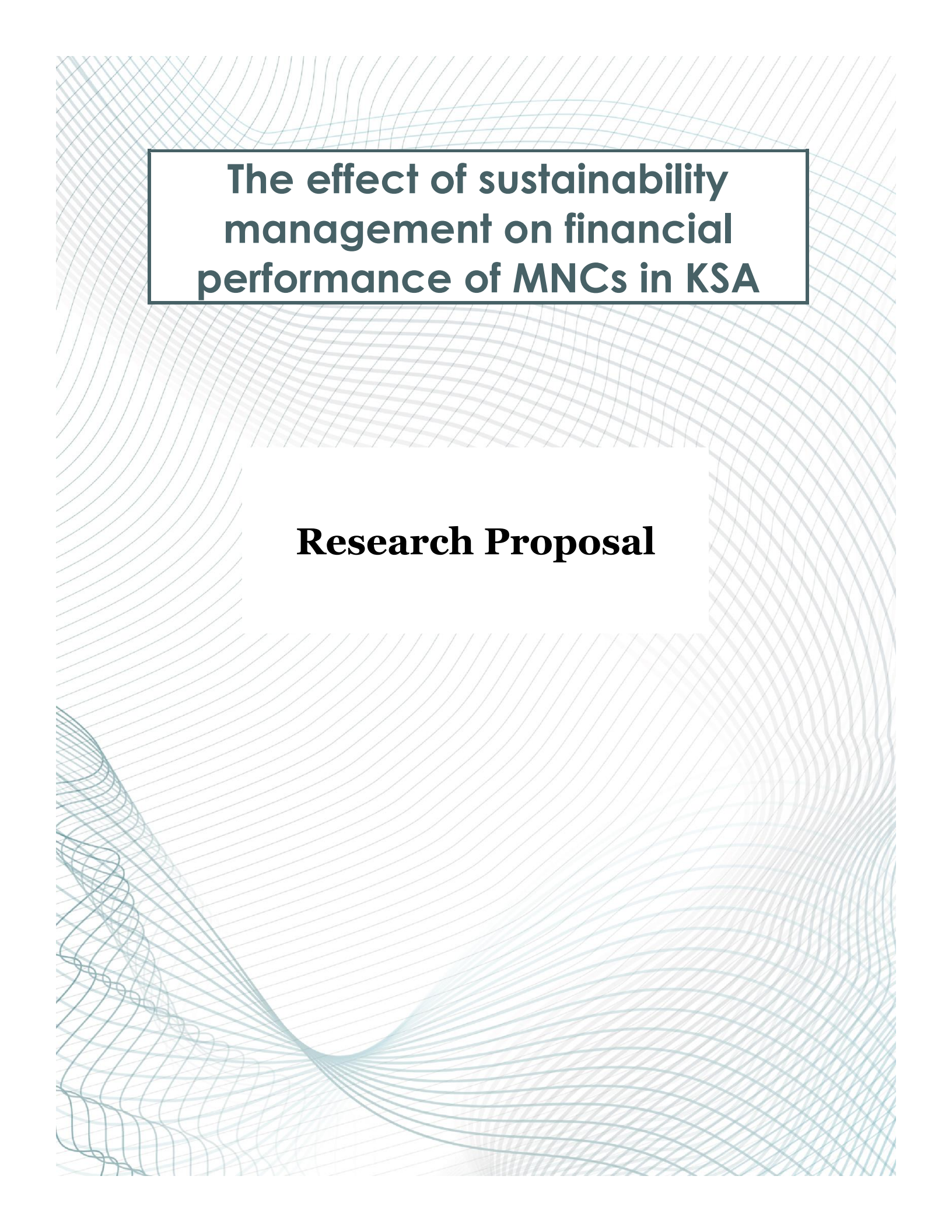




# **The effect of sustainability management on financial performance of MNCs in KSA**

## **Research Proposal**

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## INTRODUCTION

Earlier, it was assumed that the sole responsibility of business organizations was to ensure the desired financial return to their owners. However, it did not take long until it was evident that blind following of the profit maximization strategy had to be limited by specific rules to protect the interests of other stakeholders ([Carroll, 1991](#)). Discussions on corporate performance involving aspects other than purely economic ones date from the first half of the 20th century ([Carroll, 1979](#)). Such an approach led to the development of the “corporate social responsibility (CSR)” term. CSR is the concept of business performance that involves the organization's economic, legal, ethical and discretionary (philanthropic) responsibilities ([Carroll, 1979, 1991](#)). However, recently the term CSR has been substituted with the synonymous concept of sustainability ([Schaltegger, 2013](#)).

Sustainability and sustainability management are among the main concepts that have gained popularity in the 21st century ([Dyllick and Hockerts, 2002](#); [Schaltegger, 2013](#)). Sustainability refers to social development towards wealth and equity while conserving the natural environment and cultural accomplishments for future generations. Mainly, corporate sustainability is defined as a three-dimensional construct involving economic, social and environmental sustainability ([Dyllick and Hockerts, 2002](#)). Sustainable practices by companies that encompass all of these three aspects are often referred to as the “triple bottom line” (TBL; [Faisal and Al-Josaiman, 2021](#)). The concept is fundamental in the business environment since various profit-seeking entities omit other stakeholders' interests. However, to prevent such occurrences, governmental bodies were formed to protect consumers, employees, the environment, etc. ([Carroll, 1991](#)).

The importance of sustainability management on a global level has become even more significant as 193 countries agreed on the United Nations' Sustainable Development Goals (SDGs) to end poverty, reduce inequality and protect the environment by 2030 ([SDG, 2018](#)).

Sustainability management has become increasingly important for multinational companies (MNCs) operating in Saudi Arabia.

Kingdom of Saudi Arabia has demonstrated its commitment to sustainability through various initiatives and encouraging MNCs to adopt sustainable practices. One prominent example is the Kingdom's Vision 2030, which aims to diversify the economy and reduce its dependence on oil. Under this vision, Saudi Arabia has set ambitious targets, including increasing the share of renewable energy, promoting energy efficiency,

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enhancing environmental protection, and improving social welfare. These targets create opportunities for MNCs to align their strategies with national sustainability goals. Additionally, consumers and investors are becoming more interested in sustainable MNCs. There are many ways in which sustainability management can improve the financial performance of MNCs in Saudi Arabia.

However, despite the extensive research on the effect of sustainability management on financial performance of MNCs, this study seeks to explore and contribute to the existing body of knowledge on sustainability management effectiveness on financial performance and provide practical insights for managers and leaders in MNCs of Saudi Arabia.

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## Research Problem

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While previous research has established a positive relationship between sustainability management and financial outcomes, the lack of sustainability management implementation in multinational companies in Saudi Arabia leads to increased uncertainty gaps, legislative shortcoming and financial losses.

- What is the effect of sustainability management on financial performance of MNCs in Saudi Arabia?
  - To what extent do sustainability management contribute to improving the financial performance of the MNCs in the kingdom of Saudi Arabia?
  - What are the key pillars of sustainability management contributing to effectiveness on financial performance of MNCs in KSA? How can MNCs enhance sustainability management to improve financial performance?
  - What is the impact of sustainability management on economic dimension?
  - What is the impact of sustainability management on social dimension?
  - What is the impact of sustainability management on environmental dimension?
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## The importance & Objectives of the research

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The increasing importance of sustainability management in today's dynamic business environment and the challenges MNCs face in implementing SM framework.

The importance and objectives of the research is to evaluate the effect of sustainability management on financial performance of MNCs in Saudi Arabia, as well as to identify the key challenges faced Saudi Arabia MNCs while implementing sustainability management to improves their financial performance.

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## Research hypotheses

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This hypothesis is based on the assumption that government support for sustainability management can create an enabling environment for MNCs in Saudi Arabia to implement sustainability management practices. This enabling environment can include factors such as financial incentives, tax breaks, and regulatory support.

When government support for sustainability management is high, MNCs in Saudi Arabia may be more likely and able to implement sustainability management practices. This is because government support can reduce the costs and risks associated with implementing sustainability management practices and can also provide MNCs in Saudi Arabia with access to resources and knowledge.

As a result, the effect of sustainability management on financial performance of MNCS may be stronger in countries with high government support for sustainability management such kingdom Saudi Arabia.

This hypothesis can be tested using a variety of research methods, such as quantitative analysis of financial data and qualitative analysis of interviews with managers and policymakers.

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Sustainability management is the process of integrating environmental, social, and governance (ESG) factors into a company's business strategy and operations. It is about managing the company's impact on the environment and society, while also ensuring that the company is governed in a responsible and ethical manner.

There is a growing body of research on the effect of sustainability management on financial performance. However, most of this research has been conducted in developed countries. There is less research on the effect of sustainability management on financial performance of MNCs in developing countries.

### **Theoretical Background**

There are several theoretical perspectives that can be used to explain the relationship between sustainability management and financial performance. One perspective is the resource-based view of the firm. This perspective argues that companies can achieve a competitive advantage by developing and exploiting unique resources and capabilities. Sustainability management can be seen as a way for companies to develop and exploit unique resources and capabilities, such as a reputation for sustainability, access to sustainable resources, and expertise in sustainable practices.

Another perspective is the stakeholder theory. This perspective argues that companies should consider the interests of all their stakeholders, including customers, employees, suppliers, the community, and the environment. Sustainability management can be seen as a way for companies to meet the expectations of their stakeholders.

### **Empirical Evidence**

A growing body of empirical evidence suggests that sustainability management can have a positive impact on financial performance.

For example, a study by the Saudi Arabian General Investment Authority (SAGIA) found that companies that adopt sustainable practices have higher profitability and return on investment (ROI) than companies that do not. Another study, by the King Abdulaziz City for Science and Technology

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(KACST), found that companies that invest in environmental protection have higher employee productivity and customer satisfaction.

A number of case studies also provide evidence that sustainability management can improve financial performance of MNCs. For example, Unilever, a multinational consumer goods company, has been implementing sustainability practices in Saudi Arabia for over 50 years. Unilever has reported that its sustainability efforts have led to reduced costs, improved employee productivity and customer satisfaction, and enhanced reputation.

## **Conclusion**

The evidence suggests that sustainability management can have a positive impact on the financial performance of MNCs in Saudi Arabia. However, more research is needed to better understand the nature of this relationship and the factors that moderate it.

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## Research Methodology

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**Research Design:** This study will use a quantitative research design to examine the relationship between sustainability management and financial performance. The study will collect data from a sample of MNCs operating in Saudi Arabia.

**Data Collection:** The study will collect data from two primary sources:

**Financial statements:** The study will collect financial data from the annual reports of MNCs in Saudi Arabia. This data will include measures of financial performance, such as return on assets (ROA), return on equity (ROE), and market capitalization.

**Sustainability reports:** The study will collect data on sustainability management from the sustainability reports of MNCs. This data will include measures of sustainability management, such as environmental performance, social performance, and governance performance.

**Data Analysis:** The study will use a variety of statistical techniques to analyze the data, including regression analysis and correlation analysis. The study will also use mediation analysis to examine the underlying mechanisms through which sustainability management affects financial performance.

**Sample:** The study will use a sample of MNCs operating in Saudi Arabia. The sample will be selected using a stratified random sampling technique. The study will ensure that the sample is representative of the population of MNCs operating in Saudi Arabia in terms of industry, size, and ownership.

The data for the general perception of the research structure might be collected through interviews with academics and practitioners of MNCs in Saudi Arabia. The interviews might be conducted in person and online between Nov and Dec 2023.

The academics could be professors of economics, engineering, or business administration at Saudi universities. The practitioners could be sustainability consultants or executives of MNCs operating in Saudi Arabia.

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The qualitative research method that could be used to test this hypothesis:

- Conduct interviews with managers of MNCs in Saudi Arabia to learn about their experiences with sustainability management and government support for sustainability.
- Ask interviewees how government support for sustainability affects their ability and willingness to implement sustainability management practices.
- Analyze interview data to identify patterns and themes.

Ethical Considerations: The study will comply with all ethical guidelines for conducting research with human participants.

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## Research limits

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The study will have a number of limitations. First, the study will be cross-sectional, so it will not be able to establish causality. Second, the study will rely on self-reported data, so there may be some bias in the data. Third, the study will only focus on MNCs operating in Saudi Arabia, so the results may not be generalizable to other contexts.

### Temporal Limit:

Since the concept of sustainability management effect on MNCS financial performance in KSA, in all its previously mentioned aspects, has recently entered multinational companies, the application of this study will be determined in between 2018 - 2023.

### Spatial Limit:

Since there are many multinational companies that have entered the Kingdom of Saudi Arabia's markets in different fields between 2018 – 2023, The study will be applied to MNCs operating in the petrochemicals, Oil and Gas industry.

### Objective Boundaries :

There are a number of objective boundaries in studying the impact of sustainability management on the financial performance of multinational companies in Saudi Arabia.

### These limits include:

- Data availability
- Measurement challenges
- Endogeneity concerns
- The short-term nature of financial performance measures
- Contextual factors

### Recommendations for Overcoming the Objective Limits

- Improve data availability
  - Develop better measurement tools
  - Use more sophisticated research methods
  - Conduct longitudinal studies
  - Consider contextual factors
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## The General Perception of the research structure

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The general perception of the research structure will be on the effect of sustainability management on the financial performance of multinational companies (MNCs) in Saudi Arabia and will gain comprehensive understanding of both the financial performance and sustainability management practices of MNCs in Saudi Arabia to provides valuable insights into the causal relationships between the two variables.

Overall,

The study is likely to make a significant contribution to the literature on sustainability management on financial performance.

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