



**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATES STUDIES**

**AN ASSESSMENT OF THE CORPORATE SOCIAL  
RESPONSIBILITY PERFORMANCE IN A PROFIT MAKING  
ENTERPRISE: THE CASE OF THE MOTOR ENGINEERING  
COMPANY LIMITED OF ETHIOPIA.**

**BY:**

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## **DECLARATION**

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

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## **ENDORSEMENT**

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

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## **Abstract**

*The study is an assessment of the Corporate Social Responsibility performance in a profit making enterprise that is, the Motor Engineering Company of Ethiopia Ltd (MOENCO). 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 firm. 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. Descriptive research design was employed together with correlation method to test the relationship between social responsibility cost and corporate profitability in the MOENCO. The research used both primary and secondary data of the company for a period of five years spanning from 2012 to 2017. The various data are collected through interviews and focus group discussions and the study addressed content validity through the review of the relevant literature. Findings revealed the 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.*

***Key words: Corporate social responsibility and corporate financial performance***

# **CHAPTER ONE**

## **INTRODUCTION**

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

Corporate Social Responsibility (CSR) is the close relationship between companies and societies to tackle social and environmental concerns. CSR 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 (European Commission, 2002).

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.

Companies with sound CSR actions developed positive social identity and enjoyed increased loyalty from both customers and employees. CSR actions are also often associated with better financial performance of the organizations. However, this required long-term perspective as in short-run CSR actions may be viewed as expense but in fact it is an investment which will yield

additional cash flows for the corporations. CSR actions have potential to create additional value for corporations. CSR combines the social and environmental aspects in doing business (Drumwright, 1996).

The three dimensions of Corporate Social Responsibility are discussed by Panayiotou (2009) as Economic View, Environmental View and Social View. The Economic View is concerned with the financial returns explained by profit for the company, benefits for employees, and others. The Environmental view is about processes, products and services related to the environment while the Social view gives emphasis on health and safety issues, employee relations, ethics, human rights and working conditions.

Baker (2011) summarized the definition and scope of corporate social responsibility as delivering the economic, social, legal, environmental and technological advantages to all stakeholders of a firm in its business operation. He also proposed that it is the role of managers to initiate and advice shareholders to implement various social responsibility programs and by doing so enable the business organization to meet its strategic objectives.

Moreover, Moon (2004) stated that CSR is a difficult concept to separate it with other concepts like ‘corporate citizenship, sustainable business, and environmental responsibility’ and highly contextual in different areas in which the business is established and run its operation.

One of the known approaches by Carroll (1991) prominently known as the CSR Pyramid has covered the four major scope of CSR which are as follows: Economic Responsibility, Legal responsibility, Ethical Responsibility and Philanthropic Responsibility. The Economic responsibility is about satisfying the very objective of business organizations to earn as many profit as possible by exchanging goods and services in return; Legal responsibility-the laws and standards set to govern the market in the business processes and should not be violated; Ethical responsibility states that companies must strive to fulfill the needs of the society beyond the legal rules and requirements imposed by the laws of a country and Philanthropic Responsibility shows the commitment of firms to contribute to the common well-being of the society.

Like other researchers, Kotler and Lee (2005), defined CSR as to give portion of the company's profit to develop and improve the quality of life of employees and the society at large. They said, that it is the responsibility of decision makers to implement programs which improve the wellbeing of the community in addition to their objective of achieving the target profit. Based on this definition he proposed several key issues; the first issue was about the accountability of firms followed by the companies' obligation not to pollute the environment. The third issue he addressed was that companies should improve the life of the society by encouraging education, culture and other community improvements.

The Motor and Engineering Company of Ethiopia (MOENCO) was established in 1959- 2009 as a share company with 25 employees and a capital of Ethiopian Birr (ETB) 200,000. Currently MOENCO has 1000 permanent employees, one Headquarters and 5 Branches in major cities of the region. Its products are Toyota, Daihatsu, Komatsu, New Holland, generators, and heavy-duty machine. According to the organizational structure, staffing, job specification, job evaluation and salary scale comprehensive study by MikirSira PLC consultancy the employees working conditions are not completely hazardous, mainly the degree of unpleasantness or discomfort and hazards caused by the working conditions. The employees' disagreeable or unpleasant or hazardous elements include heat, cold and humidity, in compressive medical health care, etc which to some extent do not hamper their living conditions.

## **1.2. Statement of the Problem**

Some studies argue that activities might be consistent with wealth maximization motives of the firm and provide appropriate information for corporate decision making (Keim 1978; Pava & Krausz 1996). Hence, short and long run financial impacts are employed to measure the impact of CSR activities and disclosure on financial performance. However, this does not mean that all CSR program must satisfy the traditional cost-benefit criterion. There are two types of empirical studies of the relationship between corporate social responsibility disclosure (CSRD) and corporate financial performance. The first set uses the event study methodology to measure the short-run financial impact when companies appoint in socially responsible or irresponsible acts (e.g. Hannon & Milkovich 1996; Margolis & Walsh 2003; McWilliams & Siegel 2000; Orlitzky et al. 2003; Saleh et al. 2008; Wright & Ferris 1997). Market-based measure of financial performance was employed to achieve these studies such as the firms share price, share price

appreciation. Market-Based measure reflects the concept that shareholders are the most important stakeholder group whose satisfaction determines the firms' fate (Cochran & Wood 1984). Mixed results have been produced by studies conducted in developed nations on the effects of CSR activities and disclosure on firm value yet, no or few studies were undertaken to test this fact in developing countries, particularly in Addis Ababa, Ethiopia. Of course, it is impossible to conduct event study since well-developed capital market is absent in Ethiopian context to explore stock price overtime.

Hence, two proxies, content analysis and philanthropic contribution and donation, were used to measure CSR of business firms in Ethiopia. Few studies have concluded the positive beneficial effects of CSR activities on CFP while others found that the effects were negative or not related. For example, Margolis and Walsh's found that 4% of the 160 studies examined considered a negative relationship between CSR and financial performance, 55% a positive relationship, 22% was no relationship, and 18% reported a mixed relationship. Furthermore, Orlitzky, Schmidt and Rynes (2003) achieved another of higher order analysis and revealed similar results. While other studies are not similarly stable concerning the relationship between CSR and short-run financial return (McWilliams & Siegel, 2001).

In conclusion therefore, owing to the above different views this study is thus undertaken to determine if there is any significant relationship between social responsibility cost and corporate profitability in the selected business firm.

### **1.3. Basic Research Questions**

Therefore, the following research questions are developed to be answered as a result of the study:

1. Does the company fully perform its Legal obligation to pay tax to the government as required by the law?
2. Does the company promote employee development as employees contribute to the company's profit generation?
3. Does the company contribute to the benefit of the society as a socially responsible company in its activities?
4. Has the concept of CSR in the company enabled managers and staff to successfully improve their sales leading to profit maximization of the company?

## **1.4. Objective of the Study**

### **1.4.1. General Objective**

The general objective of this study is to do an assessment of the Corporate Social Responsibility in a profit making enterprise as in the case of MOENCO.

### **1.4.2. Specific Objectives**

Furthermore, the research targets to achieve the following specific objectives:

- To examine how the company fully performs its obligation to pay tax as required by the law and the society.
- To examine whether the company promotes employee development as employees contribute to the company's profit generation.
- To examine the company's contribution to the society as a socially responsible company in its activities?
- To examine the level of awareness of the managers and staff about the concept of corporate social responsibility practices.

## **1.5. Significance of the Study**

First and foremost, this study will be important to the researcher in doing the cross match of the theoretical aspect with the real practices. It will be useful to other researchers who may be interested to conduct research in similar topics. In addition, as a research, the primary merits of the study will go to the university academics. Since there are few studies in the area, it gives additional insight to distribution system in the supply chain process as well as the organization which has been taken up as a case study. And it will also help the organization to identify the dimensions that need further improvement so as to benefit more from the demand of domestic market. The study creates awareness to the organization about its strengths, weaknesses, opportunities and threats to improve the overall Corporate Social Responsibility.

## **1.6. Delimitation of the Study**

Owing to the fact that Corporate Social Responsibility is a broad subject area, and considering the time attached to this study; the research was limited to only do an assessment of the CSR performance in a profit making enterprise that is, MONECO.



This study is only limited to the geographic boundary of Addis Ababa around Bole Sub city and the research is adopted to consider the current data. The data was collected from among the inhabitants of the society and employees and the respondents were selected by using judgmental sample techniques.

Even if the study has strong design and method, it can go through from limited impact from factors such as a strong focus, being too population-specific, or the field being only conducive to incremental findings. In addition to this, the findings are not generalized for other businesses in Ethiopia; it will require future research which will broaden the sample size to include other businesses.

### **1.7. Organization of the Study**

The second chapter deals with the relevance of the study in the existing literature. After the presentation of the existing related literature, the researcher provided a synthesis of the whole chapter in relation to the study. The third part of the study discusses the methods and procedures used in the study. This chapter comprises the presentation of the utilized techniques for data collection and research methodology. Similarly, it also contains a discussion on the techniques used in data analysis as well as the tools used to acquire the said data. The fourth chapter contains discussion of the results of the study. Data presented statistically treated in order to uncover the relationship of the variable involved in the study. With the said data, the chapter seeks to address the statement of the problem noted in the first chapter. The last chapter comprises three sections: the summary of the major findings, conclusions of the study, and the recommendations. With the three portions, the chapter is able to address the problem stated in the initial chapters of the study.

Reference and annex are also provided in the final part of the paper

## **CHAPTER TWO**

### **REVIEW OF THE RELATED LITRATURE**

This chapter presents the related theoretical framework, the empirical review and conceptual framework. In the theoretical review part, different theoretical aspects about corporate social responsibility performance and financial performance in a profit making enterprise are presented; on the empirical review part, the summary of similar and related studies are presented and the conceptual framework in schematic model conveys the concepts.

#### **2.1. Theoretical Frame work**

##### **2.1.1. Early Theoretical Work of CSR**

“Early theoretical work specifically addressing corporate social responsibilities is represented by Sethi (1975) who developed a three tier model for classifying corporate behavior which he labeled "corporate social performance". The three levels of corporate social performance are based on social obligation ( response to legal and market constraints);social responsibility (addressing societal norms, values and expectations of performance) and social responsiveness (anticipatory and preventive adaptation to social needs).

Sethi's second tier requires that a company moves beyond compliance and recognizes and addresses societal expectations. The third tier requires that a company develops the competence to engage effectively with stakeholders and take proactive measures on their issues and concerns. Sethi also emphasized the cultural and temporal dependencies of corporate responsibilities and the importance of stable management systems and standard classifications to facilitate measurement of progress and comparative analysis (Macgill cited in Barrow, 2006).

Building on Sethi’s model Carroll (1979) proposed a model that contains the following four categories of corporate responsibility in decreasing order of importance:

- a) Economic -be profitable;
- b) Legal - obey the law;
- c) Ethical- do what is right and fair and avoid harm;

d) Discretionary / philanthropic- be a good corporate citizen.

The four classes of responsibility are seen to reflect the evolution of *business and society interaction* in the United States. According to Carroll “the history of business suggests an early emphasis on the economic and then legal aspects and a later concern for the ethical and discretionary aspects”. Economic obligations are therefore seen to be tempered by ethical responsibilities or by social expectations and norms. Discretionary responsibilities go beyond ethics and include philanthropic measures and generally good citizenship (Jolly 1978 cited in Barrow 2006). In 1991, Carroll presented his CSR model as a pyramid and suggested that, although the components are not mutually exclusive, it “helps the manager to see that the different types of obligations are in constant tension with one another”.

### **2.1.2. The Societal Dimension of Strategic Management**

In 1979, around the time Carroll published his CSR model, the *societal dimension of strategic management* was explored by Igor Ansoff in “The Changing Shape of the Strategic Problem”. He proposed that an “enterprise strategy”, describing the interaction of a firm with its environment should be added to the corporate, business and functional levels of strategic management. According to Ansoff, an enterprise strategy was needed in order to enhance a company’s *societal legitimacy* and to address new variables in strategic management such as “new consumer attitudes, new dimensions of social control and above all, a *questioning of the firm’s role in society*”. These ideas are today at the heart of stakeholder approaches to strategic management (Macgill cited in Barrow, 2006).

The stakeholder theory, emphasising a broad set of social responsibilities for business was established by R Freeman in 1984 through the ground breaking work published in his book “Strategic management: A stakeholder approach” which effectively established the field of *Business & Society*. Freeman defined stakeholders as “any group or individual who is affected by or can affect the achievement of an organisation’s objectives” (Jolly 1978 cited in Barrow 2006:6).

### **2.1.3. Principles of Corporate Social Responsibility**

Crowther and Aras (2008) in their book of “Corporate Social Responsibility” have put three

basic principles which together compile all CSR activities. These are: -

- Sustainability
- Accountability
- Transparency

It further entails that the concept of sustainability is merely focusing on as to how the present actions will reflect and affect the future usability of same action. If resources are utilized presently, then they are no longer available in the future, and this is of particular concern if resources are finite in quantity. Therefore, at some point in the future there should be an alternative that fulfills the function currently provided by these resources. For instance, paper industry has a policy to replant and replace the harvested plants and this has an effect both in terms of resources availability and cost on future need. Sustainability therefore implies that society must use no more of a resource than can be regenerated.

In light of an organization being part of wider social and economic system implies that these effects must be taken into consideration, not just for cost and value created in the present but also for the future of the business itself. Unsustainable operations must be replaced with closer suitable sustainable one or should be properly backed by planning for a future lacking in resource currently required. In practice companies tend to aim at less un-sustainability trend by generating different alternative options. An example would be energy efficiency program.

Accountability is concerned with an organization recognizing that its actions affect the external environment, and therefore assuming responsibility for the effect of its action. These are therefore related to measuring and quantifying the effect and do the due diligent to internal and external concerned stakeholders. Thus, the concept is about assuming responsibility and letting the parties know the fact on the ground.

Accountability therefore necessitates the development of appropriate measures of the environmental performance and the reporting of the actions of the firm. By way of notifying the facts on the actions, it prompts the decision makers to take appropriate measure as needed.

Principle related to transparency is about ascertaining impact of organization actions against the organization reports and pertinent facts. Therefore, all the actions and effects including external impacts are apparent to all stakeholders who are using the information. Transparency can be seen to follow from the other two principles and equally can be seen to be part of the process of recognition of responsibility on the part of the organization for the external effects

of its actions and equally part of the process of transferring power to external stakeholders.

In broader expiration of context, Corporate Social Responsibility (CSR) embraces a range of principles or ideas, ranging from corporate governance, business ethics, and sustainable development through to human rights and environmental concerns. They are explained more fully.

**Business ethics:** Ethical businesses assess the moral implications of their actions, from product development to manufacturing to distribution, in order to stay competitive. Many issues fall under the rubric of business ethics: human rights, environmental protection, worker health and safety, labor standards, marketing, accountability, and reporting. Business ethics is concerned with a compliance with internal regulations and government mandates. An ethical business will also look beyond its own ethical practices to the practices of its business partners and suppliers. Business ethics is also taught as an academic discipline to business students at undergraduate and postgraduate level. Ethics are used as a guide in legal or religious compliance and in accomplishing profit maximization. It is merely one form of decision making.

**Sustainable development:** Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. It contains within it two key concepts: the concept of needs, in particular the important needs of the world's poor, to which overriding priority should be given; and the idea of limitations imposed by the state of technology and social organization on the environment's ability to meet present and future needs. For some people social responsibility is a subset of sustainable development, for others it underlines and distinguishes the social dimensions of the impacts of business and other organizations, given that sustainable development has come to imply a focus on the environment.

**Corporate governance:** The system of rules, practices and processes by which a company is directed and controlled. Corporate governance is the basis of accountability in companies, institutions and enterprises, balancing corporate economic and social goals on the one hand with community and individual aspirations on the other ( Bolanle, et al., 2012).

**The environment:** The environmental concerns of businesses can be divided into the local and the global. All businesses must comply with legislation that prevents gross pollution of water, air, and soil. Manufacturing businesses can buy permits or trade tariffs in order to be able to

pollute up to a certain limit. They must also make provision for cleaning up. Businesses must also face up to global environmental concerns; they know that their activities can have wide ranging repercussions on the environment, especially on global warming through the emission of greenhouse gases.

**Working in the community:** Businesses have always had some sort of relationship with the communities that live around them, usually because not only they recruit staff locally but also the environmental aspect. Businesses spend time and money assisting local communities in a variety of ways e.g. supporting education programs and health awareness initiatives.

**Human Resource Management:** This includes recruitment and training, equal opportunities, profit sharing and share ownership schemes.

**Supply chain management:** Businesses engaging in corporate social responsibility review their suppliers' practices encouraging suppliers to meet the challenges of a socially responsible business if they want to continue trading with them.

**Socially responsible investment (SRI):** Where SRI was in the past developed for religious groups, it is available in many different formats to address issues of concern to people of any faith, or none. The proliferation of socially responsible or ethical funds has led to the creation of indices of socially responsible companies (Bolanle et al 2012).

#### **2.1.4. Corporate Social Responsibility Pyramid**

Theories regarding what the corporate social responsibility concept has to incorporate in it have been developed. From these theories the one developed by Carroll (1991), which he labeled as “the pyramid of corporate social responsibility”, shown in Figure 1 has gotten greater acceptance by many academicians and researchers. This pyramid has four levels: Economic Responsibility, Legal Responsibility, Ethical Responsibility, and Philanthropic Responsibility and he also explained these concepts as follows:

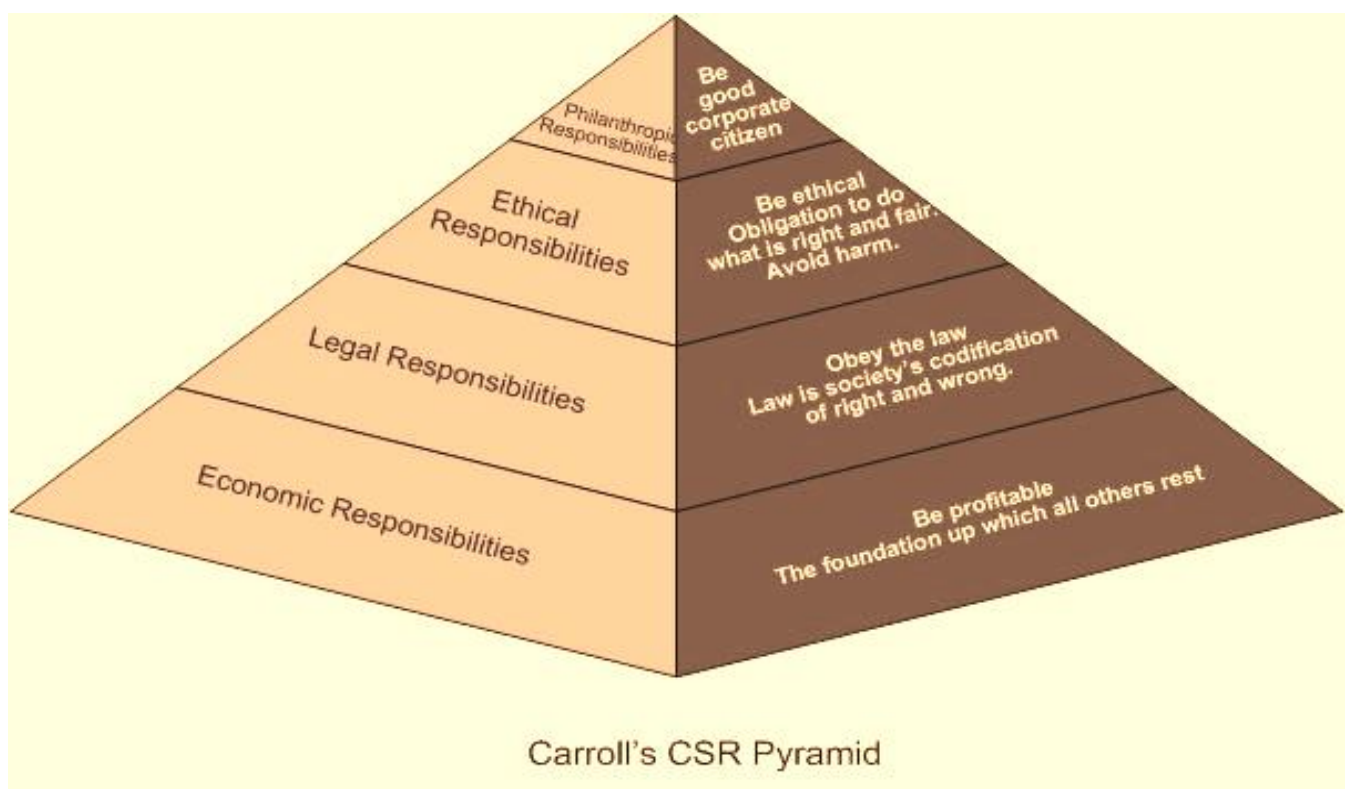
##### **2.1.4.1. Economic Responsibilities**

Historically business organizations were created as economic entities designed to provide goods and services to societal members. The profit motive was established as the primary incentive for entrepreneurship. Before it was anything else, business organization was the basic economic unit in our society. As such, its principal role was to produce goods and services that consumers needed and wanted and to make an acceptable profit in the process.

At some point the idea of the profit motive got transformed into a notion of maximum profits, and this has been an enduring value ever since. All other business responsibilities are predicated upon the economic responsibility of the firm, because without it the others become moot considerations. This responsibility incorporates statements like:

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

**Figure2.1. Hierarchy of Corporate Social Responsibilities**



Source: Carroll A.B (1999)

### **2.1.4.2. Legal Responsibilities**

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

Carroll (1991) explains that it is essential for a corporation to perform in a consistent way with expectations of government and law and also comply with different states, federal, and local principles. He further list that it is essential to be an honest corporation and successful organization that is being defined as one and that also achieves its legal responsibilities. It is essential for a corporation to provide goods and services that at least reaches up to the minimal law regulations.

### **2.1.4.3. Ethical Responsibilities**

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



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

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

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

#### **2.1.4.4. Philanthropic Responsibilities**

Philanthropy encompasses those corporate actions that are in response to society's expectation that businesses be good corporate citizens. This includes actively engaging in acts or programs to promote human welfare or goodwill. The distinguishing feature between philanthropy and ethical responsibilities is that the former are not expected in an ethical or moral sense. Communities desire firms to contribute their money, facilities, and employee time to humanitarian programs or purposes, but they do not regard the firms as unethical if they do not provide the desired level. Therefore, philanthropy is more discretionary or

voluntary on the part of businesses even though there is always the societal expectation that businesses provide it. One notable reason for making the distinction between philanthropic and ethical responsibilities is that some firms feel they are being socially responsible if they are just good citizens in the community. This distinction brings home the vital point that CSR includes philanthropic contributions but is not limited to them. In fact, it would be argued here that philanthropy is highly desired and prized but actually less important than the other three categories of social responsibility.

In a sense, philanthropy is icing on the cake-or on the pyramid, using our metaphor. It includes statements like:

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

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

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

economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development” is used. In addition to this definition, the four dimension of CSR pyramid is applied in the study.

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



Source: Visser (2006b)

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

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

The overall policy of Ethiopian environmental policy is to promote sustainable development through the sound management and use of resources so as to meet the needs of the present generation without compromising the ability of future generations to meet their own needs. Environmental Pollution Control proclamation (proclamation # 300/2002) is the most relevant instrument for compliance and enforcement of air pollution control policy objectives. The law requires protecting the environment in general and safeguarding human health and wellbeing as well as maintaining the biota and aesthetic values of nature in particular. The proclamation has included principles like; refrain from polluting, administrative or legal measures imposed on violators (polluter pays principle), duty to install sound technology, polluter cleans up or pays the cost, closure or relocation of industrial sites to avert risks (Meskir, 2008).

### **2.1.6. Triggers for 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. As Jiao and Xie, (2013) 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.

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.

### **2.1.8. 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. 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).

#### **2.1.7.1. The 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. 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.

### **2.1.7.2. Negative Association**

Contrary to the scenario above, the second scenario predicts that investors do value CSR. Firms with a strong social or environmental performance record might be regarded as less risky investments compared to poor environmental performers. 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.

### **2.1.7.3. Positive 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 intangibility (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 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).

### **2.1.9. 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).

### **2.1.10. CSR Initiatives**

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 labor 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).

### **2.1.9.1. Social Dimensions**

The social impact of corporations is becoming a very important issue in business administration. 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 MOENCO). Though it is my observation that very little CSR is undertaken by the case study mentioned above, it is apparent that most companies in Ethiopia and the continent over engage in a very minimal philanthropic work in their areas of operations. The Motor Engineering Company Limited of Ethiopia partaking on a philanthropic venture in Addis Ababa through a program called "Mother to Child" taking total care of the beneficiaries ranging from education, livelihood and professional career. The company also participate in a minimal way working donating to disability, 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 other partners. Government authorities and people's representatives are invited to participate in such programs to grace the occasions and enhance the visibility of the company in the eyes of the public

### **2.1.9.2. 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).

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).

### **2.1.9.3. Financial Dimensions**

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). 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.

### **2.1.10. 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’ expectations.

### **2.1.10.1. 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” and guided by the precautionary and use of appropriate technology “in controlling pollution” . 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 importing equipment for this purpose.

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 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.

### **2.1.10.2. 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. 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.

### **2.1.10.3. Constitution and Labor Proclamation 377/2003**

Ethiopia's Constitution of 1994 enshrines the protection of certain worker rights. It focuses 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 guidelines which is negotiated with employee through representatives and offer better condition for employees and the 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 Companies adhere to the International Labor 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.

### **2.1.11. 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 (Babiak & Trendafilova, 2011).

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 (Babiak & Trendafilova, 2011). 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 (Babiak & Trendafilova, 2011).

#### **2.1.11.1. 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 governance.

#### **2.1.11.2. 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. 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 techniques of reporting and disclosing their CSR activities together with their social and environmental impact which provides better understanding to various stakeholders ISO 26000 Guidance on Corporate Social responsibility, available at indicating how companies manage their business pertaining to meeting the CSR objectives.

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.

#### **2.1.12. NGO's 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 guidelines for ethical business practices for Manufacturing and Service business in Ethiopia is encouraging step towards the involvement of civic organizations. 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 general.

Coupled with this, as it is done in Asian countries especially in India, it is expected that NGOs and Civic organizations evaluate and establish some rating systems to measure corporate sustainability or corporate social responsibility (Schafer 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. 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 (Schafer and et al, 2006). In India Futures cape compares the CSR of companies and rates them in terms of its CSR performance.

## **2.2. Empirical Review**

McWilliams & Siegel (2000) claim that the models of previous studies were miss-specified, as those authors have omitted an important control variable- investment in Research and Development (R&D). Regressing financial performance on social performance (in this case measured by a dummy variable, equal to 1 if a company is included in Domini 400 Social Index) without controlling for R&D investment, yields a positive and statistically significant coefficient on CSR. However, after investment in R&D was included in the model, no relationship between CSR and CFP was found.

Hillman & Keim (2001) distinguish between two types of CSR-stakeholder management (building relations with employees, customers, communities, etc.) and social issue participation (not engaging in industries such as alcohol or tobacco, or refusing to do business with countries where human rights violation is a common practice, etc.). Using data of S&P 500 firms, the

authors find a positive association between stakeholder management and shareholder value. However, the social issue participation was found to be negatively related to the financial performance. Both types of CSR were measured by KLD data, the same as Waddock & Graves (1997) used.

Barnett & Salomon (2006) take a different, interesting approach. They focus on mutual funds making only Socially Responsible Investments (SRIs), and measure how intensity and type of social screening (funds' selection of companies into portfolio, according to CSR criteria) influences the funds' financial performance. Some researchers state that since the SRI funds exclude certain firms or even whole industries (e.g., tobacco, alcohol, or gambling industry), their possibility to diversify is limited, and thus they are likely to incur financial losses.

Barnett & Salomon's (2006) counterargument is that thanks to the social screens, actually the more stable and better-managed companies are chosen into the fund's portfolio. Their empirical results show that with more social screens used by the SRI fund (it is assumed that the funds which are stricter in their selection are more socially responsible) the financial performance (measured by risk-adjusted average monthly return on portfolio) initially decreases, but then starts to rise again as the number of social screens approaches the maximum, suggesting a curvilinear relationship between the funds' social and financial performance. The other finding of this study is that the type of social screens matters. Financial performance is enhanced by community screening, while environmental and labor relations screens lead to a lower financial performance.

Moneva, Rivera-Lirio, & Muñoz-Torres (2007) evaluate social performance of Spanish firms by building a scale measuring the quality of their sustainability reports. They find a positive but not significant relationship between the higher quality of sustainability reports (which is assumed to reflect the external transparency of implementation of CSR strategies) and firms' financial performance.

Van der Laan, Van Ees, & Van Witteloostuijn (2008) find out that CSR dimensions related to secondary stakeholders (community, diversity, environment and human rights) are not linked to financial performance in the case of S&P 500 firms. On the other hand, those CSR activities related to primary stakeholders (employees, customer and investors) matter. Especially when the wishes of these 3 groups are disregarded, it would have a negative impact on CFP. As a measure of CSR, again, the KLD data are used.

Brammer & Millington (2008) focus on a specific aspect of social performance— corporate charitable giving. They examine its effect on the risk-adjusted market performance of a company's shares. Firstly, they estimate a Tobit model to see what the expected charitable giving with respect is to size, industry, profitability, R&D, and advertising intensity of the company. They use the residuals to identify firms with unusually high/low contributions to the charity. According to their results, the firms with exceptionally good social performance do not outperform the other firms in the short-run; however, they earn substantially higher profits in the long-run, suggesting that it just takes some time to benefit from the CSR activities.

Hull & Rothenberg (2008) show that the positive relationship between CSR (measured by using KLD data) and CFP, measured by ROA, is moderated by both industry innovation and level of differentiation. Concretely, the added differentiation through CSR seems to have higher effect on profits when competitors are poorly differentiated, and the innovation added by CSR can be beneficial when the firm is not forced to innovate, but chooses to do so, and thus becomes better than the other firms.

Makni, Francoeur, & Bellavance (2009) made their analysis on a sample of Canadian firms, using CSR data from Canadian Social Investment Database. They find a statistically significant negative relationship between stock market performance and the aggregate CSR measure. However, no significant relationship was found between CSR and ROA or ROE. When the authors examined individual measures of CSR (rank on community activities, governance, human rights, etc.), a statistically significant relationship was found only for employees and environment. It was negative in both cases, suggesting that investment in such CSR activities is too costly for Canadian firms in the short-run.

Schadewitz & Niskala (2010) examine the effect of responsibility reporting based on the Global Reporting Initiative (GRI) guidelines on firm value. They use a sample of all listed Finnish firms and find that the reporting has a positive impact on the firm value in Finland. Inoue & Lee (2011) again use KLD data, this time to examine more in detail how CSR activities influence profits of companies operating in tourism related industries, where they are challenged to satisfy the socially-conscious travelers. They find out that the impact of CSR is negative in the short run and there is no effect in the long-run in the airline industry. However, a significantly positive CSR effect on profits was found, both in the short and the long-run, in the case of restaurants and hotels.

Eccles, Ioannou, & Serafeim (2014) identify 90 companies from S&P 500 as highly sustainable, and compare their financial performance in past 18 years to 90 benchmark companies. The high sustainability portfolio significantly outperforms the benchmark portfolio in 11 years, and in general it is shown to be less volatile.

Gregory, Tharyan, & Whittaker (2014) disaggregate the measure of CSR (according to KLD data) into both firms' strengths and weaknesses in terms of employee relations, community activities, diversity, environmental action, and product characteristics. Overall, strengths have a positive impact on firm value (which is significant in the case of employees and product), and weaknesses influence the firm value negatively (significantly in the case of community, diversity, employees and environment).

De Klerk, de Villiers, & van Staden (2015) take a closer look at 100 largest companies in the United Kingdom and analyze whether CSR disclosure has an impact on their share prices. The findings show that CSR disclosure is valuable information for investors and it leads to higher share prices.

Moreover, De Klerk et al. (2015) show that the CSR disclosure is more relevant for firms operating in environmentally sensitive industries. Qiu, Shaukat, & Tharyan (2016) extend the former analysis and examine the relation between both social and environmental disclosure and companies' financial performance, also in the context of United Kingdom. No link between environmental disclosure and profits was found, however, the findings show that social disclosures are those that are important for investors, and they lead to a higher market value of firms.

### **2.2.1. Summary of the More Recent Research**

The studies published after 2000 start to take more sophisticated approaches when examining the link between social and financial performance. Therefore, some studies find a positive impact of certain aspects of CSR, and a negative impact of some others. Altogether, the resulting relationships found in the more recent research can be summarized as follows:

#### **Positive relationship • x**

Hillman & Keim (2001), Van der Laan et al. (2008), Brammer & Millington (2008), Hull & Rothenberg (2008), Schadewitz & Niskala (2010), Inoue & Lee (2011), Gregory et al. (2014), Eccles et al. (2014), De Klerk et al. (2015) and Qiu et al. (2016), i.e., 10 out of 14 selected



studies, found some positive relationship between CSR and CFP. However, in almost all the studies the relationship was positive only in certain cases. Hillman & Keim (2001), similarly as Van der Laan et al. (2008), find a positive relation only in the case of CSR concerning the primary stakeholders (employees, customers and investors). Brammer & Millington (2008) find a positive relationship only in the long-run, and Hull & Rothenberg (2008) report an impact of CSR only when there is a low innovation and low differentiation in the industry. Further, the analysis of Inoue & Lee (2011) demonstrates a positive relationship specifically in the restaurant and the hotel industry, but not in the airline industry.

Moreover, when sustainability reports were analyzed, De Klerk et al. (2015) find a positive influence on share prices, but when Qiu et al. (2016) get more in detail, they find a positive impact of social disclosure, but not of environmental disclosure. Therefore, it seems like it might be useful to distinguish between different types of CSR, and not to consider only an aggregate measure. On the other hand, there are still the studies (Schadewitz & Niskala, 2010; Gregory et al., 2014; Eccles et al., 2014) which find the positive relationship in every context they examine.

### **U-shaped relationship • x**

The U-shaped relationship was found only in the study of Barnett & Salomon (2006), who examined the socially responsible mutual funds. Their analysis suggests that when there are no social screens applied when firms are selected to the portfolio, or if there are many of them, the financial performance of the fund will be enhanced.

### **Neutral relationship • x**

McWilliams & Siegel (2000), Moneva et al. (2007), Van der Laan et al. (2008), Makni et al. (2009), Inoue & Lee (2011), Qiu et al. (2016) found some neutral relationship between CSR and CFP. Most of the neutral relationships are complementary to the positive ones mentioned before, e.g., Van der Laan et al. (2008) found no impact only of the CSR concerning secondary stakeholders (e.g., environment). On the other hand, McWilliams & Siegel (2000) report solely a neutral relationship after controlling for R&D investment, and Moneva et al. (2007) found positive but not significant relationship between high quality of sustainability reports (i.e., better CSR) and CFP. Makni et al. (2009) did not find any impact of CSR (except for the one concerning employees and environment) in the case of Canadian firms.

### **Negative relationship • x**

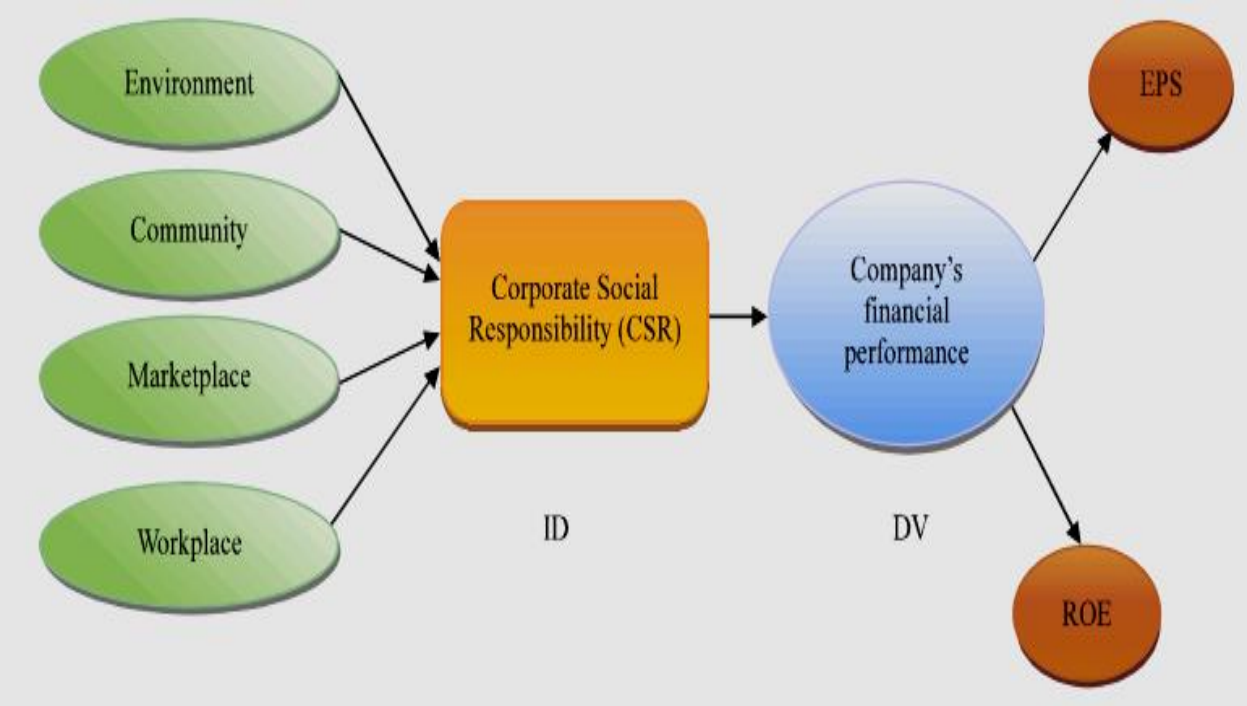
The negative relationship is reported only in special cases. We can find it in the studies of Hillman & Keim (2001) and Makni et al. (2009). Hillman & Keim (2001) find a negative relation between social issues participation (e.g., charitable giving) and financial performance. Makni et al. (2009) found a negative relationship for investment in employees and environment in the short run for Canadian firms.

Unlike in the earlier research, the more recent studies found more sophisticated ways how to measure CSR. Most of them use the KLD data, which are considered to be fairly reliable, as they are published by an independent third party and evaluate multiple dimensions of CSR (Waddock & Graves, 1997). Moreover, more sophisticated empirical approaches are taken. The studies also take into account the possibility that different types of CSR can have different effects on financial results. In addition to that, various types of industries are examined separately and the research is done in multiple countries. The more recent studies tend to find the positive relationship between CSR and CFP more often, or the detected relationship is at least neutral. Other research papers also came to similar conclusion (e.g., Makni et al., 2009). However, there are still some contradicting results and more research is needed to show whether it really pays-off to companies to behave responsibly towards society.

### **2.3. Conceptual Framework**

Conceptual framework is defined as an interconnected set of ideas (theories) about how a particular phenomenon functions or is related to its parts. The main purpose of conceptual framework was to clarify concepts and purpose relationships among the variables in the study, provide a context for interpreting the study findings and explain observations. It illustrated in the figure 2.2 the relationship between corporate social responsibility and corporate financial performance.

Figure 2.2. Conceptual Framework: the relationship between corporate social responsibility and corporate financial performance Fauziah and Muhammed (2016)



## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

This part describes the methodologies that were used in this study: the choice of particular research designs, data type and source of data, research approach, data gathering technique and instruments, sampling and sampling techniques and data analysis techniques along with an appropriate justification associated with each approach.

#### **3.1. Research Design**

There are different types of research designs or research types depending on the purpose and or objectives of the research. The first classification of research purpose most often used in the research methods' literature is the threefold one of exploratory, descriptive and explanatory as Robson (2002) pointed out. However, in the same way as the research question it can be both descriptive and explanatory, so the research project may have more than one purpose. A research approach can also be qualitative and quantitative based on the research's data collection techniques. The terms quantitative and qualitative are used widely in business research based on their focus on numeric (numbers) or non-numeric (words) data. While Quantitative Generates or uses numerical data, qualitative generates or uses non-numerical data. Accordingly, this researcher uses descriptive research design because the thesis is merely describing the concept of CSR as the company performs it and quantitative and qualitative data collection type.

#### **3.2. Data Type and Source of Data**

The research used both primary and secondary data sources. The primary source data was collected through questionnaire and semi-structured interview with top-management of the respective firm. Secondary data, sources collected mainly on CSR spending obtained from audited financial reports and other publications by the company including information from the company's websites for five years from 2012 to 2017. The ability of companies to convey their intentions and actions to the societies in which they are located is recognized as being integral to the relationship between business and society. The use of websites to disseminate company information serves this purpose.

### **3.3. Sampling and Sampling Techniques**

In order to determine the sample size of the study the research used non-probability sampling approach for the population under study, particularly judgmental sampling technique. Based on the above, the research used the two prominent stakeholders one was the employees (100) and the two was the community members (100) as the sample respondents in order to have reliable data for the study from the total number of 200 workers at Headquarters and the same number of community people were also selected from where the survey was undertaken.

### **3.4. Target Population**

According to Hair *et al.* (2010), target population is said to be a specified group of people or object for which questions can be asked or observed made to develop required data structures and information. Therefore, for this study, the target populations are employees of MOENCO and members of the society in Bole Sub city particularly those their educational level is grade ten and above.

### **3.6. Data Analysis**

In terms of data collection, the study employed interview and focus group discussion to collect data and evaluate using exploratory and deductive method to make an assessment of the company's CSR performance on expenditure and profit. Again, the employees and the community members were used to conduct the interviews and the focus group discussions.

### **3.7. Analysis of Validity**

Malhotra (2010) mentioned about three types of validity in his study: content validity, predictive validity, and construct validity. This study addressed content validity through the review of the related literature.

### **3.8. Ethical Considerations**

When deception has occurred, debriefing particularly emphasized, but it was a part of all research to monitor the experience of the participants or stakeholders for any unanticipated negative effects. This shall involve providing participants with written information describing the study and or the contact details of the participants taken to be contacted later if the issue is to be

discussed further. Participants should also know how to contact you after the study.

All the respondents had the right to privacy. The respondent privacy was defined in terms of two dimensions of control. The first dimension includes control of unwanted telephone, mail, e-mail, or personal intrusion in the respondent's environment, and the second concerns control of information about the respondent.

Ethical and confidentiality concerns observed. In view of the above, this research refuses to give the names of respondents to anyone outside the research project. Individual respondents were not identified in reporting survey findings; completely anonymous summaries, for example, in terms of tables should be given. Respondents were asked for their consents to participate in the survey, and their privacy and rights completely observed and respected.

## **CHAPTER FOUR**

### **DATA PRESENTATION AND ANALYSIS**

#### **4.1. Presentation of Secondary Data**

The Motor and Engineering Company of Ethiopia (MOENCO) was established in 1959 as a share company with 25 employees and capital of Ethiopian Birr 200,000. Currently, MOENCO has 1000 permanent employee status all over; one Headquarters and five (5) Branches in major cities of the region. The main Products are Toyota, Daihatsu, Komatsu, new Holland, Generators, and heavy duty machines. The Motor and Engineering Company of Ethiopia (MOENCO) is the biggest business enterprise operating systematically that involves 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 in the localities in which MOENCO 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 approves the implementation and allocates funds the program is led by the employee to work with the selected community together with CSR office. The company allocates budget for different schemes and regularly monitors until its final implementation.

A separate section is to be formed with adequate staff to manage and administer the CSR activities and periodically report to local senior managers and corporate offices. In most cases, the external CSR activities involves the Mother to Child programme the company is sponsoring hundred percent. Other CSR activities are culture and heritage, solidarity, environment protection, sport and leisure themes are managed entirely by the CSR officers of the Motor and Engineering Company of Ethiopia or in coordination with staff and external partners.

The company believes that the support extended to the society and the community that they work with develops positive attitude and sense of belongingness to the enterprise and its products. The employee's disagreeable or unpleasant or hazardous elements include heat, cold and humidity, bad odors, on the working condition and hazard mainly the degree of unpleasantness or discomfort and hazards caused by the working condition.

Speaking about the financial impacts of CSR the major reason is the high investment on CSR activities or initiatives and the head of CSR 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 Manager of Motor and Engineering company of Ethiopia also mentioned that he 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 MOENCO'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 MOENCO undertook so far to attain CSR goal.

Every initiative that the Motor and Engineering Company of Ethiopia 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 society and entails a big cost for procuring and installation of such mechanisms. But Motor and engineering company of Ethiopia believes and values 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 determines and motivates 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.



#### 4.1.1. Measuring CSR Expense and Profit (Secondary Data)

**Table 1. CSR Expense and Profit Data**

Year	Profit (X)	CSR Expense (Y)	XY	X <sup>2</sup>	Y <sup>2</sup>
2016	1,397,179,795	2,306,588	2,524,128,251,489,460	1,952,111,379,556,240,000	3,263,760,201,744
2015	1,277,363,453	1,972,209	1,114,127,899,977,680	1,631,657,391,060,080,000	760,748,539,681
2014	970,703,218	1,807,024	686,310,472,003,232	942,264,737,435,556,000	499,882,936,576
2013	807,231,555	1,669,386	540,349,501,675,230	651,622,783,387,718,000	448,077,616,996
2012	637,932,404	1,473,755	302,223,666,057,020	406,957,752,073,219,000	224,443,800,025
<b>SUM</b>	<b>5,090,410,425</b>	<b>9,228,962</b>	<b>5,167,139,791,202,620</b>	<b>5,584,614,043,512,820,000</b>	<b>5,196,913,095,022</b>

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

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

**r = 0.3605**

**Source (Secondary data MOENCO)**

It is to be noted 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 and conclude that CSR don't affect business profitability.

**Table 2. Computed Co-efficient**

	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

Multiple R = 0.26715

$R^2 = 0.0713$

Adjusted  $R^2 = -0.1607$

Standard Error = 0.8317

Observation = 5

F = 0.307,

Significance F = 0.608

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 probabilities 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 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 Analysis of the Questionnaire**

In this section, CSR practices in terms of treatment of labor, consumer protection, welfare of the community, protection of the environment, human rights, and fighting corruption and transparency are described using various statistical tools.

Regarding the descriptive interpretations for variables or dimensions used on Liker scale; the measurement was used on the basis of the survey; 5 = strongly agree; 4 = Agree; 3 = Neutral; 2 = Disagree; 1 = Strongly disagree. The mean level of agreement between the group or of the group is categorized on the scale; SA = Strongly Agree (4.51 or greater); A = Agree (3.51 – 4.50); N = Neutral (2.51 – 3.50); D = Disagree (1.51 – 2.50); and, SD = Strongly Disagree (1.49 or less).

And, to make more comfortable for analysis three base scale is used, Agree (3.51 and above), Neutral (2.51 to 3.50), and Disagree (less than 2.50).

#### 4.2.1. CSR in Terms of Labor Handling

CSR practice can be described in terms of labor treatment in a specific dimension. In other words labor dimension of CSR can be describe in terms of development of skills and long-term careers, freedom of association of workers, health and safety of employees, good work life and corrective action for faults. These variables and their numerical description are listed in table 3.

**Table 3.b CSR in terms of labor treatment at MOENCO**

Degree of agreement	Skills and long term careers		Freedom of association		Health and safety		Good work life		Corrective action	
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%
SD	5	6.8	5	6.8	5	6.8	0	0.0	6	8.2
D	18	24.7	4	5.5	14	19.2	16	21.9	18	24.7
N	0	0.0	13	17.8	0	0.0	23	31.5	8	11.0
A	46	63.0	30	41.1	46	63.0	29	39.7	31	42.5
SA	4	5.5	21	28.8	8	11.0	5	6.8	10	13.7
Total	73	100.0	73	100.0	73	100.0	73	100.0	73	100.0

Data Source: Own Survey, (2018)

As we can observe from table 3.b, majority of the staff respondents (68.5%) agreed and 31.5% of them agree with the statement the firm tries to develop skills and long-term careers of employees' and no one is indifferent in this regard. With respect to freedom of association, about 70% of respondents agree, 12% of them disagree while 18% were neutral. To seek further interpretation the mean of the responses is 3.79 which lie down under the shade of agreement. In terms of health and safety of workers, most of the employees which is 74% agree, 26% disagree and no neutral. In another dimension of labor treatment which is good work life, 46.5% of the respondents agree, about 22% disagree and the rest 31.5% indifferent.

In this part of labor treatment relatively huge number of respondent are neutral. Similarly, out of the total number of respondent approximately 56% are agree about the existence of corrective

action against faults, about 33% of them disagree while 11% are neutral. Therefore, on the subject of labor handling, the descriptions show that MOENCO is practicing CSR. The interview results also declared this. Similarly the observation ensured the firm CSR practices through cafeteria and clinic services.

Based on the above two descriptions about labor treatment average level of agreement corresponding to freedom of association is 3.80 for MOENCO

To sum up related to labor standard of CSR practice, MOENCO performed well. The data collected through interviews also supported this conclusion. It shows that MOENCO provides medical services for its worker with its own clinic, facilitates good working condition and flexible working hours. These activities were checked during the observation of the firm.

#### 4.2.2. CSR in Terms of Consumer Protection

A customer is not only a king for a firm, but also a boss for the firm. Because, survival of a firm is directly relates to customers. If this is the case, the firm should protect the needs, interests, health of customers. For the case of this discussion, customer protection described in four terms or variables such as quality product, fulfilling the required standard, customer feedback and product information.

**Table 4. CSR in terms of Consumer protection at MOENCO**

Degree of agreement	Quality product		Required standard		Customer feedback		Product information	
	Freq	%	Freq	%	Freq	%	Freq	%
SD	0	0.0	4	5.5	6	8.2	0	0.0
D	0	0.0	5	6.8	2	2.7	10	13.7
N	2	2.7	9	12.3	22	30.1	8	11.0
A	42	57.5	9	12.3	34	46.6	28	38.4
SA	29	39.7	46	63.0	9	12.3	27	37.0
Total	73	100.0	73	100.0	73	100.0	73	100.0

Data Source: Own Survey, (2018)

With reference to table 4.b, 97% of MOENCO community respondents agreed on the quality of their product, only 3% of them are indifferent and no disagreement in this specific expression of consumer protection as well as CSR practice. As regards required standard of the product, majority (75%) of respondents agree though 12% of them disagree and 12% neutral. On the topic of customer feedback, about 59% of employees agree, only 11% of them disagree despite about 30% of them indifferent. Likewise, majority (75.4%) of the respondents agree, (14%) disagree while (11%) indifferent related to product information.

Furthermore, all means under this customer protection stretch out between agree and strongly agree. For example, the average level of agreement is 4.37 as regards product quality of the firm. Thus, one can decide that MOENCO practices CSR in the standard of consumer protection entirely. The interview conducted for the study also supports this. To conclude on the above two descriptions, MOENCO is better in terms of quality product and required standard.

### 4.2.3. CSR in Terms of Community Welfare

Community welfare dimension of CSR described in four variables namely community service, local purchase, dialogue with the community and supplying beneficial products for the society. Base on the responses gathered from MOENCO employees, levels of agreements of respondents of the company are described in Table 5.

As we can be seen in the table 5, about 40% of employees accept that the firm provides services for the community even though 48% of them do not agree. While about 12% of them are indifferent regarding the services.

**Table 5. CSR in terms of Community welfare at MOENCO**

Degree of agreement	Community Services		Local Purchase		Dialogue with the community		Beneficial products for the society	
	Freq	%	Freq	%	Freq	%	Freq	%
SD	7	9.6	1	1.4	2	2.7	5	6.8
D	28	38.4	14	19.2	23	31.5	5	6.8
N	9	12.3	30	41.1	10	13.7	24	32.9
A	20	27.4	20	27.4	29	39.7	21	28.8
SA	9	12.3	8	11.0	9	12.3	18	24.7
Total	73	100.0	73	100.0	73	100.0	73	100.0

Data Source: Own Survey, (2018)

In relation to local purchase, however, relatively large numbers of the respondents (i.e. 41.1%) are indifferent, 38.4% and 20.6% among them agree and disagree respectively. This is true, as the interview conducted declare, because most business like purchases materials from business sector. The levels of agreement on “dialogue with community” are 52% agree, 34.2% disagree and 13.7 neutral. The table also shows that out of the total respondents 53.5% of employees agree, 13.6% disagree and 32.9% indifferent on the issue that the company provides beneficial products for the society.

On the basis of these descriptions, MOENCO P.L.C is somehow practicing CSR in the area of community welfare, though majority of the respondents approved that the firm do not provide services to the society. In relation to this, the interview notes show that the firm itself does not provide social services.

#### **4.2.4. CSR in Terms of Environmental Protection**

The most critical dimension of CSR, especially for motor and similar industries, is protection of the environment. Because, it relates to the community, workers, animals as well as the physical environment such as water bodies, soil, plants and so on. On the subject of CSR in leather industry, environmental protection has described in terms of:

- Comply with environmental laws, rules and regulation
- Waste reduction and pollution minimization
- Protection of natural environment
- Creating environmental awareness

Numerical descriptions of this standard are presented in Table 6. Besides to this the interpretations of the numerical figures are stated under the corresponding tables or descriptions.

**Table 6. CSR in terms of Environmental protection at MOENCO**

Degree of agreement	Comply with env'tal laws, rules and regulations		Waste reduction and pollution minimization		Protection of natural environment		Environmental Awareness	
	Freq	%	Freq	%	Freq	%	Freq	%
SD	1	1.4	1	1.4	5	6.8	4	5.5
D	7	9.6	7	9.6	5	6.8	9	12.3
N	5	6.8	5	6.8	18	24.7	5	6.8
A	39	53.4	30	41.1	36	49.3	46	63.0
SA	21	28.8	30	41.1	9	12.3	9	12.3
Total	73	100.0	73	100.0	73	100.0	73	100.0

Data Source: Own Survey, (2018)

Table 4.4.b show that about 82% of the respondents agree on the statement 'your organization complies with environmental laws, rules and regulations', only 11% of them disagree and approximately 7% are indifferent. Regarding waste reduction and pollution minimization, again majority (i.e. 82.2%) of the respondents responded positively, 11% among them reflected their negative attitude, and 6.8% of them were indifferent. Related to protection of the natural environment, 61.6% of respondents agree, 13.6% disagree and 24.7 of the neutral. Similarly, as regards environmental awareness, most (75.3%) of employees be in agreement, 17.8% disagree while 6.8% out of the respondents indifferent.

Generally, the descriptions declare that MOENCO practices environmental protection activities, which are parts of environmentally - friendly tricks. However, the observation held around the firm claims that waste avoiding pumps are unlock and it have very badly. The waste also mixes with the river which causes unaffordable effect on the health of people and animals.

#### **4.2.5. CSR in Terms of Human Rights**

CSR practice of a company also can be expressed in terms of whether the firm carries out human rights or not. For this section of the paper human rights articulated through promotion of human rights, investigation of how business activities affect it, comply of code of conduct with human rights and fighting discrimination.

From table 7, we can deduce the following facts. Of the total number of respondents, majority (61.7%) agree, 16.5% disagree and 21.9% neutral concerning promotion of human rights in their company. On the statement „the organization investigates how working activities affect human rights, 43.8% workers responded positively, 19.1% opposed it while 37% indifferent. In the subject of code of conduct conform to human rights, most (67.1%) of the respondents agree, 21.9% disagree and 11% indifferent. On struggling against discrimination, approximately 49% responded optimistically, 15% pessimistically and about 36% neutral.

**Table 7. CSR in terms of Human rights at MOENCO**

Degree of agreement	Promotion of human rights		Investigation of how work affect human rights		Comply of code of conduct with human rights		Against discrimination	
	Freq	%	Freq	%	Freq	%	Freq	%
SD	4	5.5	5	6.8	5	6.8	5	6.8
D	8	11.0	9	12.3	11	15.1	6	8.2
N	16	21.9	27	37.0	8	11.0	26	35.6
A	37	50.7	26	35.6	36	49.3	31	42.5
SA	8	11.0	6	8.2	13	17.8	5	6.8
Total	73	100.0	73	100.0	73	100.0	73	100.0

Data Source: Own Survey, (2018)

To sum up MOENCO participates in human rights although the levels of agreement are not that much satisfactory though the interview conducted indicates nothing. That is why, as we can see from table 7 in the means levels of agreement are between neutral and agree.

#### **4.2.6. CSR in Terms of Transparency and Anti-corruption**

In response to the growing interest in corporate social responsibility, the company is trying to create ethical work force, ethical decision making, and other dimensions of CSR. Transparency and anticorruption activities also included in this regard. Transparency, sense of accountability and preventing corruption are variables which are designed to describe transparency and anti-corruption.



As table 8 depicts, approximately 48% of respondents agree that the firm is transparent in its activity, about 24% of them, however, object it and around 27% out of the total respondents neither support nor object the idea. With reference to sense of accountability, about 48% of employees responded positively, only 8% responded negatively even though about 44% of them were indifferent. The table also shows, 41% of the respondents agree that the organization tries to prevent corruption, about 21% of the do not agree with this while approximately 40% of them indifferent.

**Table 8. CSR in terms of anti-corruption and transparency at MOENCO**

Degree of agreement	Transparency in activities		Sense of accountability		Preventing corruption	
	Freq	%	Freq	%	Freq	%
SD	6	8.2	0	0.0	9	12.3
D	12	16.4	6	8.2	5	6.8
N	20	27.4	32	43.8	29	39.7
A	26	35.6	30	41.1	25	34.2
SA	9	12.3	5	6.8	5	6.8
Total	73	100.0	73	100.0	73	100.0

Data Source: Own Survey, (2018)

In conclusion, MOENCO is nearly practicing CSR corresponding transparency and anticorruption. But the levels of agreement do not indicate that the company is practicing CSR in this dimension entirely or satisfactorily. For instance, on the subject of anti-corruption numbers of respondents who agree and indifferent are almost equal. This shows that the activity is lean or weak. The observation results also show that the firm is practicing CSR in some extent in terms ethical matters.

### **4.3. Focus Group Discussion**

Almost all participants both from the company and the community members were aware of the CSR program and have a good understanding of CSR performance of the 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 products in the current context of MOENCO market situation. 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 expressed that the engagement of the company in social activities widely aimed at achieving its CSR goal and the 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 MOENCO outlined CSR goals and objectives at corporate level but found it difficult to ascertain that business enterprise have fully embarked on CSR activities especially on philanthropic and social schemes.

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 to ensure if performed safely to avoid possible potential incidents. However, those participants 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 expressed that the company has engaged in a variety of schemes while some participants failed to mention any engagement by the companies to address the stakeholders concern. In summary, it can be said that CSR activities of MOENCO under the case study are inadequate.

In so far as the adequacy is concerned, Participants in MOENCO 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.

The CSR program benefited some part of the society and workers. Participants from MOENCO sited programs undertaken by the enterprise which has benefited the society. For example, the 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 Primary School, are among the various programs that has been mentioned by participants to be undertaken by MOENCO. The strong point that was mentioned in the CSR activity of MOENCO 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, some participants from MOENCO was not been able to cite any activities carried out by their company and have no knowledge and CSR endangerment.

Participants in the MOENCO 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 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 failed to mention any of such schemes carried out by their company. In general terms, most participants 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 company engagement in CSR activities helps both the society and the enterprises.

# **CHAPTER FIVE**

## **SUMMAER OF THE MAJOR FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1. Summary of the Major 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 9,228,962 against a profit of Birr 5,090,410,425 which is 0.18%. 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 company 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 MOENCO is nil or very small when compared to other countries CSR expenses indicating a very low level of CSR commitment. The finding suggests that MOENCO may have zero or minimal commitment to CSR especially with regard to towards sustainability and social activities.
- Though MOENCO have a specific corporate objective stated in their mission statements it was not effectively practiced and didn't fulfill their commitment stipulated in their objectives. The case of MOENCO 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 company 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 enterprises are engaged in economically motivated adulterations which raise 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. Thus, the company 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 motor 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.

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. 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. Mandatory Spending and Reporting**

As stated under this study as the strategy MOENCO 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 stakeholder's which is not the case for the business firm under this study. It appears that MOENCO 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).

MOENCO 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. 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.

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. CSR practices in terms of treatment of labor, consumer protection, welfare of the community, protection of the environment, human rights, and fighting corruption and transparency**

MOENCO practices labor standard of CSR practice in terms of skill and long-term career development, freedom of association, health and safety, and taking corrective action. In line with the fact that employees are deemed to be a very important stakeholder, firms undertake CSR activities for the benefit of employees. In reflecting CSR activities for employees of the MOENCO participates in these activities with the consideration of optimality of the company as well as the benefit of workers.

The most familiar activities in relation to employees should be a commitment to the health and safety of employees and ensuring adequate steps should be taken against discrimination. In addition to these employees should be encouraged to develop skills and long-term career paths and work life balance.



Regarding consumer protection the company nearly practicing corporate social responsibility (CSR) practices well. This happened due to the product of firms is based on the quality standard of customers. In other words, firms produce customer-oriented products to optimize their profit and this is fortunately the most important CSR practice regarding customers. The most critical CSR activity toward customers is commitment to providing value to customers. Other similar activities such as responding to customer complaints in a timely manner is also quite popular and to a lesser extent, supplying clear and accurate information to customers and considering customer accessibility also sustains the exited customers and creates new customers.

The employees' response indicates implications that MOENCO is somehow practicing CSR in the spot of community welfare, though majority of the respondents approved that the firm do not provide services to the society. In relation to this, the interview notes show that the firm itself does not provide social services. Though purchasing policies in favor of the local community are popular CSR activities did not participate in because these firms purchase products from business organizations.

With the reference to the analysis MOENCO also practices environmental protection activities, which are parts of environmentally – friendly tricks. However, the observation held around the firm claims that waste avoiding pumps are open for short distance and it have very badly. To reveal these results, both tanneries perform CSR practices corresponding to the environment with the consideration for workers and laws of the country. In relation the community and the physical environment namely rivers and soil, unfortunately, do not perform such activities because waste material are mixing in the rivers.

Based on the analyses of respondents' levels of agreement MOENCO participates human rights although the levels of agreement are not that much satisfactory.

With respect to transparency and anti-corruption, the company practicing CSR despite the level of agreement is weedy regarding sense of accountability. In other words, the levels of agreement do not indicate that the both tanneries are practicing CSR in this dimension entirely or satisfactorily. Because firms handle CSR practices of this dimension only in their organization to save their resource even though it is inadequate.

In general, MOENCO is well of labor handling, consumer protection, environmental protection and human rights. Because MOENCO is under well performing organization and it has modern system and adequate resource. Regardless of the comparison both companies are well in CSR practices.

### **5.3. Recommendations**

Following the 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, the company in this case study considers the information on CSR to be volatile. There are serious limitations in terms of what is available from the company both when demanded, through their annual report and on the 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 the organization operating in Ethiopia including MOENCO.

- 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 MOENCO should create a unit or department within their firm that will be responsible for their social responsibility programs which should ensure social responsibility policies are adequately implemented.
- MOENCO 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.
- In relation to labor treatment, MOENCO and other related companies should continue their activities in more advance manner to achieve high level of performance in CSR practices. So to protect workers' health, trainings and awareness creative workshops should be facilitated.
- Since the extent of CSR practices of these companies, corresponding to customer satisfaction and community welfare are appreciative, the activities or performances of these and other tanneries should continue in more progressive mode. For instance, policies related to new product development or innovation, trainings for pastoralists and other related sectors, and community capacity-building activities should be designed and implemented.
- MOENCO need to design better CSR strategies and practices in the area of environmental protection such as purchasing and using cost oriented high quality chemicals, good waste pumping materials, better natural resource protection procedures, transparent dialogue with responsible parties especially Ethiopian Environmental Protection Agency and so on.
- With reference to the analyses and the results the company should work hard to change and progress the development of human rights in the country. Companies are under obligation to respect and promote human rights in their operations. This can be achieved though trainings and motivation of employees as well as the community as whole targeting equitable and effective engagement of companies. In general, these and other companies necessitate placing issues of democracy both in the economy and in the political arena - locally, nationally and globally.
- As seemingly Ethiopia is poor in terms of transparency and anti-corruption MOENCO and other organizations of the sector need to evolve intensively in ethical matters namely responsibility, accountability, transparency and anti-corruption.

- Generally the company should design CSR strategies and implementations in harmony with the determinants especially on the focuses of labor pressure, consumer demand, community enforcement, and sustainability and profitability.

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**APPENDIX I**  
**ST MARY’S UNIVERSITY**  
**SCHOOL OF POSTGRADUATE STUDIES**  
**MBA PROGRAM**

**The Questionnaire was distributed to the Employees of the Motor Engineering Company of Ethiopia Ltd.**

**Dear Respondents;**

This questionnaire is developed for an academic purpose, for the collection of data to conduct a thesis paper on the title “**Examining the impact of Corporate Social Responsibility on Financial Performance** of Motor Engineering Company of Ethiopia Ltd” in order to fulfill the University’s (St Mary’s University) requirement set for the award of a Master of Business Administration in General Management. The information obtained from this questionnaire will be kept confidential and will not be used for any other purposes. Hence, I am kindly asking respondents to give your candid information.

NB:

- It is not necessary to write your name
- Try to address all the question given below
- For the closed ended questions use (√)mark for your choice in the given box

***Thank you for your cooperation!***

## DATA INSTRUMENT

Hereunder are statements that are related to the CRS practice of your company, you are kindly requested to put “√” mark on the box which represents your degree of agreement. 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree

S.N	Statements	1	2	3	4	5
	<b>ECONOMIC</b>					
	The employees are relatively happy working for the company there by increasing profit every year					
	The company is making yearly profit for the shareholders					
	Your company encourages its employees to develop real skills and long-term careers (e.g. via training).					
	Your company does not encourage its workers so that they develop real skills and long-term careers.					
	The company lets its customers to access information about its products					
	The company's products are appreciated by all customers					
	<b>LEGAL</b>					
	The company pays its yearly taxes to the government					
	The company follows all the terms and conditions of the staff					
	The company renews its licenses and certificates each and every financial year					
	The company has suitable arrangements for health and safety that provide sufficient protection for its employees.					
	Your company complies with the environmental laws, rules and regulations to promote environmental protection.					
	The company includes in its code of conduct, the aspect of respect for human rights.					
	<b>ETHICAL</b>					
	The company encourages freedom of association of workers.					
	Your company actively offers a good work life balance for its workers, for example, by considering flexible working hours.					
	It creates a corporate culture that ensures prompt corrective action is taken against undesirable behavior including.					
	The firm strives to deliver high value, quality products that meet and/or exceed the expectations					

of their customers.					
Your company has a process to ensure effective feedback and consultation with customers.					
Your company did not have a process to ensure effective feedback and consultation with customers.					
The company tried to reduce the enterprises' environmental impact in terms of waste minimization and pollution prevention.					
The company promotes environmental awareness by providing information to their employees to enhance their understanding of environmental issues.					
The company did not try to reduce the enterprises' environmental impact such as waste of the production process and pollution.					
The company tries to investigate how human rights might be affected by the various types of business operations.					
Your company takes adequate procedures against discrimination. (e.g. women, ethnic group)					
The company is transparent in the activities that the enterprise is involved. (For example, in hiring)					
The company is not transparent in the activities that the enterprise is involved.					
<b>PHILANTHROPIC</b>					
Your company offers services for local community (e.g. financial aid and training).					
The company has an open dialogue with the local community on adverse issues (e.g. accumulation of waste outside the factory).					
The company provides goods that can be used for socially beneficial purposes.					
Your company did not offer any service for local community.					
The company tried to reduce the enterprises environmental impact in terms of protection of the natural environment					
It ensures that all products meet the required safety and environmental standards.					

## APPENDIX II

### 1. FOCUSED GROUP DISCUSSION POINTS,

**Point No. 1:** Are you aware of CSR programs of MOENCO 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 MOENCO 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 MOENCO? 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 MOENCO

### 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?