority of agriculture companies interviewed also reported tracking the impact of operations on surrounding communities. This also makes sense given the high reliance on local natural resources and local residents for continuity of operations.

5

SOCIAL INVESTMENT

Over the past ten years, there has been a shift in companies' role in society especially in what pertains to CR, where corporations are slowly shifting from arm's length philanthropic giving to more strategic CR that is aligned with their core business.²⁷ The culture of giving in the Arab region plays a very important role and has largely been based on charity as opposed to strategic philanthropy that is geared towards the root causes of problems.²⁸

As a result, the region's companies have fallen into the same pattern of practice. Shifts in narrative and practice, however, have been witnessed in recent years.²⁹ A primary goal of this study is to better understand how the Arab region's corporate sector has been responding to global shifts from philanthropy to strategic social investment.



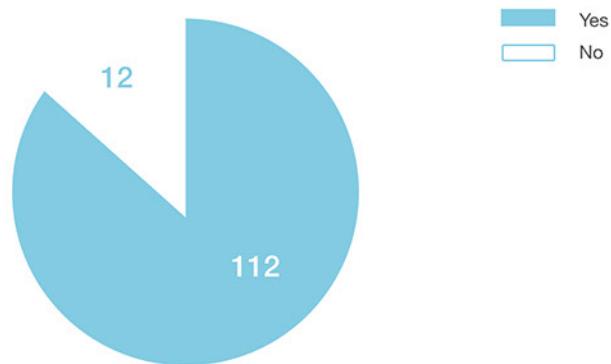
A. NATURE OF ENGAGEMENT

This section explores companies' engagement in the social sphere. Figure 51 provides information on company social engagement. Not surprisingly, the majority of our sample does engage in some form of social investment activities. A minority of the companies interviewed do not engage in any social investment activities, all of which are small in terms of company size.

To better understand the nature of corporate engagement in social investment activities, we asked interviewees whether they invest in charitable activities, or activities that aim at sustainably developing local communities. Charity was defined as financial contributions that provide for basic needs, such as food, medicine, shelter, and supporting orphanages; while social investment was defined as providing financial or technical support to programs that target the root causes of the need for charity, such as training programs, educational initiatives, and so forth.

► Engagement in Social Investment Programs

Figure 51



The majority of companies interviewed indicated engaging in social investment, or both charitable³⁰ and social investment³¹ activities while a much smaller number of companies solely engage in charitable activities. An interesting observation is that several companies invest in sponsoring awareness raising events (such as marathons, and sports challenges) that target fundraising for specific causes. Budgets for these activities, perceived as social investments by the companies, are often allocated by their Public Relations and Marketing departments. This reflects an overlap between a company's marketing and brand imaging efforts from one side, and practices aimed at engaging local communities through social investment programs on the other side.

It is also worth mentioning that all the companies interviewed in Tunisia engaging in strategic social investments are multinationals belonging to the Media and ICT sector. The remaining companies in Tunisia do not engage in any social investment, or focus on charitable activities.

27- Porter, M. & Kramer, M. (2011). "Shared Value Creation." *Harvard Business Review*. Retrieved from: <http://goo.gl/ZBOTsF>

28 - Ibrahim, B. & Sherif, D. (2008). *From Charity to Social Change: Trends in Arab Philanthropy*. Cairo: AUC Press.

29- Jamali, D., & Sidani, Y. (Eds.). (2012). *CSR in the Middle East: Fresh perspectives*. Palgrave Macmillan.

30- Charity here is defined as financial contributions that aim at providing with basic needs (ex: food, medicine, shelter, supporting orphanages, etc.).

31- Social investment here refers to implementing, or financially and/or technically supporting programs that aim at tackling the root causes of the need for charity (ex: training programs, educational initiatives, etc.)



1. Budgeting

To better understand social investment programs and the degree of commitment behind them, we asked respondents about the nature of social investment budgets and implementation methods. Results reveal that across all countries, companies that run social investment programs are equally divided into those that set an annual budget for such initiatives and those that do not (Figure 52, below).

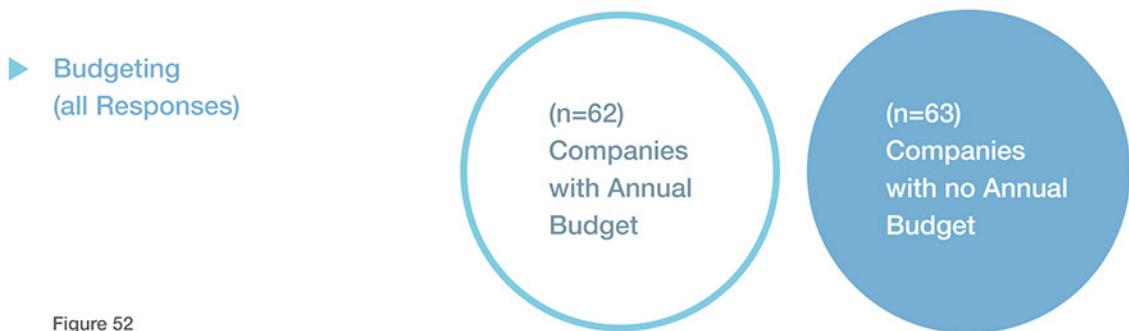


Figure 52

The breakdown of companies that run social investment programs with a set annual social investment budget as opposed to those that do not have a set budget was very similar across most of the companies interviewed. Tunisia is the only country where the vast majority of companies interviewed do not have a set annual budget. On the other hand, most companies interviewed in Qatar, Lebanon and the UAE have an annual budget for social investment programs (See Figure 53).

► Setting an Annual Budget

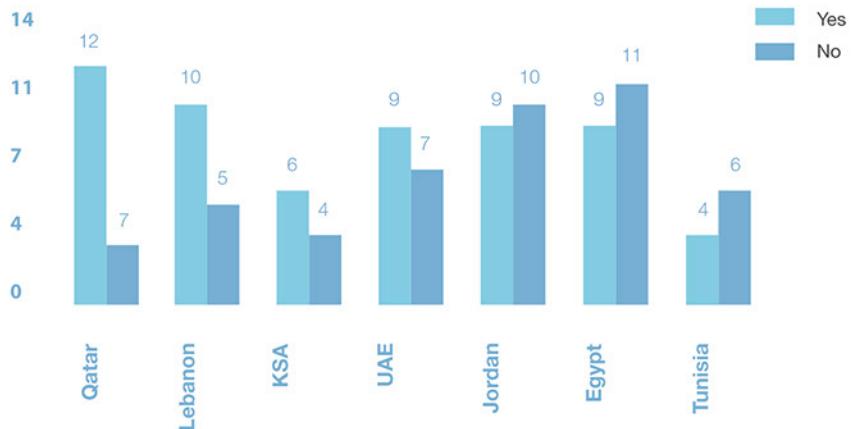
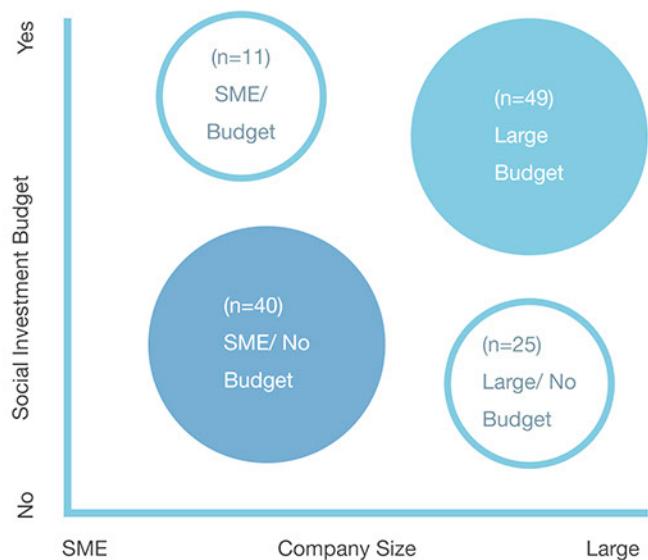


Figure 53

The majority of companies that do have pre-set social investment budgets are large companies, with a minority of SMEs. Figure 54, below illustrates the qualitative relationship between company size and availability of social investment budgeting; whereby the majority of SMEs do not have an annual social investment budget, and the majority of large companies interviewed do. The research findings clearly indicate that a relationship persists between company size and the availability of an annual social investment budget.

► **Number of Companies by Size and Social Investment Budget**

Figure 54



Finally, local companies were less likely to have a set annual social investment budget, whereas their regional and multinational counterparts were significantly more likely to set an annual budget. The majority of multinational companies interviewed indicated having an annual budget, whereas only a minority did not.

The vast majority of interviewees refrained from sharing their annual budget for social investment, many of whom mentioned that their budgets are not fixed. A small minority of respondents was unable to share budget figures due to company confidentiality policies. Based on the information gathered from the very few companies that shared their budgets, the following can be concluded:

- A few companies spend up to USD 100,000 annually on social investment programs. An equal number of companies interviewed indicated spending between USD100,000 and USD 500,000 annually.
- A small number of companies, mainly located in the UAE and Lebanon have allocated annual budgets for social investment ranging from USD 1 million to USD 4 million for social investment projects. Two companies (located in the UAE and Egypt) demonstrated the highest allocated annual budgets, between USD 5 million and USD 10 million.

Measures followed to set annual social investment budgets include:

- Setting an annual budget based on the company's performance;
- Calculating the budget using Zakat³² requirements; and
- Setting a percentage (often from one to five percent) of Marketing/Public Relations budgets, revenues or profits.

32- One of the Five Pillars of Islam, Zakat is an annual tax payment present under Islamic law that is applied on certain kinds of property. It is used for charitable and religious purposes.

2. Institutionalization

Overall, the majority of the companies interviewed do not have an institutionalized social investment program or structure. In terms of presence by country, however, the UAE and Egypt did feature companies having an institutionalized social investment program, while such systems were less prevalent in Qatar, Lebanon, Jordan, or the KSA. In Tunisia, none of the interviewed companies have an institutionalized social investment program (Figure 55, below).

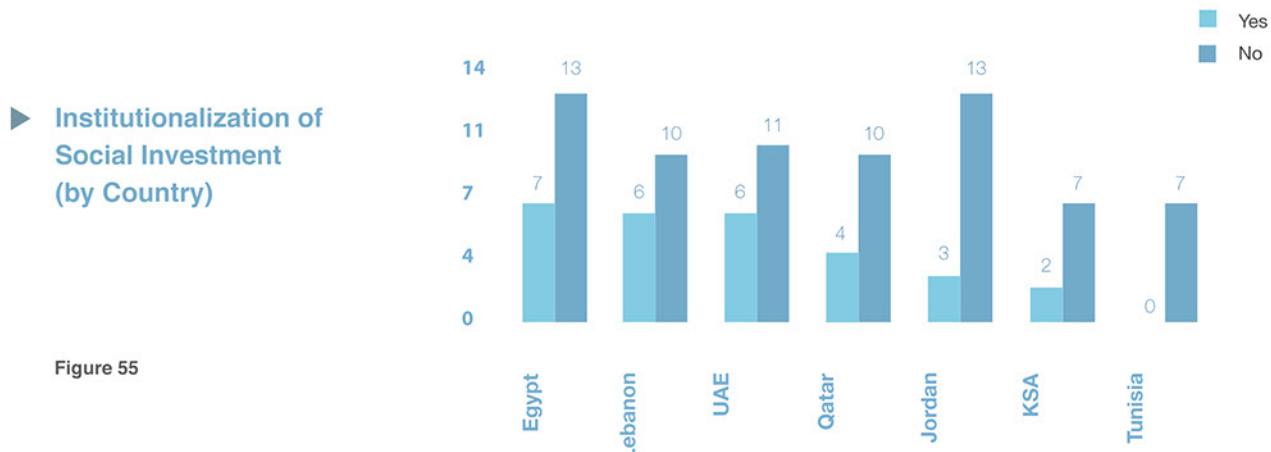


Figure 55

While some of the companies with an institutionalized social investment program are multinationals, the majority are large regional companies. A large proportion of these have developed foundations that govern the company's social investment programs and activities. Only one of the companies with an institutionalized social investment foundation is an SME. It is worth noting that in most cases, company founders established these foundations to fulfil their own belief in the importance of contributing to society, and to causes that they are personally passionate about. In other words, these foundations are a hybrid of family and corporate foundations. The representative of a large local company in the KSA said,

“We started the [social investment] department in 2007 in an effort gather all of the founder’s initiatives and maintain them in an institutionalized framework. We started focusing on particular directions in 2010.”

As Figure 56 demonstrates, discussions with local and regional companies that have institutionalized their social investment programs reveal that they lie on a spectrum, ranging from founder/passion-driven foundations and programs, to programs that are focused and less sporadic, moving on to focused programs that are tied to core business. The majority of companies with institutionalized programs mentioned that they are working towards adopting a more strategic approach, and in some cases tying investments to core business.

A large number of companies that established a program or foundation stated that they did so to focus their social investment efforts, and in some cases tie them to core business. This does not necessarily mean that all companies with institutionalized programs have in fact implemented strategies that simultaneously create value for the business and for surrounding communities. Rather, the majority of interviewed companies are still in the process of focusing their efforts and creating effective social investment strategies. Finally, a few of the interviewed companies have institutionalized programs that are focused and tied to core business.

► **Types of Institutionalized Social Investment Programs**

1. Passion driven and often un-focused programs
2. Programs that aim at focusing efforts, and in some cases aligning with core business
3. Strategic social investments that are tied to core business

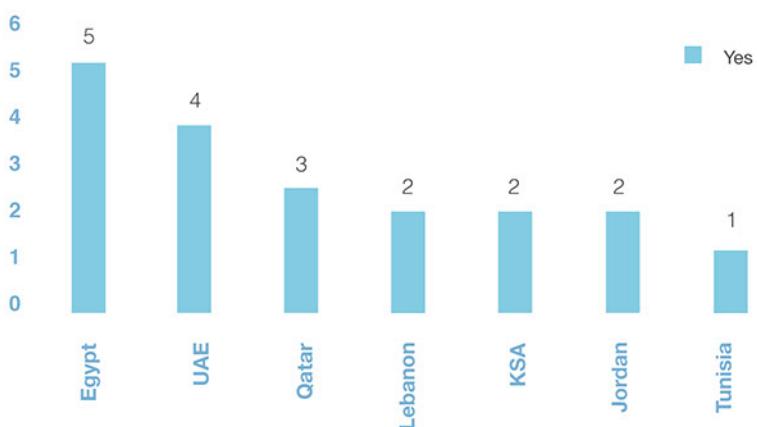
Figure 56

3. Ties to Core Business

Strategic social investments, or ones that capitalize on a company's core business are proven to be more impactful and sustainable,³³ and corporate responsibility vanguards have been advocating for more strategic social investments for the last ten years.³⁴ To better understand the nature of social investments in the region, and the degree to which they are likely to be sustained, we asked companies if their social investment programs have to be tied to core business (Figure 57, below). Based on corporations' self-reports, 31 corporations affirmed that their social investments are tied to core business. Based on our own analysis of their investments, only 13 of these companies do invest in areas related to core business in reality. It is also worth noting that half of the companies that invest in areas related to their core business, based on our analysis, do not report doing so.

► Budgeting (all Responses)

Figure 57



Most of the companies that invest in areas related to core business are large regional and multinational companies. In the case of multinational companies, social investment directions are mostly driven from the headquarters' agenda. In the case of local and regional companies, executives heading the corporation or its responsibility practices simply believed that utilizing core business is what makes sense when it comes to social investments.

33 - Van Fleet, J. (2012). "Scaling up Corporate Social Investments in Education: Five Strategies that Work." The Brookings Institution. Retrieved from: <http://goo.gl/5XFmND>

34 - Porter, M. & Kramer, M. (2006). Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility. Harvard Business Review. Retrieved from: <http://goo.gl/uhFQ2j>

B. SECTORS OF ENGAGEMENT

- ▶ COMMUNITY DEVELOPMENT
- ▶ ENTREPRENEURSHIP & EMPLOYABILITY
- ▶ EDUCATION

The majority of companies interviewed engage in multiple sectors when it comes to social investments, with the most commonly mentioned being Community Development, Entrepreneurship and Employability, and Education. General community development activities were the most commonly mentioned area of social investment. This encompasses improving access to basic physical and social infrastructure like schools, hospitals, water drainage systems, open spaces, libraries, as well as awareness campaigns targeting issues like community clean ups and road safety. A minority of companies tend to focus on fostering sports; specifically targeting marathons or football.

Tackling Unemployment, Jordan:

From its inception, a Jordan-based online recruitment portal realized that creating social value was at the core of its business model. To further its value creation, the company introduced its own social investment arm that focuses on enabling job seekers in their job search journey, supporting them in developing their CVs, offering educational sessions around key employability skills, helping organize job-fairs, and creating a micro-site specifically for young job seekers.

Economic empowerment and expansion is also a key theme that includes youth-focused efforts, and general employment and entrepreneurship promotion efforts. The majority of UAE based companies that took part in the research engage in social investment programs addressing entrepreneurship and employability. While more than half the companies interviewed in Egypt, KSA, Tunisia, Lebanon and Qatar also engage in this sector, only five companies in Jordan seemed less likely to focus on economic empowerment.

Approximately 14 of the interviewed companies are engaged specifically in female empowerment. The majority of these companies are found in Lebanon, Qatar and the KSA. Activities targeting women's empowerment are mostly economic in nature, and tend to focus on women's employability and empowerment by providing support for small home-owned income-generating projects.

Education is also a high priority area of social investment for the majority of companies, whereby they reported engaging in a variety of activities including basic literacy classes, digital literacy programs, and scholarship programs, with a few focusing on vocational training and education. Some companies specifically focus on the education of people with disabilities.

Mentoring Women in Business, Lebanon:

Two female owners of a services business realized the hurdles of being a female business leader upon entering the business world. They established a foundation to tackle this challenge by building on the experiences they are gaining as successful businesswomen. The foundation's mission is to empower women in business by facilitating mentoring relationships, creating work opportunities for small businesses and helping them gain access to micro loans.

"Our foundation is about empowering women in business. My sister and I started this business together, and when we started we didn't realize how rare it is for women to be in business, the thing is that there aren't so many women at the top, at the CEO level. We offer mentorship programs to train, employ and empower women. We want to help them to overcome whatever challenges they face in the workplace, and eventually create more jobs."

Technology to Advance Employability, Egypt:

A multinational in the ICT sector focuses its social investment on areas tied to its core business, i.e. technology. This does not mean that the company's social investment programs are detached from local realities, rather the relevant department head has created multiple programs that address some of the region's most pressing issues.

The Egyptian subsidiary of the company spearheaded an online educational and training portal that enables youth to access material on key employability and entrepreneurship skills. In parallel, the company also launched a digital literacy education campaign across the country to enable students to access knowledge and resources online. Some of these programs were so effective that they were spearheaded across the company's other subsidiaries in the region.

Several of the companies that focus on youth education for employability engage with INJAZ, while others launched their own programs to prepare youth for seeking jobs or enhancing the skills they need to enter the job market. Other companies support incubators, or have launched their own training and entrepreneurship support efforts.

Healthcare is another prevalent area of investment that includes awareness campaigns, blood drives, and training healthcare professionals. Some companies focus on the availability of adequate healthcare services and equipment for people with disabilities. It is noteworthy that healthcare is an exceptionally popular area of investment amongst companies interviewed in KSA.

Empowering People with Disabilities, UAE:

A landscaping company integrates people with disabilities into its value chain. As a result of the company founder's drive to employ people with disabilities, the company created a successful inclusion model and now employs more than 40 people with disabilities. The company also engages external stakeholders to raise awareness about the viability of their model.

Developing for Wellbeing, KSA:

A developer that focuses on building healthcare facilities and communities strives to create working, learning and living environments that nurture the wellbeing of the mind, body and soul. The company integrates principles of healthcare and wellbeing into its designs for healthcare facilities, and in parallel works with youth on promoting wellbeing and preventing illness and fatalities. An example of its efforts in engaging youth is creating a club for young people who have lost a loved one to road accidents, and working with them on the use of gaming, mobile applications, and multimedia to spread awareness around road safety and health.

Several companies engage in environmental activities such as recycling, water conservation, the installation of solar panels, awareness campaigns and programs to the public and at schools, with a few focusing on protecting biodiversity. It is notable that the incidence of social investments in the environmental sector was extremely low for companies in Qatar, Tunisia and KSA.

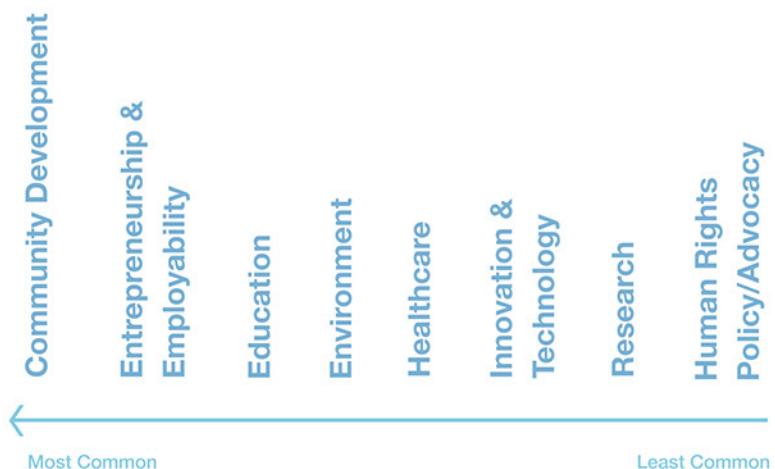
Advancing the Petroleum Engineering Sector, Qatar:

A large multinational corporation invests in areas that are related to Qatar's national vision, but also focuses on "bringing some of our own competences to achieve measurable long term impact." Among the company's programs are a Project Management Center of Excellence that was launched in partnership with academia and other companies from the sector. Other programs include synergizing academic research with the private sector's needs, and encouraging students to develop environmentally friendly innovations.

19 companies indicated that they invest in charitable donations that are often a one-time donation made to NGO's or individuals. Most companies engaging in charity are based in Jordan or Qatar. Figure 58, below, outlines the prevalent social investment sectors.

► Social Investment Sectors

Figure 58



1. Investments in Arts and Culture

The arts and culture³⁵ sector is recognized for fostering spaces of communication, self-expression and social inclusion, as well as creating opportunities for job creation and innovation.³⁶ Statistics reveal that less than 5 percent of the USD 54 million budget for philanthropy in the MENA region was allocated to such programs. Other estimates place this number at as little as 1 percent of foundation's budgets.³⁷ Socio-economic and political strife further erodes such investments; while limited arts education, minimal support systems for young talent and weak arts infrastructure add further barriers.³⁸

To better understand the private sector's current and potential role in fostering a thriving arts and culture scene, we dedicated a specific set of questions to this area of investment (see Figures 59 and 60). Results reveal that close to half of our sample invests in areas related to the promotion of arts and culture. Supporting cultural events and festivals, musicals and theater performances, art exhibitions and galleries was the most common mode of engagement in promoting arts and culture. Some companies choose to financially support specific artists and art competitions. Only one company institutionalized its support of the arts through an annual prize and a long-term prestigious educational scholarship. A few companies engage in actual media production in the form of movies, sitcoms, and print publications.

35- References to culture in this text apply to a society's traditions, behaviors, language and laws, while a more subjective definition of the arts would render it as any creative activity or method of expression.

36- Seelye, K. (2014, March 31). Arab the Spring, Arab Art Blossoms. Middle East Institute. Retrieved from: <http://www.mei.edu/content/after-spring-arab-art-blossoms>

37- Schneider, C.P., Nelson, K. (2008). Mightier than the Sword: Arts and Culture in the U.S.-Muslim World Relationship. The Saban Center for Middle East Policy at Brookings.

38- Schwartz, L. H., Dassa Kaye, D., & Martini, J. (2013). Artists and the Arab Uprisings. Santa Monica, CA: National Defense Research Institute (RAND).

Some companies mentioned that they engage in initiatives targeting arts and culture to enhance their brand image and customer loyalty. In such cases, those investments are derived from Marketing and Public Relations budgets, and primarily focus on the company's primary clients. As mentioned by one interviewee from a large local company in Jordan, "We sponsor [arts and culture] for marketing purposes. We're marketing our products so that's why we sponsor, it's not an issue of whether it is important or not."

Based on the study's results, the two most frequent factors preventing corporates from investing in the arts and culture sector is the lack of priority in the company or country and the sector's disconnection from the core business. This segment of non-investors, believes it is more strategic for the company and more beneficial to society to focus on vital challenges such as literacy, health or poverty. Given a common interpretation of arts and culture as a niche market, which is limited to wealthy art patrons, some interviewees are wary initiatives in such areas would be interpreted as self-promotion. The representative of a large local company that is part of a conglomerate in the KSA said, "I do believe it's important, but I don't think it is as equally important as other sectors. It is a very hard thing to say. I prefer to see social responsibility attending to other priorities." Figure 61, below, provides reasons given for not investing in arts and culture.

► Investments in Arts & Culture (all Responses)

Is Arts and Culture an important area of investment?



Figure 59

Do you invest in Arts and Culture?



Figure 60

► Reasons for Not Investing in Arts & Culture



Figure 61

It is also worth noting that in the case of companies that do invest in arts and culture, senior management is frequently the prime motivator. Several businesses that are highly involved in Arts and Culture are led by patrons of the arts. For example, the representative of a large local company in Jordan stated, "Our chairman of the board is a patron of the arts, so we're heavily involved in publishing books, supporting music festivals and art, etc." An interviewee from a large regional company in KSA confirmed this situation as follows,

"My brother, who is also a senior manager and shareholder in the company promotes culture, music and art. He loves music, and he believes that he will contribute a lot to the country if he supports music and culture. You can affect change when you [promote and support] music and culture."

Figure 62, below, lists reasons provided that motivate social investment in arts and culture programs. Several interviewees emphasized the importance of supporting initiatives in the arts and culture sector in light of what they defined as the region's declining appreciation of heritage and the declining use of the Arabic language. Specifically in the GCC region that is characterized by rapid urbanization and changing demographics, interviewees see that local art production provides multi-cultural understanding, heritage and identity preservation, and reconciliation and social cohesion. Interviewees revealed cultural preservation, heritage and the positive impact of arts and culture as the most common motivators of investment.

► Motivators of Investing in Arts & Culture



Figure 62

“The UAE is a very unique place. It’s really hard to find the Emirati heritage when you walk in Dubai these days. This is the nature of the country, and our kids are in private schools [where they are] slowly forgetting the Arabic language. The characteristics of the Emirati civilization are slowly dying, and I felt that we’re responsible and able to return it in various shapes, so yes, it [arts and culture] is an important area of investment.” Large Regional Company, UAE

“I think that [the] arts are a very important tool for bringing people together, creating a common identity and expressing oneself. I believe that arts and culture will die out if societies are not interested in them, as a result satisfaction will become very low. I truly believe that this is an important area.” Large Local Company, KSA

Several corporate respondents believe that this type of social investment yields proactive results since it offers young people exposure and opportunities. Our research and literature review both noted efforts from regional companies aiming to transform arts into a source of employment, including microfinance opportunities for handicraft artists. Facing a massive youth unemployment bulge, arts and culture programs provide income-generating opportunities for a creative workforce.

In this respect, one construction company participating in the study noted the success of a project they implemented at a reduced rate, because of its heritage preservation component. The company renovated a cultural site and involved their employees in the process. Many of the respondent’s arts and culture programs incorporate employee-volunteering opportunities, typically fostering a sense of ownership and positivity amongst employees. Additionally, this preserved national heritage, increased tourism rates, allowed for employee ownership and provided employment opportunities for people living in the area. Projects of this nature lay evidence to the claim that there is an economic value to arts and culture social investment programs.

C. EMPLOYEE ENGAGEMENT IN SOCIAL INVESTMENT PROGRAMS

With regards to employee engagement in company social investment, the vast majority of companies surveyed engage their employees in their social investment activities, only one third of whom do so in the form of an institutionalized corporate volunteering program. An interviewee from a large local company in Qatar commented on employee participation by saying: “Our people are involved in the community, and they feel proud that they are part of the company, this is a company that has ethics and standards of supporting the community.”

► Employee Involvement in Social Investments

Figure 63

Companies that do not involve employees in social investment programs.

24

Companies that involve employees in social investment programs.

92

While most of the companies that do engage employees in social investment activities are large, a notable number of small and medium sized companies (half of those interviewed) also involve their employees in such activities. There is no notable difference among local, regional or multinational companies when it comes to the engagement of employees in social investment activities. When compared to other countries in the sample, Egypt has a relatively large number of companies that do not engage employees in social investment initiatives. These are primarily small local companies where social investment activities are driven by the company’s founder and are mostly charitable in nature. As demonstrated by Figure 64, the vast majority of companies do not have a formal corporate volunteering program. With the exception of three companies, most of those who do are large companies. Most of the SMEs interviewed do not have a corporate volunteering program. There appears to be a clear relationship between establishment of a corporate volunteering program and company size.

► Corporate Volunteering Program

Figure 64



A small segment of the interviewed companies require their employees to volunteer in social investment projects, with the remainder leaving the decision up to employees themselves. Furthermore, some companies reported that their employees actively approach them about starting volunteering efforts. The representative of a multinational in the services sector in UAE stated:

“Employees have approached me about their interest in volunteering out of their own initiative. Most of them said that since they moved to Dubai they have been searching for places where they can volunteer.”

Several of the interviewed companies also reported taking active steps to encourage their employees to volunteer. These include awards and titles for the most active volunteers and internally circulated newsletters to inform employees about current social investment and volunteering opportunities. Another common strategy was allowing employees to volunteer during working hours. A few companies admitted that in reality, and given executives' busy schedules, employees end up volunteering on their own personal time. The representative of a multinational company in the ICT sector in Egypt said,

“As an employee you can give 3 days of your time, not deductible, to work in any initiative you like, but given the fact that we are very stretched, employees still give time, but most of it is personal time.”

One of the interviewees observed that the company's employees are generally interested in volunteering, but are more likely to commit to initiatives and activities that directly relate to their expertise, and that can be logically arranged to match their schedules. A few companies make sure that employee's volunteering efforts are tied to their core skills and expertise. Several of these are engaged with INJAZ, and other efforts that allow employees to utilize their core skills. For example, a company that operates in the services sector allows its employees

“The majority of people around here are very willing to get involved, they spot a particular cause, INJAZ is a good example, where they see that they are contributing in a meaningful way, and they are keen on engaging with it. Other causes like blood donation drives gain less traction.” Multinational, Services, Qatar

“We try to focus on employees' core competency as much as possible so that they can provide us with value in terms of solutions or know-how. We focus on the extra value that they can add that is not available elsewhere.”
Multinational, ICT, Egypt

Several companies clearly see the benefits of engaging employees in volunteering programs; listed benefits included increasing employee engagement, and enhancing feelings of pride in and commitment to the company. One interviewee stated that volunteering also acts as a useful public relations tool as it enhances the company's reputation.



CHALLENGES

AWARENESS

A lack of awareness of CR and its benefits was reported as, by far, the most common challenge facing companies adopting CR practices in all seven countries. Interviewed executives noted an overall lack of knowledge and understanding regarding CR in the region on many levels, including an understanding of CR's impact on the community, since the concept is often confused with charity. This is in addition to the absence of an agreed upon definition of CR and its requirements. The absence of a mature CR and sustainability mindset among the general public, including employees, consumers, public sector personnel and civil society organizations is also perceived as a major challenge. For example, interviewees across the GCC and Egypt noted the little awareness or interest of business partners, consumers and the general public in environmental sustainability. Such little awareness also means that companies are not motivated to adopt CR frameworks, and face difficulty in identifying partners and champions should they choose to do so. To counter such a situation, interviewed executives believe that the perceptions of CR need to evolve, and awareness levels must be enhanced.

With regards to social investments in particular, some executives also believe that the nature of a company's interaction with non-governmental organizations (NGOs), and the quality of work of NGOs is also problematic within the region. As an illustrative example, two multinational companies in Qatar mentioned that while they have a significant amount of money allocated to social investments, the limited understanding of strategic social investments and the means by which impact can be achieved at a national level often leads companies to contribute to short term and charitable activities only. Another executive in Egypt also believes that the absence of a consolidated national development strategy, and the absence of information about key development players beyond urban centers, hinders corporate social investors' ability to strategically invest in social development, and achieve long term impact as a result. Restrictive civil society legal frameworks are also perceived as a hindrance to companies' ability to institutionalize their social investments in the form of corporate foundations and especially in Qatar.

LACK OF SUPPORT AND INCENTIVES

Companies adopting CR practices (from all countries in the study) noted the absence of government support as a significant challenge. The most commonly listed form of support that is currently absent is that of tax deductions or incentives for companies adopting CR. In parallel, executives also noted the absence of external (ex: public sector, investor) pressure to spread and encourage CR adoption efforts. Interviewees specifically noted the minimal requirements across the region's stock markets to mandate the adoption of CR practices, and the minimal role investors play in mandating CR adoption across their investments and especially family-owned businesses.

ENVIRONMENTAL SUSTAINABILITY

Challenges that are specific to adopting environmental sustainability practices include the lack of availability of environmentally sustainable suppliers, including suppliers of renewable energy or renewable materials and waste management suppliers. This also complicates the process of complying with the requirements of international standards or clients. Minimal government support in the form of incentives or tax deduction is also perceived as a main challenge. In KSA, the absence of comprehensive legal frameworks that focus on environmental preservation and sustainability is perceived as a challenge. In other countries where such regulations exist, such as Egypt or Lebanon, the minimal enforcement of such regulations is perceived as a main challenge. Challenges related to infrastructure include poor structural building designs that complicate green certification processes, and poor systems for collecting data about energy consumption, emissions, carbon footprint, and overall environmental performance. As previously mentioned, minimal public interest in the environment is also perceived as a main hindrance to environmental sustainability practices.

RESOURCES

As for the availability of resources, interviewed executives reported challenges related to financial costs and human resources. A significant number of companies mentioned not having the budget for the high costs of implementing CR activities such as those incurred by relying on alternative energy resources for example. With regard to human resources challenges, executives reported those include the lack of qualified and proactive personnel, and particularly those academically trained on the topic; a shortage of local CR experts, compounded by a scarcity of available training in the field; and a lack of employee engagement in CR frameworks. Post revolution circumstances including a challenging economic situation was also reported as a major setback for CR in Egypt.

BENEFITS

Benefits on corporate performance are a main theme under benefits mentioned by the interviewed executives. These include enhancing brand image and human resource management, and in a distant second place competitiveness and cost efficiency; and to a lesser extent supply chain management practices. The second main theme that emerged under benefits is that of benefits on society, or social benefits. Finally, some executives also believe that achieving environmental sustainability is a key benefit of adopting CR frameworks.

ENHANCING CORPORATE PERFORMANCE

Interviewed executives believed that CR activities contribute to a positive brand perception, enhance corporate reputation and boost the company's public image; all of which are main factors in attracting consumers. The study's results also revealed that corporate executives believe that adopting a CR framework enhances a company's ability to effectively manage its human resources. Interviewed executives believe that adopting a CR framework, enables the company to attract high caliber employees and retain them, increases employee loyalty, productivity and efficiency, and improves the employee work environment. Some executives believe that a CR framework brings about a focus on investing in a company's own employees, ensuring their constant development, and enhancing employee performance as a result. Some of the interviewed executives also believe that a commitment to social causes in specific increases employee morale, exposes employees to local needs and realities, increases levels of job satisfaction, and instills a sense of responsibility among employees.

In a distant second place, benefits relating to competitiveness and cost efficiency are perceived as benefits of adopting a CR framework. Executives believe that exceeding client expectations by aligning with global practices raises the company's profile and gives it a competitive edge over other companies in the sector. Executives also believe that adopting a CR framework wins the company the trust of other responsible companies, and thus attracts additional clients. As for benefits relating to cost, executives believe that certain CR practices, such as those pertaining to environmental sustainability, reduce operating costs through savings in energy consumption, water, waste disposal, and the use of packaging. In one interesting example found in Jordan, tax deductions were mentioned as a cost saving benefit to the company. Finally to a lesser extent and only in the UAE, KSA And Lebanon, executives listed benefits such as upgrading the company's supply chain by helping SMEs adopt CR frameworks and spreading the CR culture outside the company to suppliers and clients. Such a practice spreads efficiency and reduced risk across the company's supply chain.

SOCIAL BENEFITS

From a social viewpoint, positively impacting the community through CR activities is perceived as a significant social benefit in all seven countries. The examples of positive impacts that were provided by interviewees include: improving the quality of life of local community members, addressing community needs, and the overall empowerment of local communities and target groups. Reported social benefits also include positive impacts related to the specific causes supported by a company, ranging from increasing road safety, to encouraging gender equality, tackling unemployment and human rights issues and supporting entrepreneurship which eventually improves the country's entire economy, among others.

ENVIRONMENTAL BENEFITS

A final noteworthy benefit reported by interviewed executives relates to environmental sustainability, which was mentioned by company respondents in UAE, Qatar, Egypt and Lebanon. Reducing the company's carbon footprint, finding cleaner alternatives to fuel, saving energy, and optimizing operations are all ways by which CR is believed to contribute to environmental protection.

For some companies, CR frameworks are perceived as a comprehensive strategy that results in corporate, social, and environmental benefits, and enhancing the company's overall management systems and levels of professionalism.



PERSONAS

As the previous sections demonstrate, CR practice across the studied countries is largely inconsistent, with multiple variations within and between companies, and among countries. In other words, some companies are investing socially, while at the same neglecting the engagement and working conditions of their workforce. Other companies accord particular attention to their environmental footprints, while neglecting the comprehensive engagement of their stakeholders. These disparities are evident regardless of materiality, meaning that in most cases, companies that focus on a certain area and neglect another do not do so out of a lack of relevance to their operations.

While it can be argued that the larger a company is the more likely it is to adopt a more comprehensive approach to responsibility and continuity, study results have demonstrated that not all large companies are responsible. In fact, a significant proportion of interviewed large companies do not adopt a comprehensive approach to responsibility. With some companies adopting the bare minimum when it comes to the different principles of responsibility.

This raises the question of why companies that choose to engage in responsibility and continuity practices do so. An in depth look at the study's results reveals that, as mentioned previously, corporate responsibility practices are largely dependent on the nature of company founders or the executives heading corporate responsibility and continuity. This is not surprising given the absence of comprehensive regulatory frameworks that simultaneously ensure good governance, environmental sustainability and social accountability. It follows then that most of the countries represented in this study are home to fragmented efforts and in some cases weakly enforced regulatory frameworks.



Looking deeper into interview results, four kinds of executives and their respective companies emerged (see Figure 65, below). The upcoming sections provide an overview of each of these “personas.” It must be clarified however, that these personas are not clearly distinct; rather, they represent a spectrum along which corporations and their executives can progress or regress. This fluidity can result in scenarios that are promising, if companies choose to head forward. The same fluidity can result in scenarios that are bleak, if companies choose to stay where they are, or even worse, regress.



0. CONVENTIONAL COMPLIANCE

Before the spectrum of corporate responsibility practitioners begins, there is a group of corporations that do not engage in any form of responsibility practice. These are mostly small and, in some limited cases, large, family-owned businesses. Their executives are engrossed in maintaining day-to-day operations, giving little if any attention to long-term strategy or the effective engagement of their stakeholders, whether employees, suppliers or local surrounding communities (Table 6, below).

► Summary of Companies with Conventional Compliance

MAIN CHARACTERISTICS	Mostly small local companies. Family-owned. Minimal awareness of responsibility and continuity principles.
PRACTICE	Struggling with governance. Some adopt sector-specific management systems. Mostly contribute to charities.

Table 6

The majority of these executives have no awareness of the terms corporate responsibility or sustainability in the broader sense that encompasses governance, environmental and social performance. None of them engage in social investment programs; if anything, the founders contribute to charities out of a religious obligation to do so. A very limited number of these companies adopt specific management systems to fulfill the requirements of their suppliers. Juggling day-to-day activities with minimal resources and structures, these companies are stuck at their current scope of operation, with minimal prospects for growth.

A limited number of these companies discussed wanting to reform their current approach to business for multiple reasons, particularly the need to enhance efficiency and governance mechanisms. These reform practices are mainly introduced when a new generation of managers is introduced, as a second-generation succeeds the first.

CASE STUDY GENERATIONAL SHIFT

A small shipping company in Alexandria, Egypt, provides the perfect example of a company shifting towards better governance. The company is located at an old multi-story building, and the facility is furnished with old desks overloaded with paperwork, and old desktop computers. The interviewee is one of the shareholders' sons. A well-educated man in his mid-thirties, he began the interview by telling us how he did not think he would have anything of value to say, since the company is not engaged in anything related to responsibility or sustainability, yet they're trying to change that. The below excerpt from the interview perfectly captures a large proportion of today's private sector in the region:

"We are a typical family business. Only recently, the second generation of the family started to take over. We (the second generation) realized that there are a lot of areas where we can use our own professional and academic backgrounds to introduce improvements. We realized that there are a lot of redundancies and repetitive processes in the company. There are people working in areas that are not related to their capabilities, and there are people with potential, but without the appropriate training to reach either their full potential, or our expectations.

We started analyzing these redundancies and trying to address them. Throughout this process, one thing kept leading to another. For example, you train the employees, and ask them to perform at a certain standard, and then they come back and tell you 'my computer is broken, or whenever I get sick I don't get proper medical coverage' and you reach a point where you have to introduce improvements that affect both their performance in the company, and their situation outside of the company.

We also started revising our processes. For example we realized that we transport things between Cairo and Alexandria multiple times per week, often shipping a small box in a huge car. We started creating a system and standardizing procedures, and only shipping things once per week. We're reducing costs for our company, and reducing traffic and pollution for the country.

When it comes to the BoD, it used to be made up of my uncles and there were no issues. Now as the second generation is taking over, issues are arising because we are cousins, not siblings. Only one of us is here, the rest are not. So we started thinking about the area of governance, and about creating something written, a code of conduct. It's a work in progress and it will gradually develop. We started all of this by setting small tasks on our own, and then we found out that when you implement a task in one area, it can create gaps or issues elsewhere. We realized that we need to take a general look and develop a plan for the whole organization, and to gradually enhance the level of performance, and that is what we are working on now."

1. BEYOND COMPLIANCE

"Beyond-compliance" is a term used to refer to the adoption of policies and procedures that are beyond legal regulatory requirements.⁴⁰ Some argue that going "beyond compliance" is the result of an interaction between multiple external factors, including legal requirements, pressure groups that may influence such legal requirements, and social actors that expect companies to act in accordance with a certain social contract.⁴¹ Others have argued that going beyond compliance is also largely influenced by internal players, namely, a struggle of power and influence between managers who believe in the necessity of going beyond compliance, and those skeptical about such practices.⁴² Both of these arguments accurately capture one of the main personas that emerged as a result of the study at hand.

The argument that going beyond compliance is a result of external forces and factors is primarily the mode of operation for companies within the "compliance" category. In some cases, these same companies are also home to a struggle between older generations of managers that do not believe in a comprehensive responsibility approach, and younger generations of managers that do.

At the very beginning of the responsibility spectrum, we encountered companies that "comply" with local regulations and requirements, and in most cases, with international management systems that are sector specific and are required by their suppliers. Given the fact that such companies are motivated by obtaining a "license to operate," their practices are mostly driven by current demands in the ecosystem. These demands vary based on the international corporations they supply, or the consumer base they target. Accordingly, this group's responsibility practices are highly variable; they pick and choose responsibility practices based on what is demanded from them, or what they personally believe in.

These companies are equally likely to be medium or large in size, yet are more integrated in international supply chains. When it comes to responsibility specific guidelines, a large number of these companies comply with the UNGC. The terminology of choice for these companies was mostly "CSR," defined in terms of a company's engagement in social development programs.

40- Gunningham, N., Kagan, R. A., & Thornton, D. (2004). Social license and environmental protection: why businesses go beyond compliance. *Law & Social Inquiry*, 29(2), 307-341.

41- Ibid.

42- Prakash, A. (2001). "Why do firms adopt 'beyond-compliance' environmental policies?" *Business strategy and the environment*, 10(5), 286-299.

Some of these companies implement unique social investment programs that are mostly driven by the passion of the founders, are impact oriented, but are not necessarily tied to their core business. The remainder engage in donations (see Table 7, below).

► **Summary of Companies that Go Beyond Compliance**

MAIN CHARACTERISTICS	<p>Small and large companies. Some are family owned. Mostly understand responsibility as 'CSR,' giving back to the community.</p>
PRACTICE	<p>International management systems. Select areas of compliance based on the nature of the founders or the sector. UNGC. Some have unique passion driven social investments.</p>

Table 7

CASE STUDY APPEALING TO INTERNATIONAL CONSUMERS

One of the medium sized companies we interviewed in Amman mainly deals with international consumers. This has led its team to adopt sector-specific management systems and practices that ease their entry into international supply chains. In parallel, the company's founding family is passionate about the environment, and as a result pays close attention to the environmental impact of the company's operations. One of the company's owners and senior managers elaborated on this point during the interview:

"What we are doing is also part of international standards. It is not obligatory, but it is recommended. Sometimes you have to make decisions based on how to appeal to the international consumer. If they like something, it is to your benefit to do it. We are a family business, so we are the managers. As a family, we are into nature and being environmentally responsible in everything, even in our house. This habit is reflected in the business itself because we are the decision makers, and the decisions are affected by our habits."

Under this category of companies going beyond compliance is a group that perceives "CSR" as a tool for boosting brand image and customer loyalty. These companies derive their 'social investment' budgets from their Public Relations or Marketing budgets. Furthermore, some of the members of this group are struggling to take their efforts one step further; an effort mainly driven by second generations of leadership that have newly entered the company. This second generation of owners understands responsibility in the comprehensive sense of the term and realizes the discrepancy between their current practices and what corporate responsibility is about, yet are struggling to align both.

CASE STUDY BRAND VS. IMPACT

During one of the interviews with a Amman based large company, the Marketing and Brand Manager described the discrepancy between what should be practiced in terms of social investment and what is actually performed within the company he belongs to, and partially owns:

"We're involved in various environmental efforts, including installing solar panels. The initial cost of switching to solar energy is very high, but the cost is eventually recouped, especially since electricity is expensive in the country. The issue here is if this is not a personal passion, if there is not something that is personally motivated, nobody will do it. There are no initiatives from the government to promote being a sustainable company.

If you want to advance corporate responsibility, you have to make sure that the environment you work in develops with you. In other words, for the company to grow, the surrounding environment must also grow. You can't grow as a company, in the most basic sense, in terms of sales for example, if the market around you isn't growing or if the purchasing power isn't growing. We live in a poor country, to create the right environment for growth, you need to develop the country, and this is a very long-term endeavor. You need to improve the country's situation in terms of schools because when students graduate they will get better jobs, so when they get better jobs they will have more purchasing power, and eventually at some point you sell more.

I can't say that I am working towards such an approach, or a sustainable approach. We're not very consistent. We are always doing the same thing over and over again, but we have made a name for ourselves in the environment sphere. Somehow, people think that we are the first environmentally friendly company, so when they have an environmental initiative they come to our company. That is good, it means people know that we are actually into that. But we want to achieve greater impact, and this is exactly where the problem is. Because in the end, my position is mainly concerned with the brand, but in reality what should be the most important aspect is the impact."

2. AT A CROSSROADS

Narrative about moving beyond compliance was prevalent in the late 1990s and early 2000s. Today, narrative is shifting towards engraining shared value within business models, and mainstreaming a social ethos in a company's DNA.⁴³ As younger generations transition into management, this shift will be inevitable all around the world. This persona captures companies working on the shift away from a "beyond-compliance" starting point, and towards a shared value creation mandate.

Based on the interviews conducted, the desire to shift from just reacting to licenses to operate, towards proactively adopting a comprehensive responsibility strategy occurs when a company's senior management fully realizes the business value of adopting such a shift. In other words, when managers or owners realize that good business practice is responsible business practice.

Those that belong to this persona are trying to move away from an approach that is focused on ticking audit boxes or narrowing down corporate responsibility to social investments only. A few of these companies also see the value of monitoring and being transparent about their overall responsibility performance. Accordingly, they have gotten into the practice of issuing Sustainability Reports in accordance with comprehensive frameworks such as the Global Reporting Initiative.

All of these companies are large regional or multinational ones. One noteworthy observation is that the governance of such an approach to responsibility among regional companies, and especially conglomerates, is less standardized than it is among select multinationals. Even among multinationals, governing and mainstreaming responsibility is not always consistent, and to a large extent dependent on who the responsibility focal point is. This points to the need to explore and better understand effective ways of mainstreaming responsibility across corporations as they expand. Both large regional corporations and multinational corporations have a large role to play in leveraging their large supply chains to mainstream responsibility; this can only be achieved if effective governance strategies and structures are realized.

43- The Economist. (March 21, 2015). "The business of business." Retrieved from: <http://goo.gl/Dx2DnG>

► **Summary of Companies At A Crossroads**

Table 8

MAIN CHARACTERISTICS	<p>Mostly large regional and multinational companies. Some are family owned. Realize the business value of responsibility; understand responsibility in terms of ESG performance.</p>
PRACTICE	<p>Continuously working on enhancing other aspects of ESG performance. Adopt international management systems, UNGC; some issue Sustainability Reports. Mostly adopt good governance practices. Shifting towards strategic social investment.</p>

CASE STUDY ADOPTING A STRATEGIC APPROACH

The following are excerpts from an interview conducted with the representative of a large company founded in the UAE that now operates across the globe. The current Corporate Responsibility focal point is working closely with senior management and shareholders on moving beyond responsibility as defined in terms of social investments, or compliance with local and /or international regulations.

"I have been working in this organization for almost two years, prior to that, we did a lot of unstructured community engagement. My role was to come in and look at what needs to be done to strategically integrate responsibility in the company. We are trying to move away from that culture of philanthropic donations, we are actually banning the word "philanthropy" and are looking at what is material to our stakeholders.

Bearing in mind the maturity of the market here and the maturity of corporate responsibility within the organization, we did not develop an all-encompassing strategy that is going to stretch the entire team, we set a strategy that would walk the company through a journey. Our approach is based on the quadrants of community, environment, people and safety, and the market place. I started by working on the human capital aspect because they are the ones who reach out to the 30 thousand individuals across the organization. Our approach in general is becoming about understanding what is important to our stakeholders, whether externally or internally; and how we can address those needs or concerns as we look to build an operation or expand within a particular locality.

Responsibility very much depends on the owners or the managers. We have a CEO that is fully committed, but there is still a lot of work to be done with the board. This is an organization that was originally driven by a philosophy of philanthropy, a change in the mindset is needed but that will not happen overnight. I expect us to see the real fruits of our labor in 5 years. I am also dealing with an older demographic, whereas in other companies, you would have the pressure coming in from young people saying I want change, when you are dealing with a demographic that is 45/50 years old, it is not the same push. That is a factor that we need to work on, how do we look at that demographic and provide them with the tools to create change themselves as well?"

3. PIONEERS

A small group of the companies interviewed have made great advancements when it comes to integrating responsibility in their value chains. This pioneering group lies at the most advanced end of the spectrum, and is characterized by the active role they play in continuously enhancing their performance, as well as mobilizing other companies around adopting responsibility practices. These are the “usual suspects” when it comes to benchmarking corporate responsibility practice in the Arab world, and are recognized within the business community as such.

All of these companies have taken on the practice of transparently communicating their responsibility performance to their stakeholders by issuing sustainability reports. Naturally, they are taking active steps to address their social, environmental and economic footprints. It is worth noting that these companies openly acknowledge where their weaknesses are, and that achieving best practice is a journey of continuous improvement. It is also worth noting that all of the companies that belong to this category implement large-scale and ambitious social investment programs that are widely recognized by the civil society and business communities alike.

Finally, like most of the personas previously presented, the practices of these companies are also led by a strong belief on behalf of management or founders in the business case for adopting sustainability.

► Summary of Pioneer Companies

MAIN CHARACTERISTICS	PRACTICE
Large regional and multinational companies. Some are family-owned. Realize the business value of responsibility; understand responsibility in terms of ESG performance.	Advocate for enhanced responsibility practices. Well-governed and transparent, issue Sustainability Reports. Continuously enhancing their approach. Adopt strategic social investments.

Table 9

CASE STUDY

RESPONSIBILITY AS A JOURNEY

As the below excerpt demonstrates, the most interesting factor to highlight about companies that are working towards shared value creation is the fact that they did not start off with such an approach. Rather, they started off with compliance, and are on a path of continuously evolving towards shared value creation.

"Sustainability is not considered corporate social responsibility anymore; it is more than that. It is corporate activism. So a corporation being an active citizen is what sustainability is for me.

Sustainability started in our company since day one. We used to be a bit reactive with social investments in the region at first, by sponsoring here and there. A couple of years in, we decided that we cannot continue this way, we cannot stay on an ad-hoc basis and that it has to be more systemized. It has to be part of the system and part of the business process and not just an add-on. Sustainability or corporate activism means that this is part of the business rather than a stand-alone function that does projects to fulfill a sense of being good or for PR purposes. It has to be embedded within the business process, so when I say I want to sell and make profits; I have to sell responsibly and ethically not just for the sake of making money alone.

Our founder is a huge believer in this; he is continuously pushing for this, discussing it with other companies and stakeholders. So it was actually easy for me as a Sustainability Officer to help develop this within the company, because I had the support of the upper management."



SOCIAL ENTREPRENEURSHIP

Glaring unemployment rates, outdated educational techniques and decaying healthcare systems are just a few of the Arab region's social challenges. One of the biggest challenges that has dominated the development agenda over the past decade is the youth bulge and the ability to provide the region's youth with jobs.⁴⁴ While experts from varying disciplines have perceived this as a burden, several developments now point to the opportunity that lies in the youth bulge. Authors of this study see social entrepreneurship not only as a solution to some of the region's most daunting challenges, but also a part of the solution to the creation of needed employment opportunities. Social entrepreneurship here refers to the adoption of financially viable enterprise models to resolve a societal challenge. Our decision to focus on profitable social entrepreneurship is built around the belief that the Arab region is running against time and can no longer afford to be creating enterprises that do not have multi-dimensional layers of value creation at their core.

Theoretically, this upsurge in social entrepreneurship reflects a build up towards redefining traditional enterprise and development paradigms. Social entrepreneurs choose to combine a core entrepreneurial principle of financial viability with the much called for sense of citizenship that corporations are expected to fulfill. Social entrepreneurs also choose to overcome development challenges such as dependence on donors and lack of sustainability. To better understand this flourishing sector, we decided to listen to the stories of social entrepreneurs from several of the region's Arab countries.



Figure 66

▶ Number of Social Entrepreneurs (by Country)

A. THE ENTREPRENEURS

A total of 33 in-depth interviews were conducted with the founders of social enterprises, with a focus on social enterprises that aim at achieving social impact using a financially viable business model. The study did not focus on a particular sector. To ensure consistency, the study targeted enterprises registered as businesses, or that clearly adopt a revenue-generating model. The distribution of the number of interviewed enterprises by country is shown in Figure 66.



While we were able to identify numerous social enterprises in countries like Egypt, Lebanon, Jordan, and the UAE, social enterprises were minimal in countries like the Kingdom of Saudi Arabia (KSA) and Qatar. We struggled to identify 5 social enterprises in KSA and Qatar, and response rates we received meant that we were only able to interview 4 entrepreneurs in Qatar, and 3 entrepreneurs in the KSA.

The enterprises interviewed as part of the study are involved in diverse areas, ranging from education to renewable energy to enhancing the quality of the region's healthcare. Three of the social enterprises solely focus on offering social entrepreneurs themselves with technical support and networking opportunities. Figure 67, below, presents the sectors of focus of the social enterprises interviewed.

▶ Enterprises' Sectors of Focus

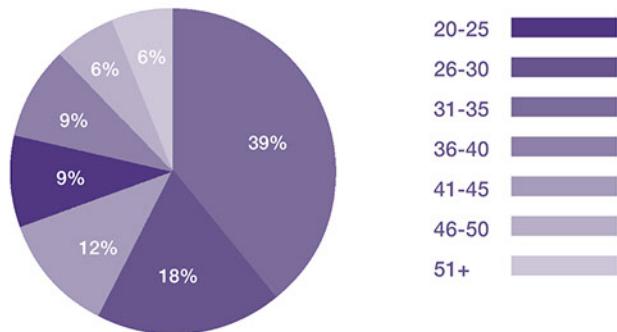
Figure 67



► Entrepreneur Age Groups

Interviewees were categorized into age groups (see Figure 68, below); and as demonstrated in the figure, 57 percent of those interviewed were aged between 26 and 35.

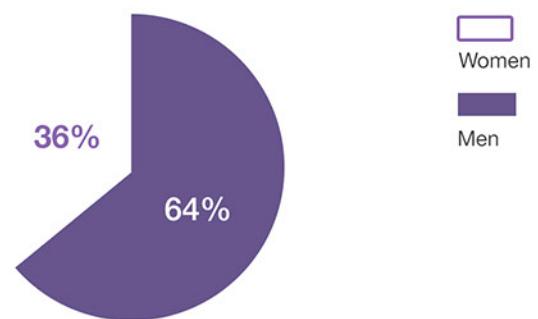
Figure 68



Academic and professional literature around social entrepreneurship in the West⁴⁵ indicates that “Generation Y-ers,” millennials, or those born between the early 1980s and 2000s, are inclined towards more responsible business practices,⁴⁶ and social entrepreneurship specifically.⁴⁷ According to our sample, the most represented group is within this age group. However, the older portion of the millennial generation is more highly represented in the sample. This is not surprising given the fact that transitions into adulthood, and the accompanying ability to gain the needed assets (including access to credit) and skills to establish any kind of enterprise are delayed in the Arab world.⁴⁸

► Entrepreneurs' Gender Distribution

Figure 69



45- Hewlett, S. A., Sherbin, L., & Sumberg, K. (2009). How Gen Y and Boomers will reshape your agenda. *Harvard Business Review*, 87(7-8), 71-6.

46- Montgomery, D. B., & Ramus, C. A. (2003). Corporate social responsibility reputation effects on MBA job choice.

47- Triple Pundit. (February 10, 2015). “Millennials and the Social Entrepreneurship Revolution.” Retrieved from: <http://goo.gl/oU6t2P>

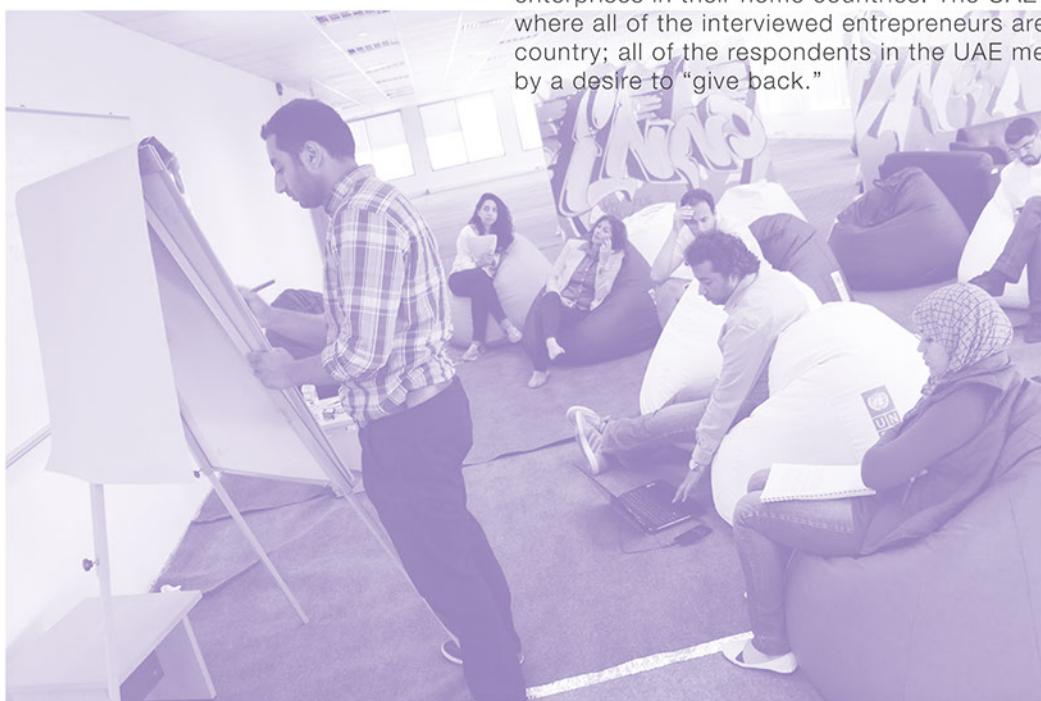
48- Dhillon, N., & Yousef, T. (Eds.). (2011). *Generation in waiting: The unfulfilled promise of young people in the Middle East*. Brookings Institution Press.

More than 60 percent of those interviewed are men. The sample's gender distribution is presented in Figure 69. The fact that women are less prominent in the sample came as no surprise to the researchers. The region's low enterprise activity has been tied to the fact that women's economic participation in the region at large is low, and that women's engagement in opportunity driven entrepreneurship specifically remains minimal.⁴⁹

Research on the demographics of nascent entrepreneurs in the region also reveals that MENA region entrepreneurs are characterized by higher levels of educational attainment, which is likely caused by the fact that those well-educated are more affluent, and more empowered to pursue their entrepreneurial endeavors.⁵⁰ In line with these trends, 58 percent of those interviewed hold an undergraduate university degree, 39 percent hold a Master's degree, and only 3 percent only held a secondary education degree.

To better understand this emerging field, we asked entrepreneurs to tell us how their journeys started. Most of those interviewed started their enterprise with one or more business partners, typically friends or former colleagues, with a small percentage starting their enterprises on their own. The majority of entrepreneurs interviewed worked with the private sector prior to starting their own enterprise. These entrepreneurs were motivated by a frustration with a current social issue, paired with a frustration at traditional careers within the private sector. Being private sector employees themselves, they chose to adopt an entrepreneurial model to dealing with the challenge at hand.

Only a few came from the non-profit or development sector, and were primarily driven by their frustration with traditional non-profit models. A majority of interviewed entrepreneurs registered their enterprises in their home countries. The UAE is the only country where all of the interviewed entrepreneurs are not nationals of the country; all of the respondents in the UAE mentioned being driven by a desire to "give back."



49- OECD. (2012). "Empowering SMEs: Economic Development and the New Arab World" Conference Paper presented at the "Emerging economies, emerging leaderships: Arab women and youth as drivers of change" conference. Retrieved from: <http://goo.gl/qG2Tqc>

50- OECD & IDRC. (2013). Competitiveness and Private Sector Development New Entrepreneurs and High Performance Enterprises in the Middle East and North Africa. Retrieved from: <http://goo.gl/yDVjA>

When asked about what motivated them to start their social enterprise, most of those interviewed had a very personal story to tell. These can be summarized as follows:

- Having a personal encounter with the issue or solution they built their enterprise around, and deciding to deal with it or take it forward. This type of personal motive includes starting an enterprise to upgrade educational methods and an enterprise to cater for the educational requirements of people with special needs.
- Being passionate about the cause they built their enterprise around.
- A mix of passion, and the desire to lead a career of self-determination and “purpose;” as opposed to ‘working for’ a traditional enterprise or non-profit.
- Some of those interviewed, and especially those coming from a non-profit background, started their enterprises out of a sense of frustration with prominent development approaches.

All of the interviewed enterprises embed dealing with a pressing social or environmental challenge within their model, meaning that business activities and the social impact they aim to achieve are intertwined. While we were keen on only interviewing social enterprises that are registered as businesses, this proved difficult in some countries. Figure 70 shows the registration status of enterprises in our sample.

The majority of entrepreneurs in our sample base their business model on selling products or services to affluent consumers and, in some cases, companies. These products and services range from selling consulting services, tourism trips, handicrafts, organic produce and solar energy technologies, among others. Only two of the 33 interviewed enterprises have developed their enterprises around an online advertising model. Both entrepreneurs are struggling to prove the model’s viability and are exploring ways by to enhance it. Their major challenge was to attract much higher levels of traction to be able to gain sufficient revenues from advertisements.

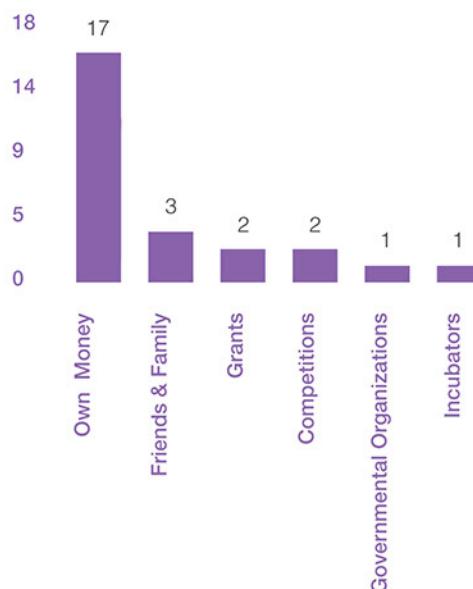
Almost all interviewed entrepreneurs have gone through multiple iterations of their approaches and business models before reaching viable and potentially scalable ones. Several of those interviewed perceive such flexibility regarding their business model as an important determinant of their chances for survival and growth. None of the interviewed entrepreneurs, however, have adopted more innovative models that successfully target marginalized segments of society as consumers. Moreover, only a few of the interviewed enterprises have actually scaled their operations and impact to date.

It can be safely argued that the minimal innovation when it comes to business model generation, paired with the challenges the current social entrepreneurship ecosystem poses is what is preventing the interviewed entrepreneurs from scaling their enterprises. Such a situation urgently calls for strategic interventions by the ecosystem's players to ensure greater innovation when it comes to business model generation in the social enterprise sphere.

Figure 71 provides data on the types of funding sources the interviewed social enterprises relied on at start-up. Half of the interviewed entrepreneurs started their enterprises using their own money. A few of them continue to rely on their own savings or finances to develop and test prototypes, expand their enterprise, and in one case, save it from bankruptcy. This means that the affluent, or those old enough to have compiled savings, are more likely to start up their social enterprise. Remaining entrepreneurs raised finances from a multitude of sources including grants, competition awards, friends and family, among others.

► Funding Sources for Start-ups

Figure 71



Frequencies are not mutually exclusive. The same enterprise may have listed several of these sources.

Later on in their life cycle, entrepreneurs reported obtaining financing from different sources of funding (Figure 72, below).⁵¹ In the case of enterprises that are beyond the testing phase, revenue is generated from sales of products and services. Some companies, however, reported relying on grants and/or awards from the private sector, donor organizations, social entrepreneurship support organizations, and in a few cases, governmental organizations. Only three entrepreneurs reported raising additional capital from investors to expand their enterprise. This means that social enterprises are relying on the same sources of funding a traditional non-profit organization would resort to. Such a pattern raises concerns about how likely it is for social enterprises to tackle the most pressing challenge of non-profit models which is financial viability.

► Post Start-up
Funding Sources

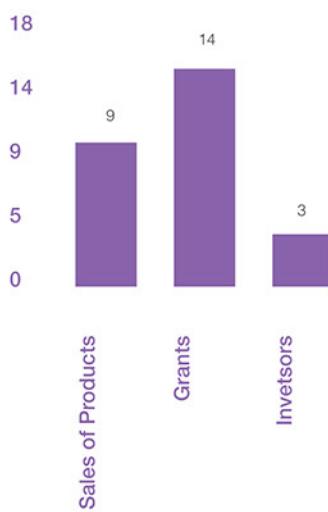


Figure 72

ENTREPRENEUR INSIGHTS: SEEKING INVESTMENTS

- Some entrepreneurs expressed concerns about their own readiness for investor capital: "I really want to prove the new model before I ask an investor for money, I will not feel comfortable asking for money when things still need to be tested."
- Two entrepreneurs expressed concerns about investor involvement in their enterprises, stating that they only want to approach investors when they have solidified and proven their model to ensure success: "We would rather wait so that when we are dealing with an investor... [the investor] will be working with our conditions, the conditions of our model and not their conditions."
- One of the interviewed entrepreneurs emphasized the importance of being selective when seeking out investors: "We want money from people who understand our sector and who are willing to be involved... We want smart money."

B. RESPONSIBILITY PRACTICES

According to the definition used as part of the study, a social enterprise is one established with social or environmental value creation in mind. Whether social entrepreneurs are actually contributing to a paradigm shift in how business in its entirety is being done in the region is a question worth pursuing. To better understand the degree to which social enterprises adopt ethical and responsible business practices, we asked entrepreneurs about this issue. Results reveal that with the exception of a few, all of the interviewed enterprises consciously adopt at least one responsibility practice. Responsibility practices being adopted by the interviewed enterprises include:

Stakeholder Engagement: Close to half of the interviewed enterprises engaged their stakeholders either at inception to better understand their needs, or after launching products or services to gather their feedback. Only one of the interviewed enterprises engages its primary stakeholders at every step of the business cycle, from pricing to marketing decisions.

Governance in the form of having a functional board in place. "Good governance is what enabled our growth. We would have made a lot of unwise decisions had we been on our own as a management team."

Sustainable Human Resource Management seven of the interviewed entrepreneurs emphasized the uniqueness of their work environment. Entrepreneurs discussed practices such as appreciating every single one of their employees, empowering all employees, and providing employees with room to innovate. Four of the interviewed entrepreneurs stated that they offer their employees competitive wage levels.

Energy Efficient Products, some of the interviewed enterprises were created to deal with the region's pressing environmental challenges.

Sustainable Procurement Practices mainly in the form of relying on local suppliers, and using environmentally friendly raw materials.

Green Initiatives including paper-recycling efforts, water saving efforts, tracking waste and planting trees.

Customer Satisfaction practices

Social Investments

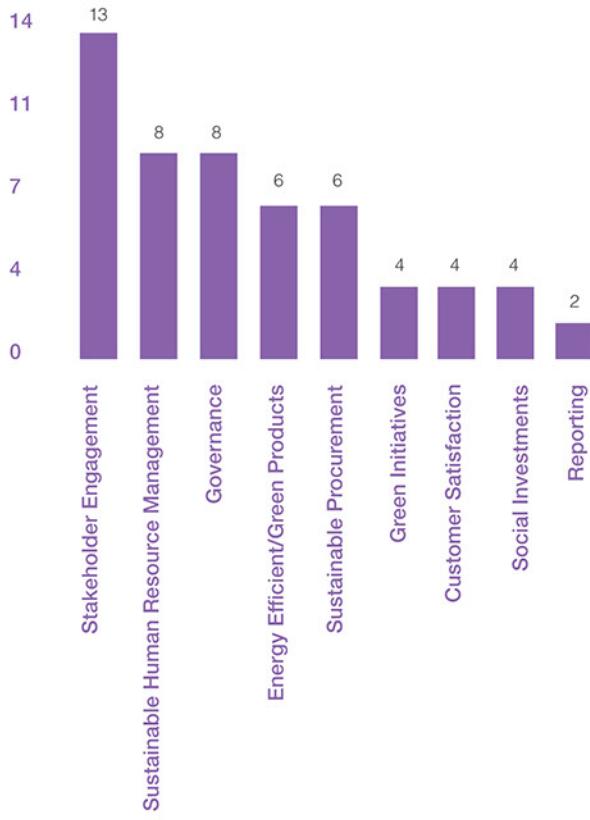
Reporting to partners or to the public.

51- Frequencies are not mutually exclusive. The same enterprise may have listed several of these sources.

These responsibility practices are distributed as shown in the Figure 73, below:⁵²

► Sustainability Practices

Figure 73



This situation puts social entrepreneurs at risk of falling into the pitfalls of their traditional enterprise or non-profit counterparts. A few of which are discussed below:

- By not sufficiently engaging stakeholders, social entrepreneurs are susceptible to a main drawback of current traditional non-profit models: a lack of relevance and thus sustainability
- By not adopting good governance practices, social entrepreneurs are at great risk of violating principles of integrity, accountability and sound-decision making
- By not reporting to the public, social entrepreneurs become susceptible to losing their primary stakeholders' trust

Once again, such a situation calls for attention to the ways by which social entrepreneurs are doing business, and how the current ecosystem can empower them to actually offer the region a doing business paradigm shift.

ENTREPRENEUR INSIGHTS: SOCIAL ENTREPRENEURSHIP VS. CORPORATE RESPONSIBILITY

"Everybody said that [we are] the epitome of a social enterprise, we did not start with the primary objective of becoming a social enterprise...We [the world] are simply moving towards a form of capitalism where people matter."

"We have a social impact and an explicitly positive one, we always put this before making money... Because basically if you keep your customers happy and your employees happy, I think you will inevitably make money."

C. DEFINING & MEASURING IMPACT

All of the social enterprises in our sample, with the exception of one, had clearly articulated impact statements. Founders are aware of the change they wanted to accomplish through their social enterprises, which ranges from "changing the way energy management and energy production happens on the ground" to "helping people exit poverty cycles" and empowering young doctors with quality and well-paid training opportunities.

When it came to measuring impact, numbers are reversed. Only one of the interviewed social enterprises had conducted a Social Return on Investment (SROI) Study. This particular enterprise was established by a relatively well-connected and experienced professional and as part of a governmental incubator; a unique setting that provides the enterprise with the needed leverage to conduct an impact study and mobilize resources. However, it is worth noting that the research firm that conducted the SROI study did so on a pro-bono basis.

The entire sample, with the exception of four enterprises, only has a basic monitoring system in place. The monitoring systems described by entrepreneurs mainly focus on outputs and financial performance, with minimal focus on the change they set out to achieve. Four of the social enterprises reported that they are struggling with more advanced impact measurement because they lack the time or money to do so, or because they do not have the required skills.

The lack of focus on evaluating impact also calls for significant attention and reflection. It means that accountability and effectiveness, two of the key factors differentiating social entrepreneurs from traditional entrepreneurs and non-profit models, are left un-checked. Such a situation poses great risks to the potential of social entrepreneurship with regards to growing into an accountable and efficient sector, a sector that effectively deals with pressing societal challenges.

D. CHALLENGES

Social entrepreneurs in the sample identified a number of challenges facing them and their businesses, including in the area of financial and human resources, lack of public awareness of what social enterprises are, cultural issues, stakeholder buy-in, lack of support organizations for social enterprises, difficulty forging partnerships, business and innovation challenges, as well as political, governmental and legislative challenges (Figure 74, below).⁵³

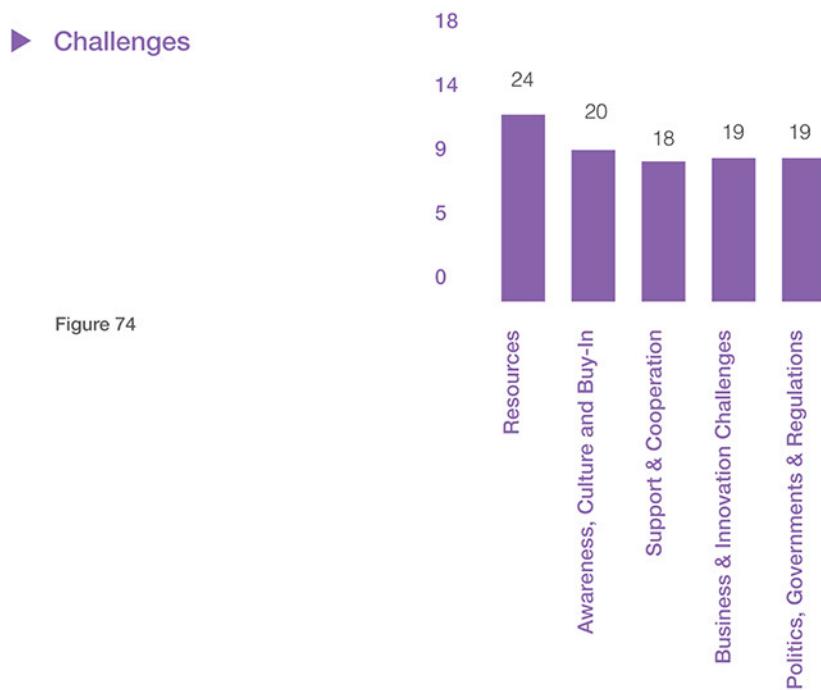


Figure 74

1. Resources

“Most grants go to NGOs, yet we are not an NGO. Investors on the other hand want something that would bring them higher returns. We are something in between.”

Both financial and human resources pose a challenge to almost all interviewed entrepreneurs. Access to patient capital was described as difficult because of being at “the middle” of the spectrum, between non-profit and for-profit organizations. Other financial resources-related challenges include underestimating financial needs, facing liquidity challenges as a result, and difficulty obtaining bank loans due to high interest and collateral requirements. Limited financing opportunities in general, and the focus on other sectors such as technology-based enterprises, were also raised as challenges.

“Finding a good team was a challenge. It took a lot of time. We want passionate and motivated employees, not any kind of employees.”

Human Resources also emerged as a theme, as some social entrepreneurs reported that they face challenges finding, recruiting, and retaining employees who are skilled and dedicated to the enterprise's cause. Other entrepreneurs simply do not have enough financial resources to hire enough full time employees and face difficulty creating clear roles and responsibilities within the enterprise.

"You are in this vicious circle because you can't employ people until you have enough business, but there is so much to do and it's really difficult to do everything ourselves."

The availability of affordable and high quality business services (e.g. marketing, information technology, etc.) is another challenge that emerged

2. Awareness, Culture and Buy-In

One of the most pressing awareness issues raised was around what a social enterprise is, and how it differs from a non-profit or a traditional enterprise. This issue was reported across different countries. Entrepreneurs also noted that it complicates other challenges such as access to funding or creating partnerships with different stakeholders. Some of the entrepreneurs also believe that issues of awareness translate into a skepticism and lack of trust among different stakeholders.

"That is why it is hard to say 'yes we are a business'. If you are making money, it is hard for people to believe that you are actually helping people."

Cultural issues identified by entrepreneurs include discrimination against younger age groups, or ageism, and dominance of charitable and development approaches (as opposed to capitalist approaches). Last but not least, several entrepreneurs discussed the difficulty they face convincing stakeholders, mainly potential clients, with their proposed solution.

"We are selling something that is new to the market. Why would people pay us money or sign a contract with us?"

3. Support & Cooperation

Some entrepreneurs believe that the low number of support organizations focused on social enterprise often means that support organizations' ability to offer quality and "meaningful" support becomes limited. Others simply believe that there is more talk than action; not just about social entrepreneurship, but about many other potential solutions to the region's pressing challenges. "There is a lot of talk in the region, entrepreneurship, social entrepreneurship, employment and innovation, but on the ground you do not see real action around all of that."

Another main challenge is the lack of willingness among different stakeholders to collaborate and partner with their social enterprise. Social enterprises mentioned difficulty partnering with bigger companies, non-profits since they "speak a different language" and public-sector entities, among others.

53- Frequencies are not mutually exclusive. The same enterprise may be facing more than one of the listed challenges.

4. Business & Innovation Challenges

Some entrepreneurs also identified several challenges related to the enterprise itself, or to running it. These can be summarized as follows:

- Business skills: lacking skills such as marketing, financial management and accounting.
- Business model: choosing a labor-intensive model, difficulty scaling the business model, or building the business model around an outdated technology.
- Early stage: we interviewed some social entrepreneurs early on in their journeys; some of our interviewees saw this stage as challenging. Early stage enterprises often juggle running their social enterprises with a full time job, struggle to access funds, and go through multiple iterations of their model before proving it, all of which are stressful and challenging processes.

“The issue I realized is that the company just does not exist without me, and that does not mean that I’m especially good, it is just that the company is too reliant on one person.”

- Rapid Growth: on the other hand, some interviewees rapidly expanded beyond their own expectations. Managing the complexity that accompanies such growth proved challenging.

“The company rapidly evolved, we grew quite fast, from virtually one employee to 30. We [management] were shocked at how it evolved and did not adapt to this evolution in a fast enough manner.”

5. Politics, Governments & Regulations

Across all countries, issues with government bureaucracy, red tape and corruption were reported as pressing challenges. These result in undue interference or an inability to understand and so support social entrepreneurs. Legal challenges discussed during the interviews also include the absence of tax exemptions and applying large corporation regulations to start-ups.

“They treat you as if you are a big business... In terms of all the steps that you have to do to run the enterprise. Like raising capital for example, if I want to put in some extra capital, I end up with a huge bill, which for big business costs nothing, but for me it’s a lot of money. It’s an employee’s salary for the entire year!”

In Egypt and Lebanon, economic and political instability were also posed as challenges. Finally, two entrepreneurs stated that the absence of a copyright and intellectual property framework threatens their enterprises.

E. ENABLERS & OPPORTUNITIES

As the previous section demonstrates, there are numerous weaknesses in today's social entrepreneurship ecosystem. The fact that many of the interviewed enterprises did in fact grow and overcome a lot of these challenges points to the existence of strengths within the current ecosystem. To better understand the ecosystem's strengths, we asked entrepreneurs about the factors and opportunities that helped them overcome challenges they encountered during their journeys. Several strengths and enablers were identified. These can be summarized as follows:

- **Personal Traits:** Almost half of the interviewed entrepreneurs perceive their own traits and characteristics as determinants of their success. These traits include passion, as one entrepreneur stated: "you have to have passion, without passion I would not be sitting here doing this interview." Other recurrent traits are persistence and resourcefulness: "Things that helped us grow are our persistence, consistency and our faith in our project to be successful."

Some entrepreneurs cited their own knowledge, skills and connections as contributing to their success: "We did our homework, we read tons and tons of books we met with people... we understood the rules of the game, so now we know how to play chess and we want to play chess."

While others gave us insights into the psyche of a social entrepreneur: "Nobody is going to lend you anything for a wacky idea. You spend your own money, to the level where it nearly bankrupts you, but you still believe this is the right way to do things." Another entrepreneur noted, "We are always looking for solutions. If we wait or depend on others, nothing will happen, we will do nothing. We have to find solutions ourselves."

- **Support Models:** Interviewed entrepreneurs perceive competitions and awards they received as extremely helpful. Competitions and awards that were mentioned included the Ashoka Fellowship, the Synergos Fellowship, the MIT Arab Entrepreneurship Competition, and the King Abdullah II Award for Youth Innovation and Achievement. Six entrepreneurs perceive support they received from comprehensive support models such as incubators and accelerators as enabling. Support models cited include AltCity, Arcenciel, Consult and Coach for Cause, the Bedaya Center, Oasis500, Flat6Labs Egypt, Nahdet El Mahrousa and Endeavor Egypt. Two social entrepreneurs cited financial support opportunities, namely: Lebanon's Kafalat Program, and a European Reconstruction and Development Bank (EBRD) IT services cost sharing program.

- **Partnerships:** partnering with chambers of commerce, civil society organizations, other companies and institutions, facilitated milestones for several of the entrepreneurs in the study.

- **Human Resources:** An important success factor is the enterprise's team. Having a qualified, persistent, and dedicated team was listed as a great enabler. One entrepreneur stated, "I think the team played the biggest role, we have a very strong team of believers. They really understand the value of what we are doing and they push for that." Three entrepreneurs also mentioned the invaluable support they receive from their "army of volunteers." Another enabler related to Human Resources is creating an enabling work environment where employees are empowered to lead and contribute:

"Our organizational culture empowers people to make decisions and holds them accountable for those decisions. Employees delegate authority but also have a sense of accountability."

- **Business Model:** Some of the entrepreneurs perceive the business model they adopt as a strength in and of itself. Stated advantages include having a model that does not require large sums of paid-in capital, having piloted the business model and adapting it to real life practices.
- **Pro-bono Advice and Mentorship:** receiving technical, legal and financial advice on a pro-bono basis has also enabled several of the interviewed entrepreneurs overcome challenges they faced during their journeys. Two of the interviewed entrepreneurs also cited the support and advice of their mentors as especially enabling.

These enablers were mentioned at the following frequencies (Figure 75):⁵⁴

► Enablers

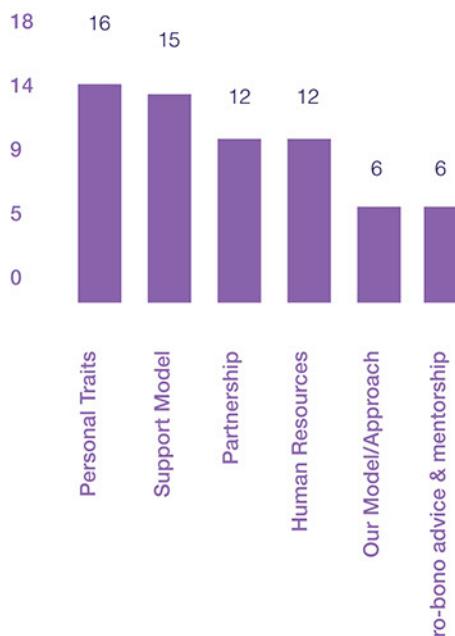


Figure 75

F. THE WAY FORWARD

Based on our research, social entrepreneurship can be seen as a way for the millennial generation to engage in society. To be able to empower the current social entrepreneurship movement, the current ecosystem must understand and listen to the experiences of social entrepreneurs, and generate practical and realistic support models accordingly. To gain such practical insights, we asked our interviewees about changes in the current ecosystem that would make their lives, as social entrepreneurs, easier. Several main themes emerged from these discussions. Not surprisingly, a change in the financing ecosystem is required. Minimal awareness about what social enterprises are, how they differ from non-profits, or traditional for-profits also translates into the investment world. Social enterprises struggle when it comes to accessing the patient capital they need to seed or expand their enterprises. Specifically, social entrepreneurs would like to see impact funds, low-interest rate loans, and angel investors who are aware of social entrepreneurship and its particular investment needs.

"There are probably too many accelerators. There might be too much venture capital in the Middle East. The big problem is with seed stage capital. There are no investors at the USD 100,000 or USD 150,000 stage. I think that this is the biggest problem for social entrepreneurs and regular entrepreneurs, same thing, same problem."

Social entrepreneurs would also like to see an enhanced awareness among different stakeholders (including investors, policy makers, civil society organizations, potential clients, among others) as to what social entrepreneurship is, how it is different from traditional entrepreneurship and traditional development. "In the Arab world a social entrepreneur needs to do a lot of educating, from every side, the beneficiaries, the funders, the market..."

Another main theme was related to legal and policy-level changes. Some of the interviewed social enterprises view the introduction of a specific legal registration status for social enterprises, accompanied by more conducive regulations, as necessary. While such a demand is theoretically sensible, it must be examined closely before further pursuit. As one of the entrepreneurs later said in a follow up discussion, "I pray to God that no special permit will be created for social enterprises, if this happens, you will find every single corrupt company abusing it." Another concern about this type of registration is the degree to which authoritarian governments may introduce restrictive clauses. This would re-create issues of undue interference that some social entrepreneurs wish to avoid by adopting a business paradigm. Other entrepreneurs called for a more effective policy advocacy landscape. In other words, some of the entrepreneurs want to be able have effective dialogue with policy makers and influence them.

54- Frequencies are not mutually exclusive. The same enterprise may be facing more than one of the listed challenges.

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"Don't tell me other parts of the world are not concerned about money, and don't tell me they are not investing in real estate because they are not intelligent enough and that they are investing in the knowledge-based economy because they do not know how to do math in terms of ROI. No! They know what they are doing. It is just that they use different calculations from the ones we know and are used to. So our job now is to go and understand and learn this math."

There should also be serious efforts to engage senior officials at governmental and legislative entities. We should move past the big words and conferences, we should start thinking about how the buzz these events create impacts daily actions and decisions. Supporting entrepreneurship is not just about training entrepreneurs, creating competitions, which is really awesome, but now is saturated.

Entrepreneurs are there, by default. But on the other side of the table there are government employees and legislators with an attitude and approach opposite to that of the entrepreneurs. All their concerns and precautions are understandable from the perspective of an entrepreneur, all what I am asking for is for us (entrepreneurs and government officials) to start speaking the same language, so we can find a solution that does not compromise either side."

In the Gulf, social entrepreneurs would like to see more support organizations in the form of incubators and accelerators that specifically focus on social enterprise, as well as more networking opportunities.

Other changes that social enterprises would like to see include affordable business service offerings, an enhanced educational system in general, more collaboration and partnerships among different stakeholders, and academic involvement in issues related to social entrepreneurship including: impact definition and measurement, needs assessments and other relevant research areas.



G. CONCLUSION AND RECOMMENDATIONS

To be able to empower the social entrepreneurship movement, the current ecosystem must understand and listen to the experiences of social entrepreneurs, and generate practical and realistic support models accordingly. Social entrepreneurs struggle to find access to the capital they need to seed or expand their enterprises, and they would like to see impact funds, low-interest rate loans, and angel investors who are aware of social entrepreneurship and its particular investment needs. Stakeholder awareness of social entrepreneurship is also an important theme, as is the regulatory environment. Some entrepreneurs view the introduction of a specific legal registration status for social enterprises, accompanied by more conducive regulations, as necessary. Other entrepreneurs call for a more effective policy advocacy landscape. In the Gulf, social entrepreneurs would like to see more support organizations in the form of incubators and accelerators that specifically focus on social enterprise, as well as more networking opportunities. Other changes that social enterprises would like to see include affordable business service offerings, an enhanced educational system, more collaboration and partnerships among different stakeholders, and academic involvement in issues related to social entrepreneurship including: impact definition and measurement, needs assessments and other relevant research areas.

The endeavor of social entrepreneurs is not simple; not only are social entrepreneurs set out to deal with pressing societal challenges, but they are also faced with the great burden of operating in highly bureaucratic and sometimes corrupt business ecosystems. They set out to address these two primary challenges with minimal resources and support. To drive social entrepreneurs' forward, it is necessary for all segments of society to mobilize their social, financial, and intellectual capital. Below is a brief set of recommendations for key stakeholder groups:

Social Entrepreneurs

- Always start with the end in mind. Think about what you have set out to achieve. How will you ensure its relevance? How different are you?
- Do not forget that the means are as significant as the ends; the way by which you are doing business is as integral as your social mission. Integrity, transparency, and stakeholder engagement are just a few of the key practices that you must creatively engage in your enterprise from day one.
- Be resourceful. Lean business models, and relying on "experts" and "professionals" in your own personal network are two of the many ways by which you can mobilize core skill sets or resources that you are missing.

Academia

- It is essential for universities to engage social entrepreneurs to lend them much needed skills, and simultaneously offer graduate students experiential and community based learning opportunities. For example, graduate students from business and management schools can lend their innovation and strategic planning skills; social science students can lend their impact evaluation skills; and design students can lend their user-centric approach to entrepreneurs. The opportunities for collaboration are countless.

Support Organizations

- The current ecosystem must mobilize to foster gaps in responsible business practice, impact evaluation, and business model innovation. These can be integrated into already existing incubators, competitions, and accelerators.
- Skills gaps must also be integrated in much needed practical capacity development opportunities.
- Investors and the general public must be engaged about what social entrepreneurship is, why it is important, and impact investment models.
- The current ecosystem must intensify efforts to grow social entrepreneurship beyond those with higher education degrees. Arabizing content and creating support opportunities outside of urban centers are some of many ways to do so. True innovation lies within the communities where challenges exist, and must be tapped to drive social entrepreneurship forward.

