

## Sharia-Based CSR Disclosures for Responsible Innovation: What are the Benefits to Overcome the Grand Challenge?

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### Abstract

The grand challenges of poverty, inequality, hunger, war, climate change, and deforestation impede the advancement of sustainable development. These difficulties can only be addressed by fundamental changes in behavior, production modes and processes, and business practices in general. In this paper, we will create the notion of corporate social responsibility disclosures (CSRSD) based on shari'ah and analyze the potentials and limitations for the advancement of sustainable development and overcome the grand challenge. This study approach incorporates theoretical and empirical insights into the ways in which alternative forms of CSRSD might assist in addressing grand challenges. Thus, the study provides examples of CSRSD and corporate governance that might assist in producing ideas that do good and avoid harm in order to solve this worldwide issue. However, this study is limited by the researcher's subjectivity, which has a significant impact on the outcome of proposing a new form of CSRSD to address humanity's grand challenges.

**Keywords:** Disclosures, GCG, Grand Challenge, Innovative Responsibility.

### INTRODUCTION

Humanity faces a variety of grand challenges that endanger the planet's sustainable development future (Ferraro et al., 2015). Poverty, inequality, starvation, access to water, violent conflicts, deforestation, ocean acidification, climate change, and biodiversity loss, all of which look to be growing, appear to lack suitable answers at this time (Griggs et al., 2013; Whiteman et al., 2013). Unsettlingly, some specialists assert that the earth's life support system is in danger because some vital thresholds have already been crossed (Steffen et al., 2015). In view of these challenges, there are urgent calls for joint efforts to lessen the corresponding effects on world peace, stability, and prosperity in light of these problems (George et al., 2016).

The European Union (EU), the United Nations (UN), and many nations are looking for solutions to address these enormous difficulties (Scherer & Voegtlin, 2020). Many of these projects, the United Nations Global Compact (UNGC) being a famous example, seek to engage corporations as active players and to encourage their collaboration with public and civil society actors to promote sustainable development (Rasche et al., 2013;

Voegtlin & Pless, 2014). However, CSR reporting activity is not beneficial for companies unless a meaningful disclosure of sustainability information is made (Anwar & Malik, 2020).

Overall, the grand challenges facing humanity require urgent and coordinated action from all stakeholders, as they have profound implications for the sustainable development of the planet and the well-being of present and future generations. This research was done to determine the efficacy of a novel form of CSR reporting in addressing the great challenge. This is a question that has been raised for a long time, and a new response is required now since the current global challenge can no longer be underestimated.

## LITERATURE REVIEW

### Theories on Corporate Social Responsibility Disclosures (CSR)

According to (Omran & Ramdhony, 2015), the CSR is founded on four theories: Legitimacy Theory, Stakeholder Theory, Social Contract Theory, and Signalling Theory. Together, these four theories provide a framework for understanding the motivations and drivers behind CSR disclosures and highlight the importance of considering the interests of various stakeholders when making business decisions. Furthermore, (Meutia et al., 2012) argue that Enterprise Theory which was modified to Shari'ah Enterprise Theory could also be the basis for new form of CSR.

#### *Legitimacy theory*

This theory suggests that companies have a social contract with society and that they need to maintain a positive reputation in order to maintain their legitimacy (Adler et al., 2018; C. M. Deegan, 2019). Socially conscious businesses are more likely to be taken seriously by stakeholders, which increases their chances of winning their support. Thus, companies attempt to justify their business behavior by engaging in CSR reporting in order to get societal acceptance (societal approach) and thereby ensure their survival (Omran & Ramdhony, 2015).

#### *Stakeholder theory*

This theory proposes that companies have a responsibility not only to their shareholders but also to other stakeholders, such as employees, customers, suppliers, and the community at large (Ramdhony, 2018). Stakeholders have a vested interest in the company's activities, and companies need to take their interests into account when making decisions (Omran & Ramdhony, 2015). Due to the stakeholder theory, companies are required to publish their CSR. The laws and rules of the nation in which the company operates will determine whether or not it is required for a corporation to declare its CSR efforts. For several types of businesses that provide environmental and social impact, reports are required by law in some nations to declare their CSR activities in their annual reports. In other nations, making these disclosures might be optional.

### ***Social contract theory***

According to this theory, businesses have a duty to deal with societal problems and advance the common interest. Companies are expected to act responsibly toward a society in return for the societal benefits they obtain. The historical roots of social contract theory can be found in (Hobbes, 1946), (Rousseau, 1968), and (Locke, 1986). (Donaldson, 1982). They contend that there is an unspoken social compact between business and society and that this agreement entails some indirect responsibilities on the part of the business. It is acknowledged expressly that social contract thinking is a type of post-conventional moral reasoning (Rest et al., 1999). (Donaldson & Dunfee, 1994) suggest an integrative social contract theory as a means for managers to make ethical decisions as a further extension of the social contract theory. The societal method contends that businesses have obligations to society, of which they are an essential component.

### ***Signalling theory***

According to the signalling theory, firms have an incentive to openly disclose information to the capital market because: Voluntary disclosure is crucial for companies to compete successfully in the market for risk capital (Omran & Ramdhony, 2015). According to this theory, businesses participate in CSR initiatives to demonstrate to stakeholders their good traits, such as their dedication to moral behavior, excellence, and long-term success. Companies can strengthen their image and signal their good qualities by participating in CSR activities. This can result in advantages like a rise in customer loyalty, investor support, and employee satisfaction. This is consistent with numerous studies that demonstrate how a company's value can increase if it willingly discloses (signals) personal information about itself in a way that is credible and lowers uncertainty for outsiders (i.e., CSR) (Connelly et al., 2011; Mahoney & Goerts, 2006)

### ***Shari'ah Enterprise Theory***

(Meutia et al., 2012) argue that Enterprise Theory, which emphasizes the role of the organization in creating and sustaining social and economic value, can also be applied to the context of Shari'ah-compliant enterprises. Shari'ah Enterprise Theory (SET) posits that enterprises that operate in accordance with Islamic principles have a social responsibility to create value for all stakeholders, not just shareholders. In the context of Shari'ah-compliant enterprises, Corporate Social Responsibility Disclosure (CSR) can be seen as a way for companies to communicate their commitment to meeting their social responsibility obligations to their stakeholders. CSR can take many forms, including disclosures about environmental impacts, labor practices, community engagement, and other areas of corporate social responsibility.

### **The Grand Challenge**

The Grand Challenges (GC) are enormous social and environmental problems that transcend national boundaries and have (potential or actual) detrimental effects on vast populations. (Ferraro et al., 2015; George et al., 2016). Global warming, ocean acidification, poverty, and inequality are notable examples. These problems are intricate,

and there are no simple solutions. Not only international organizations, such as the United Nations, are concerned about these colossal problems (United Nations, 2019), but also private actors like corporations, trade associations, and civil society actors like NGOs (Ferraro et al., 2015; George et al., 2016; Nilsson, 2017).

### **Sustainable Development**

The term Sustainable Development (SD) can be defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (United Nations, 1987). Modern views of sustainable development promote three tenets: environmental integrity, social equity and economic prosperity (Scherer et al., 2013). It is a matter of contention whether or how these principles can be satisfied, with proposed answers ranging from slight changes to large social and economic upheavals of the current institutional and economic system. Overall, the goal of sustainable development is to achieve a balance between these three pillars, ensuring that economic, social, and environmental considerations are taken into account in decision-making and planning processes. This is essential for creating a future that is sustainable, equitable, and prosperous for all.

### **Responsible innovation**

While there are concise definitions of Responsible Innovation (RI), such as the oft-cited “taking care of the future through collective stewardship of science and innovation in the present”, tenets or guiding principles are a major component of RI definitions (Kokotovich et al., 2021). (Stilgoe et al., 2013) suggest four fundamental concepts of RI: anticipation, inclusion, reflexivity, and responsiveness. Responsible innovation was initially used in the context of risk assessments of scientific innovations, particularly in nanoscience and nanotechnology research, but it has since been applied to issues involving human subjects in research, socio-technical integration, intellectual property, and the ethical and social implications of scientific innovation in general (Owen et al., 2013).

Based on this knowledge, we come to the conclusion that RI should fulfill three kinds of responsibility (Voegtlin & Scherer, 2017): (1) the responsibility to do no harm (Lee & Petts, 2013), (2) the responsibility to do good (Stahl & de Luque, 2014) and (3) responsible governance (Scherer & Palazzo, 2011), which entails creating institutions, structures, and protocols on various levels to enable sufficient innovations (1) and (2). Thus, governance is a meta-duty and essential to attaining responsible innovation (Voegtlin & Scherer, 2017).

### **RESEARCH METHOD**

Various methods may be employed to address the research questions. The method or model is typically referred to as the paradigm. Theories are utilized to provide explanations, whereas paradigms provide methods for seeking explanations (Kankam, 2019). Each paradigm possesses its own strengths and shortcomings, as well as distinct scientific objectives. In the majority of cases, positivist paradigms are used to test hypotheses in response to the formulation of research topics. In this study, however, the

hypothesis test is inappropriate for achieving the research aims; hence the author does not employ the positivist paradigm.

In accounting research, there are five paradigms, namely positivism, interpretive, critical, postmodernism, and spiritualism (Triyuwono, 2013). Spiritualism is the most recent accounting paradigm that opposes the standard western paradigm. This paradigm employs a qualitative method. This paradigm does not preclude the use of other paradigms; a researcher should be able to embrace paradigms as complementary paradigms, sometimes known as multiparadigm.

The objective of the spiritualist paradigm study is to increase faith in the divine. The ensuing science is then of great benefit. For instance, the spiritualist idea of accounting earnings will raise users' understanding of the divine. As with the concept of sharia accounting, this can occur if the profit is not understood as only material but also spiritual. Spiritualist paradigm researchers will continue to pursue the development of knowledge that strives to expand divine awareness. This paradigm is also utilized in this study, which seeks a new alternative to corporate social responsibility, namely corporate social responsibility based on shari'ah.

In this study, the approach employed was the study of spiritualist ideas, with literature as the study object. This methodology is also known as a literature review. Review or study of literature is not limited to an examination of writing (Meutia, 2010), as literature itself is a written work that represents the idea or product of thought of a person or group of specialists in the area. The purpose of a literature review is to identify gaps in knowledge, synthesize existing research, and provide a comprehensive overview of the state of knowledge on a particular topic. This can help researchers to develop new hypotheses or research questions, refine existing theories, and design new research studies (Foss & Saebi, 2017).

This paper will compare the existing theories that are the basic concepts of CSRD and then analyze them with spiritualist paradigm intuition and reasoning to find answers for the new form of CSRD that could be the solution of the grand challenge. By combining the insights of the existing theories of CSRD with the spiritualist paradigm, the paper aims to develop a new form of CSRD that is more holistic, inclusive, and sustainable. This new form of CSRD would address the grand challenge of creating a more just, equitable, and harmonious world, where the material and spiritual well-being of all beings are respected and protected.

## RESULTS AND DISCUSSION

### Theory Comparison Results

The stakeholder theory acknowledges that some select groups within the society are more powerful than others, whereas the legitimacy theory considers society as a whole. The legitimacy theory and stakeholder theory make sense for specialized sectors like CSR accounting, intellectual capital, and environmental disclosure research (Sharma & Singh, 2013). The application of these two theories will rely on the CSR disclosures' identified user group, even though they are complementary rather than rival theories.

Legitimacy theory focuses on the overall societal context within which an organization operates and seeks to ensure that the organization's actions are seen as socially responsible and acceptable by its stakeholders. In contrast, stakeholder theory recognizes that different groups or individuals have different levels of power and influence on an organization, and therefore, they need to be considered differently in the decision-making process. Stakeholder theory emphasizes the importance of identifying and satisfying the needs and interests of all stakeholders rather than just shareholders or owners.

Specialty fields like CSR accounting, intellectual capital, and environmental disclosure studies are closely related to both legitimacy theory and stakeholder theory. CSR accounting involves the measurement and reporting of an organization's social and environmental performance to its stakeholders, which is consistent with the goals of both legitimacy theory and stakeholder theory. Intellectual capital refers to the intangible assets that an organization possesses, such as its knowledge, skills, and expertise, which are important for satisfying the needs of various stakeholders. Environmental disclosure studies focus on the communication of an organization's environmental policies and practices to its stakeholders, which is a crucial aspect of maintaining legitimacy and satisfying stakeholder expectations. Overall, these specialty fields contribute to the broader goals of both legitimacy theory and stakeholder theory by helping organizations to maintain their social responsibility and satisfy the needs and interests of their stakeholders.

The legitimacy is derived from society as a whole, not from investors (Junior et al., 2014). When companies have been previously accused of unethical practices that have impacted society as a whole, CSR studies based on legitimacy will be appropriate. Examples include (Costanza & Patten, 1995) and (C. Deegan & Rankin, 1996), which investigated companies successfully prosecuted by environmental protection authorities. Also compatible with the legitimacy theory are studies conducted in multiethnic/religious nations where income disparity and unequal access to opportunities exist between various societal groups (Mahadeo et al., 2012).

In contrast, the stakeholder theory appears to be most applicable to multinational corporations operating in developing nations. The company can direct its CSR disclosures toward the stakeholders it wishes to manage in order to establish the desired relationship with those stakeholders (Bushman & Landsman, 2010). Due to the prevalence of influential Western consumers (stakeholders), the majority of CSR studies conducted in Bangladesh (Rashid, 2015) utilize the stakeholder approach. The stakeholder theory is a useful framework for multinational corporations operating in developing countries because it recognizes that businesses have a responsibility to a wide range of stakeholders, including local communities, employees, customers, suppliers, and investors. In developing countries, stakeholders often have less power and influence compared to multinational corporations, and this power imbalance can lead to negative social and environmental impacts.

By adopting the stakeholder theory, multinational corporations can focus on managing relationships with different stakeholder groups, which can help to mitigate

negative impacts and build trust and credibility with local communities. CSR disclosures can be targeted toward specific stakeholder groups, highlighting the company's efforts to address their concerns and needs. This can help to build stronger relationships with stakeholders and promote more sustainable business practices.

In Bangladesh, where many multinational corporations operate, the stakeholder theory has been widely adopted in CSR studies. This is due to the existence of powerful buyers (stakeholders) from Western countries who have a significant influence on the local market. Multinational corporations operating in Bangladesh have a responsibility to address the concerns and needs of local stakeholders, as well as those of powerful buyers from Western countries. By adopting the stakeholder theory, multinational corporations can better manage their relationships with these different stakeholder groups and promote more sustainable and socially responsible business practices.

Overall, the stakeholder theory is a useful framework for multinational corporations operating in developing countries, as it recognizes the importance of managing relationships with different stakeholder groups and promoting more sustainable and socially responsible business practices. By adopting this approach, multinational corporations can build trust and credibility with local communities and promote more sustainable and socially responsible business practices.

Where private property rights and contracts between individual decision-makers are enforced impartially, where individuals may trade with others across the street, the state, or in other countries, and where the government does not create frictions between economic players in the marketplace for ideas, goods, and services, it is not surprising that the productive capacity of organizations is higher in developed economies/countries (Dunfee, 2006).

Social contract theory is a philosophical concept that describes the relationship between individuals and the state and how this relationship should be governed. While it may have some implications for organizations, it is not a specific framework for managing corporate social responsibility (CSR) in organizations.

However, assuming that the term "social contract theory" refers to the social exchange theory, which is a framework for understanding social behavior in organizations, it is true that it is mostly suitable for organizations working in developed economies or countries. This is because social exchange theory is based on the assumption that organizations are rational entities that seek to maximize their self-interest and that individual decision-makers within the organization engage in a cost-benefit analysis before engaging in social exchanges.

In developed economies, private property rights and contracts between individuals are enforced in an unbiased fashion, and individuals can trade with others across different geographic locations and markets without significant barriers. This creates an environment in which social exchanges can occur more easily, as there are fewer frictions or barriers to entry. This can enhance the productive capacity of the market and provide opportunities for organizations to engage in socially responsible behavior.

However, it is important to note that social exchange theory may still be applicable in developing economies or countries, although it may require adaptations to account for

local contexts and cultural norms. In such contexts, social exchanges may occur within a more complex social and economic environment and may require different types of social capital or trust-building mechanisms to facilitate effective exchanges. Overall, while social exchange theory may be more applicable in developed economies or countries where social exchanges occur more easily, it can still provide a useful framework for managing CSR in organizations operating in a range of contexts, including developing economies or countries.

In addition, it has been utilized to describe voluntary disclosure in corporate reporting. Firms signal certain information to investors to demonstrate that they are superior to other firms on the market in order to attract investments and improve their reputation (Verrecchia, 1983). CSR is one of the signalling methods by which firms disclose more information than is required by law or regulation in order to demonstrate their superiority (Campbell et al., 2001). The signalling theory is better suited to a situation where firms are competing for resources (Thorne et al., 2014). A company that wishes to differentiate itself from its competitors will engage in CSR practices that cannot be readily replicated by others. In reporting on CSR, it is also essential that the signal reaches the intended audience.

Signalling theory suggests that firms engage in a voluntary disclosure to signal certain information to investors and other stakeholders, such as their commitment to CSR. By disclosing more information than is required by law, firms can signal their superior quality and differentiate themselves from competitors. This is especially important in situations where firms are competing for resources, as they need to stand out and attract investments.

To be effective, the signal needs to be received by the target audience, which is why it's important for firms to report on their CSR practices. By doing so, they can demonstrate their commitment to social and environmental responsibility and build a favourable reputation among investors, customers, and other stakeholders. This can lead to increased trust, loyalty, and support, which can ultimately benefit the firm's financial performance.

According to (Meutia et al., 2012), CSRD can be viewed as a manifestation of the Shari'ah Enterprise Theory (SET) principles, which emphasize the social responsibility of enterprises to create value for society as a whole in addition to creating value for shareholders. By disclosing their CSR activities, Shari'ah-compliant businesses can demonstrate their commitment to these principles and build trust with their stakeholders, which will ultimately contribute to the company's long-term success and sustainability.

These five theories are Legitimacy Theory (LT), Stakeholder Theory (ST), Social Contract Theory (SCT), Signalling Theory (SNT), and Shari'ah Enterprise Theory (SET). We argue that these five theories are the basis for CSRD that is currently applied. The results of the analysis using the spiritualism paradigm that we carried out produced the following results:

Table 1. Theory of CSRD Comparison Results

Dimension	LT	ST	SCT	SNT	SET
Responsibility	The company is responsible to society.	The company is responsible to stakeholders.	Companies are expected to act responsibly toward a society in return for the societal benefits they obtain.	The company is responsible to stakeholders.	The company is responsible to stakeholders, including God.
Goals	The manager runs the company according to the rules that apply in society.	Managers run companies with the main orientation of stakeholder welfare.	Managers run companies with the main orientation of profit.	Managers manage businesses with a primary focus on profit.	Running the company according to God's expectations.
CSR Requirements	Disclosure of CSR is mandatory by considering the rights of the community.	Companies reveal CSR as a tool to communicate with stakeholders.	Businesses have a duty to deal with societal problems and advance the common interest.	Companies have an incentive to openly disclose information to the capital market because voluntary disclosure is crucial for companies to compete successfully in the market for risk capital	Social concern is high due to the incorporation of God into business operations and CSR disclosure to broader stakeholders.

Source: Data processed by researchers, 2023

Furthermore, according to (Meutia et al., 2012), the characteristics of CSRD are as follows, in accordance with the Shari'ah Enterprise Theory: (1) Disclosure of social responsibility is a sort of human accountability to God, with God's approval as the ultimate objective. (2) Disclosure of social responsibility must serve to inform all stakeholders and comply with its commitments to all stakeholders. (3) The existence of social responsibility disclosures is obligatory from the perspective that an accountable corporate is a tool for achieving the objectives of sustainable development. (4) Social responsibility disclosure should encompass both the material and spiritual dimensions associated with the interests of all parties involved. (5) Social responsibility disclosure should include both qualitative and quantitative information.

### CSRD Using SET

#### *The company is responsible to stakeholders, including God*

Disclosure of social responsibility is a sort of human accountability to God, with God's approval as the ultimate objective. While it is true that some individuals may view disclosure of social responsibility as a form of accountability to God or a higher power, it is important to note that social responsibility and sustainability are primarily driven by the desire to make a positive impact on society and the environment, rather than religious or spiritual motivation.

Disclosure of social responsibility must serve to inform all stakeholders (direct, indirect, and natural) of the extent to which the institution has complied with its commitments to all stakeholders. This is done in an effort to comply with human accountability. The goal of disclosing social responsibility is typically to increase transparency and accountability for an organization's actions, as well as to demonstrate a commitment to ethical, social, and environmental principles. This may include disclosing information about the organization's efforts to reduce its environmental footprint, support local communities, promote diversity and inclusion, or ensure ethical business practices. These disclosures are often made to various stakeholders, such as customers, employees, investors, and regulators, with the aim of building trust and maintaining a positive reputation.

The existence of social responsibility disclosures is obligatory from the perspective that an accountable corporate is a tool for achieving the objectives of sustainable development. While some individuals or organizations may view their social responsibility efforts as being ultimately accountable to a higher power, the primary objective of such efforts is to create a positive impact in the world and meet the expectations of stakeholders. Ultimately, the motivation behind the disclosure of social responsibility varies from one organization to another and may be influenced by a range of factors, including values, ethics, legal requirements, and business strategy.

Social responsibility disclosure should encompass both the material and spiritual dimensions associated with the interests of all parties involved. Disclosure will be based on the consideration of public interest. The idea that social responsibility disclosure should encompass both material and spiritual dimensions is a perspective that some individuals and organizations may hold, particularly those with a strong emphasis on values and ethics. While material aspects of social responsibility, such as environmental impact and labor practices, are often the focus of disclosure, spiritual or ethical considerations may also be taken into account by some organizations, particularly those with religious or philosophical values.

However, it is important to note that disclosure of social responsibility should ultimately be based on the consideration of public interest. This means that the information disclosed should be relevant and meaningful to stakeholders, including customers, employees, investors, and the broader community. In general, social responsibility disclosures should provide a clear and accurate picture of an organization's social, environmental, and ethical practices, with the aim of increasing transparency and building trust with stakeholders.

The decision of what information to disclose should be based on an assessment of the most significant social responsibility issues facing the organization, as well as the priorities and concerns of stakeholders. This may involve consultation with stakeholders, including customers, employees, and community representatives, as well as a thorough analysis of the organization's impacts on society and the environment. Overall, the disclosure of social responsibility should be seen as a way to increase transparency, accountability, and trust with stakeholders and should be based on a consideration of public interest and the most significant social responsibility issues facing the organization.

Social responsibility disclosure should include both qualitative and quantitative information. Qualitative information provides a narrative that helps stakeholders to understand an organization's approach to social responsibility, including its values, policies, and practices. This may include descriptions of the organization's social and environmental goals, its approach to sustainability, and its commitments to ethical business practices. Qualitative information may also describe the organization's relationships with its stakeholders and the communities in which it operates.

Quantitative information, on the other hand, provides measurable data that helps stakeholders to assess an organization's performance in relation to its social responsibility goals. This may include data on an organization's environmental impact, such as greenhouse gas emissions, water usage, and waste generation. It may also include data on social impact, such as employee diversity, community investment, and customer satisfaction. Financial information may also be included to help stakeholders understand the costs and benefits of an organization's social responsibility initiatives.

By providing both qualitative and quantitative information, an organization can provide a comprehensive picture of its approach to social responsibility and demonstrate its commitment to transparency and accountability. This can help to build trust and strengthen relationships with stakeholders and can also help to identify areas for improvement and further action. Overall, social responsibility disclosure should be tailored to the needs and interests of stakeholders and should include a balance of qualitative and quantitative information to provide a complete picture of an organization's social responsibility performance.

### ***Running the company according to God's expectations and with the concept of God***

We believe that CSRD based on Shari'ah Enterprise Theory (SET) will complete it to fully achieve this objective. With this concept, the corporate social concern is high, and CSR disclosure to wider stakeholders because it involves God. SET is a business framework that integrates Islamic principles with modern business practices, and it emphasizes the importance of social responsibility and ethical behavior in the conduct of business. As such, CSRD based on SET could help to foster a greater sense of social responsibility and ethical behavior among businesses operating within an Islamic framework.

One of the key features of SET is the idea of accountability to God, which is seen as the ultimate objective of business activity. This accountability is not just limited to financial performance but also extends to social and environmental performance. By integrating this spiritual dimension into business practices, SET can help to promote a greater sense of social responsibility and ethical behavior among businesses, which could lead to more comprehensive and meaningful CSRD.

CSRD based on SET could be more extensive and encompassing because it involves not only the organization's internal stakeholders but also external stakeholders. The notion of accountability to God would necessitate that the organization not only comply with the legal requirements of the society in which it operates but also engage in social responsibility practices that benefit the wider society.

In addition, by promoting transparency and accountability in social responsibility practices, SET could help to build trust and credibility with stakeholders, which could lead to greater social and economic benefits. Overall, CSRD based on SET could help to foster a greater sense of social responsibility and ethical behavior among businesses operating within an Islamic framework, which could lead to more comprehensive and meaningful CSRD and greater social and economic benefits for all stakeholders.

### **Shari'ah CSRD for RI to overcome The Grand Challenge**

Responsible Innovation (RI) must satisfy the following three categories of responsibility (Voegtlin & Scherer, 2017): (1) the responsibility to do no harm (Lee & Petts, 2013), (2) the responsibility to do good (Stahl & de Luque, 2014) and (3) responsible governance (Scherer & Palazzo, 2011), which involves establishing institutions, structures, and procedures on multiple levels in order to facilitate innovations that suffice (1) and (2). Thus, governance is a meta-responsibility and the key to responsible innovation (Voegtlin & Scherer, 2017).

We argue that CSRD based on SET can align with the three types of responsibility for RI, and it can demonstrate an organization's commitment to ethical behavior, social responsibility, and responsible governance. By doing so, organizations can build trust and credibility with stakeholders and promote more meaningful and comprehensive CSRD. Firstly, the responsibility to do no harm is a fundamental aspect of social responsibility, and it is in line with the Islamic principles of SET. Islam emphasizes the importance of avoiding harm to oneself and others, and this extends to the conduct of business. CSRD based on SET can demonstrate an organization's commitment to this principle by disclosing information on its efforts to minimize negative impacts on the environment and society. Secondly, the responsibility to do good is also emphasized in SET. Islam emphasizes the importance of giving back to the community and engaging in social responsibility practices. CSRD based on SET can demonstrate an organization's commitment to this principle by disclosing information on its social responsibility initiatives, such as charitable donations, community engagement, and ethical business practices.

Finally, responsible governance is a key aspect of achieving responsible innovation, as it involves establishing institutions and procedures that promote ethical behavior and social responsibility. SET emphasizes the importance of ethical behavior and social responsibility in the conduct of business, and it provides a framework for organizations to achieve this through a combination of spiritual and practical guidance. CSRD based on SET can demonstrate an organization's commitment to responsible governance by disclosing information on its governance structures, policies, and procedures related to social responsibility.

### **CONCLUSION**

We conducted on five theories that are the basis for CSRD, namely Legitimacy Theory (LT), Stakeholder Theory (ST), Social Contract Theory (SCT), Signalling Theory (SNT), and Shari'ah Enterprise Theory (SET). We argue that SET is the most

comprehensive theory that is suitable for responsible innovation to overcome the grand challenge. We conducted this study using the most current paradigm, which is the spiritual paradigm proposed by (Triyuwono, 2013).

Based on the findings of this theoretical comparison of CSR, CSR based on the Shari'ah Enterprise Theory (SET) can propose a new form of CSR that incorporates God into the norms and goals of companies conducting business. Shari'ah Enterprise Theory (SET) is a business theory founded on Sharia law. This theory highlights the significance of corporate social responsibility and adherence to sharia principles in business operations.

In the context of CSR (Corporate Social Responsibility) or CSR (Corporate Social Responsibility and Development), SET suggests that businesses must consider the social and environmental impacts of their business activities and take measures to mitigate negative impacts and increase positive impacts. In this case, if CSR adheres to SET, the company is accountable not only to its shareholders and employees but also to God. This can be accomplished by adhering to Sharia principles, including justice, honesty, trust, and social responsibility.

It is essential to observe, however, that the use of SET in CSR does emphasize not only religious aspects but also the significance of corporate social responsibility in general. Therefore, CSR, founded on SET, can contribute positively to society and the environment, as well as improve long-term company performance.

This study is limited by the researcher's subjectivity, which has a significant impact on the outcome of proposing a new form of CSR to address humanity's grand challenges. Nonetheless, because this study employed a qualitative method that permits subjectivity, this limitation is not as significant. This study employs a non-mainstream paradigm and critical theory methodology in order to extend the theory and concepts of social responsibility.

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