

Corporate Social Responsibility and The United Arab Emirates

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At the present time when looking at Corporate Social Responsibility (CSR) in the Middle East the United Arab Emirates (UAE) stands out as an obvious country to look closer at among Arab nations. The reason is that CSR in many other Arab countries in the region is glaring with its absence while the UAE has started, although slowly, to familiarize itself with the concept of CSR and engage in activities under the CSR banner (Soubra, 2006; Zawya, 2008). One indication of this is that the UAE has consistently been (together with Qatar) among the top two most transparent countries in the Arab world (see, Transparency International Corruption Perceptions Index, 2004 -2009). However, more to the point, the understanding of CSR among UAE managers and the significance they attach to it has led to more CSR type activities than among other Arab countries.

CSR, Economy and Managerial Awareness

The UAE is comprised of seven semi-autonomous emirates that together form the UAE as a nation, with the federal government seated in the emirate of Abu Dhabi. The UAE is not a representative democracy, rather it is led by the ruling families of the seven emirates, in particular Abu Dhabi, and there is no apparent political opposition. Expatriates account for 80% of the population and account for 95% of the county's labor force.

The economy (US\$ 163 bn) is heavily reliant on oil which contributes 26% of the UAE's GDP, most of which is extracted in Abu Dhabi. The other emirates have far less oil and have tried to diversify their economies, most notably Dubai that has over the past years built a substantial real estate, tourism, and financial industry. Abu Dhabi accounts for about 60% of GDP, Dubai for 28%, and the rest accruing to the other five emirates (Economist Intelligence Unit, 2007).

When local managers were surveyed in the UAE 72% responded that they were "highly aware" or "very highly aware" of concepts relating to CSR, but only a mere 24% of local companies reported any CSR activities at all (Dubai Ethics Resource Center, 2006). Although 22% of managers have said that "Social Responsibility and Community Involvement" is integral to their company's reputation, this criteria ranks 8 out of 9 in corporate reputation significance (Hill & Knowlton Middle East, 2007). This would in part explain the current low level of CSR involvement. Nonetheless, among the companies that do engage in CSR there are a several activities that focus their attention. To this we turn next.

CSR Activities in the UAE

In a country like the UAE that is just starting to familiarize itself with the concept of CSR it is important to distinguish between multinational corporations (MNCs) operating in the country that are familiar with CSR from their operations in the West and local companies for whom the concept of CSR is new. One would expect MNCs to be more engaged in CSR activities as they import their corporate practices from abroad, and this certainly does hold true to some extent, but they "tend to do substantially less CSR-related activities in their UAE operations than elsewhere" (Zorzopulos, 2006: 9).

Although MNCs tend to be more active within CSR than local companies they have largely adapted to local conditions and expectations and thus the type of CSR activities that are performed differ only slightly between MNCs and local companies. By far the most common CSR activities in the UAE are corporate philanthropy and emiratization (Dubai Ethics Resource Centre, 2006); however environmental concern and employee health & safety are also gaining attention. Local companies tend to focus a bit more on corporate philanthropy and emiratization (efforts to bring nationals into the labor force),

while MNCs have a better record of engagement with environmental and health & safety issues (Emirates Environmental Group, 2008).

Corporate Philanthropy

Corporate philanthropy involves donations by corporations to charity organizations or directly to needy individuals. According to Zorzopulos these “contributions are generally of a humanitarian nature, and often given to hospitals and disadvantaged children” (2006: 8). A typical example is Al Ansari Exchange (a large currency exchange house in the UAE) that recently donated seven million AED towards the Ministry of Health’s initiative of setting up “Shoukah Medical Centre” to provide medical facilities to people residing in the remote area of Shoukah in the emirate of Ras Al Khaimah (Al Ansari Exchange Website, 7/12/2009).

Corporate donations tend to be most forthcoming during the holy month of Ramadan (Zorzopulos, 2006) and when disasters strike, as was the case with the 2004 Asian Tsunami and more recently with 2009 Philippine typhoon. In general UAE corporations tend to donate to local causes and sometimes to regional causes, such as the plight of children in war torn Iraq and Palestine. It is notable that these donations seldom have a strategic dimension, i.e. the donations are not connected with the strategic goals of the corporation, unless the donations have a connection with emiratization.

Emiratization

What is known as emiratization is the national effort to educate and prepare young emirates for the work place as well as securing job opportunities for them. The citizens of the UAE are very young, with 45% being below the age of 15. Furthermore, 20% of women and 9% of men are unemployed (The National Resource Development and Employment Authority, 2005). Emirates often lack incentives to take up available jobs (as many belong to wealthy families) and they also lack the ability to compete with a skilled and relatively cheap expatriate workforce.

Corporate emiratization activities are both voluntary and compulsory. Voluntary activities tend to be educational in order to prepare

emirates for the work place. For example, Mubadala is a local semi-private investment company that manages a diverse portfolio. The company donates generously to three foundations that it has helped set up, among which is Tawteen that works to foster education and career guidance (Mubadala website, 7/12/2009). Dubai International Financial Centre says that its major area of CSR focus is on “education and empowering people with special needs, in order to build a sustainable skill-based workforce in the UAE” (Emirates Environmental Group, 2008: 24). Likewise, MNCs like Shell and ABB contribute to emiratization. For example, Shell has started a program called Intilaaqah to promote entrepreneurship and business skills, and ABB says that it has an education and mentorship program which it uses to build capacity and nurture talent (Emirates Environmental Group, 2008).

Emiratization also connects with corporate philanthropy in that donations are sometimes used to sponsor job-training programs (Ibrahim & Sherif, 2009). These are all examples of voluntary initiatives that often try to connect skill development with the needs of the corporation.

However, there is also a significant compulsory element to emiratization relating to securing job opportunities for emirates. The UAE government has issued emiratization targets for different industries. These targets require that a certain percentage of nationals must be employed by corporations (but, in the trading industry the target is only applicable to companies with more than 50 employees). The target in the insurance industry is 15%, and in the banking and trading industry the target is to increase the number of nationals at a rate of 4% and 2% per year respectively (The National Resource Development and Employment Authority website, 7/12/2009).

Failure to meet these targets results in penalties such as fines. However, the effectiveness of this quota system has been called into question. Rumors abound with companies hiring “Ghost workers”; i.e. companies hire UAE nationals merely to meet their required quota, but do not require them to do any real work nor necessarily show up for work.

Environmental Concern

The UAE has the world's largest carbon footprint per capita (WWF, 2008). This is largely because of the country's use of fossil fuels for electricity production coupled with the huge electricity demand from air conditioners, water desalination plants, and aluminum smelting plants. Despite their status as the world's biggest carbon polluter relative to their size, it is telling that environmental management is not typically considered a CSR issue by local companies (Zorzopulos, 2006).

Nonetheless, there are companies that do work on reducing their environmental impact. For example Dubai Aluminum Company Limited (Dubai), the world's seventh largest producer of premium aluminum, has set targets for reducing carbon emissions towards carbon neutrality, and is investing in technology development to significantly improve the energy efficiency of the smelting process (Emirates Environmental Group, 2008).

Marriott Hotels in the UAE is another example of corporate activity designed to address environmental concern. Marriott has a global program called Environmentally Conscious Hospitality Operations (ECHO) that it is applying in the UAE. ECHO aims to reduce waste, improve recycling, participate in clean up campaigns, and engage in partnerships to reduce carbon dioxide emissions (Middle East Mice & Events, 2007).

Health and Safety

Although the UAE is largely ahead of other countries in the Arab world with regard to CSR activities, there is another side to the coin that might best be described as "the dark side". The UAE, Dubai in particular, has over the past few years seen an enormous construction boom. To name a few, this boom has constructed the world's biggest artificial island (Palm Island), the world's tallest building (Burj Khalifa), as well as the world's biggest and second biggest shopping malls. This construction has occurred at a colossal speed entirely with labor from poor countries in Asia. The problem lies in the exploitative treatment of these construction workers.

The primary issues involve unsafe work conditions, poor living conditions, and the non-payment of salaries. Due to a lack of

systematic reporting it is difficult to establish an exact figure of construction related deaths, but the trade publication *Construction Week* reported that there were 880 construction deaths in the UAE in 2004 (Human Rights Watch, 2006). Besides dangerously long working hours in extreme heat, the living conditions are very poor. The more than half million construction workers in the UAE live in "vast concrete wastelands" in the desert away from view of the rest of the population. These camps have dismal sanitation, no air conditioning, and men are crammed into tiny rooms with triple bunk beds (Hari, 2009). Furthermore, it is a common tale that construction workers are lured to the UAE with the promise of "good" pay that turns out to be only a fraction of what was promised, and workers are unable to return home because their employers confiscate their passports (Ahad, 2008). To make matters worse their low salaries not always paid (Soubra, 2006).

In a revolt against these conditions thousands of workers have on separate occasions gone on strike in both Sharjah and Dubai (Soubra, 2006). Unions, collective bargaining, and strikes are illegal in the UAE and many of the striking workers have been imprisoned or deported (Hari, 2009). Pressures from international civil rights groups, such as Human Rights Watch, have prompted the government to consider labor reform. In March 2006, "the government promised to legalize trade unions by the end of the year, but instead, in September it passed a new law banning labor strikes and announcing that it would deport striking workers" (Human Rights Watch, 2006).

The UAE does have health and safety regulation which governs the construction industry and is taking greater efforts to see it enforced. Construction companies are sometimes flaunting these rules and sometimes struggling to comply. Workers are often unaware of correct safety procedures, such as wearing protective equipment, and are sometimes unwilling to follow such procedures (Zorzopulos, 2006).

The Current State of CSR in the UAE

There are a number of factors that help explain the UAE's current CSR focus on corporate philanthropy and emiratization, as well as the growing attention to environmental issues and

health & safety issues. These influences come most notably from religion, government, family governance of firms, and to a limited extent from civil society. We shall look at these influences in turn.

Religion

The UAE is a non-secular Islamic country. The foundation of the legal system is Sharia Law (also known as Quranic Law). The constitution identifies Islam as the state religion as well as the primary source of law. However, in practice Sharia in the UAE only influences social laws (e.g. family law, divorce, succession). Most commercial matters are dealt with by either civil courts or permanently established arbitration tribunals (Grapeshisha.com, 10/12/2009). Commercial matters are handled this way because the UAE does not have separate commercial courts (Zorzopulos, 2006).

Islam is not just a main source of law; social and religious values are deeply connected in the Arab world. Islam has a far reaching social significance that influences all aspects of life including business. Muslims regard Islam as the religion of trade and see no contradiction between profit seeking and morality (Soubra, 2006).

For our present purposes religion in the UAE is the key factor that drives corporations to engage in corporate philanthropy. Such corporate donations are “driven and rooted in moral reasoning connected to religious and cultural traditions such as Zakat” (Khan, 2009). Zakat, or almsgiving, is the fourth pillar of Islam and requires Muslims with disposable means to donate 2.5% of their income to the needy (Guermat, Al Utaibi, Tucker, 2003). Anecdotal evidence suggests that the very concept of CSR is understood by local businessmen as a corporate form of Zakat. This naturally implies that those businessmen that wish to engage in CSR turn to corporate philanthropy as a primary CSR activity.

Zakat donations are entirely voluntary and are not regulated by the UAE government. However, individuals and corporations that wish to make a donation, but do not have a particular cause of their own that they wish to aid, can donate money to a Zakat fund set up by the UAE government. This fund is set up

with the aim of achieving “social development in the UAE” (zakatfund.net, 10/12/2009).

Although the Islamic duty of Zakat is the primary explanation for *corporate* philanthropy in the UAE, it is important to understand that Zakat is considered a *personal* duty rather than a duty of the corporation. In other words, Zakat is a direct duty of the Muslim towards God (Guermat, Al Utaibi, Tucker, 2003). Another indication of this direct responsibility towards God is that there is no “limited liability” in Islam: shareholders are proportionally responsible for the full amount of debts accrued by the corporation (khilafah.com, 14/12/2009). Most corporations in the UAE are family owned. This helps explain how the personal nature of the Zakat and corporate philanthropy become intertwined. The leaders of the corporation are also its owners and thus they are able to fulfill their Zakat duty through corporate philanthropy.

Government

The government in the UAE has a history of active involvement in furthering the welfare of its citizens. Not only is there no personal income tax, but “the rulers in the UAE give money, land and other facilities to their people” (Soubra, 2006: 33). This active involvement also stretches to the promotion of CSR in the country.

Most managers believe that the government should play an active role in promoting CSR (Emirates Environmental Group, 2008). In this sense there is congruence between the attitudes of managers and the involvement of the government. The Abu Dhabi government's report on the social obligations of the private sector says that:

“Plans, policies, laws and incentives –material and otherwise- are provided by the Government of Abu Dhabi to bolster the role of the private sector in the Emirate’s economic development in the forthcoming stage... Under economic diversification plans, Abu Dhabi economy is being restructured in such a way as to multiply the role of the private sector which is crucial to the success of the Emirate’s welfare plans” (Department of Planning and Economy Abu Dhabi, 2008: 4-5).

The direct involvement of the government can be seen for example in the setting of legally

enforced quotas for emiratization in different industries. However, CSR as a concept involves voluntary activities on behalf of the corporation. There are a number of ways in which the government promotes CSR without the use of legislation. For example, by setting up a Zakat fund that channels corporate philanthropy, by raising awareness through campaigns on particular issues such as water consumption, and supporting civil society organizations such as the Emirates Environmental Group that raise awareness and apply pressure on corporations.

Despite the CSR activities that are starting to emerge in the UAE, it is clear that the government is expecting more from the private sector in the future. The government says that “the private sector ‘social duty’ has not yet taken roots deep enough to translate into tangible contribution to Abu Dhabi, and the UAE in general... the social role is still absent for 99% of private firms” (Department of Planning and Economy Abu Dhabi, 2008: 6-7).

The government’s expectation to see a heightened social role for corporations is in part motivated on the grounds that there is no corporate tax in the UAE and thus firms get to retain all their profits. However, the government is not merely seeking an implicit tax in the form of philanthropic donations from corporations. It realizes that CSR is about more than charity: “social commitment programs are not just about donations, but fully-integrated plans that are needed to bolster sustainable development and cater to community interests” (Department of Planning and Economy Abu Dhabi, 2008: 13).

Family Firms

The Dubai Chamber of Commerce & Industry defines a family firm as a company where at least 51% of the shares are owned by one family and where at least one member of the family is part of the management team. Among the countries of the Gulf Cooperation Council (including the UAE) more than 90% of companies are family firms (Rebatt, Fakhr, & Morada, 2005). There are three important reasons for this. For one, most firms are small and thus closely held. About 80% of firms have less than 10 employees (Rebatt, Fakhr, & Morada, 2005). Secondly, international corporations must have a national sponsor (a UAE citizen) who owns at least 51% of the

shares in order to operate in the UAE (except in the designated industrial free zones).

This naturally leads to family majority ownership of enterprises whenever a foreign company wishes to enter the UAE market. The third reason explains why family owned firms remain family owned. Current rules demand that 55% percent of corporate shares must be offered if a company wishes to go public and offer an IPO. This strictly speaking leads to an automatic loss of control of the corporation by the owner(s), which explains why IPOs by family owned firms are rare. Less than 10% of IPOs issued in the UAE are from family owned firms (Zawya, 2005). The concentration of family owned business helps to explain some of the CSR activities in the UAE.

As was mentioned earlier, CSR is conceptually considered by many UAE businessmen as a corporate form of Zakat, and due to the family ownership of firms businessmen can fulfill this duty towards God through corporate philanthropy. The concentration of family firms can also to some extent explain the UAE’s focus on emiratization. The national psyche of the UAE has deep roots in its Bedouin culture. This culture includes a traditional mantra of ‘attending to your people’ (Soubra, 2006). There is also a wide spread endorsement of nepotism which would seem to be derived from the same cultural roots. Activities aimed at emiratization essentially amount to a form of national nepotism. Given the local culture, it seems likely that the heads of family firms endorse and enact such nepotism.

Although most firms in the UAE are family owned there is a significant amount of foreign investment. This particularly applies to larger firms where a foreign corporation has a 49% stake in exchange for local sponsorship. This is a common scenario for firms that provide agency services. For example, the Al Futtai Group, owned by the Al Futtai family, is the agent for 29 foreign brands including Toyota, Volvo, Jeep, Chrysler, IBM, and Panasonic (Zawya, 2005).

These arrangements tend to be very lucrative for local sponsors which also make them susceptible to foreign expectations. The desire to attract investment forces local firms “to take note of the global corporate agenda as they recognize the need to raise local practices to meet those of an internationally accepted

standard in issues such as financial transparency, accountability and responsibility” (Dubai Ethics Resource Centre, 2006: 10-11). Local sensibilities dominate the CSR landscape in the UAE but local firms are not immune to foreign expectations.

Civil Society

In the West civil society organizations pressure corporations to act on social issues that they believe are not being adequately addressed. In the UAE there is a lack of *independent* civil society organizations. There are a few organizations with non-profit agendas but they do not qualify as non-governmental organizations (NGOs) because they are initiated and/or financed by the government. For example, the Emirates Environmental Group that promotes greening of the UAE is financed by the government, and the Dubai Ethics Resource Centre that promotes CSR is a department of Dubai’s Chamber of Commerce and Industry. An example of governmental backing of civil society is the Emirates Foundation for Philanthropy, which is entirely owned by the government; it recently announced that it would dedicate grants to licensed civil society organizations (Thaindian.com, 28/9/2009).

In the UAE there is no official process for starting non-profit organizations; there is no non-profit corporate legal form. The civil society organizations that do exist are created by official decree (Zorzopulos, 2006). As a consequence it is social issues that the government is already keen to address that are on the agendas of civil society organizations. Furthermore there is little grassroots pressure to start civil society organizations. UAE nationals are by and large wealthy and content with the government’s handling of the country’s affairs, which has led to few voices demanding policy change (Soubra, 2006).

Expatriates, who make up 80% of the population, tend to see themselves as temporary visitors and generally have a limited concern for local issues. However, foreign construction workers do have a considerable interest in seeing labor reforms, but they are so disenfranchised that they have no public voice. The plight of construction workers is a good example of how their concerns are given little attention locally because there are no NGOs to further their cause. However, as globalization

marches on the world is becoming ever more interconnected, and foreign NGOs, like Human Rights Watch, do manage to apply some pressure on the government through the use of the global media.

In sum, although CSR in the UAE may develop in a strategic business direction as in the West, it is unlikely in the near future to move away from corporate philanthropy and emiratization due to its deep cultural and religious underpinnings.

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