MEASURING CSR PERFORMANCE

A COMPREHENSIVE AHP BASED INDEX

ABSTRACT

Although there is no agreed universal definition of CSR, organizations are often ranked in terms of their CSR performance. However, two glaring gaps are identified in the CSR literature. First, evaluation methodologies are questionable and often lack a scientific basis and transparency, and second stakeholder representation is not made explicit or is missing altogether. This paper contributes to the CSR literature by constructing a CSR index based on the Analytic Hierarchy Process (AHP), as well as ensuring that stakeholder judgments are an integral part of the constructed index. An AHP-based CSR Index is developed for the Services Sector in Saudi Arabia to serve as a case study. The developed index is implemented to measure CSR performance in over 40 corporates from the private sector. The paper thus also adds value by providing an insight into how CSR and its dimensions are perceived and practiced by the Saudi corporations.

Keywords: AHP; Corporate Social Responsibility (CSR) ; CSR Index; expert systems; Services Sector; Multiple criteria decision making.

1. Introduction

The roots of the concept of corporate social responsibility (CSR) goes back to the 1920s (Hoffman, 2007). It has grown in recognition as exemplified by initiatives like the Global Reporting Initiative in 2002, and the more recent directive of the European parliament and council of 2013 that require a CSR disclosure in annual financial reporting. In recent decades, the rise of CSR depends on the global political economy (Luning, 2012) and has become a popular research topic, but an exact definition of the concept is still under debate. There is no universally accepted framework on CSR (Visser, 2010; Devinney, 2009; Wall, 2008; McWilliams et al., 2006; McIntosh et al., 2003; and Zadek, 2001).

Since there is no clear definition of CSR, companies emphasize and practice it differently (Oberseder et al., 2013). Some managers view CSR as an obligation, some define it as a considered proactive behavior, and still others believe it is nothing more than a reactive action (Fontaine, 2013) or simply charity.

This divergence in managerial perceptions is partly due to the heterogeneous factors that influence CSR behavior and practices. According to Mahajan (2011), these factors include

Globalization, governmental and inter-governmental bodies, advances in communication technologies, growing demand for more transparency on how companies are addressing social and environmental issues, corporate governance, and finally the limitation of governments to regulate all aspects of CSR.

Mosgaller (2012) states that the three pillars of performance (purpose, process, and people) are essential if CSR is to evolve from merely a passing fad to an integral part of organizational practice. The basic argument is that if CSR is to be a sustainable proposition, the purpose of CSR should be clear to employees, processes should be in place to implement CSR effectively, and stakeholders should engage in and commit to the CSR practices implemented within their organizations. Trapp (2014) argues that more benefits emerge for the company when stakeholders are involved in the decision to adopt CSR strategies. Having said that, there is an urgent need to develop a robust system to measure corporate performance with respect to CSR. Such system must address all stakeholders' interests.

2. Hypotheses/Objectives

Although there is abundance research addressing CSR in the last decade, it would not be an exaggeration to state that confusion, measurement challenges, and transparency are only a few of the many problems facing the practice of CSR in most countries around the world. There appears to be no systematic implementation and/or adaptation of CSR practices, and as result, the effectiveness of these practices remains ambiguous at best. Upon examining recently published research, measuring CSR performance is a key objective specially to help funders and investors decisions (Indre Slapikaite, 2016). To formulate a systematic scientific methodology will not only help corporations to identify its social, environmental and economic responsibilities, but will also facilitate stakeholders in identifying and prioritizing which factors, in particular, effectively deliver these responsibilities in a transparent and measurable manner. Against this background, the aim of this research is to construct a comprehensive CSR index that reflects and represents the priorities of stakeholders and that can be utilized to evaluate their CSR performances against their own established CSR goals. The application of the proposed index is illustrated by constructing a CSR index for the Services Sector in Saudi Arabia. The developed index is implemented to rank corporations in the services sector with respect to their CSR performance as prioritized by their stakeholders.

Upon scanning the published research there is few application of the AHP methodology to the field of CSR studies. Costa and Menichini (2013) pointed out to the importance of including the stakeholder's perception. They developed a fuzzy multicriteria model to measure the company CSR as perceived by its stakeholders. Tafti, Hosseini and Emami (2012) developed a fuzzy AHP model to assess CSR practice in a bank. This research is differ by building a comprehensive index representing all stakeholders in the service sector and implementing it to evaluate CSR performance in the sector. Also it can be easily generalized to cover all other industries. This model also implementing the original and simple AHP which is proved to be a robust mathematical model versus the fuzzy version (Kèyù Zhü, 2014). The problem is modeled as group MCDM. The AHP methodology aggregates judgments in a way that satisfies the reciprocal relation in comparing two elements. It combines the outcomes of the experts' judgments using the geometric mean of the judgments. (Saaty& Peniwati, 2008).
The strength of the AHP lies in its capability to compare qualitative and quantitative criteria simultaneously and integrate the subjective judgments of the decision maker with the objectivity of the alternatives criteria in a robust mathematical model. It follows that as CSR indicators often comprise competing conflicting criteria with competing

attributes, the AHP offers a logical format to quantify their selection attributes, which can be evaluated systematically, unlike traditional CSR index construction methods.

3. Research Design/Methodology

This research is conducted in two phases. First, a comprehensive CSR Index is constructed. Second it has been implemented to rank 40 service corporates.

3.1 Constructing the AHP-based CSR Index

3.1.1 Selection of CSR Indicators (Structuring the hierarchy)

A comprehensive CSR index must reflect economic, legal, environmental, social, and ethical corporate responsibilities. Furthermore, for such an index to be acceptable to a corporation and for it to be 'owned' by its management, stakeholders should have the opportunity to set priorities for each of its constituent elements from their personal perspectives. However, as previously stated, there is no specific definition for the CSR concept, neither is there agreement on its constituent elements.

Accordingly, as a first step in developing the index, the most frequent elements from 22 worldwide indices studied, were selected and clustered to construct the criteria for the proposed CSR index. It is worth noting that each element was carefully assessed with respect to its suitability within the Saudi corporate context. These five indicators represent the main criteria for the proposed AHP-based CSR index, as depicted in Figure 1.
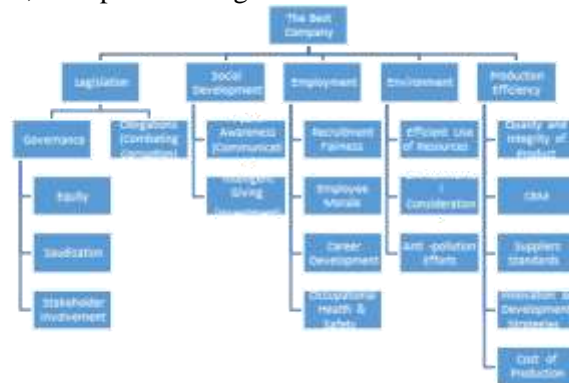

Figure 1 The AHP model for the CSR index

3.1.2. Selecting the Group Decision Makers (Stakeholders)

To construct a proposed CSR index that is representative of the priorities of all the stakeholders, it was decided to seek the opinions of executive managers from the three service sector categories, i.e., private hospitals, banks and hotels. To remove any industry specific biases and to be able to make 'like with like' comparisons,

corporations from one business sector, namely, services, were selected. Furthermore, to remove any potential bias across the three categories within the service sector, it was decided to combine judgements collected from the service executive managers with judgements from another independent CSR expert group. Such external validation is a valuable instrument in constructing a robust CSR index.

This independent CSR expert group was categorised as the wider local community, and it was comprised of purposefully selected individuals including academics, MBA students and managers from other service sectors. These individuals were chosen to represent the local community on the basis that they would be knowledgeable and possess expertise about CSR on par with the executive managers from the service sector organisations.

3.1.3 Eliciting experts' judgements

a questionnaire was designed to ascertain the judgements and opinions of the respondents. Of the 400 questionnaires posted, 255 were received. Of these, 37 were discarded as they were not complete. Thus, the sample comprised 218 completed questionnaires, reflecting a response rate of over 50%. For illustration, Figure 2 shows pair wise comparison of legislation with Social development with respect to goal.
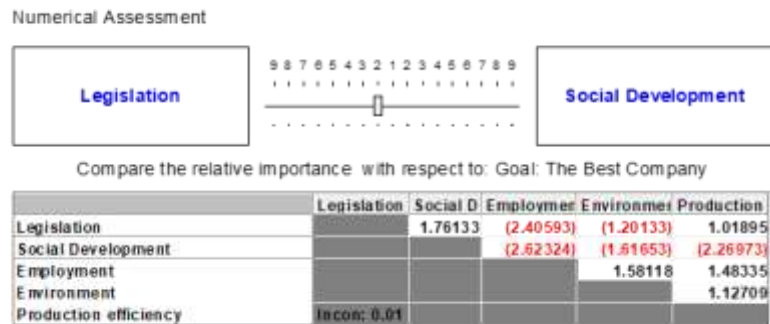

Figure 1 Pairwise comparison of legislation with social development wrt to goal

3.1.4. Establishing Priorities

Based on the judgements given by the respondents, priorities were derived mathematically using the principal eigenvector. Priorities of the main CSR index criteria are illustrated in Table 2.

3.2. Implementing the developed CSR Index (Alternatives)

A random sample of corporates from the service sector was selected. An interview is conducted to collect information about their CSR practice. In order to systemize the interviews a rubric is developed, for each sub criteria. A set of questions were designed to address four levels of performance: Leadership, systems, engagement and performance. The interview rubric was converted into numbers and intensity priorities are developed

(Table 1). The rating model of the AHP was implemented to rank the performance of 40 corporates.

Table 1:
Summary of the rubric to collect data about the alternatives and its intensity priorities.

Corporate Performance Level	Level	Intensity Priority
Top management has the intension but nothing has been done	1	.08
CSR is addressed in its strategic plan, systems are developed.	2	.19
CSR is addressed in its strategic plan, systems are developed and in the process of implementation	3	.80
Fully committed to CSR practice. An annual report is publicly published	4	1.00

4. Data/Model Analysis

The combined priorities of the two groups of stakeholders, corporate and community, showed Employment as the first CSR priority (Table2). This outcome reflects the case of Saudi labor which is badly distorted and needs top attention, unemployment among Saudis exceeds 10%. Companies are under pressure to develop tangible policies to attract the indigenous population to join the private sector. This is followed by production efficiency as it is vital for corporate sustainability.

Table 2

Priorities of the main CSR index criteria by the local community and the services sector

Criteria	Corporate Priorities	Community Priorities	Combined Priorities
Employment	0.323	0.200	0.25
Production Efficiency	0.199	0.251	0.22
Environment	0.200	0.174	0.19
Legislation	0.171	0.168	0.17
Social Development	0.107	0.207	0.15

Figure 3 presents the ranking of service corporates with respect to their CSR performance reported by the interviews and rated against the criteria prioritized by the stakeholders. Although about 60% of the organizations in the sample do not have a CSR department, but their practice was in line with the essence of the CSR essence.

Figure 2:Part of the results of rating 40 corporates against the developed CSR index

5. Limitations

This study could have been stronger if the alternatives were selected in more defined fashion. Such selecting the top ten corporates in each of the three service sectors, and results are compared against the current Saudi index.

6. Conclusions

The findings demonstrate that the assumption that Saudi companies view CSR mainly in terms of philanthropy is not necessarily true given that employment and production efficiency emerge as the most highly ranked corporate priorities. This confirms the view that Saudi businesses are moving towards adopting CSR practices as part of their corporate strategy. Thus further highlighting the need for a robust CSR index for the Saudi corporate sector.

Very few CSR studies have attempted to formulate a framework of analysis that systematically documents or prioritizes CSR practices.

This research set out to understand and analyze CSR practices within Saudi corporations and aimed to construct a comprehensive CSR index.

CSR studies tend to be one-dimensional, they tend to invariably focus on environmental and community issues, and they tend to use secondary data sources, all of which are considered shortcomings of extant CSR performance studies. This research overcomes these shortcomings by collecting original data and by using the AHP model that extends beyond the restrictions of previous approaches and analyses CSR practices in a multi-dimensional context.

This research can be extended to use the proposed index to measure CSR performance of the top 100 corporates in the Saudi equity market.

7. Key References

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