

**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
FACULTY OF BUSINESS**

**THE PRACTICE OF CORPORATE SOCIAL  
RESPONSIBILITY IN THE CASE OF ABYSSINIA AND  
AWASH TANNERIES**

**BY  
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## ACRONYMS

CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
DFID	Department for International Development
GTP	Growth and Transformation Plan
IDB	Inter-American Development Bank
MDGs	Millennium Development Goals
N.D.	No Date
NGO	Non-governmental Organizations
OVC	Orphans and Vulnerable Children
WBCSD	World Business Council for Sustainable Development
WBI	World Bank Institution

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## **ABSTRACT**

*This study explores the practice of Corporate Social Responsibility, focusing on Abyssinia and Awash Tanneries Addis Ababa, Ethiopia. In order to achieve its objective, the study has used questionnaires and semi-structured interviews to collect primary data. The study employed qualitative research design. Respondents of all stakeholders (creditor banks, employees, environment (environmental protection authority), and community (Bureau of Labor and Social Affairs)) were selected. Sample employees of 150 were selected as respondents. The data collected through questionnaires from managers (two general managers and three department managers) were summarized by using Likert scaling. A descriptive statistics (frequency and percentage) was used for summarizing and discussing employees' response. The study showed higher managers had a positive attitude towards Corporate Social Responsibility practice; the companies were engaged in corporate social responsibility practices; had a better concept of the same though there are still measures which should be undertaken. There was no specifically designed set of policies and principles in the organizations regarding corporate social responsibility. The companies' motives to engage in corporate social responsibility include increased reputation; companies could have the advantage of increased access to bank credit but not enhanced ability to attract skilled man power because of their involvement in corporate social responsibility practice. The study recommends that managers of the companies need attitudinal changes in favor of implementing and enhancing corporate social responsibility. Moreover, training has to be given for responsible personnel in the organizations by the Environmental Protection Authority. The companies need to have a specifically designed set of policies and principles about corporate social responsibility. Finally, the study has the limitation that it cannot be generalized to all tanneries because it was limited to only two companies and five of their stakeholders. Therefore, further study which includes other companies in other industries and all of their stakeholders was recommended.*

## **Chapter one Introduction**

This chapter presents the background of the study, the problem statement, objectives of the study, the scope of the study, and at last organization of the paper.

### **1.1 Background of the Study**

The concept of Corporate Social Responsibility (CSR) has a long and varied history. It is possible to trace evidence of the business community's concern for society for centuries (Carroll, 1999). During this long period, there have been different names as well as different definitions used. A survey of CSR education in Europe, which found 50 different labels for CSR modules, 40 different labels for CSR programs and numerous CSR synonyms, the most popular. Of which business ethics, corporate citizenship, sustainability or sustainable development, corporate environmental management, business & society, business & governance, business & globalization, and stakeholder management (Visser, 2006b), can be taken as an evidence for that.

From the different definitions given for the term, the one given by the World Business Council for Sustainable Development (WBCSD), and will be used for this study defined it as: *“Corporate Social Responsibility (CSR) is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development (WBI, 2003). “*

Corporate Social Responsibility (CSR) is a concept that has attracted worldwide attention and acquired a new resonance in the global economy. Heightened interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship (Jamali & Mirshak, 2007). While all businesses have an implicit set of inherent values, the number of businesses having formally written values and principles is rapidly increasing. These have become more and more explicit and provide the framework for corporate behavior beyond companies' legal obligations. At the same time, growing numbers



of companies have been adding environmental and social indicators to their economic and financial results in reports that are often entitled social reports or sustainability reports. This is part of the requirements for doing business in today's global economy (The World Business Organization, 2002).

The development of corporate social responsibility literature in the developed and developing countries has a big difference. For example, Bilal (2001) indicated that most of CSR studies conducted so far have been in the context of developed countries such as Western Europe, U.S., Australia, and that we still know very little about practices in ex-colonial, smaller, and emerging countries. As an evidence for this, a review of the CSR literature on Africa between 1995 and 2005 by Visser (2006a) (as cited in Visser, n.d.) found that only 12 of Africa's 53 countries have had research published in core CSR journals, with 57% of all articles focused on South Africa and 16% on Nigeria.

According to Visser (2006b), though there is corporate firms' complicity in political corruption, environmental destruction, labor exploitation and social disruption, there is also voluminous evidence of the benefits of business bringing capital investment, job creation, skills transfer, infrastructure development, knowledge sharing and social responsibility programs to countries throughout Africa. Despite these differences, there is a general agreement that the private sector remains one of the best placed institutions to make a significant positive contribution towards improving social, economic and environmental conditions in Africa.

The official development agencies are also taking a much more positive view of the development impacts of CSR. As the UK's Department for International Development (DFID) states, by following socially responsible practices, the growth generated by the private sector will be more inclusive, equitable and poverty reducing. Antonio Vivos of the Inter-American Development Bank (IDB) goes even further when he writes that CSR, by its very nature, is development done by the private sector and it perfectly complements the development efforts of governments and multilateral development institutions (Jenkins, 2005).

Even though what has been said by different proponents of corporate social responsibility including academicians and practitioners in official development agencies has truth on it, it all depends on how far the business firms are ready to commit themselves to accept and practice the principles. Thus, this study had addressed the practice of corporate social responsibility in the case of Abyssinia and Awash Tannery, Addis Ababa, Ethiopia.

## **1.2 Statement of the Problem**

Moir (2001) notes that whether businesses should undertake CSR and the forms of responsibility that should be taken depend upon the economic perspective of the firm under consideration. Those who adopt the neo classical view of the firm believe that the only social responsibilities to be adopted by business are the provision of employment and payment of taxes. This view is most famously taken to the extremes of maximizing shareholder values (Moir, 2001).

An alternative view of the firm is the behavioral/stakeholder theorists that view corporate social activity from the political aspects and noneconomic influences on managerial behavior (Moir, 2001). This might also be extended to examine personal motivations, such as the Chairman's personal preferences or alternatively some of the critical perspectives associated with the exercise of power. This approach has two identifiable strands of development. The first is associated with some form of moral or ethical imperative since business has resources; it is part of the role of business to assist in solving social problems. However this may be the views of the executives rather than the owners of the business. Apart from these differences in perspective, an empirical investigation by Bird and Hall (2007) revealed that there is little evidence to suggest that managers taking a wider stakeholder perspective will jeopardize the interest of its stockholders.

Despite the continuing debates over what role the businesses should perform in society, the view that businesses take a broader responsibility than economic alone has received wider support in a number of forms (Huq, Moyeen, & Nayak, 2010). As a matter of fact, a number of business firms are inclined to adopt the principles of CSR (Cetindamar & Husoy, 2007; Huq, Moyeen, & Nayak, 2010; Jamali & Mirshak, 2007). But, it is with a different perception and reasons. Allen and Husted (2006), for example, stated that institutional pressures, rather than

strategic analysis of social issues and stakeholders, are guiding decision-making with respect to CSR. The research by Kaler (2000) indicated that rising public expectations of morality in business lead to ever increasing moral commitments by business that then cause those expectations to rise still further. Many authors, on their side, often assert that both large as well as small businesses should integrate CSR in their businesses for no other reason but for the contributions that CSR investment may make to attain improved economic performance (Smith & Langford, 2009; as cited in Huq, Moyeen, & Nayak, 2010). Gholami (2011), for instance, asserted that the corporate and society have mutual dependence and the mutual dependence can create value for the business as well as society.

In addition, there is a difference in perception among firm managers. For example, a research conducted in Lebanon showed that all the executives interviewed adhered to a voluntary action or philanthropic type conception of CSR. The study reveals that, all companies consistently referred to philanthropic type activities and programs, with no mention of the importance of ethical conduct, legal compliance, or economic ones (Jamali & Mishrak, 2007).

The difference continues with researchers regarding the value creation of CSR activities to both the society and organization. The available literature reveals that there is a great deal of support consensus among researchers on the idea that CSR practices adds value to the organization through increased financial performance, profitability and better access to finance (Cheng, Ioannou, & Serafeim, 2011; Fagbemi & Uadiale, 2011; Rahman, n.d.). Nevertheless there is an opposite argument that advocates as companies cannot act in any wider interest than the interest of their shareholders to make profit, so that CSR is of limited use in creating social change and could undermine popular struggles for autonomy, democracy, human rights and environmental sustainability.

There is also an argument that since CSR is a vehicle for companies to prevent attempts to control corporate power and to gain access to markets, CSR is a problem not a solution (Fauset, 2006). The above theoretical and empirical frameworks tells us that even though there are debates regarding corporate responsibility towards the society, firms at different corners of the world are adopting CSR policies and are inclined to incorporate the broader society in their decisions. But, still there exists differences in adoption of its policies, the extent of practice,

how it is perceived by corporate managers, and reasons to incorporate CSR policies in their decision makings.

In the new millennium, Ethiopia has set the Millennium Development Goals (MDGs) which, among others, includes, achieving universal primary education, promoting gender equality and empower women, reducing child mortality, improving maternal health, Combat HIV/AIDS, malaria and other diseases, and ensuring environmental sustainability (United Nations Country Team, 2011). But, the achievement of these goals is not something which can be left totally to the government rather it needs the support and commitment of each and every one of the citizen and more importantly the cooperation of the big corporations through engaging in important developmental and social activities. The available literature and empirical investigations reveal that there are few studies that were conducted at the national level. But, there are no studies that were conducted at Abyssinia and Awash Tannery. Thus, this study has empirically explored the practices of CSR in case of Abyssinia and Awash Tannery in Addis Ababa, Ethiopia.

### **1.3 Research Questions**

The study examines the following specific questions:

- 1- To what extent the management and employees are clear with CSR issues?
- 2- What are the specific set of policies and principles related with the social responsibility of the companies?
- 3-How far are the selected companies' committed to practically implement CSR?
- 4- To what extent are the companies ready to respond to questions of CSR?
- 5- What possible benefits can the companies realize because of their involvement in CSR practice?

## **1.4 Objectives of the Study**

### **General Objective**

The general objective of this study was to explore the practice of corporate social responsibility in Abyssinia and Awash Tannery in Addis Ababa, Ethiopia.

### **Specific Objectives**

The following Specific objectives were identified;

- To examine the level of awareness of the management in selected business organizations towards corporate social responsibility;
- To identify whether the selected companies have specific set of policies and principles;
- To analyze how far the management of selected business organizations' committed to implement corporate social responsibility programs; and
- To analyze the possible benefits the company's realize because of their involvement in corporate social responsibility practice.

## **1.5 Research Method**

In line with the above research problem, research question and objectives, qualitative research approach is used. Data are collected by semi-structured questionnaires and interviews made with organizations representative directly involved with the study objectives. Descriptive statistical methods (frequency and percentages) were used to analyze data collected through aforementioned data collection technique.

## **1.6 Significance of the Study**

As it is indicated in different studies, the magnitude of research work in this area is less in developing countries in general (Bilal, 2001; Huq, Moyeen, & Nayak, 2010; Visser, 2006a; as cited in Visser, n.d. Besides, the works in Africa are concerned more on business ethics than corporate social responsibility practices (Visser, n.d.). Thus this research paper can enhance the

level of awareness about corporate social responsibility in the companies that are the focus of the study, and can also add value to the literature of corporate social responsibility in Ethiopia in particular, and add value to the knowledge of the subject. The study can also have significance to the community, government, environment and also shareholders/creditors in such a way that it can result in letting the business be more concerned about its overall responsibilities towards these stakeholders and act accordingly. Also, it can serve as a reference for future researchers in the area.

### **1.7 Scope of the Study**

This research was intended to explore the practice of corporate social responsibility. In doing so, the study was delimited to testing the attitude of top business managers. In addition, it was limited to the practices of CSR in case of Abyssinia and Awash Tannery in Addis Ababa, Ethiopia. Besides, though a business may have so many stakeholders, this study considered only four of them (creditors, employees, environment, and community) while testing CSR practices. Only two companies (Abyssinia and Awash Tannery) and four of their stakeholders were taken in to consideration because of time and cost specificity.

### **1.8 Organization of the Paper**

The study is present in the following five chapters:

The first chapter addresses introduction of the study, i.e., background, statement of the problem, objectives of the study, significance of the study, and scope of the study and organization of the paper. Literature review about what corporate social responsibility and its practices are presented in the second chapter of the study.

The third chapter focuses on the methodology of the study. This contains type and source of data, instruments of data collection, sample design and sample size, and data analysis technique.

The fourth chapter presents data analysis and discussion of the findings. Finally the conclusion and recommendation of the study are presented in the fifth chapter.

## **CHAPTER TWO LITERATURE REVIEW**

This chapter presents the related theoretical and empirical review about the attitude towards and practice of corporate social responsibility. In the theoretical review part, different theoretical aspects about attitude towards CSR and practice of CSR are presented; and in the empirical review part, the summary of similar and related studies is presented.

### **2.1. Theoretical Literature review**

#### **2.1.1. Historical Development of Corporate Social Responsibility (CSR)**

As indicated by Fredrick (1978) the idea of Corporate Social Responsibility (CSR), as we now understand the term began to take recognizable shape in the third decade of the twentieth century. By the mid 1920s, business representatives and executives were beginning to speak of the need for corporate directors to act as trustees for the interests, not just of stockholders, but other social claimants as well. Others had spoken of this possibility as early as 1913. Corporate philanthropy, the history of which stretched back to the 19th century, was accompanied by a growing belief that business and society were linked together in organic ways. These several timorous beginnings of social responsibility thinking suffered ups and downs during the depression decade of the 1930s and then were largely subordinated to the more urgent demands of World War II. By the 1950s, these long-smoldering ideas about businesses obligation to society burst forth with a renewed vigor that has carried them forward uninterruptedly to the present.

According to Carroll (1999), the concept of corporate social responsibility (CSR) has a long and varied history. It is possible to trace evidences of the business community's concern for society for centuries. Formal writing on social responsibility, however, is largely a product of the 20<sup>th</sup> century, especially the 1950's, 1960's and 1970's. Furthermore, although it is possible to see footprints of CSR thought throughout the world (mostly in developed countries), formal writings have been most evident in the United States, where a sizable body of literature has accumulated. In the 1990s, CSR continues to serve as a core construct but yields to or is transformed into alternative thematic frameworks.

Academics and practitioners have been striving to establish an agreed-upon definition of this concept for years. Davis (1960), as cited in Carroll (1991), suggested that social responsibility refers to businesses' decisions and actions taken for reasons at least partially beyond the firm's direct economic or technical interest. At about the same time, Eells and Walton (1961), as cited in Carroll (1991), argued that CSR refers to the "problems that arise when corporate enterprise casts its shadow on the social scene, and the ethical principles that ought to govern the relationship between the corporation and society. Boone and Kurtz (2005), as cited in Hudak (2008), defined social responsibility as "marketing philosophies, policies, procedures, and actions that have the enhancement of society's welfare as a primary objective".

In recent years, a broader and an all inclusive definitions have been given for the term. According to the world business council for sustainable development (WBCSD), Corporate Social Responsibility (CSR) is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development (WBI, 2003).

From the above research observed we can conclude that, even though what has been said by different proponents of corporate social responsibility including academicians and practitioners in official development agencies has truth on it, it all depends on how far the business firms are ready to commit themselves to accept and practice the principles. Thus, this study presents related theoretical studies and empirical studies in the first section and second section respectively.

## **2.2 Theoretical Frame work**

### **2.2.1. Corporate Social Responsibility Pyramid**

Theories regarding what the corporate social responsibility concept has to incorporate have been developed. From these theories the one developed by Carroll (1991), which he labeled as "the pyramid of corporate social responsibility", shown in Figure 2.1 has got greater acceptance by many academicians and researchers. This pyramid has four levels: Economic Responsibility,



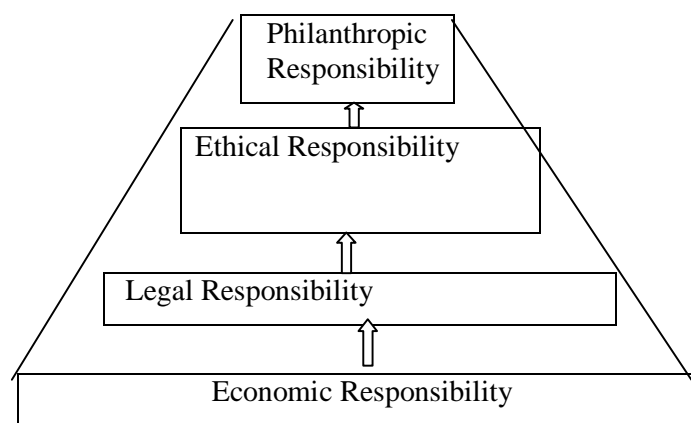
Legal Responsibility, Ethical Responsibility, and Philanthropic Responsibility and he also explained these concepts as follows:

### 2.2.2.1. Economic Responsibilities

Historically business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, business organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process. At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations. This responsibility incorporate statements like:

- It is important to perform in a manner consistent with maximizing earnings per share,
- It is important to be committed to being as profitable as possible
- It is important to maintain a strong competitive position
- It is important to maintain a high level of operating efficiency
- It is important that a successful firm be defined as one that is consistently profitable.

**Figure 2.1. Hierarchy of Corporate Social Responsibilities**



**Source: A. B. Carroll, "The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders," Business Horizons (July-August 1991): 39-48.**

### **2.2.2.2. Legal Responsibilities**

Society has not only sanctioned business to operate according to the profit motive; at the same time business is expected to comply with the laws and regulations promulgated by federal, state, and local governments as the ground rules under which business must operate. As a partial fulfillment of the "social contract" between business and society, firms are expected to pursue their economic missions within the framework of the law. Legal responsibilities reflect a view of Philanthropic Responsibility of "codified ethics" in the sense that they embody basic notions of fair operations as established by our lawmakers. They are depicted as the next layer on the pyramid to portray their historical development, but they are appropriately seen as coexisting with economic responsibilities as fundamental precepts of the free enterprise system. Includes statements like:

- It is important to perform in a manner consistent with expectations of government and law
- It is important to comply with various federal, state, and local regulations
- It is important to be a law-abiding corporate citizen
- It is important that a successful firm be defined as one that fulfills its legal obligations
- It is important to provide goods and services that at least meet minimal legal requirements

### **2.2.2.3. Ethical Responsibilities**

Although economic and legal responsibilities embody ethical norms about fairness and justice, ethical responsibilities embrace those activities and practices that are expected or prohibited by societal members even though they are not codified into law. Ethical responsibilities embody those standards, norms, or expectations that reflect a concern for what consumers, employees, shareholders, and the community regard as fair, just, or in keeping with the respect or protection of stakeholders' moral rights. In one sense, changing ethics or values precede the establishment of law because they become the driving force behind the very creation of laws or regulations. For example, the environmental, civil rights, and consumer movements reflected basic alterations in societal values and thus may be seen as ethical bellwethers foreshadowing and resulting in the later legislation.

In another sense, ethical responsibilities may be seen as embracing newly emerging values and norms society expects business to meet, even though such values and norms may reflect a higher

standard of performance than that currently required by law. Ethical responsibilities in this sense are often ill defined or continually under public debate as to their legitimacy, and thus are frequently difficult for business to deal with. Superimposed on these ethical expectations emanating from societal groups are the implied levels of ethical performance suggested by a consideration of the great ethical principles of moral philosophy. This would include such principles as justice, rights, and utilitarianism. The business ethics movement of the past decade has firmly established an ethical responsibility as a legitimate CSR component.

Though it is depicted as the next layer of the CSR pyramid, it must be constantly recognized that it is in dynamic interplay with the legal responsibility category. That is, it is constantly pushing the legal responsibility category to broaden or expand while at the same time placing ever higher expectations on businesspersons to operate at levels above that required by law. It includes statements like:

- It is important to perform in a manner consistent with expectations of societal mores (customs) and ethical norms
- It is important to recognize and respect new or evolving ethical moral norms adopted by society
- It is important to prevent ethical norms from being compromised in order to achieve corporate goals
- It is important that good corporate citizenship be defined as doing what is expected morally or ethically
- It is important to recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.

#### **2.2.2.4. Philanthropic Responsibilities**

Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. Examples of philanthropy include business contributions to financial resources or executive time, such as contributions to the arts, education, or the community. A loaned-executive program that provides leadership for a community's United Way campaign is one illustration of philanthropy. The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to

humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or voluntary on the part of businesses even though there is always the societal expectation that businesses provide it. One notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community. This distinction brings home the vital point that CSR includes philanthropic contributions but is not limited to them. In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility. In a sense, philanthropy is icing on the cake-or on the pyramid, using our metaphor. It includes statements like:

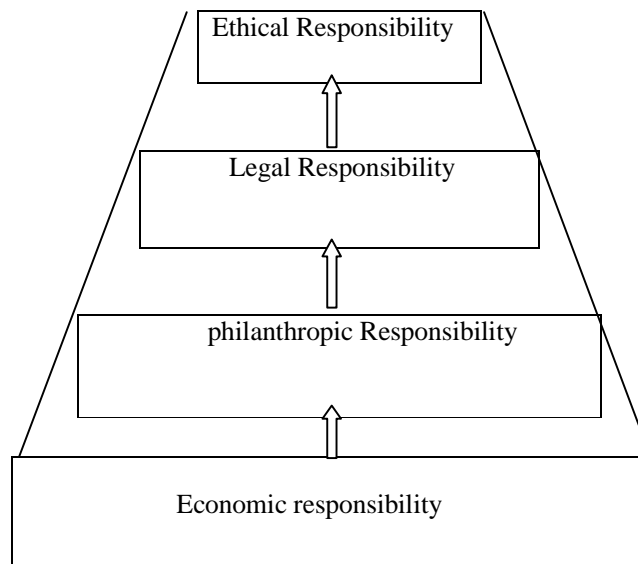
- It is important to perform in a manner consistent with the philanthropic and charitable expectations of society
- It is important to assist the fine and performing arts
- It is important that managers and employees participate in voluntary and charitable activities within their local communities
- It is important to provide assistance to private and public educational institutions
- It is important to assist voluntarily those projects that enhance a community's "quality of life."

However, most of the empirical studies on Carroll's CSR Pyramid have been in an American context. Nevertheless, several of the empirical studies suggest that culture may have an important influence on perceived CSR priorities (Fukukawa, Meina, & Shafer, 2007; Hui & Jieyi, 2009). As a result, Visser (2006*b*) tried to revise Carroll's hierarchy of CSR in a way that he believes is better to be applied in developing countries in general and African countries in particular. According to Visser (2006*b*) the hierarchy is the most widely used pyramid in Africa that can be shown like the one in Figure 2.2 below.

In summary, the history of corporate social responsibility goes back for centuries. Throughout this time a number of definitions have been given to the term. The different definitions have differences in scope and dimensions. For the purpose of this study, the definition given by the world business council for sustainable development (WBCSD) which defined it as "Corporate Social Responsibility (CSR) is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large

to improve quality of life, in ways that are both good for business and good for development” is used. In addition to this definition, the four dimension of CSR pyramid is applied in the study.

**Figure 2.2.: Africa’s Corporate Social Responsibility Pyramid**



Source: Visser (2006b)

### **2.2.2. Summary of Legal Requirements of Business towards the Environment**

Trade Registration and Business Licensing Proclamation (Proclamation No. 67/1997) of Ethiopia requires that any commercial activity should be undertaken in compliance with environmental protection regulations. It regards the observance of environmental protection laws both as a pre-condition for issuance, and the ground for suspension and revocation of a business license. Article 22(2) of the Proclamation requires presentation of a certificate from environmental agencies to the effect that the intended business activity does not violate environmental protection laws as pre- condition for the granting of business license. The Proclamation also states that, if a licensed business is ascertained to have violated environmental protection laws, its license may be suspended until the violation is rectified. If the issue is not rectified within the specified time or if the business repeatedly commits the breach, the license may be revoked (Mellese & Mesfin, 2008).

The overall policy of Ethiopian environmental policy is to promote sustainable development through the sound management and use of resources so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. Environmental Pollution Control Proclamation (Proclamation No. 300/2002) is the most relevant instrument for compliance and enforcement of air pollution control policy objectives. The law requires protecting the environment in general and safeguarding human health and wellbeing as well as maintaining the biota and aesthetic values of nature in particular. The Proclamation has included principles like; refrain from polluting, administrative or legal measures imposed on violators (polluter pays principle), duty to install sound technology, polluter cleans up or pays the cost, closure or relocation of industrial sites to avert risks (Meskir, 2008).

### **2.2.2. The Three-Domain Model of CSR**

Extrapolating from Carroll's four domains of corporate social responsibility (1979) and Pyramid of CSR (1991), an alternative approach to conceptualizing corporate social responsibility (CSR) is proposed. The three-domain model of CSR is composed of the three responsibility areas: economic, legal, and ethical. In general, these domain categories are defined in a manner consistent with Carroll's four-part model, with the exception that the philanthropic category is subsumed under the ethical and/or economic domains, reflecting the possible differing motivations for philanthropic activities. Further, the domains are developed more completely both in terms of what each means or implies and in terms of the overlapping categories that are identified when the three domains are depicted in a Venn diagram format. By using a Venn diagram, the model initially suggests that none of the three CSR domains (i.e., economic, legal, or ethical) is *prima facie* more important or significant relative to the others. Following a discussion of the model's components, a brief treatment of its limitations will be presented. (Mark S. and Carroll, 2012)

#### **2.2.2.1. Economic Domain**

For the purposes of the three-domain model, the economic domain captures those activities which are intended to have either a direct or indirect positive economic impact on the corporation in question. In this sense, it is similar to the Carroll formulation of this component. The positive impact is based on two distinct but related criteria (Poitras 1994): (i) the

maximization of profits and/or (ii) the maximization of share value. Examples of direct economic activities include actions intended to increase sales or avoid litigation. Examples of possible indirect economic activities include activities that are designed to improve employee morale or the company's public image. Any activity that is pursued with improving profits and/or share value in mind is deemed to be economically motivated. (Mark S. and Carroll, 2012)

#### **2.2.2.2. Legal Domain**

The legal category of CSR pertains to the business firm's responsiveness to legal expectations mandated and expected by society in the form of federal, state, and local jurisdictions, or through legal principles as developed in case law. In this context, legality may be viewed in terms of three general categories: (1) compliance, (2) avoidance of civil litigation, and (3) anticipation of the law. The first legal category, compliance, can be further sub-divided into three types: passive, restrictive, and opportunistic. The first type of compliance is of a passive or accidental nature the company is doing what it wants and just happens to be complying with the law. The second type of compliance, referred to as restrictive compliance, occurs when a corporation is legally compelled to do something that it would not otherwise want to do. The adjective restrictive is used to reflect the idea that the legal system is limiting, constraining, or modifying otherwise intended behavior in a restrictive fashion.

The third type of compliance is that of opportunistic compliance. There are two general modes of opportunistic compliance. First, a corporation may actively seek out and take advantage of loopholes in the legislation to be able to engage in certain activities. In such cases one typically finds that the corporation is abiding by the letter of the law but not the spirit of the law. Second, a corporation may choose to operate in a particular jurisdiction because of its weaker legal standards. The legal system, and is still technically complying with the law. Corporations which decide to operate in developing nations because of less stringent environmental, employee-welfare, or consumer-protection legislation are opportunistically complying with the law.

The second general legal category, avoidance, relates to corporate activities that are motivated by the desire to avoid possible current or future civil litigation for negligent conduct. In response to such fears, corporations may, for example, disengage in the manufacture of dangerous products, voluntarily recall products, or cease non-environmentally friendly activities.

The third legal category consists of the anticipation of changes to legislation. The legal process is often slow in nature, and corporations may wish to engage in activities that will result in immediate compliance upon the legislation's eventual enactment. Changes to legislation in other jurisdictions often serve as an indication of forthcoming similar legislation in one's own jurisdiction. (Mark S. and Carroll, 2012)

### **2.2.2.3. Ethical Domain**

The ethical domain of the three-domain model refers to the ethical responsibilities of business as expected by the general population and relevant stakeholders. This domain includes responsiveness to both domestic and global ethical imperatives. Based on this general definition, the three-domain model both broadens and refines Carroll's concept of the ethical domain by including only three general ethical standards: (a) conventional; (b) consequentialist; and (c) deontological.

The standard of conventions can be explained by the moral philosophy known as ethical relativism (Pojman 1995: 31). which will be defined as those standards or norms which have been accepted by the organization, the industry, the profession, or society as necessary for the proper functioning of business. The consequentialist standard ( sometimes referred to as "teleological") focuses on ends or consequences. Although there are several types of consequentialism, the form that is relevant for the purposes of the ethical domain suggests that "the morally right thing to do is to promote the good of persons" (Hoffman, Frederick, and Schwartz 2001: 26). In this respect, consequentialism includes both egoism (promoting the good of an individual) and utilitarianism (promoting the good of society).

The deontological standard as opposed to focusing on consequences is defined as embodying those activities which reflect a consideration of one's duty or obligation (De George 1999: 80). This category would embrace two of Carroll's ethical principles, moral rights and justice. Rights are defined as an individual's "entitlement to something" (De George 1986: 79) and can be of a positive or negative nature (Feinberg 1973: 59-61). Justice can be of several different types, distributive (whether benefits and burdens have been distributed equitably), compensatory, or retributive (Velasquez 1992: 90). Instead of only relying on the principles of moral rights and justice, the three-domain model utilizes the category of deontological principles because it has



the potential to more specifically capture a broader range of potential ethical justifications that have been suggested in the literature as duty based in nature. (Mark S. and Carroll, 2012)

#### **2.2.2.4. Overlapping Domain**

A major feature of the three-domain model is the depiction of economic, legal, and ethical domains of responsibility in a Venn diagram which highlights the overlapping nature of the domains and the resultant creation of seven categories in which CSR may be conceptualized, analyzed, and illustrated. The ideal overlap resides at the center of the model where economic, legal, and ethical responsibilities are simultaneously fulfilled, but other pure and overlapping segments of the model create situations which also must be explored and illustrated because they represent situations decision makers may face in the business world. (Mark S. and Carroll, 2012)

##### **i) Purely Economic**

Activities which are purely economic in nature must have a direct or indirect economic benefit, be illegal (criminally or civilly) or passively comply with the law, and be considered amoral or unethical (other than based on egoism, i.e., the corporation's best interests). (Mark S. and Carroll, 2012)

##### **ii) Purely Legal**

Corporate actions that are not considered ethical and have no direct or indirect economic benefit fall into this category. The activity must take place because of the legal system and not in spite of it. A response that one of the reasons for the act was "because it's the law" might be enough to support a degree of consideration for the legal system. Very few activities can be considered purely legal as most activities that are considered legal are also considered ethical. In addition, most activities which are legally required also possess an economic incentive (Posner 1986). Companies that hesitantly place warnings on their products (e.g., tobacco manufacturers), or abide by holiday shopping legislation despite financial loss, could conceivably fall into this category (Mark S. and Carroll, 2012).

##### **iii) Purely Ethical**

Any purely ethical activity that has no direct or indirect economic or legal implications would fall into this theoretical category. Such activities are performed because they are considered

ethical based on at least one moral principle (e.g., conventions, deontological, consequential) despite their lack of positive economic impact. Other than corporate philanthropic activities that are not based on economic interests, few corporate activities currently fall into this category. The primary reason is that many activities that are considered ethical can some-how be linked to long term, indirect economic benefits. (Mark S. and Carroll, 2012)

#### **iv) Economic/Ethical**

In this category the corporate activity is not based on legal considerations, but is ethical and economic simultaneously. This category would include many corporate activities motivated by the often repeated maxim, "good ethics is good business." To be considered ethical, the activity must go beyond rational egoistic concerns and be based on conventionalist, consequentialist, or deontological principles. (Mark S. and Carroll, 2012)

#### **v) Economic/Legal**

Very few activities which corporations engage in are both economic and legal, while also considered unethical. The reason is that activities which are based on a concern for the legal system (i.e., restrictive compliance, avoidance of civil litigation, or anticipation of the law) would most likely be considered ethical as well. The exception might be those companies that opportunistically comply with the law, searching for and using legislative and administrative loopholes for economic gain. Such opportunistic activities are often considered unethical. (Mark S. and Carroll, 2012)

#### **vi) Legal/Ethical**

Certain corporate activities occur not because of any economic benefit, but because they are both legally required and ethical. Activities that are both ethical and legal often provide indirect economic benefits meaning that few corporate activities will fall into this category. The activity of installing an anti-pollution device because it is legally required (i.e., restrictive compliance) and considered ethical even if there is no long term economic benefit would fall within this category. (Mark S. and Carroll, 2012)

### **vii) Economic/Legal/Ethical**

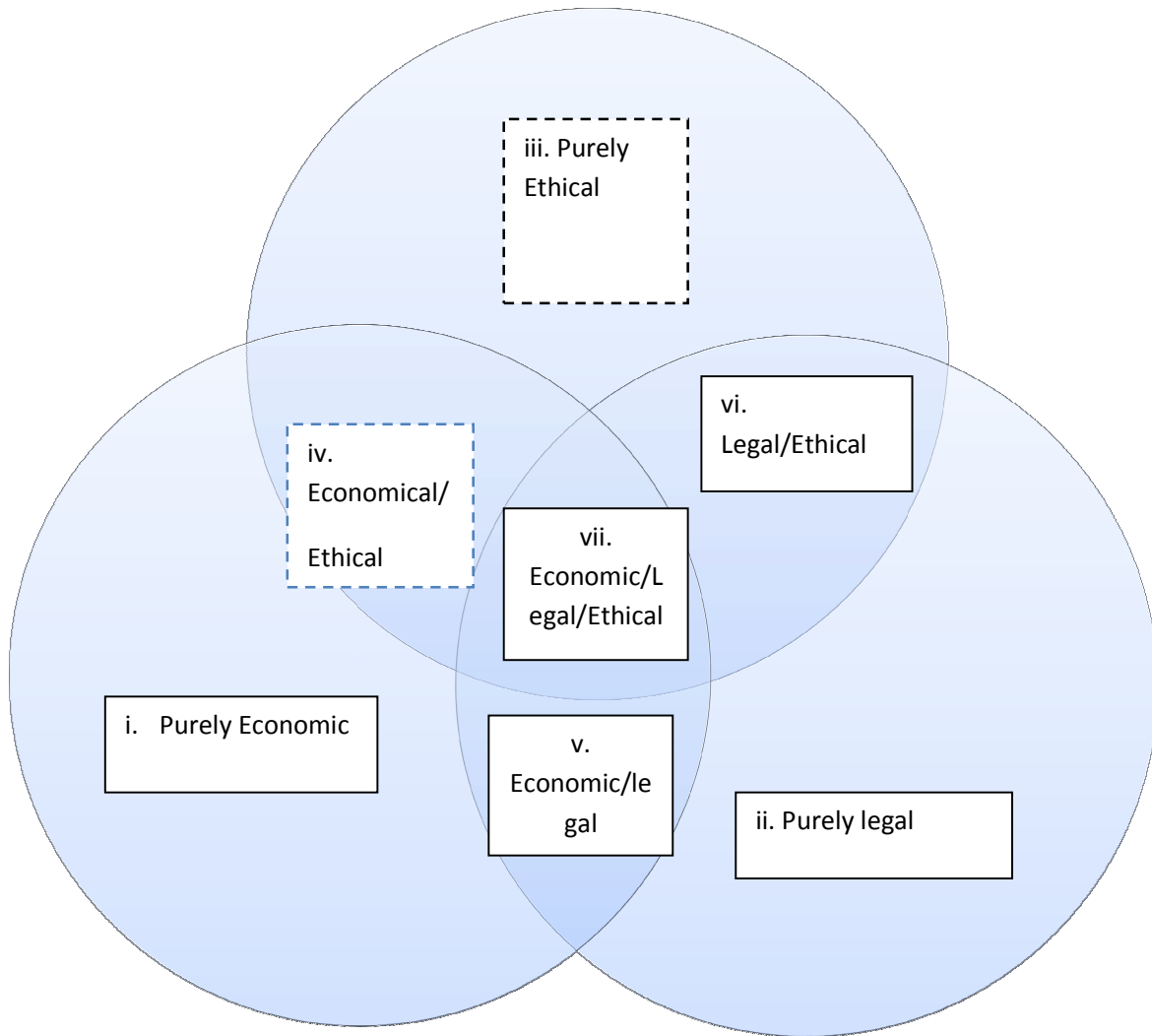
An activity which is motivated simultaneously by the bottom line, the legal system, and ethical principles would fall into this category. The decision by Procter & Gamble to pull its Rely tampons from the shelves due to the potential link with toxic shock syndrome may have been motivated by all three CSR domains. (Mark S. and Carroll, 2012)

### **2.2.3. Limitations of the Three-Domain Model**

1. The new model is based on several major assumptions. The model assumes that the three domains of CSR are somewhat distinct, and that they are all encompassing. In terms of being somewhat distinct, some might question whether any action can be identified as "purely economic," "purely legal," or "purely ethical."
2. In terms of the three-domain model being all encompassing, it is not clear whether there are corporate activities which are engaged in without reference to at least their economic impact, the legal system, or ethical principles. If there are such activities, the model would have to be adjusted to account for them.
3. The inherently conflicting nature of the various ethical principles could result in serious difficulties in attempting to classify motives or activities as ethical.
4. The complications of international business confound both the ethical and legal domains in terms of which ethical and legal standards to apply.

It is expected that certain CSR categories (e.g., purely legal, purely ethical, and economic/legal) will rarely apply, thus limiting the conceptual or practical application of some segments of the model. The major reason for this is due to the presumably high correlation between activities that are both economic and legal, and those that are both legal and ethical. (Mark S. and Carroll, 2012)

**Figure 2.3: The Three-Domain Model of Corporate Social Responsibility**



**Source: Mark S. Schwartz and Archie B. Carroll (2003:509)**

As stated above, there are two types of models: Carroll's four domain pyramid model and an alternative three-Domain Model depicted in a Venn framework. From the given models, Carroll's four domain model is selected to be used as analytical frame work for this research.

The rational for selecting this model as a frame work attributes to:

- The model have been utilized by numerous theorist and empirical researchers in a similar research setting like the one under investigation;
- Wood and Jones (1996: 45), argue that Carroll's four domains have "enjoyed wide popularity among Social Issues in Management scholars." This popularity reveals that Carroll's CSR framework remain a leading paradigm of CSR based investigation.
- The model has been identified as an identical Corporate Social Responsibility Pyramid for African context which is also applicable to be used as a framework for this study.

Over all, owing to the aforementioned rationales, wider acceptance and empirical contribution among the academia, Carroll's CSR model is selected to be used as a frame work for this study.

### **2.3. Empirical Literature Review**

#### **2.3.1. Practice of Corporate Social Responsibility and the Possible Effects on Society and Organizations**

Many definitions forwarded at different times, and theories developed. All that will be meaningless unless and otherwise company managers has got it and get it in to ground. Corporate management is torn between either focusing solely on the interests of stockholders (the neo-classical view) or taking into account the interests of a wide spectrum of stakeholders (the stakeholder theory view). The neo-classical economists' view of the role of professional management within a company is that their decisions should be solely predicated on the objective of maximizing the corporation's long-term market value and so the wealth of the company's owners. In contrast, stakeholder theory suggests that managements' concern should extend to a much wider spectrum of stakeholders (e.g., employees, customers, suppliers and the general community) whose interests should all be taken into account in the decision processes of management (Bird & Hall, 2007).

There is clearly the potential for conflict between these two views in those instances where maximizing the wealth of owners is not the natural outcome of a process where the decisions by management are influenced by the interests of a broad spectrum of stakeholders (Bird & Hall, 2007). Of course, there is no need of conflict because in the same study the researchers examined the extent to which a conflict actually exists by examining the relationship between a company's positive (strengths) and negative (concerns) corporate social responsibility (CSR) activities and

equity performance. In general, they found little evidence to suggest that managers taking a wider stakeholder perspective will jeopardize the interest of its stockholders.

A study by Rahman (n.d.) also indicated that CSR can help consumers learn about the profitability of firms and hence infer brand value. Thus, under appropriate conditions, CSR can be an effective tool to complement traditional branding activities such as advertising. Sweeny (2009), in his side, implied that the financial implications of CSR are experienced in the long term. Thus, CSR can be viewed as a long term investment. He added mixed results were found for the argument that firms must first be profitable before undertaking CSR. Regarding this fact, Graves and Waddock (1997) (as cited in Tsoutsoura ,2004) argued that firms which have solid financial performance have more resources available to invest in social performance domains, such as employee relations, environmental concerns, or community relations. Financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. On the other hand, companies with financial problems usually allocate their resources in projects with a shorter horizon. This theory is known as slack resources theory.

Cheng, Ioannou, and Serafeim (2011) also showed that firms with better CSR performance face a capital supply curve that is less steep; which implies an enhanced ability to obtain capital either through lower interest rates and/or for a given interest rate, a larger amount of funds. CSR practice could also have a benefit of increasing employees work commitment. According to Settoon et al. (1996) and Eisenberger et al. (2001), as cited in Cunha, Faria, Leal, and Rego (n.d.), when employees feel that the organization is responsible toward them (e.g., improving work-family balance, offering higher salaries ), they tend to reciprocate with positive attitudes toward the organization, including affective bonds and feelings of loyalty. As a result employees seeking great empowerment, more job-security, better work-life balance and a sense of meaning in their work are from the reasons which drive companies towards CSR practice (Qasim & Ramaswamy, 2011).

The study in developing economies also showed a positive link between CSR and financial performance. A study by Fagbemi and Uadiale (2011), conducted in Nigeria, examined the impact of CSR activities on financial performance measured with Return on Equity (ROE) and Return on Assets (ROA). The results showed that CSR has a positive and significant relationship with the financial performance measures.

Opposite to all these, Fauset (2006) argued that CSR was, is and always will be about avoiding regulation, covering up the damage corporations cause to society and the environment and maintaining public co-operation with the corporate dominated system. Efforts to control corporations' destructive impacts must have a critique of corporate power at their heart and a will to dismantle corporate power as their goal; otherwise they reinforce rather than challenge power structures, and undermine popular struggles for autonomy, democracy, human rights and environmental sustainability. She further argued that since companies cannot act in any wider interest than the interest of their shareholders to make profit, CSR is of limited use in creating social change. Since CSR is also a vehicle for companies to thwart attempts to control corporate power and to gain access to markets, CSR is a problem not a solution.

Generally, many researchers and practitioners support and convince the idea that CSR practices add value to both the corporate and the society. It seems that it is because managers in the contemporary world realized this fact and are adopting corporate social responsibility policies in their respective organizations. As it is stated in the works of different researchers, CSR practice has a benefit for the organizations in terms of increased access to credit capital, increased profitability, and also enhanced ability to attract skilled man power. It is also stated in the work of The World Business Organization (2002); no other human activity matches private enterprise in its ability to assemble people, capital and innovation under controlled risk-taking, in order to create meaningful jobs and produce goods and services profitably, profit being essential to long-term business survival and job creation. This finding could be an indication that the CSR activities of companies can benefit the society, in addition to the practicing companies. However, there is also a research that argues that the negative influence of CSR outshines the positive contributions that it could have on the community, though most the empirical findings support CSR has much positive impact. This study has also examined the impact of CSR practice by companies on the society.

### **2.3.2. Gaps in Practice, Attitude, and Literature in Different Countries**

Even though there is an increased expectation from government and the society and many firms around the world are acting in favor of CSR, the extent of practice by the companies, managerial attitudes as well as researches conducted in the area do have differences at the different angles of the world. For example, Bilal (2001) indicated that most of CSR studies conducted so far have been in the context of developed countries such as Western Europe, U.S., Australia, and that we still know very little about practices in ex-colonial, smaller, and emerging countries. As an evidence for this, a review of the CSR literature on Africa between 1995 and 2005 by Visser (2006a), as cited in Visser (n.d.), found that only 12 of Africa's 53 countries have had any research published in core CSR journals, with 57% of all articles focused on South Africa and 16% on Nigeria.

A research by Hongtao and Yi (n.d.) asserted that CSR as a concept and as activities are both generally accepted by management. A global survey conducted by The Economic Intelligence Unit found out that 85% of senior executives and institutional investors believe that CSR is an important consideration in decision making, indicating that CSR has been accepted even without a clearly defined business case (Qasim & Ramaswamy, 2011), indicating that business managers could have a positive attitude towards CSR even when the companies have a defined business case. However, a study by Zidarova (2011) explained that in order to be responsible and profitable in the same time, businesses must implement CSR policies, which answer the demands of their stakeholders, and communicate these policies through public relation. Orpen (1987), in his study assessing managerial attitudes towards corporate social responsibility, a comparison between American and South African corporate managers indicated that the United States managers held significantly more favorable attitudes towards corporate social responsibility. In addition, they agreed with more pro-responsibility arguments, whereas the South African managers agreed with more anti-responsibility arguments. The United States managers felt that their society expected more corporate involvement in social responsibility activities than the South African managers felt was expected from their society.

A research by Hui and Jieyi (2009), which made a comparative study with in Swedish and Chinese companies, reported that Swedish companies are doing far more than other countries, and the implementation of CSR is on the way that regulating by laws. Comparing with Sweden,



Chinese companies have a long way to go. Not only is that, even in a single country there exists differences among different companies. For that in China the leading companies, like SGCC, are undertaking CSR and strive to be exemplary corporate citizens, than the smaller ones in the country. Besides, how managers of companies perceive the concept shows gap from the theories especially in the developing countries, manager's main concern is directed towards philanthropic activities. As an evidence for this, the study by Jamali and Mirshak (2007), conducted in sample of Lebanese companies, found that companies are adhered to a discretionary conception of CSR implying an inclination among all companies operating in Lebanon to conceive CSR as comprising the philanthropic contributions that business firms make over and above their mainstream activities. While this may be interpreted as a natural evolution through Carroll's (1991) hierarchical CSR pyramid (which includes Economic Responsibility, Legal Responsibility, and Ethical Responsibility, in addition to the Discretionary or Philanthropic Responsibility) a more plausible explanation pertains to a lack of appreciation of the other domains of CSR and their critical importance particularly in a developing country context. In the other hand, the findings by Komaran and Tan (2006) support the applicability of Carroll's Pyramid of CSR constructs.

In summary, there are differences in practice of and attitude as well as literature in different countries of the world. Much of the literature is concentrated in the western world and it is very much low in African countries. Besides the practice of CSR is inclined more of to the philanthropic responsibilities, though there are evidences which supports the applicability of CSR four dimensions. This study has also examined the applicability of these four dimensions of CSR. Managerial attitude has also shown difference, some have positive attitudes and others support negative arguments.

### **2.3.3. Motives behind Corporate Social Responsibility Practice**

The reason behind getting involved in the corporate social responsibility practice is different from one firm to another. The mutual dependence between society and corporate can create value for both corporate and society. Some factors such as increasing of environmental awareness, increasing scarcity of tangible and intangible resources, and transparency of operations and functions have impact on it time to time. As well as corporate social responsibility uses from four main responsibility such as economic, legal, ethical, and

philanthropy create various opportunities for top management so that reducing cost and enhancing organizations' competitive power. In addition, organizations shift towards excellence corporate citizenship thereby increase customer, employee and stakeholder loyalty (Gholami, 2011).

A study by Keating, Quazi, and Rahman (2010) asserted that firms use their CSR records to create the image of socially responsible firms and thereby influence consumer buying decisions in favor of the goods and services marketed by them. Arguably, it is in the dynamic interaction of governments, public/consumer, and campaigning groups with businesses that what might be called a "virtuous spiral" is emerging. What is arguably happening is that, with the encouragement of campaigning groups (and it might not be too immodest to add, business ethicists), there are rising expectations on the part of the public regarding the ethical performance of business. Faced with a public disapproval that campaigning groups might exploit and governments be forced to act on, business responds with efforts to appear more socially responsible (Kaler, 2000).

In conclusion, motives behind CSR practice are different for different companies. It includes but not limited to the need influence consumer buying decisions, the pressure from campaigning groups, and enhancing competitive power by creating image of a socially responsible firm. This study has also addressed the reasons behind CSR practice by the case companies.

#### **2.4. Conceptual Framework of Corporate Social Responsibility (CSR)**

Business and society has focused on the topic of corporate social responsibility (Klonoski 1991). In the modern era, the stage was set for this debate by Keith Davis, who posed two intriguing questions in the 1960s: "What does the businessperson owe society?" (Davis 1967) and "Can business afford to ignore its social responsibilities?" (Davis 1960). Although many have attempted to define CSR over the years, the concept has remained vague and ambiguous to some (Makower 1994: 12). Definitions of CSR fall into two general schools of thought. The first schools of thought argue that business is obligated only to maximize profits within the boundaries of the law and minimal ethical constraints (Friedman 1970; Levitt 1958), while the second schools of thought have suggested a broader range of obligations toward society

(Andrews 1973; Carroll 1979; Davis and Blomstrom 1975; Epstein 1987; McGuire 1963). An important attempt to bridge the gap between economics and other expectations was offered by Archie Carroll (1979). His efforts culminated in the following proposed definition of corporate social responsibility:

*The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time. (1979: 500).*

In addition to the definition proposed by Carroll, the one given by the World Business Council for Sustainable Development (WBCSD), that will be used as a working definition of CSR for this study defined it as Corporate Social Responsibility (CSR) is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development (WBI, 2003).

On the other hand, the three-domain model of CSR is composed of the three responsibility areas: economic, legal, and ethical. In general, these domain categories are defined in a manner consistent with Carroll's four-part model, with the exception that the philanthropic category is subsumed under the ethical and/or economic domains, reflecting the possible differing motivations for philanthropic activities.

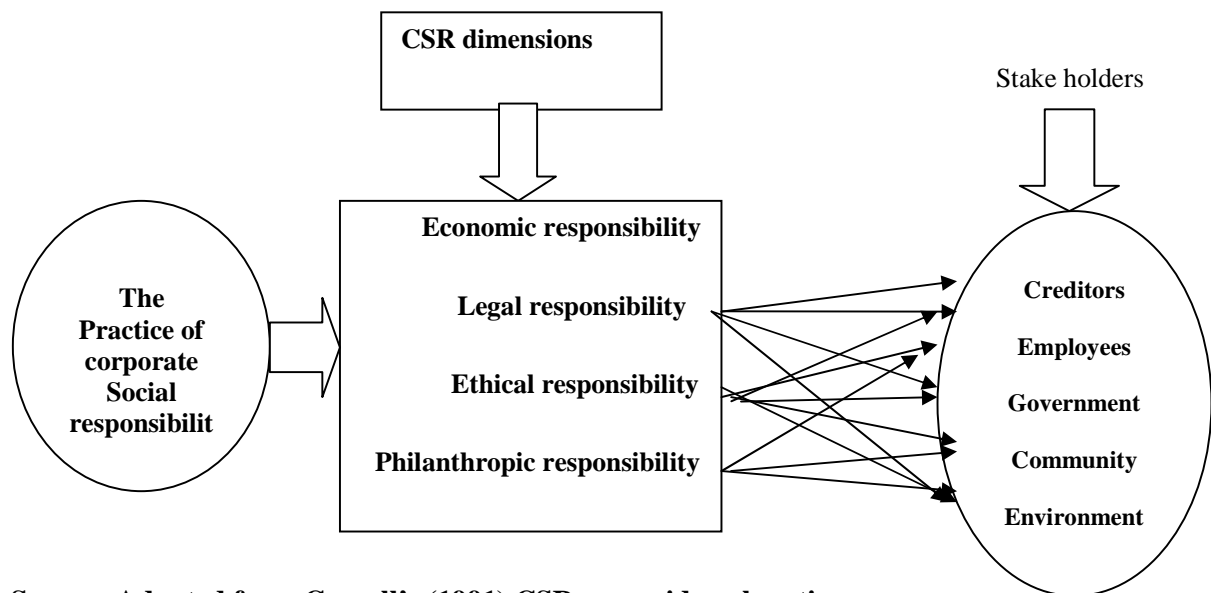
From the given models, Carroll's four domains model is selected for the research because:

- The model have been utilized by numerous theorist and empirical researchers in a similar research setting like the one under investigation;
- Wood and Jones (1996: 45), argue that Carroll's four domains have "enjoyed wide popularity among Social Issues in Management scholars." This popularity reveals that Carroll's CSR framework remain a leading paradigm of CSR based investigation.
- The model has been identified as an identical Corporate Social Responsibility Pyramid for African context which is also applicable to be used as a framework for this study.

In general, owing to the aforementioned rationales, wider acceptance and empirical contribution among the academia, Carroll's CSR model is selected to be used as a frame work for this study.

The figure below tells us that the practice of corporate social responsibility can be seen in Carroll's four dimensions namely economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility. These dimensions of corporate social responsibility are in relation with different stake holders of the corporate. The figure shows that the corporate has legal responsibility towards creditors, employees, the government, and environment. Its ethical responsibility is related with the government, employees, creditors, community, and environment. The last dimension, philanthropic responsibility, is related with the employees, community and also environment.

**Figure 2.4: Conceptual frame work of CSR**



**Source: Adapted from Carroll's (1991) CSR pyramid explanation**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This chapter presents the conceptual framework of the study and methodology of the study such as, data type and source, method of data collection, sample design and sample size, and method of data analysis.

#### **3.1. Research method adopted**

Research design is used to provide necessary data to solve the problem under study. It involves a plan of data collections and analysis on an instrument. The choice among the three research approach is guided mainly by the research problem apart from the underlying of each research methods.

It reveals that whether a research problem is based on a framework developed dedicatedly through a review of the literature and prefigured information to be collected in advance of the study or to allow it to emerge from the participants during investigation process. Based on the research problem and questions developed in chapter one in line with the underlying philosophy of the research approaches qualitative research approach is used.

#### **3.2. Sample Design and Sample Size**

As it is stated in the data type and source section, this study considers corporate social responsibility practices by Abyssinia and Awash Tannery in relation to creditors, employees, environment and community. The criterions while selecting the case companies were:

- being manufacturing company
- being part of the large scale investment category
- representing a different industry from the other which is included in the study

In examining CSR practice, the population of creditors is considered and the questionnaire was filled by the loan officers of these creditor banks. Regarding environment, and community, the assigned government authorities, which are, the Environmental Protection Authority, Office of Labor and Social Affairs were considered and questionnaires were filled by the responsible

managers in each of these authorities. In relation to employees, only a sample of the population has been taken. The total number of employees constitutes 240 (Human Resource Department of Abyssinia and Awash Tannery, personal communication, March, 2014) out of which 150 employees were selected on systematic basis. These sample respondents were selected from the different departments that the organizations have, in order to explore the views of employees' at the different departments.

The researcher employs the following sample size determination formula so as to find out the appropriate sample size (Kottari, 2004). This formula has been selected to be used since it is appropriate when the population is bellow ten thousand.

**Table-1– Sample Size Determination**

<b>Sample Size</b> $n = \frac{N}{1 + N(e)^2}$	<b>Where:-</b> n=Sample Size N=Population e=Level of Precision
<b>1. Sample Size determination</b>	
<b>Given:-</b>	
N = 240 e = 0.05(5%) Confidence Level 95%	$n = \frac{N}{1 + N(e)^2} = \frac{240}{3.0125} \quad n=150$

### 3.3. Data Type and Source

In conducting this research, because of the exploratory nature of it and the necessity of first hand information for such kind of research, primary data were used. And this study, as it makes a deeper look at people's experiences, perceptions, and opinions, used qualitative data. The data were collected from the senior managers occupying top managerial positions in the organizations; human resource manager of Abyssinia Tannery and Administrative and Human Resource Manager of Awash Tannery. These were selected as respondents because they are the parties which could have part in making decisions considering CSR. In addition, data is collected from the organizations stakeholders (which includes creditors (loan officers), employees, pollution control senior expert of environmental protection authority representing the environment, and Head of Core Process of Social Protection and Rehabilitation under the Bureau

of Labor and Social Affairs in order to examine the way they perceive CSR practices by the company and crosschecking the response of managers in the interview.

### **3.4. Method of Data Collection**

For the collection of primary data, the two basic methods of primary data collection, interview and questionnaire were employed. For testing the attitudes of business managers, an organized questionnaire which included value judgment statements with five scale ratings, ranging from strongly agree to strongly disagree was used. This questionnaire is a self administered one, as the terms and ideas can be new for the respondents and need explanations.

For the purpose of studying the practice, a semi-structured interview which listed the basic components which has to be included in the course of the interview was used. Though it lists the basic components, the interview is let free to move in any direction of interest that may come up with the respondents because it is believe that it could be useful for exploring the topic broadly.

Lastly, a questionnaire designed specifically for stakeholders stated in the data type and source section is distributed to each of them. This questionnaire was distributed in order to collect data about the views of these stakeholders about the CSR practices of the company.

### **3.5 Method of Data Analysis**

This research had two parts. The first part of the study which discussed about attitude of the corporate managers in which the data has been collected through questionnaire is summarized in a tabular form using liker scaling.

The second part of the study which is concerned with CSR practices was discussed in a descriptive way. For the purpose of summarizing the sample employees' response, descriptive statistical methods (frequency and percentages) were used. To judge the extent of practice of corporate social responsibilities by the two firms, the theory developed by Carroll (1991) was used as a bench mark. At last a summary discussion with implications of responses was made.

## **CHAPTER FOUR**

### **DATA ANALYSIS AND DISCUSSION**

This chapter deals with the analysis and discussion of data collected from managers of Abyssinia and Awash Tannery and different stakeholders of the companies. The chapter discusses in detail the attitude toward corporate social responsibilities by higher managers of the case companies and also the extent of CSR practice, the understanding of CSR by the companies, motives to practice CSR, and the possible benefits the companies can realize by involving in CSR practice.

#### **4.1. Managerial Attitude towards Corporate Social Responsibility**

This part will discuss the attitude of the business managers towards corporate social responsibility (CSR). The attitude has been measured by distributing questionnaires to individuals in top managerial positions (two general managers and three department managers). The items included eight positive statements towards CSR having five choices from strongly disagree to strongly agree. Table 4.1 presents the response of the managers on the eight positive statements towards Corporate Social Responsibility (CSR). The summarized response of managers, presented in table 4.1 indicated that the managers in Abyssinia and Awash Tannery have a positive attitude towards corporate social responsibility. As can be seen from the table, from the eight statements, five of them showed an average score of greater than four out of five. This shows that most of the managers have strongly agreed with the practice and importance of CSR. The managers agree with two of the statements and were almost neutral with one of the statement. The statement which the managers were neutral with was “Government should not ask businesses to engage in CSR”. From the five respondents, two said disagree, two agree and one neutral. This choice of managers could have an implication on the managers’ need of recognition by the government for their CSR contribution.



**Table 4.1: Managers' response summary**

S. No	Statements	Respondents' response					total	Average
		1	2	3	4	5		
1	CSR adds value to the organization (values may include increasing goodwill, winning customers etc...).	4	5	5	5	5	24	4.8 (96%)*
2	Your businesses need to engage in more CSR activities, that is environment protection, waste disposal and community service.	4	5	5	5	3	22	4.4 (88%)
3	CSR enhances competitive advantage (for example increased profitability through increased number of customers and major suppliers).	4	5	4	5	5	23	4.6 (92%)
4	CSR is a necessary obligation	3	5	5	4	3	20	4 (80%)
5	Government should ask businesses to engage in CSR	3	4	2	4	3	16	3.2 (64%)
6	Business success and responsibility go together	3	5	4	5	4	21	4.2 (84%)
7	Businesses should support other social institutions (like the RED CROSS and anti HIV/AIDS clubs) in solving societies problems	4	5	4	5	5	23	4.6 (92%)
8	Long run success of business depends on its ability to understand that it is part of a larger society and should act accordingly.	3	5	3	5	4	20	4 (80%)

**Source:** own survey

*Note: \*-The average score is computed by dividing the total score to the maximum score which is twenty five (5\*5). Five represents the number of respondents and the other five represents the maximum score which a respondent can give to a question.*

*The numbers given in the top of the table below respondents response which ranked from 1 to 5 implies that 1 strongly disagree, 2 disagree, 3 neutral, 4 agree and 5 strongly agree.*

**Table 4.2 Adequacy and sphericity test**

Test type	Method	Values
Adequacy	Kaiser – Meyer –Olkin (KMO)	.821
Sphericity	Bartlett’s Test	.000

The Kaiser – Meyer –Olkin (KMO) measure of sample adequacy utilized to ensure that the samples used are adequate. According to Field (2007), if the KMO values are within a range of 0.8 to 0.9 and if the Bartlett’s Test values are below 0.005, it indicates that the data are suitable for multivariate statistical analysis like exploratory factor analysis. Thus, the value in the table above indicates that the KMO result is great, sphericity is suitable and reliability is also highly acceptable.

**Table 4.3 Adequacy, sphericity and variance explained test**

S.N	Influence	KMO	Bartlett	Variance explained	remark
1	Adds value	0.800	0.000	67.74	Accepted
2	Engage CSR activities	0.802	0.000	75.66	Accepted
3	Enhances competitive advantage	0.806	0.000	66.13	Accepted
4	Necessary obligation	0.800	0.000	66.90	Accepted
5	Government should ask to engage in CSR	0.883	0.000	66.50	Accepted
6	Business success and CSR go together	0.860	0.000	60.00	Accepted
7	Business should support other social institution	0.800	0.000	69.76	Accepted
8	Long run success depends on CSR	0.824	0.000	60.00	Accepted

Even though the total sum result reliability is explained and accepted because of its good result in all reliability and adequacy measuring techniques, the table above represents the summarized data of all utilized factors of the model and clearly shows the sample adequacy (measured by KMO), the ability of explaining capacity of factors (measured by variance) are within accepted range from mediocre to grate. By looking the above statistical test the following findings are summarized.

According to (Bird & hall, 2007) managerial attitude towards corporate social responsibility has its impact on the extent of CSR practice by their organizations. If managers do have an attitude which favors CSR practices, they will take into consideration such things when they make operational decisions. A global survey conducted by The Economic Intelligence Unit found that 85% of senior executives and institutional investors believe that CSR is an important consideration in decision making, indicating that CSR has been accepted even without a clearly defined business case. However differences in managerial attitudes have been observed by previous researchers. A study assessing managerial attitudes towards corporate social responsibility, a comparison between American and South African corporate managers indicated that the United States managers held significantly more favorable attitudes towards corporate social responsibility. The United States managers felt that their society expected more corporate involvement in social responsibility activities than the South African managers felt was expected from their society.

In the same vein, managerial attitude towards corporate social responsibility in Abyssinia and Awash Tannery shows consistency with most of the findings in the previous studies conducted indifferent countries for example with the United States managers. This positive attitude of the managers also makes them part of 85% of the world managers. The similarity in attitude may be as a result of the fact that the managers of these two companies are good knowledge about CSR theories.

#### **4.2. Corporate Social Responsibility Practice**

This part of the study is dedicated to assess the extent of practice of CSR, companies understanding of the issue, reasons to practice CSR, and possible benefits to the companies. According to the theoretical construct developed by Carroll (1991), firms' Corporate Social Responsibility practices can be seen in four dimensions; economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility. As to further explanation, there are activities expected of business firms' under each of the four dimensions of corporate social responsibilities. This study was designed to assess Corporate Social Responsibility practices by Abyssinia and Awash Tannery. In doing so, the assessment was made by taking

these four dimensions in to consideration as a bench mark. The following discussions are classified according to the research objectives listed out in chapter one of the study.

#### **4.2.1. Corporate Social Responsibility Practice by the Two Companies**

This part of the study is designed to discuss the extent of CSR practice by Abyssinia and Awash Tannery. The practice of Corporate Social Responsibility by the two companies was seen in case of four of the company's stakeholders, which includes creditors (Banks), employees, environment and community. Companies do have different responsibilities towards the different stakeholders; economic, legal, ethical, and philanthropic. These different responsibilities do have their own theoretical details (Carroll 1991).

Creditors are one of the stakeholders of a company. Firms do have legal and ethical responsibilities towards their creditors. Both of the case companies' showed consistency with the fulfillment of their responsibilities towards their creditor banks. According to the interview conducted with administrative and human resource manger of Awash Tannery said, the company has never failed to comply with its legal obligations and they are a reputed company on the timely payment of interest and principal on borrowed funds to its creditor bank (Commercial Bank of Ethiopia and Dashen Bank). The Loan Officers of the aforementioned banks also witnessed that Awash Tannery has been the customer of the bank for more than ten years. During all these times there is no one time where the company has failed to make its interest and principal payments.

In case of Abyssinia Tannery, the interview conducted with Human resource manager, he revealed that, the company even wants to be an example for other firms in best fulfillment of their responsibilities. As a result, the manager said, they always do what is expected of them legally. He further explained that their company is one of the reputed borrowers of their creditor bank (Dashen Bank). Knowing this fact, he added, there are banks these days that are asking Abyssinia to start working with them. However, the company has no desire to create relationship (in borrowing) with other banks because it has a good relationship with the already customer bank, Dashen Bank. Information from loan officers of Dashen Bank explain that Abyssinia Tannery has never failed to make its regular interest and principal payments which witnesses the

legal compliance of the company as to interest and principal payments. Firms, once they get investment funds from banks, are expected to make regular and timely payment of interest and principal. This timely and regular payment is both an ethical and legal responsibility so, that failure to make such payments is a breach of ethical and legal responsibilities. The case companies have an experience of making their payments in a regular and timely manner so that we can say they are fulfilling their responsibilities towards creditors.

**Table-4.4: Employees response summary**

Question No	Questions	Abyssinia Tannery		Awash Tannery	
		Yes	No	Yes	No
1	Have you ever heard of the term corporate social responsibility?	33 (70%)	14 (30%)	56 (56.95%)	39 (41.05)
2	Do you have information about corporate social responsibility practices by Awash/Abyssinia Tannery before you became an employee of this organization?	22 (46.8%)	25 (53.19%)	43 (45.26%)	51 (54.74%)
3	Do you prefer to be an employee here since Awash/Abyssinia Tannery works on corporate social responsibility practices?	18 (38.3%)	29 (61.7%)	28 (29.5%)	67 (70.5%)
4	Do you think that the work environment and other benefit packages help you to design the way how your organization could be able to fulfill its CSR?	20 (42.55%)	28 (57.45%)	61 (64.21%)	34 (35.79%)
5	If you say “no” for the above question, does it make you think of leaving the organization?	28 (59.57%)	0	35 (36.84%)	0
6	If your answer for question number four is yes, do you think that changes in these factors make you change your mind?	25 (53.19%)	3 (6.38%)	33 (34.74%)	2 (2.11%)
		89.29%**	10.71%	94.29%	5.71%

**Source: own survey**

*Note: \*- the second percentage represents the percent as a fraction of the preceding question respondents who said no.*

*\*\* - the percentage represents the percent as a fraction of the fourth question respondents who said no.*

The second from the stakeholders is employees. Towards their employees, companies do have legal, ethical and also discretionary (philanthropic) responsibilities. The first thing regarding employees is wage and salary. Employees at any organization expect salary which fairly

compensates their contribution to the organization. When the managers of the case companies explain about it, the companies are of the good paying companies in the city, especially before privatizing the company, the difference was so visible. However, according to the information gathered from employees 42.55% and 64.21% (Table 4.2) of respondents of Abyssinia and Awash Tannery respectively are happy with their monthly salary and other benefits and the rest 57.45% and 35.79% of respondents of Abyssinia and Awash Tannery respectively are unhappy with their monthly salary and other benefits. All the respondents who are unhappy with their monthly salary and other benefits said that they think of leaving the company because of it.

Based on the preceding discussion the case companies (Abyssinia and Awash Tannery), do have operational activities which are risky for the health of workers, especially the technical ones as they work in machineries needs to have occupation health and safety policy. In the interview, managers of the respective companies replied that they do have safety policy and there is a safety division in the companies. In the case of Abyssinia tannery, according to the human resource manager, all employees do have health insurance. In both companies, they provide safety shoe, cloths and other safety instruments for the technical workers who work with machineries. Companies are also expected to provide a good physical work environment and also reduce job insecurity. As per the researcher's observation the physical work environment can be called satisfactory in the case of Awash but when we see Abyssinia there is need for betterments. Through a series of observation the researcher came to conclude that anyone in Abyssinia can observe dusts here and there and considering the climate in the area, which is so windy; these dusts can put the health of the employees in danger, though they are insured for that. But the human resource manager of the company argues that, considering the work nature, the company believes the physical work environment is not that much bad. Concerning reducing job insecurity, both managers said there is no threat about job insecurity.

As per the interview response of the human resource manager, all the permanent workers are secured. Temporary (contractual) workers, he said, are most of the time hired when there is much loading and unloading jobs and these workers are hired on a daily basis so that there is no need to talk about job insecurity concerning such kind of employees. In comparison with the permanent workers, the same is true for Awash Tannery. About the temporary (contractual) workers there is a difference. Temporary workers can be hired to work for long and there are

times where workers which initially are hired as a temporary are transferred in to a permanent one. But, the administrative and human resource manager of Awash Tannery said, it needs to be recognized that the company is for Profit Company and it has no reason to keep employees when they do have nothing to do in the organization. In such a cases, the company will release such workers but with a compensating payment.

According to Settoon (1996), when employees feel that the organization is responsible toward them (e.g., improving work-family balance, offering higher salaries), they tend to reciprocate with positive attitudes toward the organization, including affective bonds and feelings of loyalty. Hence, the case companies can strengthen their employees' commitment to the organization through creating an environment which can satisfy such requirements of employees.

The companies were successful in meeting their responsibility of giving a secured job and providing safety policy. However, there is a gap between employees' expectation and companies' practice of monthly salary and other benefits and also providing good physical work environment. And a previous research finding indicated that employees seeking great empowerment, more job-security, better work-life balance and a sense of meaning in their work are from the reason which drives companies towards CSR. It is true that satisfying everyone in the organization is almost impossible. However, it is possible to satisfy most and increase their commitments if we do things fairly. In a nutshell, we can say that the firms are fulfilling their responsibility towards their employees partially.

Community comes as the third stakeholder of a company. Responsibilities towards the community is more of discretionary (philanthropic) in nature. Both of the case companies, according to the interview response and the information from the Bureau of Labor and Social Affairs involve in community development programs. The human resource manager of Abyssinia explained that they are selective on sponsorship proposals and specifically accepts those which concerns about the key problems of the people of the city and will provide funds.

The specific actions the company has involved in include; supporting primary and secondary schools, library support, making cobble stone in the campus of the mentioned schools present

around the factory, supporting HIV/AIDS, support of pure water supply, sponsorship of books and films, help for orphans and vulnerable children, and a lot more.

The administrative and human resource manager of Awash Tannery on his side responded that there are a lot of sponsorship questions from different institutions. But the company has limited capacity so that it cannot satisfy all of the inquiries. But selectively, there are activities conducted by the company which favors the betterment of life of the community. As an example, he said, the company has provided container shops for those who are organized under the small and micro enterprises, it does have sport club which it provides all the necessary materials and make payments to the members, it has sponsored a lot of books and festivals which strengthens cultural developments, help for orphans and vulnerable children (through contribution made by employees, as a deduction from their monthly salary), and the like.

According to head of Core Process of Social Protection and Rehabilitation program, under the bureau of labor and social affairs, Abyssinia and Awash Tannery are one of the private firms that their organization is working in co-operation with. These companies involve in care and support of Orphans and Vulnerable Children (OVC), i.e. they allocate budget necessary to cover the expense of basic needs and educational materials. However, considering the number of OVC and the existing capacity of the companies, the organization believes that the numbers of OVC under these companies are not good enough and expects them to increase the number of OVC supported.

A prior study by Eells and Walton (1961) indicated that philanthropy includes actively engaging in acts or programs to promote human welfare or goodwill. Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. Concerning the community, companies are expected to contribute to the betterment of the life of the community through for example supporting cyclone centers and educational institutions, donating money and medicine to help implement community health related programs, making contribution to community social and cultural development, supporting those projects that enhance a community's quality of life like pure water supply projects and also creating job opportunity. When we see their practice, they almost are involving in all parts that



they are expected to involve in, setting aside the magnitude. In this regard, though they have no obligation rather responsibility, the companies are doing well.

The fourth stakeholder is environment. Pollution Control Senior Expert of the Environmental protection authority explicated that their organization works with private firms for the achievement of its missions. Abyssinia and Awash Tannery is one of these private firms that the organization is working with in waste treatments. The relation is started recently and the organization believes that the actions undertaken by Abyssinia and Awash Tanneries in order to keep environment clean, reduce emission, treatment of liquid waste and bad smell are not good enough. Emission, bad smell and liquid waste will have a negative impact on the health of the community and also animals. He added that they recommended the company to conduct plantation, especially big broad leafed trees surrounding the factory so as to trap some dusts, to treat their liquid waste before it is released to the society, and to use technology which reduces their contribution to environmental pollution. He also said a notice is given by their organization to the company to correct such problems within three months time, especially their liquid and solid waste and factory area treatment. He advised that the company should keep the factories area clean and green.

The human resource manager of Abyssinia and the administrative and human resource manager of Awash Tannery said that they have the program of tree plantation in their compound and especially after the millennium the activities are strengthened. This plantation program will help to reduce emission of dust to the air because the planted trees will trap some of it. Also the expansion projects are designed in such a way that emission will be reduced to zero meaning that the expansion projects are environmentally sound. With regard to their liquid waste, the company uses its safety tankers so that there will be no liquid waste released to the society. Besides, though the company has no involvement in forestation programs, there is an area where the company has taken the responsibility to keep away from the reach of peoples and animals by hiring guards to protect it so that the naturally growing plants will be kept safe from being cut and destroyed by the local people (philanthropic contribution).

Trade Registration and Business Licensing Proclamation (Proclamation No. 67/1997) of Ethiopia requires that any commercial activity should be undertaken in compliance with environmental

protection regulations. It regards the observance of environmental protection laws both as a pre-condition for issuance, and the ground for suspension and revocation of a business license. Article 22(2) of the proclamation requires presentation of a certificate from environmental agencies to the effect that the intended business activity does not violate environmental protection laws as pre-condition for the granting of business license. The proclamation also states that, if a licensed business is ascertained to have violated environmental protection laws, its license may be suspended until the violation is rectified. If the issue is not rectified within the specified time or if the business repeatedly commits the breach, the license may be revoked (Mellese & Mesfin, 2008). Therefore the companies' compliance with environmental laws is mandatory because breach has consequences which can go up to the revocation of their trade license.

The overall policy of Ethiopian, environmental policy is to promote sustainable development through the sound management and use of resource so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. Environmental Pollution Control proclamation (proclamation no. 300/2002) requires protecting the environment in general and safeguarding human health and wellbeing as well as maintaining the artistic values of nature in particular. The proclamation has included principles like; refrain from polluting, administrative or legal measures imposed on violators (polluter pays principle), duty to install sound technology, polluter cleans up or pays the cost, closure or relocation of industrial sites to avert risks (Meskir, 2008). Being a firm operating in Ethiopia the case companies are also expected to operate in compliance with policy and laws of the country. The company is expected to reduce use of harmful chemicals/release of harmful gases, bad smell, involve in forestation and city beautification programs and also to keep their compound clean and reduce the negative influence it has on the community.

Empirical evidences revealed that financially strong companies can afford to invest in ways that have a more long-term strategic impact, such as providing services for the community and their employees. Those allocations may be strategically linked to a better public image and improved relationships with the community in addition to an improved ability to attract more skilled employees. Hence, as two of the largest tannery companies in the city (Abyssinia and Awash Tannery), a larger contribution may be expected from them by the community. Their response

also witnesses this fact. Both companies said that there are a lot of institutions asking for sponsorship of activities and they replied to those sponsorship inquiries which they think are more important for the community, indicating the expectation from the community. The companies are almost perfect with the fulfillment of their responsibilities with regard to their creditors and they are also good with respect to the community and their employees. Failures are observed concerning the environment. In a nutshell, we can consider the overall CSR practice fulfilled partially. However, there is a need for more accomplishment of such responsibilities so that support the development of the country more than ever as growth generated by the private sector will be more inclusive, equitable and poverty reducing.

#### **4.2.2. To What Extent the Companies are clear with Corporate Social Responsibility?**

According to the interview conducted with human resource manager of Abyssinia and Administrative and Human Resource Manager of Awash Tannery, these firms' have a broader view towards Corporate Social Responsibility. When the human resource manager of Abyssinia tannery reply to the question "what does it mean by CSR for your organization", he replied that even though the basic objective of the company is maximization of return (economic responsibility), the company also recognizes that it is part of the society and decisions made considers this fact. He further explained that the company believes that it has to:

- Provide quality products to its customers (legal and ethical responsibility)
- Create employment opportunities for the society,
- Involve in activities which are designed for improving the quality of life of the community.  
(Philanthropic responsibility)
- Make investment in developmental activities so that contributing in creation of good environment to the coming generation. (Philanthropic responsibility)

The administrative and human resource manager of Awash Tannery on his side replied that the company is responsible to its owners in achieving its objective of maximization of return, and also working with its employees and society for the achievement of these objectives (economic responsibility). Further he elucidate that the company is basically responsible to act according to

the business rules and regulations of the country (legal responsibility). He also pointed out that the company is responsible to its customers in providing quality products, and the community in helping for the betterment of quality of life, in co-operation with government (legal, ethical, and philanthropic responsibility).

The above responses, when they are compared with CSR definition used in this study and the four CSR dimensions, the two companies have a better understanding about CSR. Besides, the responses clarify that these companies have realized that they are socially responsible in economic, legal, ethical and philanthropic dimensions and hence apply Carroll's CSR pyramid constructs. The companies' prioritization of these responsibilities is depicted in Figure 4.1 below.

**Figure 4.1. The case companies CSR pyramid**



*Source: developed by the researcher (2014)*

However, even though the managers' response indicated that the companies are clear with CSR issues, both companies have failed to have a specifically designed set of policies and principles regarding their social responsibility practices. But, a prior study explained that in order to be responsible and profitable in the same time, businesses must implement CSR policies, which answer the demands of their stakeholders. The fact that the companies does not have a specifically designed set of policies and principles regarding CSR implies that they may not have their own explanation for what CSR means for the company so that there is a probability that the explanations given by the managers can be their personal views than the companies view.

70% and 56.95% (Table 4.2) of the employees' respondents in Abyssinia and Awash Tannery, respectively, replied that they have the knowhow about corporate social responsibility. But, when they are asked as to how they understand it, most of the respondents have failed to give any explanation and few have tried to give meaning which is much inclined towards the philanthropic responsibility of their respective companies, which shows similarity with the managers' view in the prior research in Lebanon.

Difference as to how firms' understand Corporate Social Responsibility has been considered in prior researches. A research conducted in Lebanon for example showed that companies were adhered to a discretionary (philanthropic) conception of CSR implying an inclination among all companies operating in Lebanon to conceive of CSR as comprising the philanthropic contributions that business firms make over and above their mainstream activities. While this may be interpreted as a natural evolution through the theoretical hierarchical CSR pyramid (which includes Economic Responsibility, Legal Responsibility and, ethical Responsibility, in addition to the Discretionary or philanthropic Responsibility). Another study reported the applicability of Carroll's Pyramid of CSR constructs. In case of Abyssinia and Awash Tannery, however, there is an inclusion of all responsibilities in the theoretical hierarchy. But, a difference from the theoretical prioritization given for both the global case and Africa has been observed.

In the theoretical CSR constructs, first comes economic responsibility, then legal, ethical, and finally philanthropic responsibility. In the theoretical new African pyramid economic responsibility comes first, then philanthropic, then legal, and finally ethical responsibility. However, the case companies prioritize these dimensions as, economic responsibility first, then legal, philanthropic, and finally ethical responsibility. The difference between African CSR pyramid and the prioritization of the case companies comes in how they rank the legal and philanthropic responsibilities. The African pyramid ranks philanthropic and legal responsibility second and third respectively, but the case companies rank these responsibilities the other way round, legal second and philanthropic third. Prior studies gave an explanation on the more inclination towards philanthropic responsibility, that is, there is lack of appreciation of the other domains of CSR and their critical importance particularly in a developing country context. Therefore, the inclusion of the other domains of CSR could be as a result of the existence of

appreciation of all CSR dimensions and understanding of their importance for both the company as well as the community.

In general, considering the definition used in this study and the theoretical hierarchical CSR constructs, there is a better understanding of the concept of corporate social responsibility, the companies applies the theoretical four dimensions of CSR (knowingly or unknowingly), even though there is a difference in prioritization of such dimensions of CSR.

#### **4.2.3. Motivating Factors to Respond to the Question of Corporate Social Responsibility**

Companies do have their own reasons for involving in Corporate Social Responsibility practices. And these reasons are different from one company to another. There is also a probability that a company may have multiple reasons to practice CSR. Abyssinia and Awash Tanneries can be one example here. As per the explanation of the human resource manager of Abyssinia and the administrative and human resource manager of Awash Tanneries, the company has multiple reasons while it is involving in Corporate Social Responsibility practices. The first reasons, according to them, are that the company wants to get a greater reputation from the public. By being an active participant in developmental activities of the community, they want to send a message that it always is part of the country's developmental movements, and works for the betterment of quality of life of the society, in addition to maximization of return to the owners. If the companies become effective in doing so, they will in turn get the benefit of increased customers' loyalty. Secondly, they added, the company through involving in CSR practices wants to create a sense of belongingness in the society towards the company. They further explained that the company wants to make the community believe that the existence of the company is a great benefit for them also.

A prior research elucidated by Gholami, (2011) revealed that the mutual dependence between society and corporate can create value for both corporate and society. Some factors such as increasing of environmental awareness, increasing scarcity of tangible and intangible resources, and transparency of operations and functions have impact on it time to time. In addition, organizations shift towards excellence corporate citizenship thereby increase customer, employee and other stakeholder loyalty. Another study asserted that firms use their CSR records to create

the image of socially responsible firms and thereby influence consumer buying decisions in favor of the goods and services marketed by them.

The reasons by the case companies are consistent with prior research findings. The reasons described by the human resource manager of Abyssinia and administrative and human resource manager of Awash Tanneries have consistency with the previous findings in that organizations shift towards excellence corporate citizenship thereby increase customers, and other stakeholders loyalty and that firms use their CSR records to create the image of socially responsible firms and thereby influence consumer buying decisions in favor of the goods and services marketed by them.

#### **4.2.4. What Possible Benefits can the Companies Realize Because of Their Involvement in CSR Practice?**

There are evidences which witness the fact that there are benefits which companies can realize through their involvement in CSR practices. CSR practices can have an impact on company's ability to attract skilled man power. 53.19% and 54.74% of the respondents in Abyssinia and Awash tanneries respectively, did not have any information about CSR practices by the companies and 61.7% and 70.5% of the respondents in Abyssinia and Awash tanneries, respectively, also replied the CSR practice by the companies did not have any part on making them apply to work within these companies. This implies that the ability of Abyssinia and Awash tanneries to attract skilled employees is less.

As per the information from the loan officers of creditor banks of both companies, the banks consider CSR activity by firms when they grant credit. Both of them said that their bank grants credit for organizations involving in CSR activities more favorably than those which are not. In addition, firms which satisfy their timely interest and principal payments, which is one of the legal and ethical responsibilities of firms, will have increased reputation in the bank and therefore will increase the willingness to grant more credit. Hence, Abyssinia and Awash tanneries can benefit from their increased reputation with banks and their willingness to grant credit favorably because they are acting in a socially responsible way towards their creditors.

A prior research studied by Rahman (2012) indicated that those investments which have long term strategic impact may be strategically linked to a better public image and improved ability to attract more skilled employees which shows inconsistency with our finding. The difference in the previous research finding and the case in these two companies is, may be, as a result of the fact that, as compared with labor supply, there is less job opportunity in the country so that employees do not have much chance to choose from among employer organizations which can meet their choices. This can be improved through time as more and more job opportunities becomes available in the country and hence employees will get a chance to choose among employer organizations which can fulfill their expectations from an organization, in addition to salary.



## **CHAPTER FIVE CONCLUSION AND RECOMMENDATION**

This chapter presents the conclusion made on the basis of the findings and the recommendations forwarded there on.

### **4.1. Conclusion**

Corporate social responsibility (CSR) is a concept with a continuing debate. There is an increasing evidence that the CSR movement has picked up enough momentum to continue unabated into the next century. But, still empirical studies have generally remained scant. Specifically, there is a scarcity of research addressing the concept and practice of CSR in developing countries in general and it is almost at its zero stage in Ethiopia.

This study presented the result of a research investigating attitude of businesses towards corporate social responsibility and practice of the same in Abyssinia and Awash Tannery. In addition to the case companies, data was collected from other stakeholders of the companies (creditor banks, employees, environmental protection authority, and Bureau of Labor and Social affairs). The responses from these stakeholders were required for cross checking the response from interview with the company managers and see how they perceive the company's activities.

The study was conducted using primary data collected from interview and questioner designed in such a way that can answer the objectives of the study. In studying the managerial attitude towards CSR, likert scaling has been used to summarize and analyze their responses. The response of employees was summarized using descriptive statistics (frequency and percentage). The findings revealed that, though Abyssinia and Awash Tannery are not completely clear with the philosophy of corporate social responsibility, they have a better concept about CSR when they are compared with other previous findings in other developing countries. There is a complete inclusion of the four theoretical dimensions of CSR (economic responsibility, legal responsibility, philanthropic responsibility, and ethical responsibility).

Besides, Abyssinia and Awash Tannery had a positive attitude towards the concept and practice of Corporate Social Responsibility. It means the top management recognized that CSR contributes to the sustainable development of business and society, though; they do not have a

specifically designed set of policies and principles about their Corporate Social Responsibility. However, there is a difference in how they prioritize the four theoretical CSR dimensions as compared to the prioritization developed by prior studies. In their prioritization, economic responsibility come first, then legal, philanthropic and finally ethical responsibilities. The theoretical CSR construct which was developed for the global case prioritize them as economic responsibility first, then legal responsibility, Ethical responsibility, and finally philanthropic responsibility and the African construct prioritize them as economic responsibility first, philanthropic responsibility second, legal responsibility third, and lastly ethical responsibility.

The difference between African CSR pyramid and the prioritization of the case companies lies in how they rank the legal and philanthropic responsibilities. The African pyramid ranks philanthropic and legal responsibility second and third, respectively, but in the case companies rank these responsibilities differently, i.e., legal second and philanthropic third. The study has seen the CSR practice by the companies in accordance with its four stakeholders (creditors (banks), employees, the environment, and community).

According to the findings, these companies were acting in compliance with the legal and ethical requirements with regard to creditor banks. Concerning the environment also, Abyssinia and Awash Tanneries have failed to operate in compliance with the requirement of the environmental protection authority, though there is a step forward movement regarding the same by putting attention on the impact of factory emission, bad smell and designing an expansion project which is environmentally sound. However, the companies involving in the city beautification program which is a philanthropic conduct towards the environment. The responsibility towards the community is philanthropic in nature and the companies have done a lot in this regard. Hence, implies that these companies are fulfilling their corporate social responsibility partially.

The motive for a company to act in a socially responsible way differs from one company to another. But, the reasons for the case companies were the same. Reasons for Abyssinia and Awash Tanneries include, having greater reputation from the public so that increase customers loyalty (profit motive), and creating sense of belongingness up on the local community towards the company. In addition pressure by different organizations and individual personnel have also contributed to the philanthropic responsibility of both companies.

This study has also tried to see if CSR practice by the case companies can derive benefit in attracting skilled manpower and enhancing their ability to get capital from creditors. Previous research findings showed that there are benefits which companies can realize by their involvement in CSR activities, like attracting skilled man power, enhancing ability to get credit capital, increase customer loyalty and in turn profitability, etc. This study finding indicated that the companies CSR practice was not able to attract skilled man power and even most of their employees did not have any information about CSR practice of the companies when they applied to work in these organizations. However, the findings revealed that CSR practice of the companies enhance their ability to get credit capital.

## **4.2. Recommendation**

Businesses may not contribute adequately to the attainment of goal of sustainable development if they are ignorant about integrating CSR practices into their business strategies and to design such CSR activities that will have positive long-term impact on business, community and environment. If Abyssinia and Awash Tanneries have to contribute to the attainment of the millennium development goals and Growth and Transformation Plan designed by the Ethiopian government (which includes among others; achieving universal primary education, promoting gender equality and empower women, reducing child mortality, improving maternal health, Combating HIV/AIDS, malaria and other diseases, and ensuring environmental sustainability) acting in a socially responsible manner is necessary.

Development agencies are telling us the growth generated by the private sector will be more inclusive, equitable and poverty reducing and this days we can see a big difference between the rich and the poor in Ethiopia. As a result, it is advisable for Abyssinia and Awash Tanneries to act in a socially responsible way so that reduce this gap between the poor and the rich.

As it is stated in the conclusion, the companies are fulfilling their social responsibility partially. It is advisable for the companies to practice CSR more than ever and take the greatest part of the developmental movement of the country. This will be beneficial for both the community as well as the companies. In addition, the managers who are found to have a positive outlook towards the concept and practice of Corporate Social Responsibility are expected to put their views in to practice and then push the company's move towards CSR into the next step, i.e., the designing of policies and principles about their CSR and consideration of these policies and principles in every operational decisions.

In the move towards practicing corporate social responsibility, especially the philanthropic one, a question may be raised as to what to do for the community so that most will benefit from it. Understanding the community need is the first step in conducting philanthropy to the society. This could be achieved by conducting a need assessment. Once the need assessment is completed, the second step will be prioritization of such needs. In addition to the needs, the area

in which CSR practice is needed have to be identified. Then, the companies can get in to practice.

As an alternative, working in co-operation with non-governmental organizations (NGO's) can be one way to practice Corporate Social Responsibility (philanthropy). These partnerships enhance the corporations' role in the community and the ability of NGOs to sustain the social needs within the same community. This cooperation with NGO's could make the corporate philanthropic activities much easier and faster as NGO's makes need assessments and can recommend the companies what contributions they have to make in order to solve societal problems.

A prior research explained that in order to be responsible and profitable at the same time, businesses must implement CSR policies, which answer the demands of their stakeholders. However, both firms failed to have a specifically designed set of policies and principles concerning CSR. May be their failure to meet social responsibility is attributed to lack of such policies and principles. Hence, it is better for the companies to have policies and principles about CSR so that they can always consider it when they make operational decisions and hence will improve the extent of their CSR practice.

The findings resulted that most of the employees lack awareness on the concept of corporate social responsibility. Creating awareness could have a positive impact on their contributions to the companies move towards CSR. Thus, it is better if the companies create concept awareness on the issue of CSR. Before that, the companies need to have a clearly designed set of policies and principles and include it as their business objective. Once they design company level policies and principles, letting the employees know the plan can be done on regular meetings. Introducing the company level policies and principles can put a pressure up on the employees to be part of the company's Corporate Social Responsibility practice and make them contribute by themselves.

Serious follow up by the environmental protection authority could have a positive impact on the actions of the case companies. It is good for the environmental responsibilities of companies to

be fulfilled. The environmental protection authority should conduct a serious and continuing follow up and also create sense of belongingness and awareness towards the environment.

The overall policy of the Ethiopian environmental policy is to promote sustainable development through the sound management and use of resource so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. Therefore, companies are expected to use resources efficiently and dispose their waste appropriately so that satisfy their needs, not endanger the environment, and in turn the health of the present and future community of the area.

Finally, awareness could be created by giving training for selected (responsible) personnel in the organizations. How their operations could endanger the environment and how environmental pollution can put the health of the community as well as their domestic animals in danger, and even how risky it is on their long term performance could be the possible point of discussions in the training.

### **5.3 Limitation and Further Study Considerations**

This study was conducted in only two companies and cannot be used for generalization purpose. Therefore, if more knowledge about attitude towards and practice of corporate social responsibility is needed, another study which considers other companies is necessary.

In conducting this study, different stakeholders were considered. However, there are other stakeholders whom are not included but important to consider. These stakeholders includes, stock (share) holders (owners), the tax authority and suppliers. In addition, only the Bureau of Labor and Social Affairs were considered in collecting data about the community, and the local communities were not considered. It will be good for further studies in the area if the local communities are considered because it can give an insight about how the local community is being beneficiary by the companies CSR contributions. Besides, inclusion of the local community could also result in giving an insight about what further activities are being expected by the society.

Finally, the study only looked at the companies benefit in terms of attracting skilled manpower and enhancing ability to get credit capital. Hence, future researchers can consider other benefits, like increased reputation and loyalty from the customers and enhanced profitability.

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## APPENDIX-1

### ST. MARY'S UNIVERSITY SCHOOL OF GRADUATE STUDIES

#### QUESTIONNAIRE DESIGNED FOR THE STAKEHOLDERS OF THE COMPANY

Dear respondents, this questionnaire has two parts. The first part asks general background information and the second one incorporates the major questions, are designed for a research entitled “The Practice of Corporate Social responsibility (CSR): The Case of Abyssinia and Awash tannery” for the partial fulfillment of the requirement for the award of Masters of Business Administration from St. Mary’s University. Thus you are kindly requested to answer the questions honestly and you are assured that your privacy is strictly kept. I thank you for your cooperation!

#### **Value Judgment Statements which are used to Assess Attitudes of Corporate Managers.**

<b>ATTITUDES OF BUSINESS MANAGERS TOWARDS CSR</b>					
<b>Value judgment statements</b>	<b>Strongly agree</b>	<b>agree</b>	<b>neutral</b>	<b>disagree</b>	<b>Strongly disagree</b>
1. CSR adds value to the organization (values may include increasing goodwill, winning customers etc...).					
2. Your businesses need to engage in more CSR activities, that is environment protection, waste disposal and community service.					
3. CSR enhances competitive advantage (for example increased profitability through increased number of customers and major suppliers).					
4. CSR is a necessary obligation					
5. Government should ask businesses to engage in CSR					
6. Business success and responsibility go together					
7. Businesses should support other social institutions (like the RED CROSS and anti HIV/AIDS clubs) in solving societies problems					
8. Long run success of business depends on its ability to understand that business is part of a larger society and should act accordingly.					

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**QUESTIONS DESIGNED FOR EMPLOYEES**

1. Have you ever heard of the term “CORPORATE SOCIAL RESPONSIBILITY” (it can be indicated by securing conducive work environment for employees, helping the community like for example with construction of local schools, fair payment to employees, involving in environmental protection activities payment of tax and other obligations on time and the like).

- a. Yes b. No

2. If your answer for the second question is yes, how do you understand it?

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3. Do you have information about corporate social responsibility practices by Abyssinia/Awash Tannery before you became an employee of this organization?

- a. Yes b. No

4. Do you think these activities have their part on making you the employee of Abyssinia/Awash Tannery?

- a. Yes b. No

5. Are you happy with what is being done by the company for the employees (as to monthly salary and other compensations, the work environment and other necessary needs of employees)?

- a. Yes b. No

6. If your answer for the sixth question is ‘No’, does it make you think of leaving the organization, if you get the chance?

- a. Yes b. No

7. If your answer for question number seven is yes, do you think that changes in these factors make you change your mind?

- a. Yes b. No

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**QUESTIONS DESIGNED FOR CREDITORS (BANKS)**

1. Does your organization consider corporate social responsibility practices by borrowers in granting credits?

- a. Yes
- b. No

2. Does your organization grant credit for organizations involving in corporate social responsibility practices more favorably than those who are not?

- a. Yes
- b. No

3. Is there any time where Awash/Abyssinia Tannery fails to meet its payments on time and the amount agreed?

- a. Yes
- b. No

4. If your answer for the third question is ‘yes’, could you specify when and how many times it makes default? \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. If your answer for the third question is ‘No’, does it have an effect on the reputation of Awash /Abyssinia Tannery by your bank?

- a. Yes
- b. No

6. If your answer is ‘Yes’ for question number third, does this reputation result in increased willingness to grant credit to Awash/Abyssinia Tannery?

- a. Yes
- b. No

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**QUESTIONS DESIGNED FOR ENVIRONMENTAL PROTECTION AUTHORITY**

1. Do you believe that CSR practice is part of environmental protection?  
a. Yes b. No
2. Does your organization develop a continuous follow-up and monitoring strategy applicable to leather industries?  
a. Yes b. No
3. Do the leather industries in Addis Ababa fulfill what is expected of them in terms of CSR?  
a. Yes b. No
4. Do you think that Awash/Abyssinia Tannery have made in co-operation with your organization in terms of CSR practices?  
a. Yes b. No
5. If your answer is ‘yes’ for the fourth question, could you please list out what environmental activities Awash/Abyssinia Tannery have made in co-operation with your organization?

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6. Does your organization believe that the activities being done by the companies (Awash/Abyssinia Tannery) are good enough, considering its size and capacity?  
a. Yes b. No
7. If your answer for the sixth question is no, what makes you say that and what additional activities does your organization expect from the companies (Awash/Abyssinia Tannery)?

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8. . Are there times when the two companies (Awash/Abyssinia Tannery) fail to execute their CSR?

a. Yes

b. No

9. If your answer is “yes” for question no.8, what measures have been taken by your office?

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**QUESTIONS DESIGNED FOR THE OFFICE OF LABOR AND SOCIAL AFFAIRS**

1. What is the reason behind the setting up of your organization?

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2. Does your organization make relations with private firms around Addis Ababa city in fulfilling its objectives?

- a. Yes b. No

3. If your answer for the second question is ‘yes’, is Awash/Abyssinia Tannery one of these firms?

- a. Yes b. No

4. If your answer ‘yes’ for the third question, is it one of the major participants in the social activities?

- a. Yes b. No

5. If your answer is ‘yes’ for the fourth question, could you please specifically list those activities which Awash/Abyssinia Tannery has involved in?

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6. Does your organization believe that these social activities by the company good enough (Awash/Abyssinia Tannery), considering its size and capacity?

- a. Yes b. No

7. If your answer is ‘no’ for the sixth question, what additional activities do you think are expected of the company?

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**APPENDIX-2**  
**Unstructured Interview, Classified By Stakeholder Groups**  
**Questions Designed To Assess Corporate Social Responsibility Practice by the Case**  
**Organizations**

**A. General questions**

1. What does it mean by CSR for your organization?
2. Why does your organization involve in corporate social responsibility practices?
3. How do you prioritize the basic four categories of CSR? (They were told what these responsibilities are)

**B. Questions for stakeholders**

**Employees (More of Legal and Also Ethical)**

- Occupation health and safety policy
- Offering good physical work environment
- Satisfying wage and salary
- Reducing job insecurity

**Community (Philanthropic)**

- Supporting to cyclone centers and educational institutions
- Support to the victims of natural calamities like drought
- Rehabilitation of victims of natural calamities
- Donating money and medicine to help implement community health related programs
- Making contribution to community social and cultural development
- Supporting those projects that enhance a community's quality of life like pure water supply projects

**Environment (Legal and Philanthropic)**

- Cleanliness drive in neighborhood
- City beautification program
- Forestation program
- Reduction in use of harmful chemical/release of harmful gases

**Government (Economic and Legal)**

- Compliance with various federal, state, and local laws and regulations in the day to day operation of business
- Fulfilling legal obligations, like payment of taxes on time

## DECLARATION

I, the undersigned, declared that this thesis is my original work, prepared under the guidance of Dr. Elias Nour. All the sources used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Name

St. Mary's University, Addis Ababa

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Signature

June, 2014

## ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

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Advisor

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Signature

**St. Mary's university**

**June, 2014**