

## Developing Sustainable Corporate Social Responsibility Based on Islamic Perspective

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### ABSTRACT

Corporate social responsibility (CSR) issues are constantly evolving nowadays since social and ethical issues have received public attention and high regulatory pressure regarding this issue. Malang Regency has implemented the CSR since long time ago. Every company in Malang Regency has obligated to implement CSR program. The potential of CSR in Malang Regency itself is very big when viewed from the total number of companies that reaches 1,350 companies both in small and large scale. There are also 76 sugar factories in Indonesia and most of them are located in East Java, including Kebon Agung which located in Malang Regency. This study can be classified as narrative qualitative research with Kebon Agung as a research objective. This study used formal interviews, and participant observation as data collected method. This study concluded that Economic motives considered as the most appealing CSR program from both the company and the CSR target group perspective. Economic development is impossible without a good education. Education is indispensable to economic development. The financial business incentives of CSR program should follow by providing good education, training, and mentoring in purpose to achieve its effectiveness. To get the better knowledge, the education, training, and mentoring program should collaborate with the regulator, academicians, and professional.

**Keywords:** Corporate Social Responsibility; CSR; Sustainable; Islam; Kebon Agung

### 1. INTRODUCTION

#### 1.1 Research Background

Corporate social responsibility (CSR) is the government programs regulated by law that should be supported. Malang Regency has implemented the CSR since long time ago. Every company in Malang Regency has obligated to implement CSR program. The potential of CSR in Malang Regency itself is very big when viewed from the total number of companies that reaches 1,350 companies both in small and large scale. There are also 76 sugar factories in Indonesia, and most of them are located in East Java, including Kebon Agung which located in Malang Regency. Currently, the Kebon Agung CSR program can be defined in two agenda which is the physical and economic development program. For the physical related program, Kebon Agung provides nutrition for children under five years old, scholarship, and staple food. In addition to these programs, there is also non-routine assistance provided, such as waterways improvements, construction of village gates, road repairs, youth group development funding, and the commemoration of independence funding. For the related economic program, Kebon Agung builds 68 kiosks, giving a capital loan to Kebon Agung area Micro Small Medium Enterprises, and giving financial incentives stimuli to farmers that located near Kebon Agung Area.

Interestingly, the most prominent impact that people feel related in improving their quality of life is a capital lending program. A lot of people admitted that this program has directly affected in grows their own business and adds their consumption level. While at the same time, the



perceived impact of other programs is beneficial, but some of them are only perceived in the relevant field, it does not directly affect the welfare conditions of life. This research aims to revitalize the previous CSR program by providing a new smart model of CSR that relevant for both Kebon Agung business challenges and CSR target group.

## 1.2 Research Problem

- a) What is the proposed of new smart CSR model based on Islam perspective that relevant for both Kebon Agung business challenges and CSR target group?
- b) How the proposed of new smart CSR model based on Islam perspective that relevant for both Kebon Agung business challenges and CSR target group works?

## 1.3 Research Purpose

The purpose of this research is to discover and develop new smart CSR model that relevant for both Kebon Agung business challenges and CSR target group based on Islam perspective. This research also aims to find out how the proposed of new smart CSR model based on Islam perspective that relevant for both Kebon Agung business challenges and CSR target group works.

## 2. THEORETICAL FRAMEWORK

### 2.1 Theoretical Framework

#### 2.1.1 The Emergence of CSR

CSR issues are constantly evolving nowadays since social and ethical issues have received public attention and high regulatory pressure regarding this issue. On the other hand, in company perspective it can be a difficult because CSR is no more than the paradox, it is almost impossible in improving environmental and social issue while at the same time accomplishing financial goals. Therefore, it is important that managers should be given an authority to set other goals than financials (Epstein, 2010).

In general, Carroll (1979) defined CSR as a construct that "...encompasses the economic, legal, ethical, and discretionary expectations that society has of an organization at a given point in time." There are several previous research and theory regarding CSR like social contract theory, stakeholder theory, legitimacy theory, and instrumental theory. The differences between those theory can be shown in table 1 :

Table 1 Theory Differentiation

Theory	Definition
Social Contract	Business should act responsibly manner not only because of its commercial interest but also implicit social expectation.
Stakeholder	CSR is an obligation to stakeholders figures prominently in the decision making of managers.
Legitimacy	CSR is a response to the environmental pressures involving social, economic, and political.
Instrumental	Business may choose to support some social program due to the reason that those act may enhance their reputation, competitive advantages or other strategic reason that linear with shareholder interest.

According to Jamali & Mirshak (2006) there is a four-part dimension of CSR that proposed by Carroll which is economic responsibility, legal responsibility, ethical responsibility, and discretionary responsibility. Economic responsibility is the basic foundation of the dimension while discretionary responsibility as the top of dimension.



### 2.1.2 CSR on Islamic Perspective

The concept of benevolence or Ihsan which means an act (kindness) that benefit another person, environment, and society from whom the act proceeds without any obligation (volunteer act) except acquiring Allah pleasure, somewhat similar to CSR concepts that proposed by Western culture (Mir et al., 2016). Although other researchers argued that the concept of CSR from the Islamic perspective is broader and comprehensive because its derived from Al-Quran and Sunnah (Hassan, 2016). Bakar & Yusof (2015) added that the objective of CSR in the Islamic perspective is to achieve social justice and to obtain *barakah* in this life and hereafter.

Alamer et al. (2015) stated that CSR program should focus on four program which is social activities (charity), environmental, human resources empowerment and development, and financial or investment supports. For social activities aspects like charity, Allah stated that “O you who believe! Spend of the good things which you have (legally) earned.....and do not aim at that which is bad to spend from it...” (Al-Baqarah verse 267), also “O you who believe! Do not render in vain your charity by reminders of your generosity or by injury, like him who spends his wealth to be seen of men...” (Al-Baqarah verse 264). For environmental aspects, Allah stated that “And don’t corrupt on earth after its reformation, and pray for Him with fear and hope. God’s mercy is near to the doers of good” (al-A’raf verse 56). For human resources empowerment and development aspects, Allah stated “O you who believe! Eat no up your property among yourself unjustly, but let there be among you trade by mutual consent...” and “...God elevates those among you who believe, and those given knowledge many steps. God is aware of what you do” (al-Mujadilah verse 11). Lastly, for investment aspects, Allah stated that “...It is We who have allocated their livelihood in this life, and We elevated some of them in rank above others, that some of them would take others in service..” (az-Zukhruf verse 32) and “....so that it may not circulate solely between the wealthy among you” (al-Hasyr verse 7). Dusuki (2008) proposed The Five Level of Corporate Social Responsibility Continuum, as bellows :

Table 3 The Five Level of Corporate Social Responsibility Continuum

Level	Description
Level 1: Irresponsible	Companies at this level become irresponsible and even breaches the minimum moral standards required by law like dumping toxic waste, fraud, financial statement dressing, false advertising, violating employees, etc.
Level 2: Minimalist	Companies at this level just focused on fulfilling the minimal requirement that regulated by law.
Level 3: Apathetic	Companies at this level operate within the ambit of law, and there is no strategic effort when developing CSR activities, less engagement.
Level 4: Tactical	Companies at this level fulfill their social responsibility in various CSR activities which they perceive can give benefit to the firm in the long run, good publicity, and enhances companies reputation.
Level 5: Taqwa	Companies at this level have a belief that they should be socially responsible to others regardless of the financial consequences, positive or negative



### **3. RESEARCH METHOD**

#### **3.1 Research Design**

A qualitative narrative research design is chosen to describe CSR activities at Kebon Agung. Qualitative research is a rich type of research regarding people, place, and conversation descriptions, which is not easily handled using statistical procedures (Bogdan & Biklen 2003). While the narrative is "the objectification of thought as the externalized thought is apprehended in its form of oral reporting" (Muylaert et al., 2014). The researcher also used the case study as an instrument of the qualitative narrative research. Greenhalgh (2005) added that the case study itself involves detailed reflexive fieldwork leading to rich authentic description. Therefore, this methods requires an in-depth investigation of an organization or teams like a formal interview, focus groups, and participant observation.

#### **3.2 Data Gathering Strategies**

Data collected in this study used the formal interview and participant observation. The number of the informant in this research was 4 informants. The selected informants from agricultural and non-agricultural sectors were those who filled out letters of willingness to participate. Informants who met the quantity and variation requirements were determined by saturations. Saturation is used when informants tend to provide redundant information instead of new information (Nieswiadomy, 2002).

### **4. RESEARCH RESULT AND ANALYSIS**

#### **4.1 Research Analysis**

Currently, the Kebon Agung CSR program can be defined in two agenda which is a physical and economic development program. For the physical related program, Kebon Agung provides nutrition for children under five years old, scholarship, and staple food. In addition to these programs, there is also non-routine assistance provided, such as waterways improvements, construction of village gates, road repairs, youth group development funding, and the commemoration of independence funding. For the related economic program, Kebon Agung builds more than 60 kiosks, giving a capital loan to Kebon Agung area Micro Small Medium Enterprises and giving financial incentives stimuli to farmers that located near Kebon Agung Area. However, research from Askandar (2017) shows that 67-70 percent of CSR activities was ineffective and has no impact on communities welfare. Based on the observation, it can be seen that there is a gap between the older generation and the young generation in term of their agricultural interest. Young generation prefers to leave their villages or hometown to pursue their career rather than stay in their villages and ended as a farmer. Several informants also said that they are considered to sell their land to cover their son educational cost, building a new house, and for saving reason. This behavior finally ended in the foster father paradox that makes them difficult to reach an independence stage.

The migration ambition from young people in the near community of Kebon Agung can be considered as a threat for the future business of Kebon Agung. If the condition and mindset remain still, Kebon Agung may lose both human capital and raw material supply in the near future. Therefore, CSR program should focus only on human empowerment/development and financial support as Alamer et al. (2015) recommendation. It also considered as legitimacy act from the company point of view. The new CSR program should develop through education, training, and mentoring activity with agricultural long-term profitability, households income management, and accounting as the main topic. In term of financial support recommendation, financial incentives model should be considered as one of an alternative solution. Based on the observation, it can be seen that there is positive response regarding financial incentive stimulus idea from the farmers near



Kebon Agung area. Incentives should divide when farmers accomplished the target like cassava production in specific criteria/kg and cassava flour innovation to minimize the risk.

Meanwhile, another target group of this research which is a non-agricultural group that consists of creative economy actors stated that they are very satisfied with the CSR activity (financial support) that arranged by the company. They feel helped by the incentives which have no interest so they can give the money back by the ability and the condition of the business. They think that the program shows that the company is trying to improve the local community through its actions in ways that are visible. Unfortunately, there is only about 25% of local business partner that can be categorized as a sustainable program. While another 75% unfortunately classified as a failed partnership because has no impact in improving the local business and social welfare sustainable.

Islam prohibits poverty as it is close to disbelieve. Economic sustainability in Islam means “economics performances that continually generates satisfaction of the spiritual need and the non-material need of people” (Sarkawi, 2016). Allmendinger and Leibfried (2003) stated that there is a strong relationship between education and training toward local economic development. Kotaskova et al. (2018), Ozturk (2001) and Chinese philosophy which stated "give a man a fish and he will eat for a day. Teach a man to fish and he will eat for the lifetime" also support Allmendinger and Leibfried (2003) research result. More than that, education is not only has a positive relationship to economic development but also toward their income (Psacharopoulos, 1992) and productivity (Deraniyagala, 1995). Quran also said that “...God elevates those among you who believe, and those given knowledge many steps. God is aware of what you do” (al-Mujadilah verse 11). Based on the observation, many of failed partnership happens because the local business has lack education in business management. They tend to use most of the CSR financial support not to develop their own business but for households consumption purpose. It's more complicated because their financial business mixed with their financial family. Therefore, the new CSR program should develop through education, training, and mentoring activity. The topics should offer in various topics due to the reason that many of them have lack education in accounting management (can't differentiate between business and households operational income), marketing management (packaging and branding), and leadership management.

#### **4.2. Research Proportion**

- P<sub>1</sub> Economic motives considered as the most appealing CSR program from both the company and the CSR target group perspective
- P<sub>2</sub> Economic development is impossible without a good education. Education is indispensable to economic development.
- P<sub>3</sub> The financial business incentives of CSR program should follow by providing good education, training, and mentoring in purpose to achieve its effectiveness.

### **5. RESEARCH CONCLUSION AND LIMITATION**

#### **5.1. Conclusion**

- a) There is a gap between the older generation and the young generation in term of their agricultural interest. The young generation prefers to leave their villages or hometown to pursue their career rather than stay in their villages and ended as a farmer.
- b) Economic motives considered as the most appealing CSR program from both the company and the CSR target group perspective
- c) Economic development is impossible without good education. Education is indispensable to economic development.



- d) The financial business incentives of CSR program should follow by providing good education, training, and mentoring in purpose to achieve its effectiveness.
- e) The education, training, and mentoring program should collaborate with regulators, academicians, and professional.

## 5.2. Limitation

This study only focused on Kebon Agung Sugar Factory as the research object. Therefore, researchers recommend the future study to use other company at Malang Regency to get better knowledge about the best sustainable model of CSR.

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