

8th International Strategic Management Conference

Assessment the Corporate Social Responsibility according to Islamic values (Case study: Sarmayeh Bank)

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Abstract

Nowadays, Corporate Social Responsibility (CSR) is the most considerable issue in the organizations; therefore, international organizations such as United Nations and European Union have formulated relative standards in this field. In the recent decades, not only corporations but also small and medium companies have been involved in Corporate Social Responsibility (CSR) activities. This is an important step in order to active participation in creating a reasonable balance between the economic, environmental and conservation needs of community and other stakeholders should be considered. In this study, according to criteria based on Islamic values, social responsibility is measured. Current research methodology is descriptive, and it is regarded as the method of data collection. Statistical community consist of the staff and managers of a nongovernmental bank in Iran (Sarmayeh Bank). And also, this research has used Fuzzy AHP method; the advantage of this method in comparison to classical AHP is achieving more accurate results because of using Fuzzy numbers instead of crisp ones. The major results of this study are calculating the CSR score (3/77) out of 5. The study has also classified as CSR priority indices that has been the priority of the Company Values, Workplace Policies, Environmental Policies, Community Policies and Market Policies.

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Keywords: Corporate Social Responsibility (CSR), Islamic Values, Sustainable Development, Fuzzy Analytic Hierarchy Process (FAHP)

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1. Introduction

Corporate social responsibility (CSR) has emerged as one of the main topics in business (Goss and Roberts, 2011). CSR Competitive world demands are one of the essential elements for the companies. So, according to KPMG2008, CSR has been adopted as strategy by more than three-fourth of 250 top companies in the Fortune's ranking. In addition, (according to The Economist 2008) more than 30% of top world managers have given high priorities in their organization (Choi et al., 2010).

There are two main viewpoints regarding CSR: Milton Freidman's viewpoint and Edward Bauman's viewpoint. Freidman (1970) was opponent of CSR. He believed that firms start losing money and capital when they try to act responsible. According to Freidman, maximizing revenue is the only responsibility of the firms. He argued that, in fulfilment of social wellbeing, firms take different role from that of government, social service organizations, educational institutes and non-commercial bodies. Following Friedman, many scholars of management tried to theorize the social responsibility. In the late 1970s Bauman was the first one who has introduced an acceptable concept regarding social responsibility. He argued that managers in commercial companies have four responsibilities (Khodadad and Azizi, 2009):

1. Economic responsibility to generate profit;
2. Legal responsibility to follow local, state, federate and int'l laws;
3. Ethical responsibility to fulfil social expectation as stipulated in laws; and
4. Discretionary or Philanthropic aspect as what business does for others.

However, Bauman argued that profit making is not the only responsibility of the organization, and it should take into account social and moral codes before the society. In long-run, this does not end up in profit lose, but rather makes public and social foundations and charity for the organization in order to direct their investment toward organizations with CSR strategies. It means taking more shares in market and profit in long run. Edward Bauman's viewpoint is adopted within the scope of the present work – positive effect of CSR on long-term profitability. Considering that Islam calls for observation of rights of neighbours and community, adopting CSR strategies may be regarded as modern interpretation of Islamic Ideology. However, there is a paucity of researches in this field and there is not even a criterion to measure responsibility of first before the society. This study tries to find new Islamic-based criteria to measure CSR. Research main question is:

What are the standards and elements to measure CSR (with emphasize on society's Islamic values)?

2. Objectives

The study focuses on achieving deeper insight into social responsibility and investigates its aspects from Islamic standpoint in a nongovernmental Bank in Iran (Sarmayeh Bank). Therefore, general objective of the study is taking an Islamic viewpoint, codifying aspects of social responsibility and exploring adherence of the codes in Sarmayeh Bank.

3. Conceptual foundations

3.1. Social responsibility

There is more than one definition of CSR. The central concept is that a firm acts beyond profit considerations. Through their services, operation and their interactions with main stockholders, all organizations have some effects on the society. The main idea of CSR is that commercial sector needs to

undertake responsibilities beyond production and earning in the society (Golob and Bartlett, 2007). The responsibilities should extend to social and environmental activities. So that by setting its goals beyond profit making, the organizations try to improve welfare of their community and consequently step toward better world. In fact, observance of their social responsibility -considering interaction between society and organizations- is the key factor for survival of organizations (Gail, 2011). However, there is no definite definition of CSR. Many definitions are based on volunteer activities by companies to improve social and environmental conditions (Margolis and Walsh, 2003). Stockholders' interests influence on the investments of companies under social responsibilities. However, broadly speaking, social responsibility refers to long-term and volunteer activities toward improving social and environmental conditions (Mackey et al., 2007). What follows is some definition of CSR:

- A social contract between company and society based on long-term social expectations (Lantos, 2001);
- Activities of company in public, art, social activities, etc. (Keller, 1998);
- Volunteer activities of companies to supply social goods such as human resource management plans, controlling environmental effects, philanthropic projects and local business supply (Barnett, 2007 and McWilliams and Siegel, 2000).

3.2. *Islamic standpoint of CSR*

Zahid and Pervaiz (2004) argued that over-focus on technical and economic solutions by Islamic businesses justifies absence of CSR in such organizations. They showed that sheer reliance on external mechanisms such as supervision and reward system result in individual and win-lose solutions, which are the symbol of secular economy from strategy planning viewpoint. Materialistic approach and omitting moral and spiritual aspects in the organizational processes are main features of secular economy, which result in elimination of moral codes. On the other hand, CSR relies on win-win solutions to promote CSR culture, which focuses on cooperation and open space between organizational and non-organizational stockholders. In this research, responsibility of organizations with an emphasis on Islamic values is considered. In this work and regard to this fact that more external control and motivation is not a safe path to achieve responsibility, pay attention to sense of trust, pride and self-esteem, justice, spiritual and more support, work-life balance is the solution to create responsibility. Not a cost but rather an advantage and revenue and a moral commitment, this is Islamic viewpoint on CSR (Zahid and Pervaiz, 2004).

3.3. *Aspects of CSR*

Among different viewpoints on aspects and indices of CSR, many scholars emphasize on the environmental and society-oriented responsibility, some emphasize on observation of moral codes and dealing stockholders fairly and some emphasize functionality, profitability, financial transparency and quality of workforce (Hopkins, 1999 and Welford, 1997). Using Clarkson's stockholders frame (1995) to reflect companies' attention to the different issues of stockholders (Clarekson, 1995), Inoue and Lee (2011) introduced CSR in five different aspects as follows:

- Relationship with Staff: Refers to company's attention to staff issues such as health, security and retirement welfare security;
- Quality and innovation in products;
- Social relations: Supporting and participating in social plans such as education;
- Environment: Environment preservation measures such as using clean energies, environment friendly products and recycling plans; and

- Diverse issues (supporting women and minorities): Taking into account the women and minorities issues at work and equal chance for promotion (Inoue and Lee, 2011).

Carol has defined four aspects for social responsibility of every enterprise, which focusing each of them results in improvement of citizenship quality of the enterprise. The four aspects are: economic, legal, moral and humanitarian aspect. He also argued that these four aspects are in separate and each attaches to other in a chain.

Carols' hierarchy of responsibility (1979 & 1991) resembles range of responsibilities of companies regarding society. The hierarchy forms a framework with economic outcomes as the main priority. The four types of responsibility of firms are known as four perspectives of companies' commitments (Carroll, 1979 and 1991). The framework, as the basis of the questionnaire, is further discussed (Moshabaki and Khalili, 2011):

- Economic aspect: Substantial responsibility of organizations where economic activities and measures are concerned as the primary objective.
- Legal aspect: Organizations are obliged to observe laws and public regulations. It also called social obligations.
- Ethical aspect: Organizations are expected to respect social norms believes. (social responsiveness)
- Philanthropic aspect: Those exceeding legal or ethical mandates—allow stakeholders to make attributions of moral coloration or character in relation to these actions as well.

Basu and Palazzo (2008) have defined three general principles for corporate social responsibility as follows: "Stakeholder driven, Performance driven and Motivation driven" (Basu and Palazzo, 2008) and emphasize on equity among customers and fairly behaviour with them based on corporate strategy (to establish a corporation with regard to culture and ethical values) and based on public policy and to create value added for community (Kreng and Huang, 2011).

4. Literature review

Nowadays, CSR activities are no longer a mere idea, as its strategic role in organizations is undeniable. There are plenty theories on social responsibility and its aspects as listed in the table below (McWilliams et al., 2006):

Table 1: Theories on Social Responsibility

Author	Theoretical Nature	Result
Freidman (1970)	Agency Theory	Focus on economics benefit
Donaldson and Davis (1991)	Stewardship Theory	Emphasis on moral obligations
Donaldson and Preston (1991)	Stakeholder Theory	Emphasis on moral dimensions
Hart (1995)	Resource-based Theory	Achieving competitive advantage according to social responsibilities
Jennings and Zandbergen (1995)	Institutional Theory	Governmental institutions and their roles are so important
Baron(2001)	Governance Theory	Focus on strategic social responsibilities
Feddersen and Gilligan (2001)	Governance Theory	Emphasis on nongovernmental organizations for balancing consumers' information
McWilliams and Siegel (2001)	Governance Theory	Focus demand/supply to responsibility
McWilliams et al (2002)	Resource-based Theory	Creating competitive advantage according to supporting political strategies
Waldman et al (2004)	Governance and strategic Leadership Theory	Leadership influence on responsibility

5. Conceptual framework/ hypotheses of research

Carol's pyramid of corporate responsibility (1979 and 1991) introduces four levels of responsibility which explains level of commitment of companies to society (Carroll, 1979 and 1991). Individuals are units of analysis and aspects of social responsibility base on following concepts (Tan and Komaran, 2006):

- Carol's pyramid of corporate responsibility;
- Principles of friendship, stewardship and charity;
- Environment friendly approach;
- Social performance;
- Advantages of social responsibility.

Since the study has been conducted in an Islamic country and in order to Carol's model, a compound model of Islamic values and Carol's model considered in this study. The aspects of the conceptual model in this work are:

1. Workplace policies: Staff supporting policies regarding health, safety, and welfare affairs;
2. Environment policies: Environment preservation, recycling and reducing energy consumption policies;
3. Market policies: Fair procurement policies and consumers support regulations;
4. Community policies: Providing training chances for local community members and financial support of community activities; and
5. Company values: Having clear and transparent values and also defined codes and commitment to them.

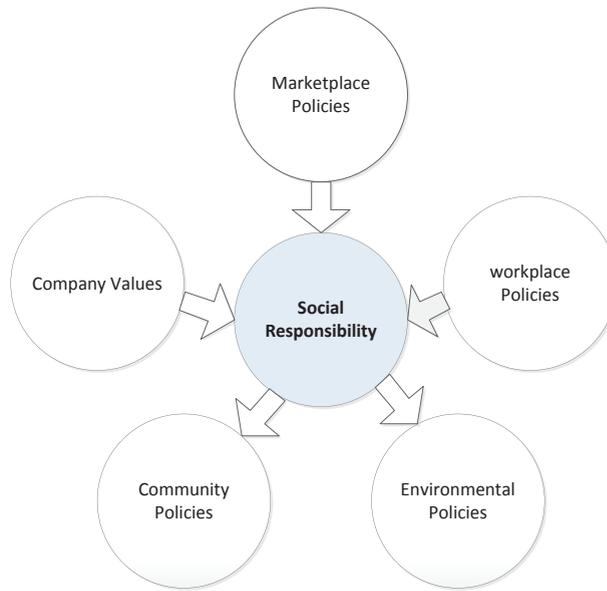


Fig. 1. Conceptual framework of research

6. Research method

The present research tries to contribute in CSR and management science development, though regarding research method; it is classified as basic-development research based on goals of the research. In addition, it is a descriptive and surveying research based on information gathering method (Danaeefard et al., 2005). Considering nature of study, field and library studies were conducted for data gathering. Statistic society was comprised of all staffs and employment of Sarmayeh Bank in Tehran (30 individuals). Validity of questionnaire was confirmed by university's professors and experts. Chronbach's alpha for the questionnaire was obtained 0.7873 that implies high creditability of the questionnaire.

7. FAHP: Fuzzy Analytic Hierarchy Process

Analytic Hierarchy Process (AHP) is one of the useful method in Multiple Criteria Decision Making (MCDM) and it has been introduced by Tomas L.Saaty in 1971 (Azar and Faraji, 2008). Fuzzy Analytic Hierarchy Process (FAHP) has introduced by Zadeh in 1964 (Shavandi, 2008) and it has covered lack of AHP by using fuzzy numbers instead of crisp numbers. One of the special classes of fuzzy set number is a triangular fuzzy number (TFN) whose membership is defined by three real numbers, mentioned as (l, m, u) . The triangular fuzzy membership function is shown as follows.

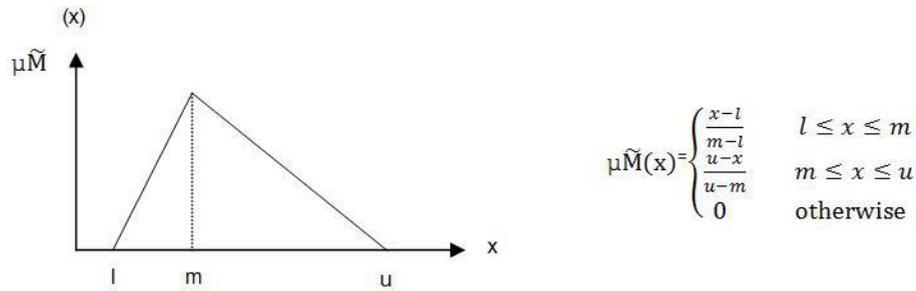


Fig. 2. Triangular fuzzy number and its membership function

FAHP Calculations are summarized on the following tables.

Table 2. Fuzzy numbers matrix of CSR dimensions

CSR Dimensions	Workplace Policy			Environmental Policy			Marketplace Policy			Community Policy			Company Values		
Workplace Policy	1	1	1	2.85	3.15	3.62	6.15	6.87	7.68	2.03	2.18	3.32	0.19	0.24	0.27
Environmental Policy	0.27	0.31	0.35	1	1	1	6.15	6.95	7.25	8.11	8.86	9.31	0.19	0.23	0.26
Marketplace Policy	0.13	0.14	0.16	0.13	0.14	0.16	1	1	1	0.13	0.17	0.24	0.14	0.18	0.26
Community Policy	0.30	0.46	0.49	0.10	0.11	0.12	4.01	4.84	7.35	1	1	1	0.28	0.35	0.40
Company Values	3.63	4.11	5.12	3.73	4.25	5.12	3.80	5.49	7.04	2.47	2.84	3.51	1	1	1

After defuzzification, the crisp numbers were normalized (Table 3).

Table 3. Normalized Matrix of CSR dimensions

CSR Dimensions	Workplace Policy	Environmental Policy	Marketplace Policy	Community Policy	Company Values
Workplace Policy	0.16	0.36	0.27	0.16	0.12
Environmental Policy	0.05	0.11	0.26	0.57	0.12
Marketplace Policy	0.02	0.02	0.04	0.01	0.10
Community Policy	0.07	0.01	0.22	0.06	0.17
Company Values	0.70	0.49	0.21	0.19	0.50

Finally total CSR score has calculated:

$$SRScore = \sum_{i=1}^5 a_i * b_i$$

a_i = Primary score of indicator (i)

b_i = indicator (i) weigh

In order to calculating the primary scores, 28 questionnaires based on Likert's continuum were distributed. Total score of Sarmayeh Bank is summarized on the Table 4.

Table 4. Final score of Sarmayeh Bank CSR

Main Criteria	Primary Score	weight	Final Score
Workplace Policy	3.92	0.21	0.82
Environmental Policy	3.1	0.22	0.68
Marketplace Policy	2.8	0.04	0.11
Community Policy	3.5	0.11	0.39
Company Values	4.2	0.42	1.76
Final score of Sarmayeh Bank CSR			3.77

8. Conclusion

The importance of CSR is increasing in the all businesses. Due to lack of strong measures of sustainable development to assess actual stability and also lack of public statutory regulations to force corporations to take into social and environmental concerns into account, companies, as a member of society, should take social responsibility in policy making and strategy planning. It is assumed that effects of their strategic decisions extend beyond border of their organization. An accurate and reliable definition of social responsibility helps organizations in fulfilment of such responsibilities. A method to assessment social responsibility of organization through FAHP method was introduced in this paper. In comparison, FAHP gave more accurate results than AHP. What follows are noticeable results of the study:

- Along with an introduction to CSR, a case study of Sarmayeh Bank was discussed. FAHP was applied for systematic assessment of CSR as a tool in hands of manager to assess CSR and adopting development strategies.
- Final score of CSR for Sarmayeh Bank was obtained 3.77 (out of 5), which implies that this bank is at acceptable condition in this regard. In addition five main element of social accountability assessment based on priority are: company values, workplace policy, environment policy, community policy and finally market policy.

9. Recommendations

- One of the principles of social responsibility is to be driven stakeholders, according to the rating of this organization (Sarmayeh Bank), we can say that organization must move to pay attention to marketplace and community policy.
- About company policy, we can say that in developing country, especially in Iran, organizations are seeking profit and putting its main emphasis on the material and economic issues. Therefore scores of Sarmayeh Bank (Community and Marketplace Policy) is low that these scores illustrate that this kind organizations aren't seeking to solve marketplace and community issues.
- The future vital organizations factor is serious attention to community issues and preservation of environment therefore observance of CSR creates a competitive advantage for organizations. Therefore by modifying consumption pattern and adopting society-oriented policies companies may develop toward taking CSR as a competitive advantage and basis for policy making.
- By adopting appropriate economic policies, laws and regulation, governments may support responsible companies and consequently help sustainable development.

- By modifying consumption pattern and adopting society-oriented policies companies may develop toward taking CSR as a competitive advantage and basis for policy making.
- Workplace and company policy need special attention of companies for creating friendly and accountability motivating environment and providing social responsibility-based services to the public.
- Low market policy score for Sarmayeh Bank implies that more attention to stockholders needs and participation in local community activities is necessary.

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