





Identification of Practical Indicators for Social Auditing in Loan Disbursement in Banks and Its Impact on Reducing Social Financial Crises in Society

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ABSTRACT

Objective: The aim of this study is to explore green research and development (R&D) in the home appliance industry.

Methods and Materials: This research is applied in nature, and the data collection method is descriptive-survey. Initially, by reviewing the literature and using qualitative content analysis, 30 factors were extracted as indicators for green development and formulation, categorized into five dimensions: green management, product and stakeholder performance, internal environment management, green innovation, and energy and resource consumption management. In the second stage, the fuzzy Delphi technique was employed, with a two-stage survey conducted among 15 experts selected through purposive sampling to achieve group consensus and filter the findings from the first stage. Finally, to assess the opinions of employees in the home appliance industry regarding green R&D indicators, a questionnaire was distributed among 170 employees, selected through Cochran's formula and simple random sampling. The results were analyzed using SPSS software and a one-sample t-test.

Findings: The findings showed that all these indicators were significantly identified as green R&D indicators in the home appliance industry at a 95% confidence level. Based on the results, the product design improvement indicator, with an average score of (4.18), received the highest rating from employees. This was followed by access to new markets and customers with an average score of (4.14), a green image of the company with an average score of (4.11), green product innovation with an average score of (4.10), and enhancing the company's green position with an average score of (4.02), respectively.

Conclusion: The findings highlight the significance of improving product design, accessing new markets, and promoting a green company image as crucial factors for achieving sustainable development.

Keywords: Social auditing of banking activities, social financial crises, grounded theory.

1 Introduction

Social auditing aims to determine how effective an organization's social performance has been. In other words, social responsibility auditing is an independent assessment of an organization's performance, reporting on the achievement of social objectives by organizations. Essentially, the goal of social auditing is to hold companies accountable for their impacts on society and the environment and to conduct annual social audits, much like annual financial audits. In practice, social auditing is a method through which companies demonstrate their achievement of economic, social, and environmental goals. More broadly, social auditing can be seen as a process that enables organizations to evaluate their performance in relation to societal expectations and requirements (Batra, 1996; Bayat & Ali-Ahmadi, 2014; Breton, 2000).

One reality that companies, including banks, must accept to ensure their long-term survival in today's competitive and rapidly developing world is embracing their public and social responsibilities. In the current commercial and social era, companies will only succeed if they align their profit-driven mindset with meeting the needs of their socio-economic environment (De Oliveira Santini et al., 2024; Eklund, 2024). Corporate social responsibility generally refers to the voluntary activities undertaken by investors and businesses as effective and beneficial members of society. In other words, organizations are not only responsible for being efficient and profitable, but they are also responsible for serving the society in which they operate (Sulaeman, 2024; Wahdi, 2024).

Since there is no standard framework or model regarding banks' social activities upon which auditing standards for social responsibility can be established, as well as the absence of binding laws and regulations for their implementation, it is not feasible to subject banks to social audits and hold them accountable to society in this regard (Hanić & Smolo, 2022; Saberi & Samiei-Nasr, 2022). In such a scenario, banks refrain from fulfilling their social responsibilities. Even when they choose to act voluntarily, they do so according to their preferences, without adhering to any specific rules or regulations. This lack of standardization prevents competition among banks to meet their social responsibilities, as there are no measures, even descriptive ones, to assess how each bank performs in this respect (Fahreza, 2023).

In this regard, Blasri et al. (2020) found that the application of corporate social responsibility has a positive

impact on bank efficiency. However, this relationship depends on institutional contexts. Specifically, only in developed countries, where investor protection is high and there is a greater orientation towards stakeholders, does corporate social responsibility positively affect efficiency (Belasri et al., 2020).

Nowadays, media reports inform us that several Iranian banks have been ranked among the top 1,000 banks globally by the Basel Committee or Euromoney. In these rankings, more emphasis is placed on banks' assets, capital, and the amount of loans disbursed, while less attention is given to the banks' social responsibility towards shareholders, depositors, employees, and the economy. For instance, it is reported that a bank has disbursed the highest number of loans and achieved a high rank (Amran & Fauzi, 2017; Pirayesh & Salehi, 2018), but it is not mentioned in which sectors these loans were or should have been disbursed. Was a share of these loans allocated to production, industry, low-income segments of society, or youth marriage? It is also mentioned that a bank achieved the highest profitability, but it is not disclosed in which sectors, over what period, and at what cost this profit was generated, or whether achieving this profit harmed other sectors of the economy.

The formulation of standards and specific indicators for social responsibility in banking services and activities, which could be used to establish necessary laws and regulations and, through these laws, compel banks to fulfill their main duties, is of paramount importance. Such standards would enable the Central Bank to monitor banks' social performance in the national economy, audit their compliance with social responsibilities, and ensure accountability. The lack of such mandatory standards and regulations for monitoring banks' activities has led them to pursue short-term speculative activities, such as investing depositors' funds in real estate, foreign exchange, gold, stocks, and even importing cars and goods. These activities are aimed at generating quick, unearned profits, often leading to sudden market fluctuations due to the injection of liquidity, creating false demand, and causing sudden economic turbulence. This process contributes to inflation, the devaluation of national currency, and ultimately, financial and social crises, resulting in public dissatisfaction.

2 Methods and Materials

This research is applied in terms of its objective and is field-based in terms of data collection. In the qualitative section of the study, the statistical population consists of

banking and academic experts who hold a PhD in one of the fields of accounting, management, or economics. Using purposive sampling, semi-structured interviews were conducted with 19 of these experts to collect data. For data analysis in this section, grounded theory was employed, which involves three stages of coding: open coding, axial coding, and selective coding. Ultimately, a social auditing model for loan disbursement in banks was developed and designed.

In the quantitative section, the statistical population consisted of certified public accountants in the country in 2022. From this population, 336 individuals were randomly selected. Data were collected using a questionnaire designed by the researcher in consultation with supervisors and advisors. The questionnaire included 102 questions, with three questions allocated to each component. Specifically, for the causal conditions of the model, which consisted of five components, 15 questions were posed; for the central phenomenon, which included seven components, 21 questions were posed; for the strategies, which consisted of seven components, 21 questions were posed; for the intervening conditions, which included four components, 12 questions were posed; for the contextual conditions, which consisted of four components, 12 questions were posed; and finally, for the outcomes, which included seven components, 21 questions were posed.

In the quantitative section, structural equation modeling was used for data analysis and model validation, utilizing the Smart PLS and SPSS software.

3 Findings and Results

For data analysis in the qualitative section, the continuous comparative method by Strauss and Corbin (2008), also known as the grounded theory with a systematic approach, was used. This method includes three stages: open coding, axial coding, and selective coding. The grounded theory

approach is a type of qualitative research method that inductively employs a series of systematic procedures to generate a theory about the studied phenomenon. To present the research model, insights from 19 experts were utilized. In terms of gender, 15 were male, and 4 were female. Regarding age, 3 were under 35 years old, 4 were between 35 and 45 years old, and 12 were over 45 years old. All 19 participants held a PhD. Finally, in terms of work experience, 6 had between 10 to 20 years, and 13 had over 20 years of experience.

In the quantitative section, the views of 336 certified public accountants were considered. Among them, 56 were female and 280 were male. In terms of education, 136 held a master's degree, and 200 held a PhD. Regarding work experience, 86 had between 10 to 20 years, and 250 had over 20 years of experience. At the initial stage of the study, before conducting the interviews, six open-ended questions were designed. During the open coding stage, 650 codes were identified. Axial coding, the second stage of data analysis in grounded theory, was then conducted. At this stage, the relationships between other categories and the central category are realized in six dimensions: the central phenomenon, causal conditions, contextual conditions, intervening conditions, and outcomes. Ultimately, after extracting these six dimensions through the analysis of categories, subcategories, and concepts during open coding, axial coding, and selective coding, the research model was designed and formulated as follows.

After presenting the research model, the structural equation modeling method was used for model validation, utilizing Smart PLS software. A structural equation model consists of two components: a structural model that specifies the causal relationships between latent variables (constructs) and a measurement model that defines the relationships between latent variables and observed variables (questions, indicators, items, measures).

Figure 1

Final Research Model for Implementing Social Responsibility Auditing in Loan Disbursement in Banks

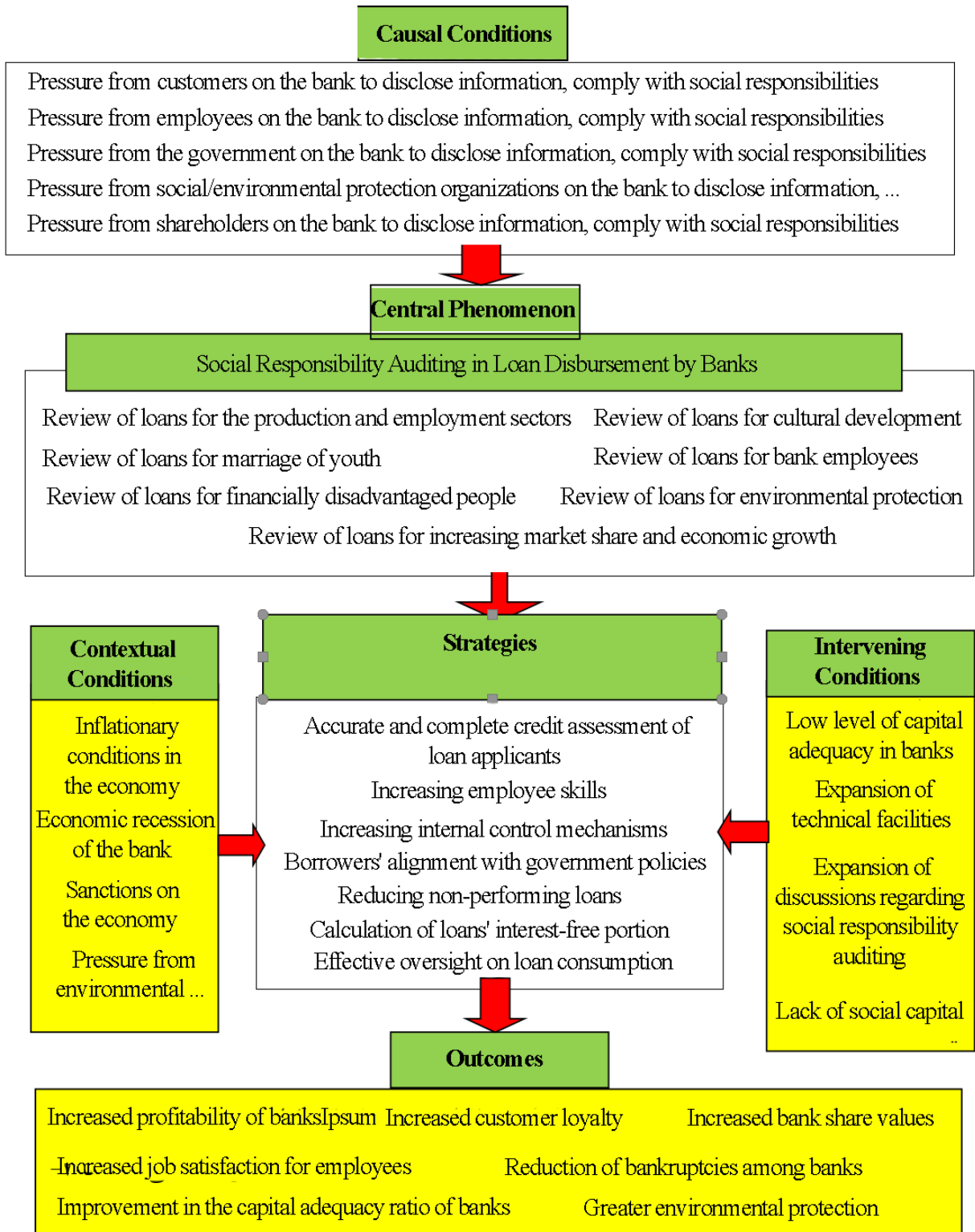


Figure 2

Path Diagram with Standardized Coefficients in the Final Model

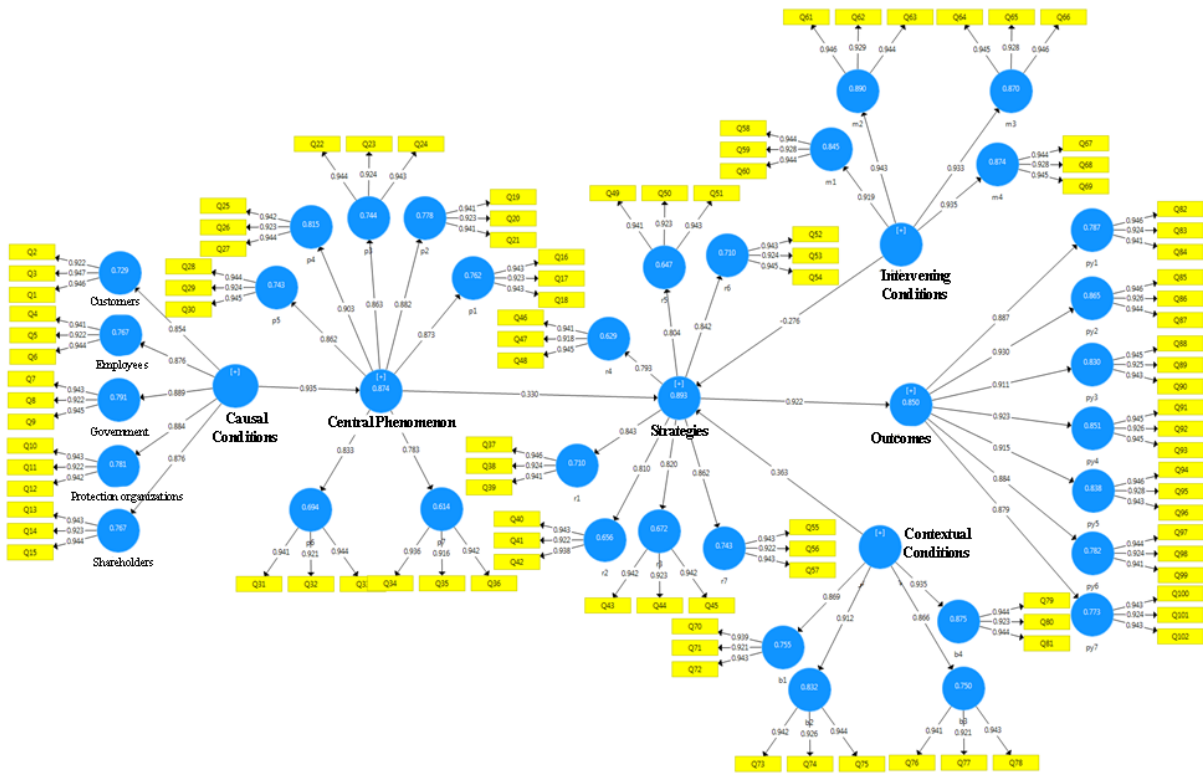
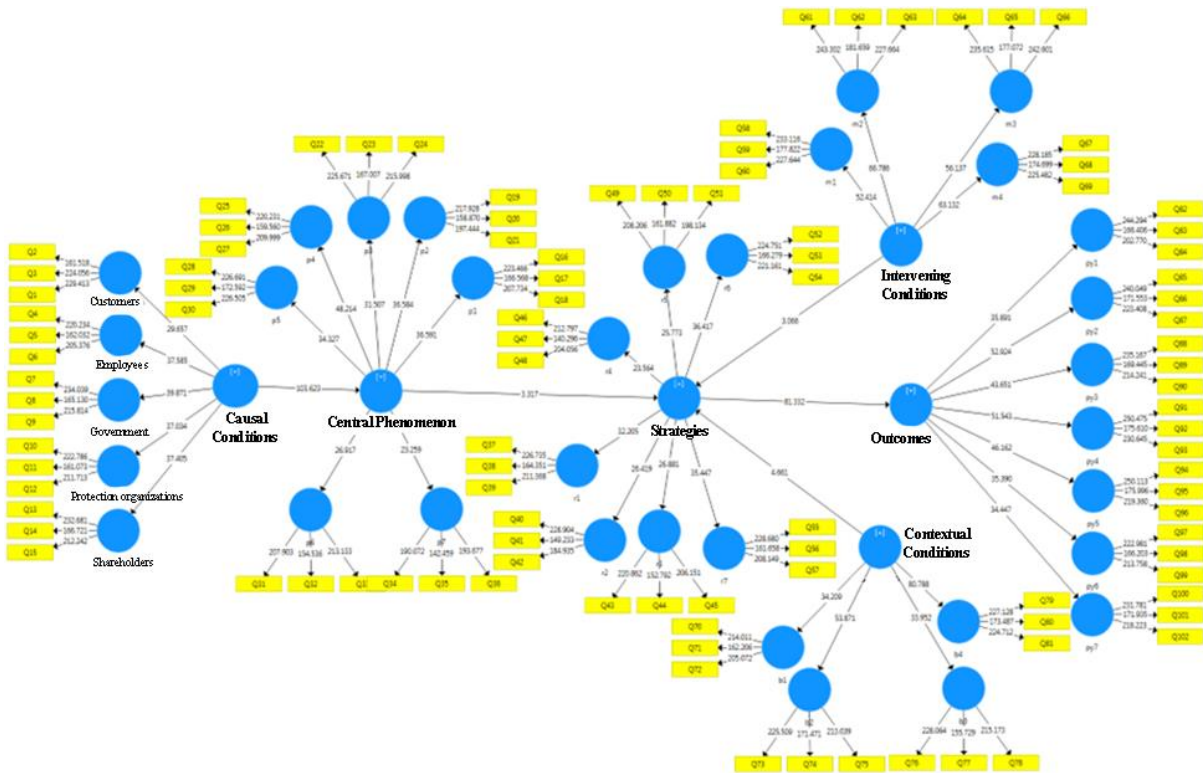


Figure 3

Path Diagram with t-values in the Final Model



The final structural model of the research is shown in Figure 2. This figure, the output of Smart PLS, presents a summary of the research model results under standard estimation. The t-statistic and bootstrap values used to assess the significance of relationships are shown in Figure 3.

The results indicate that all factor loadings are greater than 0.50, and all t-statistics are greater than 1.96. Therefore, the constructs have been correctly measured.

The outer (measurement) model was evaluated based on three indicators: convergent validity, composite reliability, and Cronbach's Alpha. A summary of the measurement model fit results is provided in Table 1.

Table 1

Evaluation of the Fit of the Research Measurement Model

Model Categories	Number of Items	AVE	Composite Reliability (CR)	Cronbach's Alpha
Causal Conditions	15	0.767	0.943	0.851
Central Phenomenon	21	0.736	0.951	0.862
Strategies	21	0.681	0.937	0.843
Intervening Conditions	12	0.870	0.964	0.872
Contextual Conditions	12	0.803	0.942	0.850
Outcomes	21	0.818	0.969	0.881

The Average Variance Extracted (AVE) indicates the correlation between a construct and its indicators, where a higher correlation means better fit. Fornell and Larcker suggest that convergent validity exists when AVE is greater than 0.50. Convergent validity also exists when the CR (Composite Reliability) is greater than 0.80, and CR must be greater than AVE to satisfy the condition for convergent validity. According to Table 1, since the AVE is greater than 0.50, convergent validity is confirmed. Additionally, since both Cronbach's Alpha and Composite Reliability for all variables are greater than 0.70, the reliability of all variables is also confirmed.

Inner Model Fit: In the inner model, the relationships between latent variables are evaluated.

The first criterion for assessing the inner model is to examine the collinearity of the variables, which is done using the tolerance index and variance inflation factor (VIF). A tolerance value of less than 0.20 (VIF higher than 5) indicates collinearity between variables. The results showed that the condition of non-collinearity was met.

Path Coefficients (B): The second criterion for evaluating the inner model is the path coefficients. To assess their significance, the bootstrap method was used. Path coefficients range from -1 to +1, with 0 indicating no linear causal relationship between two latent variables, a positive value indicating a direct relationship, and a negative value indicating an inverse relationship. The t-statistic is used to determine the significance of the path coefficient, with a t-value greater than 1.96 indicating significance. Once the correlations between variables are identified, a significance

test is conducted. In this study, the bootstrap method was used to obtain the t-statistic. In Figure 2, the t-values for evaluating the structural model are shown, and since all values on the paths are above 1.96, this indicates that the paths are significant, the structural model is appropriate, and all research hypotheses are confirmed.

According to these results, the effect size of causal conditions on the central phenomenon and strategies on outcomes, with values of 6.91 and 5.65, respectively, are larger than the other paths.

R-Squared (R²) Coefficient (Model Predictive Accuracy): The next criterion, the most common one for evaluating the inner model, is the R² coefficient, which indicates the model's predictive accuracy (how much of the dependent variable's variation is explained by the independent variable). The R² value ranges from [0, 1], with higher values indicating better model fit. The values 0.19, 0.33, and 0.67 are considered weak, moderate, and strong, respectively. As shown in Table 2, the R² values for outcomes (0.850), strategies (0.893), and the central phenomenon (0.874) are all strong.

Stone-Geisser's Q² (Model Predictive Power): The Q² index, introduced by Stone and Geisser (1975), assesses the model's predictive power for the dependent variables. This criterion is calculated using the Blindfolding procedure, where data points in the indicators of endogenous variables are omitted, and parameters are estimated based on the remaining points. A positive Q² value indicates a good model fit and appropriate predictive power. The results for this criterion are shown in Table 2 and are satisfactory.

Table 2*R² and Q² Values for Latent Variables*

Variable	R ²	Q ²
Central Phenomenon	0.874	0.622
Strategies	0.893	0.586
Outcomes	0.850	0.672

After evaluating the measurement and structural models, the overall model (the combination of measurement and structural models) must also be assessed. For this purpose, Tenenhaus et al. (2004) introduced the GOF index. In this study, the GOF value was found to be 0.730, which is greater than 0.36, indicating strong model fit.

To confirm the research hypotheses or validate the paths in the structural equation modeling approach (partial least squares method), the bootstrap method was used to obtain the t-statistic.

At the 5% error level, if the t-value from bootstrapping is greater than 1.96, the observed correlations (path coefficients, B) are significant. If t-values are greater than 1.96, it indicates the correctness of the relationships between constructs and, consequently, the confirmation of research hypotheses at the 95% confidence level. The results in Table 2 show that, with 95% confidence, causal conditions have a positive and significant impact on the central phenomenon, the central phenomenon has a positive and significant impact on strategies, intervening conditions have a negative and

significant impact on strategies, contextual conditions have a positive and significant impact on strategies, and strategies have a positive and significant impact on outcomes.

Hypothesis Six: Compliance with social responsibility in loan disbursement by banks is positively and significantly related to reducing social financial crises arising from bank activities in society.

Based on data analysis, the Spearman correlation coefficient between the two variables—compliance with social responsibility in loan disbursement by banks and reducing social financial crises arising from bank activities in society—was found to be 0.727 with a p-value of 0.001, which is less than the significance level. Therefore, at this level, the null hypothesis of no relationship is rejected, and it is concluded that there is a significant relationship between compliance with social responsibility in loan disbursement by banks and reducing social financial crises arising from bank activities in society. This relationship is positive and direct.

Table 3

Spearman Correlation Test Statistics for the Relationship Between Compliance with Social Responsibility in Loan Disbursement by Banks and Reducing Social Financial Crises Arising from Bank Activities in Society

Relationship	Correlation Coefficient	Significance	Number	Relationship Exists	Type of Relationship
Compliance with Social Responsibility in Loan Disbursement by Banks	0.727	0.001	336	Yes	Direct

4 Discussion and Conclusion

The aim of this study was to identify practical indicators for the effective implementation of social auditing in loan disbursement within banks and its impact on reducing social financial crises in society. In the qualitative section, which led to the development of the model, social responsibility auditing in loan disbursement by banks was identified as the central phenomenon. This type of auditing is conducted through the review and assessment of loan disbursements by banks across seven subcategories, including:

- Review of loans for the production and employment sectors,
- Loans for environmental protection,
- Loans for youth marriage,
- Loans for bank employees,
- Loans for financially disadvantaged groups,
- Increasing the bank's market share in loan disbursement,
- Loans aimed at cultural development.

In general, if banks prioritize loan disbursements to sectors such as production and employment, youth marriage,

sustainable and balanced development of the country, employee livelihood, environmental protection, development of underprivileged areas, support for the poor, and cultural and sports development, while providing low-interest and long-term loans, and also conduct thorough credit assessments of customers for loan disbursement and obtain valid collateral and guarantees in accordance with central bank regulations, it can be concluded that the banks have fulfilled their social responsibilities in loan disbursement.

In the quantitative section of the research, to validate the model of social auditing in loan disbursement by banks, structural equation modeling (SEM) was employed using the software Smart PLS and SPSS. In the outer model fit, all factor loadings were greater than 0.50, and the t-statistic was greater than 1.96. Additionally, the average variance extracted (AVE) for all constructs was more than 50%, indicating appropriate validity. Therefore, the constructs were correctly measured. Cronbach's Alpha and composite reliability for all constructs were above 80%, and composite reliability was greater than the average variance extracted, indicating appropriate reliability and consequently a good fit for the outer model. For the inner model fit, the first criterion was to check the collinearity of variables using the variance inflation factor (VIF). The results, presented in Table 3, show that the condition of non-collinearity was met. The second criterion for evaluating the inner model was the path coefficients, which range between -1 and +1. The bootstrap method was used to assess their significance. The t-statistic was used to evaluate the significance of the path coefficients, and all t-values were greater than 1.96. Given that all values along the paths were above 1.96, this indicates that the paths are significant, the structural model is appropriate, and all research hypotheses are confirmed.

The results showed that the causal conditions of the model have a positive and significant relationship with the central phenomenon. The central phenomenon has a positive and significant relationship with strategies, the contextual conditions have a positive and significant relationship with strategies, the intervening conditions have a negative and significant relationship with strategies, and the strategies have a positive and significant relationship with the model's outcomes. Additionally, two other criteria were used to evaluate the inner model fit: the R-squared (R^2) coefficient and the Stone-Geisser Q^2 criterion, both of which are calculated for dependent variables and indicate the model's predictive accuracy (how much of the dependent variable's variation is explained by the independent variable). As

shown in the findings, the Stone-Geisser criterion is positive, and the R^2 for outcomes is 0.850, for strategies is 0.893, and for the central phenomenon is 0.874, all of which are strong values. Consequently, the inner model also has a good fit. Finally, for overall model fit, the GOF (Goodness of Fit) index was used. As the results showed, the GOF value is 0.730, which is greater than 0.36, indicating a strong overall model fit for the research.

Authors' Contributions

All authors have contributed significantly to the research process and the development of the manuscript.

Declaration

In order to correct and improve the academic writing of our paper, we have used the language model ChatGPT.

Transparency Statement

Data are available for research purposes upon reasonable request to the corresponding author.

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Declaration of Interest

The authors report no conflict of interest.

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Ethical Considerations

In this research, ethical standards including obtaining informed consent, ensuring privacy and confidentiality were observed.

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