

MASTER'S STUDIES IN BUSINESS ADMINISTRATION

**In partial fulfillment of the requirements for the degree of
MASTERS OF BUSINESS ADMINISTRATION**

(SPECIALIZATION IN "OPERATIONS MANAGEMENT")



Corporate Social Responsibility and its impact on profitability

(A case study of Oil MNCs in Ethiopia)

(TOTAL, OILIBYIA, AND KOBIL)

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CERTIFICATE OF ORIGINALITY

This is to certify that the project titled "CORPORATE SOCIAL RESPONSIBILITY and its impact on Profitability. A case study on TOTAL, OUBIYA and Kobi" is an original work of the Student and is being submitted in partial fulfillment for the award of the Master's Degree in Business Administration of School of Management Studies, Indira Gandhi National Open University. This report has not been submitted earlier either to this University or to any other University/Institution for the fulfillment of the requirement of a course of study.

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ABSTRACT

The study examined the relationship between CSR and profit and the impact of CSR on profitability of the selected Oil and Gas distributing Multi-National Companies in Ethiopia. The objective of the study was to determine if there is any significant relationship between social responsibility cost and corporate profitability in the selected business firms. The study was based on the stakeholder theory of social responsibility which emphasized the need for a corporate organization to satisfy the requirements of various interest groups. Exploratory research design was employed together with correlation method to test the hypothesis and determine whether there is significant relationship between social responsibility cost and corporate profitability in the selected firms. Findings revealed relationship between social responsibility cost and corporate profitability. Therefore, the study concluded that social responsibility is vital to organizational performance. It is recommended that firms in Ethiopia endeavor to increase their commitment to social responsibility by allocating funds proportional to their income in social responsibility schemes. Business organization should make efforts to organize and assign a responsible section and staff to carry-out and periodically report status to internal and external stakeholders. Government authorities and civic groups should periodically assess the CSR activities of business operations to ensure adherence to various laws and guidelines.

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CHAPTER 1: INTRODUCTOIN

1.1 PROBLEM OREINTATION

According to Juan(2010), Corporate Social Responsibility (CSR) is a voluntary scheme undertaken by business firms and proponents of this idea demands CSR objectives be incorporated in the corporation's strategy so that operations of business organizations are regulated and a minimum standard maintained by firms to reduce the externalities of their business operations to the host countries. As stated by Chan (2014) CSR is "an increasingly essential element in the business world. The first impression many people have towards corporations is that businesses are taking advantage of consumers and society. In their minds, they think businesses are all about profit-making, and they care less about society, the environment, and human rights issues." Dixon (2014) describes that CSR is the derivative of sustainable development that addresses corporate behavior and how environmental management strategies are used as tools for growing a company's image and cumulative effects on their environment, as well as their profits. Gupta (2012) stress that the concept of CSR is underpinned by the idea that corporations can no longer act as isolated economic entities operating in detachment from broader society which requires corporations to engage in certain kind of social activities.

Is this proposition correct? In order to ascertain this, attempt has been made to review the CSR policies and schemes of selected international Oil and Gas companies CSR in Ethiopia. Generally, there are two sides to consider about CSR of oil Multi-National Corporations (MNCs). On the one hand, it is a fact that MNCs businesses are important and contribute to the host countries growth in many different ways. They create jobs which contribute to reduction of unemployment, use underutilized resources and the product and services of these

companies add to host countries gross domestic product generating additional revenue and enhancing growth (Bowie 2012). No one nation by itself becomes self-sustained and offers services and products needed within its boundary. Due to these requirements, countries are compelled to invite and encourage the business operations of other foreign companies and investments. On the other hand, however, multinational business companies also face multiple challenges. At their home countries competition, shortage of resources, rising costs and diminishing returns, and most important the need for growing market for their production and services compel them to look beyond their home countries for business (Amato et al, 2009). However, when operating and doing business in host countries foreign companies need to comply with certain code of conduct originating from their own corporations and confirm to certain laws and regulations drawn out by host and home countries governments which reflects the context of CSR that demonstrates the inclusion of social and environmental concerns in business operations and interactions with stakeholders (Ibid).

Though the main drive is profit maximization, business companies have started engaging in activities which traditionally has been regarded as government activities such as engagement in public health, education, social security, and protection of human rights while often address social ills such as AIDS, malnutrition, homelessness, and illiteracy and define ethics codes to protect environment and engage in self-regulation to fill global gaps in legal regulation and moral orientation (Scherer and Palazzo, 2012). For demonstrating this responsibility oil MNCs need to engage in some schemes and provisions which guaranties the social and environmental concerns pertaining to their business operation addressing the externalities of their operations affecting the environment and the stakeholders they serve and interact with.

If we take the case of oil distribution companies in Ethiopia, few international companies such as Total, Shell, and Mobil etc. were used to engage in oil distribution business and recently Shell, Mobil, and Agip discontinued their services in Ethiopia and Kobil¹ and OiLibya² joined the market after acquisition of Shell, Mobil and Agip³. When such companies are performing business it is certain that their operation assists the host countries in filling the perceived gap in production of services and products demanded. However, as noted by Chan (2014) though it has immense advantage to host nations review of CSR of these companies is an attempt to examine the impact of their business. As corporate citizen, the companies are also vested with the responsibility to address the issues of externalities causing effects to the society of host nations and are expected to allocate some investment to address such externality issues through their CSR strategies though this may have impact on the profitability of the oil MNCs business in Ethiopia.

1.2 STATEMENT OF THE PROBLEM

Business enterprise devotion to manage and minimize costs to attain efficiency and providing services at a reasonable price while earning profit makes minimizing cost a major area of concern. However, while doing so oil MNCs are expected to engage in social activities to contribute to the social development of host countries and augment the effort of societal environmental concerns that their business operations impacted by interacting with stakeholders on a voluntary basis and such behavior leads to sustainable societal responsibilities might only be assumed if it advance the long term value of the firm (Scherer and Palazzo, 2012). In this perspective CSR involves managing internal and external

¹Kobil Ethiopia acquired the former Shell Ethiopia Retail Network. Please see article on Petroleum Africa, published on February 6, 2007 available at <http://www.petroleumafrika.com/kobil-acquires-shell-ethiopia-retail-network/>

²Shell Ethiopia came out of market, please review article on Ethiopian Review November 25, 2008, available at <http://www.ethiopianreview.com/index/13279/>

³Ibid

dimensions and concerns (Szekely and Knirsch 2005). Internally business organizations are required to be leading a socially responsible practices when dealing with employees by making the working environment safe and investing in human capital, health and safety. Externally CSR focus beyond the company that looks into the local community which involves a wide range of stakeholders such as local communities where the operation of the business exists and the environment (Ibid).

In this perspective, the study considers the case of few oil companies and make assessment of CSRs objectives of these companies to evaluate the extent of their engagement on CSR specially those related with external stakeholders when doing business in host countries to reduce the social and environmental impacts of their operation and how far they have been engaged in CSR and enumerate the associated cost of the CSR strategies and asses the business performance of these companies and review the trends of expenditure on CRS and its impact on profitability.

1.3 OBJECTIVES

As explained in the statement above, the main objective of the study is to review the CSRs of the MNCs of Oil distribution companies in Ethiopia and evaluate whether these business firms have introduced the international standard and principles of CSRs in their operation to address the points raised in the statement of problem and how the exercise and execution of the CSR strategies have affected profitability?.

1.3.1 SPECIFIC OBJECTIVES

The study examines the following points while reviewing the oil companies CSRs performance,

- Efforts is made to identify if the international standards in business ethics and guidelines for CSRs are used by businesses under the case study. Stakeholder analysis is conducted pertaining to the oil businesses in Ethiopia to assess if enterprises are engaged in CSR to participate in social activities and environmental protection and if self-regulating mechanism and measures and responsiveness of the business for reducing its effect on the stakeholders.
- Efforts is made to identify what national laws and guidelines are available and see if businesses are in compliance with this laws and international standards in Ethiopia. Review of the three company's CSR strategies and missions in compliance to the ethics, code of conduct, and dispensing their CSR responsibilities is assessed.
- To examine whether these companies have engaged in monitoring and auditing the performance of CSR schemes and report to stakeholders involved.
- Examine if government and civic society group's role in monitoring and advising to enforce the engagement of business in CSRs activities to ensure businesses firms apply international and local guidelines and principles.
- To contribute in the sphere of ethics and CSRs studies in Ethiopia and provide additional information for other researchers who pursue further studies.
- Evaluate the CSR expenditure against profitability of oil business organizations and compare against the hypothesis.

1.4 SIGNIFICANCE OF THE STUDY

The study is expected to make contribution in the following areas:

- Provides information about CSR in relation to Oil and Gas business enterprises in Ethiopia,

- It provides information on the relationship between CSR and profitability of International Oil Companies in Ethiopia.
- It also provides information on the assessment of laws, guidelines, and procedures pertaining to CSR and evaluates if the guidelines are applied in the assessment of CSR of firms under this study.
- Finally, the research work provides information on the challenges of CSR in the oil and gas industries sectors with recommendations.

1.5 SCOPE

The scope of this paper is limited on the study of CRS of multinational oil companies operating in Ethiopia and do not cover all oil companies operating in Ethiopia.

1.6 LIMITATIONS

The objective of the study is based on the financial data and CSR spending to observe and evaluate the relationship of profit and CSR. However, the major limitation of the study is that the data of CSR and profit figures is based on voluntary disclosures by the companies and two of the three companies are not willing to disclose their profit and CSR expenditure limiting the availability of secondary data. However, interview and focused group discussion is conducted to augment the analysis.

1.7 ORGANIZATION OF THE PAPER

This work is organized and presented in five chapters. Chapter one covered the background information to the study, the research questions, objectives of the study, significance of the study as well as the scope and limitations of the study. Chapter two looked at the review of literature on the subject. The review include assessment of books, papers, publications of

earlier writers on the topic or similar to that. This chapter did also an appraisal what relationship do CSR and profit contains what motivates and triggers CSR commitment and various local proclamations, laws and international guidelines. Chapter three discussed the methodology of this study and include data collection and analysis methods used in analysis including hypothesis of the study. Chapter four presented, analyzed, and discussed the data collected for the study. Finally, chapter five discussed the findings, conclusions and recommendations for addressing the problems identified in the study.

1.8 DEFINITIONS

1.8.1 MNC represents Multi-National Corporations and defined broadly as a corporation with operations in more than one country. It needs to be pointed out that by MNCs we do not just refer to Western or Japanese companies but we also refer companies from other countries as well. In this case we refer to Total Ethiopia Ltd. an MNC from western countries while OiLibya and Kobil are enterprises from Africa operating outside of their home country.

1.8.2 Business Ethics: According to Wikipedia, Businesses ethics refers to the behavior of businesses itself, its executives, and workers. It refers to the mechanism in which a business operates and makes profit and in which the workforce and the executives and managers of businesses act towards achieving the profit and how they treat the effects of their operations and reducing its social and environmental impacts.

1.8.3 CSR is defined by European Commission (2001) is —a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis|| following increasingly aware that responsible behavior leads to sustainable business success. It refers to the idea that business

needs to make positive contributions to societal good and encourages businesses not to act in unethical manner when engaging in profit making business ventures CSR is defines as “corporate conscience, corporate citizenship or responsible business, and is a form of corporateself-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms. With some models, a firm's implementation of CSR goes beyond compliance and engages in "actions that appear to further some social good, beyond the interests of the firm and that which is required by law.”⁴ It is an act of business firms more than philanthropic actions that are performed to contribute for promoting the wellbeing and good of society as defined in Oxford Dictionary⁵.

CSR teaches how business can take into account the economic, social and environmental impact of their operations on the society and how businesses contribute to reduce and contribution to social and environmental sustainable development in a country hosting them. The Centre for Business and Government of the Kennedy School of Government at Harvard University defines it as: “CSR encompasses not only what companies do with their profits, but also how they make them. It goes beyond philanthropy and compliance and addresses how companies manage their economic, social, and environmental impacts, as well as their relationships in all key spheres of influence: the workplace, the marketplace, the supply chain, the community, and the public policy realm.”⁶

⁴Taken from definition of CSR at Wikipedia, available at https://en.wikipedia.org/wiki/Corporate_social_responsibility/

⁵For more on this topic please refer to Oxford Dictionary, available at <http://www.oxforddictionaries.com/definition/english/philanthropy/>

⁶For more on definition of CRS please see the article at the following sites available at http://www.ksg.harvard.edu/m-rcbg/CSRI/publications/workingpaper_10_kytle_ruggie.pdf/

1.8.4 CSR versus CORPORATE CITIZEN

George and Palazzo (2008) explain that “current theorizing on CSR builds on the assumption of a more or less intact regulatory framework, in which national legislation and the values and expectations of social communities prescribe appropriate business behavior and define the responsibilities of business firms.” They refer to the fulfillment of regulatory requirements which much more emphasizes on limiting the exercise of the business organizations and monitoring their activities and making sure that it meets the regulatory requirement. However, corporate citizenship underscores contrary to this in understanding the right and responsibilities of business organization in the same manner that individual citizen act. It is believed that in the same way individual citizen is expected to act in exercising its right and fulfilling its obligations businesses are also expected to do the same. George and Palazzo (2008) continue to describe that “the notion that business firms have rights and responsibilities toward society similar to those of citizens is borrowed from the political sciences and has gained wide attention both in academic research and in business practice.”(Ibid)

Chapter 2. LITERATURE REVIEW

CSR is one of those areas that have been extensively written on. For the purpose of this study few books, sites, article, journals, local and International guidelines selected are reviewed for understanding the basic issues related to CSR and Ethics. These include those written by scholars and documents published by the Oil companies themselves and government's proclamations and directives pertaining to CSR and Ethics is used where deemed necessary for this project.

2.1 THE DEBATE ON CSR

There are different stakeholders in business which encompasses owners and investor's workers, consumers, government, and society at large who appears to have different opinions with regard to CSRs strategies and responsibilities. Proponents of CSR argue that business organization should be encouraged to include CSR in their strategies and should focus on two main characteristics of CSR which is social welfare orientation and stakeholder's relationship orientation (Freeman, 1984) and businesses should be responsible for making profit and at the same time cooperate and work with society to reduce the externalities occurring from their operations through participation in the social activities of the host nations they are operating and serving. Others come in opposition to this argument and the popular school pertaining to this is Freidman (1970) and states that. "there is one social responsibility – to use its resources and engaging in activities designed to increase its profit as long as stays within the rules of the game, which is to say, engaging in free and open competition without deception or fraud"(Bowie, 2012).

This later group stress and question who should the business and corporate managers be responsible for? Do they have to be responsible for the shareholders or stakeholders? (Ibid)

As we all know businesses are corporations and have owners. The responsibilities of running the businesses is entrusted to them by the shareholders to operate the business and make profit indicating that the main responsibility of businesses is to generate profit and are responsible to their shareholders to increase earnings on investment. They are not expected to engage in any social activities which are not mandated to them by the owners. As Professor Karnani (2010) explained that, “the idea that companies have responsibility to act in the public interest and will profit from doing so is fundamentally flawed”. In conformity with the teaching of Karnani (2010) Milton Friedman (1970) also explains the paradox of business responsibility as follows,

“I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life. The businessmen believe that they are defending free enterprise when they declaim that business is not concerned “merely” with profit but also with promoting desirable “social” ends; that business has a “social conscience” and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are-or would be if they or anyone else too them seriously preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting purposes of the intellectual forces that have been undermining the basis of a free society these past decades.”

On the grounds of such thought then one can consider that the Social Responsibility even where businesses organization claimed that they have some level of engagement in social activity may be an illusion because business main responsibility is to make profit and such incoherent assertions calls for further scrutiny. In contention Professor Karnani (2010) states that,

“Very simply, in cases where private profits and public interests are aligned, the idea of corporate social responsibility is irrelevant: Companies that simply do everything they can to boost profits will end up increasing social welfare. In circumstances in which profits will end up increasing social welfare are in direct opposition, an appeal to corporate social responsibility will almost be ineffective, because executives are unlikely to act voluntarily in the public interest against shareholders interest.”

In accordance to Karnani (2010) then businesses is complying with social responsibilitypresumably when the paramount responsibility which is making profit is mingled with the achievement of meeting social intent as well. For example services and products such as healthier food, fuel-efficient vehicles, and environmental friendly business operations are an objective that meets both customer and societal demands. In the case of Freidman’s philosophy is that business provides most of the goods and services that people need as well as the job people need and believe that such contribution is sufficient and distinguish this business than that of public enterprises (Bowie 2012).

On the other hand, there are groups and scholars arguing and calling for regulating business due to the doubt that business may not duly be concerned on other social issues as the aim is to enhance profitability which may adversely affect the wellbeing of society and may cause damage to the environment and society. As expressed by Guenster et al (2011) scholars such

as Fombrun *et al.* (2000), Porter and van der Linde (1995) and Spicer (1978) CSR initiatives can lead to reputational advantages, improvements in investors' trust in the company, more efficient use of resources, and new market opportunities, all of which could ultimately be perceived positively by capital markets.

This group advocates considerations of business engagement in CSR activities that address the concerns of stakeholders include governments, civic society groups and other national and international institutes and Karnani (2010) explains that “among the major proponents of the CSRs, Academy of Management and the United Nations encourage companies to pursue CSR strategies”. Just to cite an example of national concern in Africa, the Egyptian Corporate responsibility center had the following to say which states the following in their website,

“Advocates of CSR believe that, in general, the goal of any economic system should be to further the general social welfare. In advanced economies, the purpose of business should extend beyond the maximization of efficiency and profit. Increasingly, society expects businesses to have an obligation to the society in which they are located, to the people they employ, and their customers, beyond their traditional bottom-line and narrow shareholder concerns.”⁷

To substantiate this, Archie Carroll (1991) on the other hand illustrates a wider scope of responsibility. There are four segments to his model, which comprise of economic, legal, ethical and discretionary responsibilities and Carroll suggested “that four kinds of social

⁷A guide to Corporate Social Responsibility for Egypt government available at http://www.ecrc.org.eg/uploads/documents/articles_a%20guide%20to%20corporate%20social%20responsibility.pdf/

responsibilities constitute total CSR: economic, legal, ethical, and philanthropic”⁸. Therefore, it appears that practice of CSR schemes and adapting of such strategies within and outside of companies of operations becomes much more important in today’s business objectives and strategies.

In summary there are two major schools of thought exists regarding CSR. On one side there are proponents of profit maximization who believe businesses are responsible to their owners and the responsibility vested upon them which is maximizations of profit and among the known scholar of such though is Freidman (1970). On the other, there is another school of thought which proposes the idea of CSR and advocator of such thought include Freeman and et al (1984) and asserts that managers in business enterprise should address the concern of other stakeholder’s including workers, customers, environment, government, and community and teaches the role of business and ethics which benefits the external stakeholders and the business itself and this thought is known as stakeholders theory.

2.2 REVIEW OF DIFFERENT THOUGHTS ON CSR

The above debate indicated that there are different views regarding the notion and concept of CSR. Some say that companies are responsible to their shareholders and their main task is be accountable to their owners and generate profit as described by Friedman (1970) and Karnani (2010) and as such businesses “in a free enterprise, private-property system a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers.”⁹ But both did not mention that such profit has to come at an ethical way (Ibid). However, it indicated that the very existence of the companies is to produce goods and

⁸Quoted in the article “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders, Business Horizons”, July-August 1991, pp 3.

⁹Quoted by Bowie (2012) in his article “Corporate Social Responsibility in Business”, Creating Public Value in Multi-sector, Shared-Power World, pp2, June 2012, University of Minnesota available at <http://www.leadership.umn.edu/documents/Bowie5-30.pdf/>

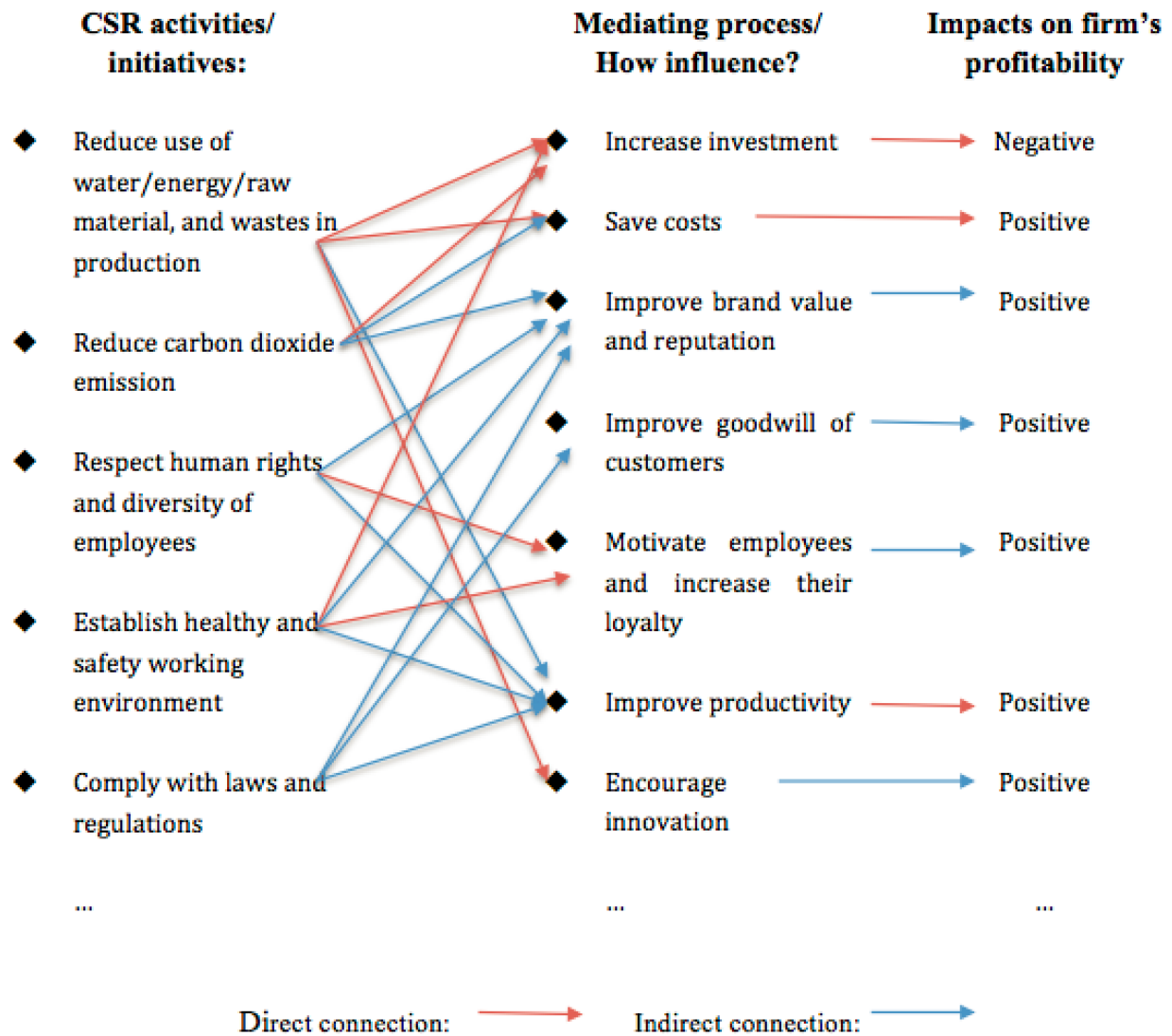
services that are consumed by the society which are safe and fulfil their requirement and making profit is by itself is a part of Social responsibility(Karnani 2010).

This debate makes clearer that the vision and strategies of CSR of business companies and their subsequent implementation and performance evaluation and understanding and recognition of the interdependence between business and society becomes clear that CSR can both help companies make money and promote societal welfare. Conceived in this way, Friedman (1970) noted that “CSR can be much more than a cost, a constraint, or a charitable deed—it can be a source of opportunity, innovation, and competitive advantage.”Carroll (1979) emphasized four obligation of businesses in a triangular form describe it as Philanthropic, Ethical, Legal, and Economical responsibility at the bottom line and expected that business enterprises comply with them all. As Carroll (1991) emphasized businesses economic obligations in terms of profit fulfils the aspiration of the shareholders namely investors while the rest reflects the obligation carried out to address the concern of stakeholders including workers, nature, and society all of which are expected to complement all stakeholders.

Jiao and Xie (2013) Table below shows how CSR activities supplement and impact profitability positively or negatively. It is observed that the factors that positively contribute surpassed the negatively impacting factors which indicated that the engagement in CSR intended meeting the needs of stakeholders such a healthy work environment and reducing emission is a key factor for companies to launch their CSR strategy (Ibid). Productivity improvement and good will establishment is aimed at strengthening the relationship between the company and stakeholder suggested as a source of competitive advantage to the company

which is positively affect firm's profitability and image enforcing to engage in sustainability programs (Ibid).

Figure 1. How does CSR affect Profitability?



Source: Jiao and Xie (2013)

2.3 WHAT TRIGGERS THE EXPENDITURE ON CSR,

According to McWilliams and Siegel (2000), each company is different in how it incorporates CSR in its business structure and is determined by a variety of factors such as company size, industry environment, business culture and exposure to risks. Taking the CSR initiative of Oil and Gas companies in Ethiopia mostly the CSR initiatives emanates from company objective at the corporate level. If we review the Jiao and Xie (2013) table above, it indicated that the CSR activities contribute much more positively to the business and the negative impact is limited tempting them towards CSR engagement. CSR reduces waste and increases efficiency which reduces cost from operations point of view. From the social perspective it reduces carbon emission contributing to better and healthy environment while complying with the laws and regulations. Depending on the characteristic of the individual firm businesses choose to focus heavily on one area of CSR, such as environmental aspects or alternatively aim to integrate a wider range of CSR aspects (Ibid).

Kolk and et al (2009) stressed that most companies in China had wrong misconception about CSR and consider CSR as a charity program and consider mainly as a concern of large and wealthy companies, not smaller ones. Such assumption is bound to indicate that large companies are motivated more to engage in CSR activities which suggest that company size in addition to financial performance are factors influencing participation in CSR. Waddock and Graves (1997) suggested that there is some evidence that larger firms may exhibit more socially responsible behavior than smaller firms which could be related to the increased expectation from stakeholders for large firms to act socially and become environmentally conscious and be more attentive to stakeholder demands. Sometimes executive's behaviors play as a factor to motivating businesses engagement in philanthropic CSR activities. Whether or not company size is an influential variable on CSR and financial performance

relationship remains debated but during the discussion with the enterprises managers under the case study, some staff believed that CSR is mostly for big companies and depends on executives who would like to engage in such activities.

2.4 RELATIONSHIP BETWEEN CSR and FINANCIAL PERFORMANCE

Having discussed the basic concept of CSR, different view of scholars on the concept of CSR, its various dimensions and trends, and what motivates and triggers the decision of managers of business organization to expend financial resource on CSR activities here below the relationship CSR with financial performance is discussed.

The main areas of concern for business as explained above would be measuring their CSR performance in relation with the risk associated to environment, society, and workers and CSR activities needs to be evaluated regarding their operations impact (Windsor 2006). Therefore, corporate organizations should exercise social conscience in making decisions that affect stakeholders, especially the employees and communities where they operate and society at large in order to be regarded as exemplary corporate citizens. The primary stakeholders to corporate organizations are the owners who risk their money to establish and run the business. Therefore, business has the responsibility of maximizing the wealth of the owners and other stakeholders such as employees, customers, community and government in responding to their demands (Fry et al, 2001). Depending on the risk assumption and predictions managers decisions to invest on CSR determine the level of impact on the performance of business. Guenster et al 2005 predicts three possible relations exists between CSR and business organizations financial performance which is specified in terms of profit and is either, Positive, Negative, or No relationship between CSR as explained by Palmer (2012, p13:19).

2.4.1 NULL ASSOCIATION

The null relationship is based on the assumption that “the market does not value CSR. Investors do not tie better social or environmental performance to lower risk” (Guenster et al 2005). The neutral relation assumes that the risk associated with compliance with CSR is not priced, therefore all companies, CSR complying as well as non-CSR complying, have the same rate of expected return and face the same cost of equity capital (Hamilton et al. 1993). This reasoning is in conformity with standard financial theory which prompts managers to consider risk factors which are priced in the market but as we all know most of the risk is not quantified.

2.4.2 NEGATIVE ASSOCIATION

Contrary to scenario above, the second scenario predicts that investors do value CSR (Guenster et al 2005). Firms with a strong social or environmental performance record might be regarded as less risky investments compared to poor environmental performers (Ibid). The firms which actively account for the CSR risk factor are seen as less risky investments relative to the firms that ignore it (Palmer 2012). Consequently, on a risk-adjusted basis, their expected returns are predicted to be lower and if the risk associated to CSR compliance is correctly priced by the firm and the market, the gain from the CSR scheme would imply a negative relation between CSR performance and financial performance (Ibid).

2.4.3 POSTIVE ASSOCIATION

Finally, the third scenario raises the possibility that the paradigm is violated in practice and suggests that the market does not price CSR efficiently. Investors may find it complicated to value the benefits or costs associated with environmental governance, particularly intangible

ones (Guenster et al 2005). This view implies that a positive or negative relation follows depending on the sign of the inefficiency. For example, Hamilton et al. (1993) argue that, if a sufficiently large number of investors underestimate or overestimate the probability that adverse events related to CSR issues might affect companies not complying with the CSR principles, then their investment provides proportionally lower or higher risk-adjusted return than socially responsible companies complied with the CSR issues according to the market determinations. Therefore, if the relationship is determined to be positive, companies could be encouraged to expand its investments and reporting's beyond the required levels. Conversely, if a relationship can't be observed or is deemed negative, companies might benefit financially from keeping CSR investments and reporting only at the required level (Sebastian et al, 2015).

2.4.4 FACTORS CONTRIBUTING TO THE RELATIONSHIPS

It is business organizations perception on the relevance of the CRS that is relevant in the extent of its implementation. Pertinence to this understanding Windsor (2006) proposes a conceptualization of the link between CSR and financial performance through the visualization of four different scenarios which connect to the Windsor (2006) relation between financial performance and CSR performance. As per Windsor (2006), the different scenarios based on the factors associated are described as follows,

- If financial performance and CSR increase at the same time, it results in a win-win situation, regardless of governmental or ethical input towards the activities.
- If both financial performance and CSR fall at the same time, it results in lose-lose scenario, where governmental input is likely to occur in order to counteract the unwanted situation.

- If financial performance increases when CSR decreases, public aversion towards companies can occur since environmental or social harm leads to increased profits for the companies.
- If financial performance decreases while CSR increases, it creates a conflict in contrast to the previous example where companies become unwilling to invest in CSR activities because of the decline in financial performance. This could also be caused by CSR investments requiring significant expenditure which may results in short term economic loss (Windsor, 2006)

2.5 CSR INITIATIVES

In Ethiopia several companies have started realizing that it is a rational move to take up in CSR activities and include them in their business objectives and this can be sited from websites of Total, OiLibya and Kobil Ethiopia Ltd and which demonstrates many CSR objectives. Though there are various ways of demonstrating the CSR of business, common and widely understood mechanism to demonstrate the CSR activities is Triple Bottom Line (TBL) concept developed by John Elkington (1994) which is commonly known as three Ps and argues for businesses to measure their success according to three perspectives: people, planet and profits (Ibid). People refers to how companies carries out its business in regard to the affected labour force, Planet attributes to how the company takes its responsibility towards environmental parameters and Profit refers to how the company's economically generates benefits to society. These three dimensions should, if properly evaluated, cover corporate sustainability and capital growth and meet the needs of a company's direct and indirect stakeholders (Dyllick & Hockerts, 2002).

For the purpose of achieving TBL goals, companies setup specific departments and teams that develop strategies and goals and allocate budgets to support them. In the modern era, the new generation of corporate leaders considers optimization of profits as the key, rather than the maximization of profit. This indicates that the CSR activities may have Social, Environmental, and Economic Dimensions (Sebastian et al 2005).

2.5.1 SOCIAL DIMENSIONS

The social impact of corporations is becoming a very important issue in business administration(Ibid). The Social activities involve health programs including protection of epidemics such as Malaria protection, AIDS, road safety, and support to disabled citizens and offering educational assistance through sponsoring scholarships and sports events, support to street children sustenance, trainings for some livelihood practices without linking them to further growth in the process of conducting CSR (the case of Total Ethiopia Ltd). Some corporates such as Total Ethiopia Ltd did participate working on disability, on assistance of elderly citizen, and on schemes benefiting street children through direct management or participating with NGO's or Government run schemes or in collaboration with partners. Government authorities and people's representatives are invited to participate in such programs to grace the occasions and enhance the visibility of the firms in the eyes of the public.

2.5.2 ENVIRONMENTAL DIMENSIONS

Companies are powerful institutions that can make a significant impact on society in their actions. That difference can be a positive contribution or it could equally be harmful (Gupta 2012) which requires a voluntary action to reduce the impact on environment and society. Considering the environmental impact, it becomes more important for companies to view its

consequences. According to Gupta (2012), “bad” Environmental impact, in fact, could increase the firm’s risk and could lead to wrong relationships with many stakeholders and could affect corporate reputation and increases its cost. Perhaps somewhat less altruistic justification for CSR is that society often finds it easy to overlook or forgive some less desirable decisions if the organization is seen investing for the benefit of society(Ibid). Just to site one example here, while discussing with Total Ethiopia Executive stressed the importance of environmental dimension of company’s CSR commitment and mentioned that, “Total Ethiopia Ltd. undertakes any measures that help to protect the environment, health and safety of workers and is considered a necessary investment and the company does not refrain from committing funds required”.¹⁰

Further arguments are that social and environmental issues cannot be quantified in the same respect as financial figures that make up the net profit/loss of a company (Dixon 2014). However, enterprises should utilize mechanism to measure the impact of their operation on environment. Tullberg (2012) commends the ambition of the model but feels that ecological footprint calculations... are positive indicators that the problems of aggregate measurements being used can be resolved (sited by Dixon 2014). In this respect, among the case study business organizations, according to the CSR Manager of Total Mr. Haileyesus Assefa, the company has embarked measuring its footprint on the environment which could be used to determine the extent of CSR activities. It was also indicated by OiliLybiaManager that, former Shell and Mobil have extensive program on environmental protection and other CSR activities¹¹.

2.5.3 FINANCIAL DIMENSIONS

¹⁰ Taken from the interview made with Finance Manager of Total Ethiopia Ltd on August 15, 2016

¹¹ Taken from the informal discussion made in the Manager of OiLibya Ethiopia Ltd. On August 5, 2016.

During the past decades, companies CSR activities have increased simultaneously with the rising of stakeholders' demands and potential financial benefits for firms undertaking CSR activities have been evaluated on numerous studies trying to distinguish the link between CSR and financial performance (Gupta 2012, Sebastian et al 2005, etc). Total Ethiopia executive mentioned that CSR activities especially those that relate to safety and environment protection are costly and expensive and needs participation of all stakeholders and further expressed, that “managing costs is critical but safety is nonnegotiable. The only viable way we can continue to do business is by operating safely. That is the principle of the enterprise she preferred to work for. Total Ethiopia doesn't compromise and keep investing in CSR activities especially that ensure the safety of staff and community. However, the cost of such protective schemes is high as compared to the margin of profit gained becoming a concern”.¹² This gives a glimpse understanding that, even though the cost on CSR is high, according to Gupta (2012) corporate leaders should consider optimization of profits as the key principle rather than the maximization of profit expressing the necessity of participation in CSR activities.

2.5.4 RECENT TREND IN CSR

The concept of CSR has a relatively long history in Western countries (Carroll, 1999; Whetten et al., 2002) and the trend is presented in the following table. According to Gupta (2012) at the initial stage CSR consisted merely of philanthropic activities subsequently progressed to concern for employee matters. In the middle of the 20th century especially during the industrial revolution CSR activities broadened to observe the attention of organizations concern on environmental issues more and can be summarized that CSR initially primarily concerned to customers, distributors, suppliers and creditors, and later to

¹² Taken from the interview made with Finance Manager of Total Ethiopia Ltd. On August 15, 2016

social and environmental issues more generally. That is what is referred as the recent trend of CSR is a concern of multiple stakeholders from within the business and outside the business (Szekely and Knirsch 2005).

Table 1: CSR Trends¹³

Phase	Period	Year	Nature of CSR
First	Pre-industrialization	1800	CSR activities were undertaken in the form of philanthropy with religious belief
Second	Pre-industrialization	1800-1914	CSR activities were undertaken in the form of donations with social welfare objectives
Third	Industrialization	1950-1980	CSR activities were undertaken in the form of responsible behavior with progressive approach.
Fourth	Post-industrialization	1980-until today	CSR activities are being performed in various forms by keeping in view multi stakeholder benefits.

2.5.5 GOVERNMENT LAWS AND REGULATIONS

According to Friedman (1970) and Carroll's conceptualization, CSR is based on two key questions. One is considering for whom corporations responsible and the other to whom they

¹³ Source, Radha Gupta (2012), Emerging Trends of Corporate Social Responsibility in India - An over view (IJBMR)

are responsible? Corporations are generally responsible to their shareholders who requires them to manage the business and generate returns on the investment made. But they should also be responsible to the society and this can be explained by looking to the hierarchy of responsibilities. Archie Carroll (1991), explains the hierarchy of responsibility in his famous pyramid. In his explanation, the firm's pyramid of CSR starts with economic responsibilities and continues with legal, ethical, and discretionary responsibilities respectively. Visser (2005) emphasized that while doing business organization should consider legal and ethical responsibilities and engage in philanthropic and ethical activities. Here below, we would review the various laws and regulations drawn out by the government and its authorities regarding CSRs which attempts to highlight if monitoring and administering of the guidelines resulted in fulfillment of CSR in attempt to reduce externalities of business especially where operations of the International Oil companies involved.

2.5.5.1 THE ETHIOPIAN STANDARD AUTHORITY:

According to information on its website, Ethiopian Standard Agency (ESA) is a governmental non-profitable organization and the sole National Standards Body (NSB) which represents Ethiopia's interest in economic, social and environmental aspects with regard to standard benefits across International and regional arena. Besides working with international and regional standard bodies, ESA also work closely with different national standard bodies under bilateral agreements. Ethiopia is solely an importer of oil and gas products required for the entire country and ESA's involvement is determination of quality of the products that meets the required international standard meeting customers' expectations¹⁴. Authorities are monitoring conformity of the guidelines by enterprises but the adulterations of petroleum

¹⁴ The Ethiopian Standard Agency web site available at <http://www.ethiostandards.org//>

products by oil and gas companies as reported by Mekuria (2015) indicated that the monitoring needs to be strengthened

2.5.5.2 PETROLEUM DOWN STREAM OPERATIONS REGULATORY DIRECTORATE

Proclamation No 838/2014 is issued to regulate petroleum and petroleum products supply operation. In the proclamation it was stated that the directorate ensures petroleum products supply operation carried out in the country comply with accepted international safety and quality standards to safeguard human health, property and the environment.

The directorate is under Ministry of Water and Electricity and the mission of the Ministry with regard to downstream operation is to “enable consumers obtain quality petroleum products supply services by ensuring petroleum and petroleum products are protected from contamination by adulteration and loss through follow-up and inspection of petroleum facilities’ operations and installations in accordance with internationally recognized standards;and enable the sector positively contribute to the social and economic development of the country without causing any damage to the public as well as the environment.¹⁵ The directorate further states that the objective is to “enable petroleum downstream operations reach international standards in five years by issuing competency certificate for those engaged or to be engaged in refining, blending, importing, exporting, storing, transporting, distributing, retailing of petroleum and petroleum products”¹⁶ through evaluation of the downstream fuel operation and issuance of competency certificates through preparing physical inspection and monitoring plan of facilities for carrying out inspection of

¹⁵ The website of Ministry of Water, Irrigation and Electricity, available at <http://www.mowie.gov.et/Directorates/>

¹⁶ Ibid

facilities and the petroleum supply chain operations to confirm whether they are carrying out their activities as per standards or not to take necessary measures in accordance with the decision made to correct the necessary measures¹⁷. This being the case, the study have not been able to find from the directorate if the directives are being applied to monitor the implementation of the guidelines. The discussion made with the manager of the enterprises under study revealed that the directorate didn't monitor them. However, the business organizations internal policy enforces to undertake the measures outlined by the directives and reiterated that the business organizations are in compliance with the objective of the directives.

2.5.5.3 ENVIRONMENTAL ASSESEMENT PROCLAMATION (No. 299/2002)

This proclamation necessitates that private and public sectors are subject to environmental impact assessment (EIA) before their approval. The proclamation describes impact as “any change to the environment or to its component that may affect human health or safety, flora, fauna, soil, air: water, climate, natural or cultural heritage, other physical structure, or in general, subsequently alter environmental, social, economic or cultural conditions”¹⁸

It also provides a legal foundation to integrate environmental economic, cultural and social considerations into the planning and decision making process and enterprises therefore, are required to pass an environmental impact assessment to operate legally and comply with the minimum level of environmental standard¹⁹. The directives calls for Oil and gas distribution businesses periodic assessment to ensure the level of impact to the environment while disposing oil and gas wastes. The authorities didn't present any data on the assessment made

¹⁷ Ibid

¹⁸Environmental Assessment Proclamation No. 299/2002, available at the following site, <https://www.ilo.org/dyn/natlex/docs/ELECTRONIC/85156/95183/F804075597/ETH85156.pdf/>

¹⁹ Ibid

if oil and gas enterprises are dealing with such issues and no data is available to review if Oil companies are being assessed to ascertain the fulfillment of the above directives.

2.5.5.4 ENVIRONMENTAL POLLUTION CONTROL PROCLAMATION No. 300/2002

The proclamation is universal guideline and offers a framework or general rule to control pollution from all kinds of sources. It prohibits pollution of the environment from any source by any person or (business entity) violating the relevant environmental standard “which is likely to cause pollution or any other environmental hazard shall, when the authority or the relevant regional environmental agency so decides, install a sound technology that avoids or reduces, to the required minimum, the generation of waste and, when feasible, apply methods for the recycling of waste”²⁰ and guided by the precautionary and use of appropriate technology “in controlling pollution”²¹. This proclamation enforces adoption of appropriate technology to handle waste and proposes an incentive scheme be determined by the authorities when such prevention programs are implemented by enterprises and includes exemption from taxes when importuning equipment for this purpose²².

Spence (2010) pointed out that a “World Bank survey of environmental performance within the oil and gas industry examined individual companies' CSR reports and codes in an attempt to understand oil and gas companies' approaches to environmental performance. The Bank found widespread adoption of environmental management systems (EMSs), and adherence to voluntary environmental management standards, to supplement legal compliance” and this

²⁰Environmental Pollution Control Proclamation Control Proclamation No 300/2002, available at <http://faolex.fao.org/docs/pdf/eth44282.pdf/>

²¹ Ibid

²² Ibid

gives confidence that the International oil companies are addressing the concern of external stakeholders but where there is a law and guidelines for ascertaining the implementation of such schemes it needs periodic review by appropriate authorities. However, discussion with authorities revealed that the focus is on manufacturing firms and oil and gas distribution enterprises adherence to the guidelines in the proclamations haven't been checked so far.

2.5.5.5 PROVISIONAL STANDARD for INDUSTRIAL POLLUTION CONTROL IN ETHIOPIA (2003)

The standard stipulated in this proclamation mainly focus on manufacturing firms. However, it is also applicable to service enterprises. Among other things, it provides guidance on effluent and emission standards and put specific emissions and effluent standards. It addresses cleaner production process and required operations to safe-guard environment. It explicitly states waste reduction measures and recycling mechanisms by firms. Therefore, firms consider these specific environmental standards formulated by the environmental authority at national level to comply with them and improve towards greener production.²³ According to the discussion with the authorities focus is on manufacturing sector and the oil and gas enterprises are not been monitored so far if they adhere to the guidelines outlined.

2.5.5.6 CONSTITUTION AND LABOUR PROCLAMATION 377/2003

Ethiopia's Constitution of 1994 enshrines the protection of certain worker rights. It focusses and shields freedom of association and collective bargaining for workers and firms are informed about their rights and responsibilities for safety of employees. Interviewed firms expressed that proclamations on labor served as a reference to act responsibly with respect to labor and as foundation for more employee welfare practices but the firms do have their own

²³Environmental Management Programme of the Plan for Accelerated Sustainable Development to Eradicate Poverty 2011-2015, ADDIS ABABA, July 2010

guidelines which is negotiated with employee through representatives and offer better condition for employees and the international Oil companies are known for better remuneration and work environment. With respect to social issues such as workplace safety and human rights within the workplace, most International Oil Companies adhere to the International Labour Organization's (ILO) standards (Spence 2010). But one should not always take this for granted and needs to ascertain that this always the case when by periodic review of operations as stipulated in the law. According to the discussion and interview made with the enterprises the labor administration in the enterprises under this study is believed to be better in addressing the issues under the law and guidelines of Proclamation 377/2003.

2.5.6 INTERNATIONAL STANDARDS by INTERNATIONAL ORGANIZATION

Though laws and guidelines offer mechanism to monitor business enterprises behaviors international standard is becoming a common practice for private and public enterprises as it encouraging and ensure responsible practice. Babiak & Trendafilova (2011) contend that the possibility of acting dutifully increases when normative standards, widely accepted by society, support such behaviors. Institutional stakeholder's pressure in general and regulatory schemes in particular brings firms to consider responsible investment (Ibid). Especially, international private standards such as ISO, UN Compact, and Fair trade etc. brought the CSR adoption in to business practice. Standards. Ethics, CSR and code of conduct are important drivers for enterprises especially for those operating in international market and standards such as ISO 26000 is key facilitator for environmental engagements (Ibid). Standards and conducts on CSR are important drivers for enterprises especially for those operating in international market and standards such as ISO 26000 is key facilitator for environmental engagements as it attract and push firms towards adopting CSR activities (Ibid).

2.5.6.1 ISO CERTIFICATIONS and STANDARDS

The International Standard ISO 26000 provides guidance on understanding, implementing and continuously improving the social responsibility of organizations, which is understood as the impacts of an organization's actions on society and the environment. The ISO 26000 standard is expected to set the norm for Social Responsibility. The main theme focused in this regard would be consideration of labor practices, the environment, fair operating practices, consumer issues, and development of the community and society, and governance²⁴. The Corporate website of some of the Oil Companies in the case study mentioned that their operation processes are approved by international standard. However, due to no information provided by the enterprises it has been difficult to ascertain if the international oil companies operate with standard certification and their operation is approved by international standards.

2.5.6.2 UN GLOBAL COMPACT

The UN has developed guide lines for responsible investment for investing entities which includes Social Responsible investing, Sustainability accounting, and Social entrepreneurship.²⁵ Socially responsible investing is a practice of investing funds only in companies deemed socially responsible according to a given set of criteria. Sustainable accounting has gained increased popularity over the recent decades as many companies are adapting technics of reporting and disclosing their CSR activities together with their social and environmental impact which provides better understanding to various stakeholders

²⁴ISO 26000 Guidance on Corporate Social responsibility, available at https://www.tuv.com/media/india/informationcenter_1/systems/Corporate_Social_Responsibility.pdf/

²⁵Boundless. "Modern Trends in Social Responsibility." *Boundless Business*. Boundless, 26 May. 2016. Retrieved 27 Aug. 2016 from <https://www.boundless.com/business/textbooks/boundless-business-textbook/business-ethics-and-social-responsibility-3/social-responsibility-35/modern-trends-in-social-responsibility-183-3207/>

indicating how companies manage their business pertaining to meeting the CSR objectives.²⁶ This is important aspect which the Ethiopian business organization should consider to grasp as best practice.

Taking the business enterprises in the case study, though they are engaged in socially responsible investing, they lack to follow the principle of sustainable accounting and social entrepreneurship. It is only one company found to engage in social work and entrepreneurship activities. While a business entrepreneur typically measures performance in terms of profit and return, a social entrepreneur also cares about positive social, cultural, and environmental progress and social entrepreneurs are commonly associated with the voluntary and not-for-profit sectors, but this doesn't necessarily mean they don't make a profit²⁷ and the activities and its gains needs to be monitored and reported separately which the oil and gas companies in Ethiopia needs to introduce such best practice which has been accepted in most Asian countries such as India and China as discussed below.

2.5.7 NGOs and OTHER CIVIC ORGANIZATION GUIDELINES

Today, non-profits, non-governmental organizations, foundations, and individuals play a role in promoting, funding, and advising social entrepreneurs to incorporate CSR initiatives in their objectives and strategies to help them discharge their responsibilities. Though we have not been able to see such activities in Ethiopia, it has recently gained a wide acceptance and encouragement in Far East and in some African countries. The initiative taken by Chamber of Commerce of Ethiopia to develop a guidelines for ethical business practices for Manufacturing and Service business in Ethiopia is encouraging step towards the involvement

²⁶ Ibid

²⁷ Ibid

of civic organizations²⁸. The guidelines prepare emphasizes a model Code of Conduct and business Ethics and more over portrays that business has a role to play in improving the lives of customers, employee, and shareholders by sharing the wealth they created and inform companies that bad behavior of few companies can result in strict government legislation to be observed by all affecting business community in general²⁹.

Coupled with this, as it is done in Asian countries especially in India, it is expected that NGOs and Civic organizations evaluate and establish a rating systems to measure corporate sustainability or corporate social responsibility (Schäfer and et al, 2006). Companies in addition to assessment on financial gains achieved for shareholders also need to make contributions to other stakeholders such as society which could be measured (Ibid). This demand for neutral civic and professional organizations engage in data collection to evaluate companies on the Triple Bottom Line (TBL) principle to measures not only economic success but also environmental and social performance – either in addition to or as an integral part of the economic evaluation (Ibid). In India Futurescape³⁰ compares the CSR of companies and rates them in terms of its CSR performance. As per the rating of 2015, interestingly the finding revealed that no foreign companies make it to the top 10 best performers list³¹ which could be used as an example for introducing same in Ethiopia to encourage national and international enterprises as well.

²⁸ Model Code of Ethics for Ethiopian Businesses (version for Trading & service types of business and for Manufacturing types of business) October 2014, developed by the Ethiopian Chamber of Commerce in association with SIDA, Addis Ababa, Ethiopia which serve as a guideline for ethics and standard when doing business in Ethiopia.

²⁹ Ibid

³⁰ The Futurescape CSR ratings of companies on the basis of CSR is found on <https://www.futurescape.in/india-best-companies-for-csr-2015//>

³¹ Ibid

Chapter 3. METHODOLOGY

Research methodology is used to describe the methods involved in the collection of information required for a study. This chapter contains the hypothesis, research design, data collection methods, validity and reliability of data, measurement of variable, data analysis technique, limitations of the research methodology of this study.

3.1 HYPOTHESIS

The main purpose of the research is to examine the hypothesis that the CSRs strategies of International oil companies in Ethiopia have affected their profitability or not and appropriate data collected to analyze the implication and test the hypothesis. The method used in this study is a combination of deductive and inductive analysis and complies with the steps and guidelines specified in the hypothesis analysis and testing recommended in statistical teachings described below.

3.1.1 Ho is that “CSR don’t impact the profitability of oil companies in Ethiopia” which reflects that, There is a negative linear relationship between a company’s CSR performance and its financial performance.

3.1.2 H₁ is “CSR do impact the profitability of oil companies in Ethiopia” which reflects that, There is a positive linear relationship between a company’s CSR performance and its financial performance.

3.1.3 The null hypothesis (Ho) is tested against the alternate hypothesis (H₁).

3.2 RESEARCH DESIGN AND APPROACH

According to Bryman & Bell (2011) in research either inductive or deductive method can be applied depending on the data utilized. In this study both methods are pursued. For the deductive analysis a quantitative data collection is necessary while for inductive a qualitative data is commonly applied in research when working with statistical figures (Bryman & Bell, 2011). Robson (2011) argues that there are five stages in a deductive process; (1) firstly, based on existing theory, testable hypothesis need to be extracted. (2) Secondly, the hypothesis is diverted into measurable terms and operationalized. (3) The third step involves testing the hypothesis in order to be able to move to the (4) fourth stage, which includes either accepting or rejecting the hypothesis. (5) The fifth and final stage involves feeding results back to the existing theory and considering if it needs revision. This study attempts to pursue the described steps for testing the hypotheses after analysis of the data collected.

A quantitative approach is considered suitable to examine the relationship between CSR and profitability of the oil MNCs and depends mainly on secondary data obtained from three (3) oil and gas firms in Ethiopia. Once the extent of the CSR provisions identified and data on their profitability are collected the study utilizes a deductive technique as explained by Bryman & Bell (2011). A quantitative research commonly involves numbers and statistical measures that helps explain, describe, explore and show relationships between variables (Saunders et al., 2009). Moreover, quantitative research is a method that tries to measure objectively in order to produce generalizable information (Bryman & Bell, 2011). However, this study uses also an inductive approach along with the deductive process for the purpose of augmenting the limited quantitative analysis to conform findings and attempts to check the relationship between CSR and profitability of the three business firms under considerations which is an approach involving a movement that is opposite to deduction (Ibid).

3.2.1 DATA COLLECTION METHODS

The collection of data is the first and important step in the statistical study since the analysis and interpretation depends upon the data collected. For this purpose, data was collected using different collection techniques. An information review on CSR program of the oil companies in the case study is conducted and available data collected to ascertain if CSR schemes are covered in the oil MNCs strategy at corporate level. Secondly, accomplishments in the past is explored from available secondary and primary sources. Thirdly, a primary data collection was pursued and for this purpose interview and discussion with senior management, workers, and CSR managers to seek information on CSR schemes and implementation status is conducted.

Focus group discussion was conducted with selected participants from the three Oil companies and other organizations. Discussion points prepared was distributed to the selected managers, workers, partners and beneficiaries of CSR schemes, governmental and non-governmental organizations officials who are responsible on CSR related roles for the purpose of data collection on CSR implementations.

The various regulations and guidelines regarding CSR in Ethiopia is also being reviewed to highlight the availability and adequacy of rules and guidelines and scrutinize if communicated to stakeholders for compliance to identify the extent of implementation of such principles by the international Oil and gas companies and the authorities.

3.3 DATA SOURCES

This study uses both secondary and primary data which is gathered from the sampled companies financial reports and CSR expenditures. Using an already existing database can save both time and resources while also allowing the researchers to be able to focus more on the interpretation and analysis of data than the data collection itself (Bryman& Bell, 2011). However, it should also be noted that there are some disadvantages of utilizing secondary data in research. As the data often reflects the organization's perspective, researchers need to ensure that the data includes the necessary elements needed to perform the study but this don't necessary mean that the quality of the data is high, therefore researchers must evaluate the data carefully before usage (Saunders et al., 2009). In this regard, it is essential to mention that the secondary data used in this research is non official data compiled by the organization themselves and minor estimations performed to fill-up the gap of information required for this study which may not fully comply with above Saunders and et al (2009) propositions.

3.3.1 THE PRIMARY DATA

The sample for this study consisted of 12 participants from the three Oil companies and 6 partners from outside the three enterprise that are engaged in CSR activities. The focus group discussion involves three areas. The first discussion involve expertise involved in CSR activities such as monitoring, control, and implementation. The second group involves the management of the business organizations. The third participants involves partners of the CSR activities, government workers and civic society groups engaged on the monitoring advising business organizations on CSR, Ethics, and Code of Conduct. In this respect, the study involves analysis in three angles. First it involves the business organization management and workers, secondly it involves government and civic bodies whose duties are related with CSR monitoring and civic society representatives and Focused group discussion

or interview technic is used for the purpose of data collection. Lastly experiences of other countries especially that of India and China from Far East are reviewed to augment the data collection exercise.

Businesses managers interviewed are working with the organizations with direct local operation responsibilities. In order to minimize bias, participants from different functional area of a single company are included and managers residing in Ethiopia are selected. A discussion points for the Focused group discussion is developed to cover the major problem areas including questions upon which this CSR research is based as described in statement of the problem. The content of the discussion points are (i.e. key CSR issues) and pilot tested with two representative managers from the oil companies under study.

The data collection is expected to include the following,

- Senior Management of the three International Oil Companies in Ethiopia.
- Other managers who are responsible for marketing, Safety or Environmental issues,
- Other employees and employees who are responsible for CSR of the enterprise,
- Representative from offices responsible for Environmental Protection, Ethics and CSR implementations in Ethiopia.
- Other Civic organizations who involve in Ethics and CSR implementations in Ethiopia.

3.3.2 SECONDARY DATA

Six years financial performance of the oil companies is collected on CSR schemes. Additionally loss/Profit after tax is obtained from the Oil and Gas companies. The company's strategies, missions, and policy & procedure pertaining to CSRs is assessed and evaluated.

CSR performance monitoring reports are used for data collection and evaluation purposes, and this especially true for collecting data from Total Ethiopia Ltd.

3.4 RELIABILITY AND VALIDITY

Reliability and Validity are essential components of a credible research (Silverman, 2005:6). In qualitative researches, reliability refers to the “degree to which the findings of a study are independent of accidental circumstances of their production” (Kirke and Miller, 1986:20 cited in Silverman, 2006:282). Reliability is about confidence in the methods employed for the collection of the data (Payne and Payne, 2004:196). In order to attain reliability, the approach, methods, techniques and theories used in the research should be clearly explained in relation to the purpose of the research (Moisnader and Valtonen cited in Silverman, 2006:282). In the instances of data collection, where actual data is not available through secondary sources, consent of the informant is obtained while confidentiality is maintained to assure the data accuracy and establishment of rapport with the staff and the interview is carried out through maintaining convenience of participants. .

For the purpose of validation of the correctness of the data triangulation technique (Silverman, 2006) is employed as such method is commonly used for ascertaining authenticity and validation of the information from such diagnostic by way of cross check from different sources. Triangulation enables us to compare data obtained from one source with other sources, and check if they corroborate one another (Ibid). For this purpose the data collected from the business organization are compared against each business companies and with those obtained from other stakeholders. Further, to such mechanism, the data obtained through such methods is contrasted against the data collected from discussion, personal observation of the researcher or information obtained from academic texts and documents.

Finally, in order to check the questionnaire's reliability of each respondent, Cronbach's alpha calculations performed and the result is found out to be 62% for the questionnaires developed for staff and partners as per table 11 & 12 below. According to Wikipedia³², the result obtained (62%) is poor and not strong enough to show strong acceptance on the result of the relationship (acceptable relationship requires above 70%), however, the finding of this study indicates that the questionnaires are consistent enough to return the same results if the questionnaire is strengthened to include other related questions and a wider sample is considered.

3.5 SOURCE CRITICISM

The source criticism pertaining to this study could be the limited sample size of participants and the limited companies included in this case study which may have determining effect on the validity and consistency of the methods used for the evaluation of the findings. However, this is a limitation not derived from preference but is due to circumstances accompanied with the difficulties to make such studies using a larger sample in a country where CSR commitment and reporting is lacking. Prior to commencing the project, the study had received consent of the business firms to provide appropriate expenditures and performance data on CSR but while carrying out the study it became difficult to obtain such information due to inherent intention of the enterprises not to share such data for no apparent reasons.

It was with such difficulties that the study pursued on the limited data available especially on the basis of secondary data obtained only from one enterprise and it was believed that it doesn't fail to explain the research questions and hamper the method of analysis and

³² Wikipedia on Cronbach's Alpha available at https://en.wikipedia.org/wiki/Cronbach%27s_alpha/

hypothesis testing outlined. As cited by Jiao and Xie (2013), in most research multiple-case seems to be preferred over a single case study. However, from the authors' viewpoint, it is suitable to focus on one case and analyze it in detail. Just like focus strategy, barely concentrate on one target and master it in a flexible way (Yin, 2008). This being the case, the source criticism pertaining to this study emanates from the size of the sample as the study concentrate on one or few case studies as compared with multiple-case design due to the individual corporate preferences to hide data (the case of Kobil and OiLibya not to share their company specific information) together with the time limitation, a single-case design is more suitable than the multiple-case in this dissertation as it required limited time (Ibid).

The business organization that are considered in this study are successful companies in Ethiopia performing Oil and Gas business and are known to be engaged in CSR activities in one way or another now and in the past. With the difficulty in secondary data collection, the case study is still relevant in considering one case study research which may not avoid some criticisms and limitations. However, since the intention is to see the CSR and profit relationships it is sufficient to consider the secondary data available augmented by primary data collected from interview and group discussion sufficient. Though these depicts the dependence of data collection on single case, according to Jiao and Xie (2013) the case study, especially the single-case design, bears the fear of “putting all your eggs in one basket” (Yin, 2008), which means, in general, the criticism is the uniqueness or artifactual conditions about the case (Ibid). But the intention of the case study is not to provide basis for the scientific generalization, which is achieved through continuously repeating the case studies (Yin, 2008, cited by Jiao and Xie (2013)) and it is not anticipated to use the findings to generalize the findings of the case studies on others organizations. Secondly, the case studies have used data which are adjusted and views may have been biased and influence the findings and choice of

the measurement statistics and influence the result (ibid). Nevertheless, the study upholds to provide insight on relationship and impact between CSR and Profit.

3.6 DATA ANALYSIS and METHOD USED

The study employs two methods of analysis of the data. First econometric method is used for analyzing the relationship through the use of correlations and ordinary least square regression method on the secondary data collected. The methodology examines the annual financial performance of oil companies in Ethiopia and compare profit with CSR expenditures. Efforts is made to use correlation to analyze the relationship between the two variables namely CSR and Profitability. Secondly, interview and focused discussion is used to collect data and evaluate using exploratory and deductive method to determine the relationship of CSR expenditure and profit.

3.6.1 METHOD USED

The profit/loss and corresponding expenses on CSRs of Total Ethiopia Ltd is used as the other two companies are not willing to provide the required CSR expenditure and profit/loss data. The two organization, Kobil and OiLibya Ethiopia Ltd have not been involved in CSR activities what so ever. Total Ethiopia Ltd is the only enterprise extensively engaged and committed resources in CSR activities and efforts has been made by Total Ethiopia Ltd to address Societal and Environmental concerns and programs are carried out in collaboration with partners and beneficiaries. Most of all Total Ethiopia Ltd has established a separate office to manage and lead the CSR internal and external schemes. The CSR expenditures as indicated in Table 3 is provided but the company didn't officially offer financial information for collecting profit data and only provided CSR budget and expenditure figures for six years. However, according to CSR Manager, Total Ethiopia Ltd.'s allocates 1% of net income for

CSR per corporate policy which is used for estimating corresponding years profit values³³.

Least Square Method is used for examining the correlations and regression relationship of CSR expenses and profitability,

3.6.1.1 Standard error test.

3.6.1.2 The dependent variable(X) is CSR expenses while profit is independent variable (Y).

Dependent Variable (X)	Independent Variable (Y)
CSR Expenditure	Net Profit/Loss of enterprises

3.6.1.3 The sample size up to six years of data. Six years financial data is used for each company to collect CSR expense and profit data.

3.6.1.4 As the sample is small, T-test is used. The student “t” distribution is used to test the null hypothesis against the alternate hypothesis.

3.6.1.5 The null hypothesis (Ho) is tested against the alternate hypothesis (H₁).

- Ho is that “CSR don’t impact the profitability of oil companies in Ethiopia”
- (H₁) is “CSR do impact the profitability of oil companies in Ethiopia”.

3.6.1.6 The computed “t” value, is compared against the table “t” (n-k) degree of freedom at 5% level of significance. If the computed “t” is greater than tabulated “t”, the null hypothesis Ho is rejected and the alternative hypothesis is accepted indicating that statistical estimate is significantly different from zero or vice versa.

3.6.1.7 R² Coefficient of Determination: Is equal to the square of the correlation between x (dependent) and y (independent) values. According to statistics teachings, this reveals the percentage and proportion variable in the dependent variable that is explained by the

³³ As per report received from to Total Ethiopia Ltd, CSR annual budget of a subsidiary is 1% of the total annual budget of the subsidiaries.

independent variable. Its maximum value is either 1 or 100% and checks the findings of this analysis.

3.6.1.8 F-Test is used to test the significance of the overall regression equation for prediction purpose. If computed “F” is greater than critical “F” (from the table) accept the hypothesis as significant and reliable for prediction purpose or policy formulation i.e. $H_0 = 1 = 0$. If computed “F” is less than critical “F”, accept the hypothesis as significant and unreliable i.e. $H_0 \neq 0$

3.6.1.9 Regression Co-Efficient: This is essential as it indicates important relationship because it allows us to notice whether our results confirm to the hypothesis or not. If a positive relationship exists and arrived at between a dependent and independent variables, then the sign of the regression coefficient is expected to be positive, the same goes for a negative relationship.

3.6.2 On the primary data collected through target group discussion the deductive analysis method is used to evaluate the perceptions of participants through discussion to examine,

3.6.2.1 If participants perceive CSR scheme is adequately performed by the oil companies to reduce the effects of their operation on the environment and workers or society.

3.6.2.2 If participants perceive there is benefit in CSR schemes to society and environment.

3.6.2.3 How they perceive the relations of CSR in terms of increasing the cost of the company's business operations.

3.6.2.4 How they perceive the relationships of CSR investment with regard to profit and examine if any positive and negative relationship between the two parameters exists. And finally answer the question, if CSR has no significant impact on the profitability of Oil and Gas companies?

Finally, both or either of the above two hypothesis are tested and compared for analysis, recommendations and concluding remarks purpose.

Chapter 4. DATA PRESENTATION and ANALYSIS

4.1 MEASURING THE PERFORMANCE OF COMPANIES IN THE CASE STUDY.

4.1.1 Kobil Ethiopia Limited

Kobil Ethiopia Ltd. is Oil and gas Distribution subsidiary Company of Kenyan and started operating in Ethiopian in 2008 after acquisition of the former Agip Ethiopia Ltd. of Italy. Kobil operates 50 stations and is among the smaller in terms of operation coverage and market share in Ethiopia. According to the website information, Kobil is a socially responsible enterprise and committed to conduct business in a manner that is compatible with the needs of the local people and ensure that its business presence adds sustainable and measurable value to host communities. The strategy they outlined mainly focus on social activities such as supporting education of bright children from poor backgrounds. Accordingly, Kobil have in place a multi-million Education Scholarship Fund and variously engage with host communities in socio-economic, cultural and sporting activities such as sponsoring the annual Ethiopia Motor Rally.³⁴

Table 2. Size of operation of Foreign Oil Companies in Ethiopia

Name of Oil Company	Gas Stations Operated
TOTAL Ethiopia Ltd.	171
OiLibya Ethiopia Lit.	158
Kobil Ethiopia Ltd.	50

Source: Collected by the Author.

4.1.2 OiLibya Ethiopia Limited

³⁴Kobil Ethiopia website, CSR available at <http://www.kenolkobil.com/corporate-social-responsibility.html/>

OiLibya Ethiopia Ltd. also commenced oil and gas distribution operation in Ethiopia in 2008 and is a subsidiary of Libya Oil Company and operates 158 stations in Ethiopia. According to the website information, OiLibya's CSR policy covers extensive internal and external schemes. The internal scheme is governed by policies covering maintenance of safe, healthy, and productive work place to identify and evaluate health risks related to its operations that potentially affect its employees, contractors or the public and implement programs and appropriate protective measures to control such risks, including appropriate monitoring of potentially affected employees.³⁵ On the external side, it pursue a policy of conducting business in a manner that is compatible with the balanced environmental and economic needs of the local communities and continuously endeavor to improve environmental performance through its operations³⁶. OiLibya's CSR policy, "it aims to:

- Comply with all applicable environmental laws and regulations and apply responsible standards where laws and regulations do not exist;
- Encourage concern and respect for the environment, emphasize every employee's responsibility in environmental performance, and ensure appropriate operating practices and training;
- Work with government and industry groups to foster timely development of effective environmental laws and regulations based on sound science and considering risks, costs, and benefits, including effects on energy and product supply;
- Manage its business with the goal of preventing incidents and of controlling emissions and wastes to below harmful levels; design, operate, and maintain facilities to this end;
- Respond quickly and effectively to incidents resulting from its operations, cooperating with industry organizations and authorized government agencies;

³⁵OiLibya Ethiopia Ltd website available at http://libyaoil Ethiopia.com/index.php?option=com_content&view=article&id=7&Itemid=110/

³⁶Ibid

- Communicate with the public on environmental matters and share its experience with others to facilitate improvements in industry performance;
- Undertake appropriate reviews and evaluations of its operations to measure progress and to ensure compliance with this policy.³⁷

4.1.3 Total Ethiopia Limited

Among the International Oil and Gas distribution companies in Ethiopia, Total Ethiopia Ltd is the biggest business enterprise operating 171 gas stations and systematically involve in CSR activities and is widely visible within the society. The activities include philanthropic, social, and environmental protection schemes which indicate that the performance of CSR consists inward and outward looking schemes. The internal CSR activities mostly includes protection of safety and health of the working force and working conditions to ensures safe operation while the external scheme is directed towards fostering social development and addressing environmental protection schemes the localities in which Total is operating in coordination with affected or beneficiary partners. Both management and employees participate in voluntary and charitable activities directed towards communities. Employees are encouraged to cite and recommend area of CSR activities and when the organization approved the implementation and allocated funds the program is led by the employee to work with the selected community together with CSR office³⁸. The company allocates budget for different schemes and regularly monitors until its final implementation. A separate section is formed with adequate staff to manage and administer the CSR activities and periodically report to local senior managers and corporate offices³⁹. In most cases, the external CSR activities involves culture and heritage, solidarity, environment protection, and sport and

³⁷ Ibid,

³⁸ Ibid

³⁹ Ibid

leisure themes and managed entirely by the CSR officers of Total Ethiopia Ltd or in coordination with staff and external partners⁴⁰. The company believes that the support extended to the society and the community that they work with develop positive attitude and sense of belongingness to the enterprise and its products.⁴¹

Speaking about the financial impacts of CSR the major reason is the high investment on CSR activities or initiatives and the head of CSR Ato Haileyesus mentioned that “it does have negative impacts on the profitability especially when the focus of the company is mainly to ensure safe working environment and ensuring to operate the business safely and engage in community development”. Finance Manger of Total Ethiopia Ltd also mentioned that she is happy to see that the company is involving community development and sustainability work and reiterated that the company has invested a lot on providing appropriate tool to each its workers to advise safety and security of the operation in real time the “do and don’t” to attain safe operation during and off-duty. The company has invested a lot on such schemes and promised to continue to do so and pledged no compromise to safety is tolerated indicating Total Ethiopia’s commitment to avoid all risks causing damage to its workers, society, and environment. The safety and health system, the drivers and vehicles monitoring system, and real-time safety reporting are initiatives that Total Ethiopia undertook so far to attain CSR goal.

Every initiative that Total Ethiopia Ltd launched has a heavy initial investment cost. For example, investing on drivers and vehicle monitoring system intends to eliminate road accidents causing damage to workers life, equipment, and more over to the environment and

⁴⁰ Ibid

⁴¹ This information is obtained from discussion conducted with Total Ethiopia’s CSR Manager during July and August 2016 and TOTAL Ethiopia Ltd.

society and entails a big cost for procuring and installation of such mechanisms. But Total Ethiopia Ltd believe and value the advantage gained through averting even a single incident that saves life and outweigh the costs of installation of such protective scheme and believe in the long-term the company benefits more. This explains what determine and motivate engagement in CSR activities, and the risk aversion attitude of management drives the commitments in CSR and considers that though the investment affects business profitability in the short-time perspective it becomes beneficiary in the long-run perspective.

4.1.4 MEASURING CSR EXPENSE and PROFIT (Secondary data)

Table 3. CSR EXPENSE AND PROFIT DATA

Year	Budget ⁴	Actual	Performance %	Profit ⁵ (Y)	Adjusted CSR expense ¹ (X)
2016	4,581,000	2,500,000 ²		517,200,000	3,206,700 ³
2015	2,000,000	1,800,000	90%	458,100,000	1,800,000
2014	3,067,500	2,500,000	80%	200,000,000	2,500,000
2013	2,011,000	2,000,000	100%	306,750,000	2,000,000
2012	3,918,000	1,500,000	40%	201,100,000	1,500,000
2011	2,000,000	1,000,000	50%	391,800,000	1,000,000

Note: -1 CSR expense is adjusted for 2016 as only data up to June 30, 2016 is provided and average performance of 0.7 is used to estimate the expense for 2016 only.

-2 Actual CSR spent for 2016

-3 Adjusted CSR expense for 2016

-4 Budget is 1% of earnings

-5 CSR budget is taken to estimate the Profit of previous year

Table 4: Data presentation (In thousands, for use of least square method)

Year	X	Y	XY	X ²	Y ²
2016	3,716	517,200	1,921,890,416,296	13,808,222,868	267,495,840,000,000
2015	1,800	458,100	824,580,000,000	3,240,000,000	209,855,610,000,000
2014	2,500	200,000	500,000,000,000	6,250,000,000	40,000,000,000,000
2013	2,000	306,750	613,500,000,000	4,000,000,000	94,095,562,500,000
2012	1,500	201,100	301,650,000,000	2,250,000,000	40,441,210,000,000
2011	1,000	391,800	391,800,000,000	1,000,000,000	153,507,240,000,000
Σ	12,516	174,017	4,553,420,416,296	30,548,299,868	805,395,462,500,000

$$N (\sum XY) - \sum X \sum Y$$

$$r = \frac{N (\sum XY) - \sum X \sum Y}{\sqrt{\{N \sum X^2 - (\sum X)^2\} \{N \sum Y^2 - (\sum Y)^2\}}}$$

$$6(4,553,420,416,296) - \{12,516 * 174,017\}$$

$$r = \frac{\dots}{\dots}$$

$$\sqrt{\{6(30,548,299,868) - (156,650,256)\} \{6(805,395,462,500) - (30,281,918,289)\}}$$

$$1,350,547,727,295,400$$

$$r = \frac{\dots}{\dots}$$

$$3,746,795,942,869,080$$

$$r = 0.3605$$

It is to be noted that the null hypothesis states that there is no significant relationship between social responsibility cost and corporate profitability in the selected firms and the CSR expense don't affect their profitability. The alternative hypothesis states that there is a significant relationship between social responsibility cost and corporate profitability in the selected firms. The correlation coefficient of 0.3605 which is greater than zero indicates a strong relationship between social responsibility cost and corporate profit. The critical value at 5% level of significance with N-2 degree of freedom is 2.632. Since the computed correlation is less than its critical value, the alternate hypothesis is rejected and accept the null hypothesis and conclude that CSR don't affect business profitability.

	Co-efficient	Standard error	T-statistics	Prob > t
Profit	1.46	1.0283	1.422	0.228
CSR	0.00155	5.65	0.554	0.609

$$\text{Multiple R} = 0.26715$$

$$R^2 = 0.0713$$

$$\text{Adjusted } R^2 = -0.1607$$

$$\text{Standard Error} = 0.8317$$

$$\text{Observation} = 6$$

$$F = 0.307, \text{ Significance } F = 0.608$$

Source = Excel System used for Correlation Calculation

The computed co-efficient shows that increase in expenditure on CSR of the enterprise under study have positive impact on profitability but not a strong relationship. The computed 0.2 and 0.6 probability are higher than 0.05 which undermines the strong relationship. These show that the relationship between CSR and profitability though it is positive it is not significant at 5% level of significant. Also, R^2 computed is 0.129 and indicated lower significance though the relationship is positive. This shows that the CSR expenditure has only 13% effect on profitability.

4.2 PRESENTATION OF PRIMARY DATA

4.2.1 FOCUSED GROUP DISCUSSION AND INTERVIEW,

The Focused group discussion and Interview is the primary data collection technique used for the analysis purpose to see if there are relationships between CSR and profit by calling up on participants from the three business enterprises in the case study.

4.2.1.1 FOCUSED GROUP DISCUSSION

- i. Almost all participants are aware of the CSR program and have a good understanding of CSR performance of their organization. Most of them see CSR programs positively impact the community and workers more than the enterprises gain publicity out of such schemes. They also understand that apart from other schemes philanthropic and sponsorship CSR programs provide significant publicity to business organization even though some are not sure if such publicity are detrimental impacting sales of particular Oil and Gas products of enterprises in the current context of Ethiopian oil and gas market situation. However, the actual implementation of CSR activities is found to be different from enterprises to enterprises according to participants from each companies who indicated a varying degree of grasp by participants. Most participant's grasp that

embarking in CSR activities internally is essential to keep the working environment conducive to staff while protecting the environment. Participants from Total Ethiopia Ltd expressed that the engagement of their company in social activities widely aimed achieving its CSR goal. While participants from Kobil and OiLibya CSR don't see their companies engagement in CSR activities in recent times. Kobil and OiLibya employees expressed concerns on why the enterprise has not embarked on CSR activities and in comparison to Kobil and OiLibya, Total Ethiopia Ltd participants expressed that their company extensively participate in CSR activities in various programs such as social development, environmental protection, and safety and health schemes. From the discussion, it was found that, participants agreed that Oil and Gas distribution companies outlined CSR goals and objectives at corporate level but found it difficult to ascertain that business enterprises have fully embarked on CSR activities especially on philanthropic and social schemes except Total Ethiopia Ltd that addresses the CSR objectives outlines in corporate objectives.

- ii. The other point of discussion was mainly related to adequacy of CSR programs to discharge enterprises responsibility to reduce the impact of its operation. Among the participants, Total Ethiopia Ltd staff pointed out that various programs was undertaken by the enterprise which contributed in averting the risk arising from business operation. The schemes implemented systematically monitor the operation and assisted in constituting protective mechanisms preventing any possible harm to workers and environment. They further mentioned that such schemes include early warning system for capturing possible incidents that may impact the operation and harm workers and environment. Some of the schemes described and discussed were monitoring of vehicles and driver's behaviors while enroot transporting fuel from or to the Port and other destination within Ethiopia.

The implemented program monitors driving behaviors, driver's health, and enroot operation to capture data and help administrators to put together training packages to train drivers on how to perform safe operation while monitoring the fuel distribution to ensure if performed safely to avoid possible potential incidents. However, those participants in Kobil Ethiopia Ltd mentioned that it appears to them that some protective measures are being taken but not aware of any specific schemes to address the environmental and social impact. Pertaining to the CSR measures directed in contributing to social development only those participants from Total Ethiopia Ltd expressed that their company has engaged in a variety of schemes while participants from other oil companies failed to mention any engagement by their companies to address the stakeholders concern. In summary, it can be said that CSR activities of oil business enterprises under the case study are inadequate.

- iii. In so far as the adequacy is concerned, Participants in Kobil and OiLybia expressed that the company need to include CSR activities into their day today operational strategies and make it visible to all stakeholders especially those schemes that relate to stakeholders such as activities that enhances the safety of workers, protecting the environment, and activities directed towards sustainable development in the community. On one occasion when discussing with a senior management of OiLibya, could be slip of a tong, expressed that “the company didn’t embark on CSR projects as the enterprise is stragglng to stand on its two feet after the acquisition of the former Shell and Mobil companies who was known to extensively participate in CSR activities was compared to other enterprise in Ethiopia then”.⁴² During the discussion with Kobil Ethiopia Ltd Manager and staff members, participants expressed that they have no knowledge of CSR activities carried

⁴² Extract from discussion with senior manager of OiLibia Ethiopia Ltd on August 5, 2016.

out by the enterprise attempting to engage in sustainable development to address the social concern⁴³ and expressed that both OiLibya and Kobil need to allocate adequate funds proportional to their profit and engage in CSR schemes to engage in sustainable development to address stakeholders concern to attain some sort of attention within the society.

- iv. The CSR program benefited some part of the society and workers. Participants from Total Ethiopia Ltd cited programs undertaken by the enterprise which has benefited the society. For example, the sponsorship of Inter Aide Water project in support of the most vulnerable part of society (in support of 2730 users and 2200 cattle), the renovation of the artistic Exhibition hall and residence at Alliance Ethio Fransaise school, support to Mekedonia Elderly and Mentally ill patients village, sponsorship of Employee sport club and Great Ethiopian run tournament, and support of the city government of Addis Ababa Labour and social Affairs Office, sponsoring road safety training programs for children, support of teaching and stationary materials for Gogicha Primary School (located behind dukam depot), are among the various programs that has been mentioned by participants to be undertaken by Total Ethiopia. The strong point that was mentioned in the CSR activity of Total Ethiopia Ltd is its consistent follow-up of the identification of activities through participation of employees and the establishment of CSR section to manage and follow-up implementation in coordination with partners. However, as explained above, participants from Kobil and OiLybia Ltd was not been able to sight any activities carried out by their company and have no knowledge and CSR endangerment.

⁴³ Extract from discussion with senior manager of Kobil Ethiopia Ltd on August 4 and 16, 2016

v. Participants in all the three companies have identified that CSR expenditure if carried out properly would likely impact the financial performance of businesses. Participants noted that the cost of environmental protection schemes to ensure safety and health of workers' and environmental protection demands huge investment. They also noted that the investment is necessary to avoid incidents entailing huge consequential damage costing the enterprise more if accidents occur. Considering the exorbitant cost of such protective schemes and activities, the investment on such schemes affects business performance in the short run period but it becomes beneficiary in the long run as it avoids possible damage and accidents which entails substantial consequential damage in the absence of such protective schemes. They also noted that the cost of engagement in social activities is not a huge investment as compared to the cost of environmental protection but offers the companies visibility within the society. Participants from Total Ethiopia Ltd. expressed that the company is expending on safety and protective measures which involve a huge cost but the investment is made in such a way that it pays off in the long run while other participants from OiLibya and Kobil Ethiopia Ltd failed to mention any of such schemes carried out by their company. In general terms, most of participants from the three business enterprises believe that investments in the CSR program are essential and once implemented would have positive impact on the Company's financial performance in the middle and long terms and agreed that companies engagement in CSR activities helps bot the society and the enterprises.

4.2.2 INTERVIEW DATA PRESENATION, ANALAYSIS, and INTERPRETATION

This part of chapter four deals with presentation, analysis and interpretation of the data collected from the selected through interview. Four selected staff participants from each of

the three companies' in questioner. Additionally 6 partners randomly selected to participate in the questioner.

4.2.2.1 PROFIT IS IMPACTED BY THE COMMITMENT OF CSR? (Question No. 1)

This questioner was forwarded to the staff who participated in the group discussion and 8.3%, and 91.7% responded disagree and strongly disagree while none choose agreement to the question indicating disagreement to the proposition that profit is impacted by the commitment to CSR indicating the tendency of majority of participants towards disagreement that Profit is impacted by businesses commitment in CSR.

Table 5: Frequency distribution of Interview response for Question no 1

Response	Frequency	Percentage
Strongly Agree	0	0
Agree	0	0
Undecided	0	0
Disagree	1	8.3
Strongly disagree	11	91.7

Selected partners to Total Ethiopia Ltd CSR program responded almost 0%, 0%, 10%, 10%, and 80% of strong agreement, agreement, and undecided, disagree, and strong disagreement respectively indicating strong disagreement towards the proposition that profit is impacted by CSR.

Table 6: Response distribution for Question 1 (Partners)

Response	Partners response	
Strongly Agree	0	0
Agree	0	0
Undecided	1	10
Disagree	1	10
Strongly disagree	4	80

4.2.2.2 PROFIT IS NOT IMPACTED BY THE COMMITMENT OF CSR? (Question No. 2)

This questioner was forwarded to staff members of oil companies who participated in the group discussion and 100% responded strong agreement while none choose disagreement to the question indicating a strong agreement to the proposition that profit is not impacted by the commitment of business to CSR. The tendency of participants is that majority believe that Profit is not impact by CSR.

Table 7: Frequency distribution of Interview response for Question no 2

Response	Frequency	Percentage
Strongly Agree	12	100
Agree	0	0
Undecided	0	0
Disagree	0	0
Strongly disagree	0	0

This questioner was also given to selected partners to CSR programs of Total Ethiopia Ltd. and 100% responded strong agreement indicating that profit is not impacted by CSR.

Table 8: Response distribution for Question 2 (Partners)

Response	Partners response	Percentage
Strongly Agree	6	100
Agree	0	0
Undecided	0	0
Disagree	0	0
Strongly disagree	0	0

4.2.2.3 CSR IMPACT PROFITABILITY (Question No. 3),

This questioner was forwarded to staff members of oil companies who participated in the group discussion and 17%, 10%, 56, and 17% responded agree, undecided, disagree, and strongly disagree respectively indicating disagreement to the proposition that profit is impacted negatively by the activity of CSR. The tendency of participants is that majority believe that CSR don't impact the profit negatively.

Table 9: Frequency distribution of Interview response for Question no 3

Response	Frequency	Percentage
Strongly Agree	0	0
Agree	1	8.3
Undecided	1	8.3
Disagree	8	66.77
Strongly disagree	2	17.0

This questioner was also given to selected partners of the companies who participated in the group discussion and the following was a response collected and 10% and 90% responded for strongly disagree and disagree while none responded undecided, agree, and strongly agree indicating strong disagreement to the proposition that CSR impact profitability.

Table 10: Response distribution for Question 3 (Partners)

Response	Partners response	Percentage
Strongly Agree	0	0
Agree	0	0
Undecided	0	0
Disagree	5	90
Strongly disagree	1	10

4.2.2.4 CSR HAS NO SIGNIFICANT ON PROFITABILITY (Question No. 4)

This questioner was forwarded to the staff of oil companies who participated in the group discussion and 33%, 59%, 8%, 0%, and 0% responded strongly agree, agree, and undecided, disagree, and strongly disagree respectively indicating agreement to the proposition that CSR has no significant impact on profitability of their company.

Table 11: Response distribution to Question no. 4(Oil companies Staff)

Response	Staff response	Percentage
Strongly Agree	4	33
Agree	7	59
Undecided	1	8
Disagree	0	0
Strongly disagree	0	0

The response to this questioner by selected partners of CSR program is that almost 83%, 17%, 0%, 0%, and 0% responded strongly agree, agree, and undecided, disagree, and strongly disagree respectively indicating strong agreement to the proposition that CSR has no significant impact on profitability.

Table 12: Response distribution for Question 4 (Partners (stakeholders))

Response	Partners response	
Strongly Agree	5	83
Agree	1	17
Undecided	0	0
Disagree	0	0
Strongly disagree	0	0

4.3 INTERPRETATION OF THE RESULT OF THE QUESTIONER.

In determining the relationship between the response of staff and its external stakeholders, question 4 of the staff and partners (external stakeholders) are used.

Table 13: Response distribution of Staff and Partners for correlation determination.

	Staff response	Partners
Strongly Agree	4	5
Agree	7	1
Undecided	1	0
Disagree	0	0
Strongly disagree	0	0

From the responses obtained from participants of the interview, it is observed that participants understand that the relationship of profit and CSR and the more companies participate in CSR it impacts profitability and positive relationship exists between CSR and profitability.

Chapter 5. FINDINGS, CONCLUSIONS, and RECOMMENDATIONS.

5.1 FINDINGS

The findings and their implications are briefly stated bellow:

- Analysis made using both the primary and secondary data indicated the same relationship between CSR and profit.
- A positive relationship exists but not strong between social responsibility expenditure and corporate profit. This implies that social responsibility makes positive contribution to organizational performance and the management may need to increase funds budgeted for social responsibility activities.
- The total amount expended on social responsibility by the sampled firm for the six years under study is Birr 12,007,000 against a profit of Birr 2,074,950,000 which is 0.58%. The implication of this result is that either no funds apportioned by the management of firms or minimal funds committed when compared to the profits realized.
- The enterprise in the sample commit less 1% of their net profit while companies in India and Nigeria commit up to 2% or 3% (Kumar et al 2016) of their net returns to social responsibility. The allocation of the business enterprises in the case study is nil or very small when compared to other countries CSR expenses indicating a very low level of CSR commitment by enterprises in Ethiopia.
- Total Ethiopia Ltd is the only company that has allocated funds and committed to its Social responsibility objectives while the others are not and the finding suggests that most firms in Ethiopia may have zero or minimal commitment to CSR especially with regard to towards sustainability and social activities.

- Though enterprises have a specific corporate objective stated in their mission statements it was not effectively practiced and enterprises didn't fulfill their commitment stipulated in their objectives. The case of OiLibya and Kobil indicates this fact. As explained, a company expected to commit itself to act as a corporate citizen and participate in social activities. The absence of such engagement in fulfilling the concern of external stakeholders might prompt others to doubt if the enterprises are engaged in addressing the concern of internal stakeholders aimed at reducing the effects of its operation. What adds to this concern is the finding of a study made on product adulteration by Mekuria (2015). According to Mekuria (2015), without exception, Oil and gas enterprises are engaged in economically motivated adulterations which raises concern.

5.2 CONCLUSION

5.2.1 CSR and REGULATORY BODIES AND OTHER CIVIC BODY'S ACTION

It appears that Ethiopia has a wide range of regulations outlined that can be used as a guidelines for monitoring externalities of business enterprises including environmental and social impacts in addition to those international standards available for use by both the government and business enterprises. However, there are major bottlenecks that hinder the assessment of CSR programs of business enterprises because companies are not committing funds for CSR activities and those who are investing on such activities don't report to stakeholders and include in their annual reports.

Sustainability strategy development can be based on legitimacy, economic and social theories. These theories explain social disclosures pattern by organizations (Haniffa & Cooke 2005). Legitimacy theory is a theory whereby corporate social disclosures were motivated by the corporate need to legitimize activities (Ibid). Thus, companies are expected to commit

funds and carry out activities that are acceptable by the community. Corporate social disclosure can be used to appease some of the concerns of the relevant public and also as a proactive legitimation strategy to obtain continued inflows of capital and to please ethical investors (Haniffa& Cooke 2005). In this regard, coupled with the laws, directives, and guidelines outlined supplemental measures needs to be introduced in order to compel business enterprises to commitment resources on CSR activities and implementation to satisfaction of stakeholders to discharge their legitimacy by reporting CSR programs and performance in Ethiopia.

Given the huge environmental control costs and the profit-minded nature of Multinational oil corporations, industry self-regulation and adherence to environmental management standard is mostly vested on the enterprises themselves and study shows that industries are in compliance with such standards (Spence 2010) as they have learned from their long-term best interests will be served by paying greater attention to the needs and wants of external stakeholders, and to their environmental and social legacy in the places they do business (Ibid).

Such expectation eases the concern of stakeholders but in the absence of effective or sufficiently stringent governmental regulatory standards, evaluations and monitoring of the implementation of the standards, international oil companies may turn to substitutes (Ibid). For this purpose, government authorities vested with the responsibility of assessing the performance of business enterprises and measure the impact to environment and society needs to rethink and step-up their effort to monitor the implementation of laws by enterprises in addition of advising and compelling them to enhance their participation in CSR schemes which eventually becomes beneficiary to business as well as society.

5.2.2 MANDATAORY SPENDING and REPORTING

Almost all International Oil and Gas firms under this study stated in their strategy that the company is committed to CSR and pledged to engage in CSR activities. However, the veracity of this intention and its subsequent implementation is verified only when reported to stakeholders which is not the case for the business firms under this study. It appears that enterprises fail to fulfill the pledge to CSR commitment. Governments in Asia such as India have embarked to draw out regulations for enforcing mandatory CSR spending to ensure the CSR strategy is implemented. As per Deodhar (2015) and Kumar et al. (2016) study on CSR, India issued Companies Act, 2013, to enforce any company having a net worth of rupees 500 crore (USD 107,215,600) or more.... or a net profit of rupees 5 crore (USD 1,072,156) or more to spend at least 2% of last 3 years average net profits on CSR activities as specified in the Companies Act, 2013 and amended from time to time and the rule came into effect from 1 April 2014.

On the other hand China also progressing on making the auditing of CSR activities by enterprises themselves to make it a mandatory process for reporting the CSR activities. According to a study made on CSR in China by Kolk and et al (2015) companies have tremendously commenced reporting their CSR activities due to government pressure on companies to publish environmental information. A company's track record in terms of CSR accounting will be effective when appropriate CSR measures are included in its internal as well as its supply-chain activities and subsequent voluntary disclosure on socially responsible investments, the reduction and mitigation of carbon emissions, and voluntary CSR reporting (Amato, et al, 2009). Business companies in Ethiopia should commit funds and report CSR performance to various stakeholders. The study made in China indicated that while the effort is seen as breakthrough still it is very low as compared to 1999 when the reporting of CSR is

started by Shell China (Ibid). Businesses in underdeveloped countries commonly don't report but recent trend indicate tremendous change and it is essential to point out the case of India and China (Ibid).

Though this calls for a separate study, the expectation of this case study is that quite a number of profitable companies in Ethiopia may fall in the mandatory reporting interval once this determined by a separate study to enhances commitment of business enterprises in CSR activities which calls for the participation of Civic, professional organizations, and government authorities to conduct further study in this direction and define mechanisms for interpretation and implementation. It is believed that profitable companied are prone to commit funds to CSR schemes. As stated by Jiao and Xie (2013), profit can be a cause for CSR since only those firms with a robust economic health, more often larger companies, show a better CSR performance, and are more willing to invest in CSR through considering their social responsibilities in a broad view. Government in Ethiopia and Civic society and professional organization in Ethiopia shall conduct further study to evaluate this proposition and introduce a mechanism to identify able and profitable enterprises to make CSR commitment mandatory for profitable and those earned above a certain threshold. Companies identified to be part of such grouping shall audit their CSR objectives and commitment and annually report performance.

5.2.3 RECOMENDATIONS

Following the hypothesis testing, data analyses and findings of this study, it would be necessary therefore to conclude that CSR is necessary for organizational performance. However, the relative novelty of CSR in Ethiopia poses difficulties for research on this topic. What has been discovered, for example, while probing through CSR policy of the enterprises

under this study was nicely worded commitment to CSR included in enterprises objectives. Two of the three enterprises in this case study consider the information on CSR to be volatile. There are serious limitations in terms of what is available from the enterprises both when demanded, through their annual reports, and on their website except a nicely worded commitment to CSR. On the ground of this perception and on the analytical findings of this study, the following recommendations are suggested to improve the CSR performance of organizations operating in Ethiopia including international oil businesses.

- Corporate firms in Ethiopia should make effort to increase their commitment to social responsibility and engage in activities such as community development projects and environmental protection in order to enhance peaceful and cordial relationship with the society.
- The management of enterprises should create a unit or department within their firms that will be responsible for their social responsibility programmes which should ensure social responsibility policies are adequately implemented.
- Business organization should engage in CSR activities and report status annually together with financial reporting.
- Government offices should enforce business organization to regularly audit their CSR activities commensurate with the objective of the enterprise and report annually the social activities performance.
- Government responsible offices should follow-up and monitor if business organization are committed to CSR activities to ensure if they are in conformity with the local and international regulations to reduce the externalities of their operations to the environment and society.

- Government responsible authorities should rethink and see the possibility of enforcing mandatory CSR programs to be included within the objective of business and provide incentive schemes for those enterprises duly engaged in CSR activities.

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- APPENDIXES,

1. Focused Group Discussion Points,

Point No. 1: Are you aware of CSR programs of Total Ethiopia Ltd. and what do you think the CSR programs includes and how do you see the schemes and activities in terms of social development, environmental protection, and safety and product support objectives?

Point No. 2: Do you think adequate programs are included in Total Ethiopia Ltd. CSR scheme for discharging its responsibility described above and describe what has been done and not done briefly?

Point No. 3: Do you perceive the CSR programs so far benefited the society and workers and what were the benefits?

Point No. 4: Do you perceive CSR programs and activities specially those addressing improvement of working conditions and environment protections increase the cost of Total Ethiopia Ltd.? Do you think the CSR program is directed to gain profitability or other benefits?

Point No. 5: How do you perceive the relationship of CSR expenditure with regard to profit and examine if in your opinion expenditures on CSR activities positively or negatively impact the financial performance of Total Ethiopia Ltd.

2. Questions

Question No.1: Profit is impacted by the commitment of companies on CSR?

Question No. 2: Profit is not impacted by the commitment of companies on CSR?

Question No. 3: CSR impacted the profitability of the company?

Question No. 4: CSR has no significant impact on profitability of the company?

3. Cronbach’s alpha calculation (Using Microsoft excel)

- The two groups of data taken are
 - i) 12 staff members 4, 7,1,0,0 responded strongly agree, agree, undecided and disagree, and strongly disagree for Question No. 4
 - ii) 6 staff members 5,1,0,0,0 responded strongly agree, agree, undecided and disagree, and strongly disagree for Question No. 4

<i>SUMMARY</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
Row 1	2	9	4.5	0.5
Row 2	2	8	4	18
Row 3	2	1	0.5	0.5

Row 4	2	0	0	0
Row 5	2	0	0	0
Column 1	5	12	2.4	9.3
Column 2	5	6	1.2	4.7

ANOVA

<i>Source of</i>						
<i>Variation</i>	<i>SS</i>	<i>df</i>	<i>MS</i>	<i>F</i>	<i>P-value</i>	<i>F crit</i>
Rows	40.6	4	10.15	2.636364	0.185281	6.388233
Columns	3.6	1	3.6	0.935065	0.388309	7.708647
Error	15.4	4	3.85			
Total	59.6	9				

$$MS = 10.15$$

$$MS \text{ Error} = 3.85$$

$$\text{Conbachs alpha} = 1 - (MS \text{ Error} / MS)$$

$$= 1 - (3.85/10.15)$$

$$= 0.6207$$

$$= 62\%$$