

Practice of Corporate Social Responsibility and Its Relationship on Organization Perceived Performance: Survey of Ethiopian Manufacturing Firms

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Abstract

Social responsibility of business entities is the great challenge for this century. Many big companies and organizations are grabbing huge profits from the local market without identifying the sustainable practices and ignoring the international standards for product manufacturing. This article was set out to assess the practice of corporate social responsibility (CSR) and its relationship on organization perceived performance: case of Ethiopian manufacturing firms. Primary data were collected from 121 Ethiopian manufacturing firms. The respondents were assessed on major area of corporate social responsibilities. Both Descriptive analysis and Spearman Correlation were used for assessing the Practice of CSR and measuring its relationship with perceived performance of the manufacturing firms. Data analysis using SPSS revealed that CSR is a familiar concept in the sector as most of the manufacturing firms engage in CSR activities. At the same time, the major areas of focus of the CSR includes Protecting the environment, Waste management, building open area (statues), Funding the needy people in case of emergency, establishing sport team, Funding children's education, assisting the development projects of the country and sponsoring many social events and others. The results of correlation indicated a significant relationship between CSR practices and perceived performance of the manufacturing firms and perceived performance.

Keywords: Economic responsibility, ethical responsibility, legal responsibility, philanthropic responsibility, perceived performance

Introduction

In various contexts, companies today are under intense pressure to build public trust and stay competitive. Corporations around the world are struggling with a new role, which is to meet the needs of the present generation without compromising the ability of the next generations to meet their own needs. Organizations are being called upon to take responsibility for the ways their operations impact societies and the natural environment. They are also being asked to apply sustainability principles to the ways in which they conduct their business. Sustainability refers to an organization's activities, typically considered voluntary, that demonstrate the inclusion of social and environmental concerns in business operations and in interactions with stakeholders (van Marrewijk & Werre, 2003).

It is no longer acceptable for an organizations to experience economic prosperity in isolation from those agents impacted by its actions. A firm must now focus its attention on both increasing its bottom line and being a good corporate citizen. Keeping abreast of global trends and remaining committed to financial obligations to deliver both private and public benefits have forced organizations to reshape their frameworks, rules, and business models. In addition, a stark and complex shift has occurred in how organizations must understand themselves in relation to a wide variety of both local and global stakeholders. The quality of relationships that a company has with its employees and other key stakeholders such as customers, investors, suppliers, public and governmental officials, activists, and communities is crucial to its success, as is its ability to respond to competitive conditions and corporate social responsibility (CSR). These major transformations require national and global companies to approach their business in terms of sustainable development, and both individual and organizational leadership plays a major role in this change.

Organizations have developed a variety of strategies for dealing with this intersection of societal needs, the natural environment, and corresponding business imperatives. Organizations can also be considered on a developmental continuum with respect to how deeply and how well they are integrating social responsibility approaches into both strategy and daily operations worldwide. At one end of the continuum are organizations that do not acknowledge any responsibility to society and the environment. And on the other end of the continuum are those organizations that view their operations as having a significant impact as well as reliance on society at the economic, social, and ecological levels, thus resulting in a sense of responsibility beyond the traditional boundaries of the organization. Most organizations can be placed somewhere in between. Corporate responsibility or sustainability is therefore a prominent feature of the business and society literature, addressing topics of business ethics, corporate social performance, global corporate citizenship, and stakeholder management.

Research Objectives: The aim of this study is to assess the practice Corporate Social Responsibility (CSR) and its relationship with perceived performance of Ethiopian manufacturing firms.

Specific Objectives: The specific objectives are;

- To determine whether or not Ethiopian manufacturing companies engage in CSR activities
- To assess which component of Corporate Social Responsibility CSR is implemented in Ethiopian manufacturing firms.
- To Establish the relationship between corporate social responsibility components and perceived performance in Ethiopian manufacturing firms

Research questions:

- Do Ethiopian manufacturing companies engage in CSR activities?
- Which component of Corporate Social Responsibility CSR is implemented in Ethiopian manufacturing firms?
- Is there a relationship between corporate social responsibility components and perceived performance in Ethiopian manufacturing firms?

Literature Review

Evidence of the Business Case for CSR: As cited in Carroll (2010), the business case for CSR refers to the 'business' justification and rationale; that is, the specific benefits to businesses in an economic and financial ('bottom-line') sense that would flow from CSR activities and initiatives. Discussion of the benefits flowing from each category of responsibility is organized according to the framework put forward by which identifies four categories of benefits that firms may attain from engaging in CSR activities: (1) cost and risk reduction; (2) gaining competitive advantage; (3) developing reputation and legitimacy; and (4) seeking win-win outcomes through synergistic value creation. Corporate social responsibility (CSR) can be viewed as a comprehensive set of policies, practices, and programs that are integrated into business operations, supply chains, and decision making processes throughout the company and include responsibilities for current and past actions as well as adequate attention to future impacts. CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis (Green Paper, 2001).

Conceptual frame work: Carroll (1979) differentiated between four types of corporate social responsibilities: economic, legal, ethical, and discretionary. In 1991, Carroll revisited his four-part definition of CSR and organized the notion of multiple corporate social responsibilities in a pyramid construct (Figure 1). The pyramid of CSR depicted the economic category as the base (the foundation upon which all others rest), and then built upward through legal, ethical, and philanthropic categories (Carroll, 1991). Visser (2006) understands Carroll's model as "a durable and useful model for defining and exploring CSR." The different criticisms of Carroll's CSR pyramid have been taken into account; and here is the modified model in the context of developing countries.



Figure 1: CSR in the Context of developing country (Visser, 2006)

Economic Components of CSR Involves:

- Performing in a manner consistent with maximizing earnings per share
- Be committed to being as profitable as possible.
- Maintain a strong competitive position.
- Maintain a high level of operating efficiency and,
- Be defined as one that is consistently profitable.

The Philanthropic component involves:

- Performing in a manner consistent with the philanthropic and charitable expectations of society.
- Participate in voluntary and charitable activities within their local communities.

The Legal components are:

- Performing in a manner consistent with expectations of government and law.
- Comply with various federal, state, and local regulations.
- Be a law-abiding corporate citizen.

- Successful firm be defined as one that fulfills its legal obligations.
- Provide goods and services that at least meet minimal legal requirements.

Ethical Components:

- Performing in a manner consistent with expectations of societal mores and Ethical norms.
- Recognize and respect new or evolving ethical moral norms adopted by society.
- Prevent ethical norms from being compromised in order to achieve corporate goals.
- Doing what is expected morally or ethically.
- Recognize that corporate integrity and ethical behavior go beyond mere compliance with laws and regulations.

Corporate Social Responsibility and Organization Performance: Since the early 1980s a significant body of CSR research has centered on the debate over the relationship between CSR and organizations performance. The main reason firms adopt and practice the tenets of corporate social responsibility is for financial benefits, market growth and sales growth among many reasons. Studies have shown the link between firm’s corporate social responsibility behaviors’ and profitability (Wali 2015). Mishra & Suar (2010) as cited by Singh (2010) studied the influence of corporate social responsibility on firm performance. Their study found that quoted firms have strong CSR initiative and also CSR implementation has positive influence on quoted firm’s performance.

In addition researchers have also found that CSR is positively correlated with business reputation and financial performance (Nasieku,2015;Nareeman, 2013 and Singh, 2010).These findings are more logical and reliable because when firms share cordial and good working relationship with their internal and external market, especially with its host community they tend to attract high reputation and respect from customers.

Research Methods

To answer the above research questions the researchers basically used descriptive analysis and correlation indicator to see relationship between corporate social responsibility components and perceived performance in Ethiopian manufacturing firms. The sample comprises exhaustive list of manufacturing firms in three industrial zones (Addis Ababa, Adama and Bahir Dar) of the Ethiopia. And a total of 122 manufacturing was as a sample on convenience base.

Data source and data collection method: Primary source of data has been used. We got some secondary information with particular references from internet and various publications, daily newspaper on the contemporary issues in CSR and from a famous article written on CSR practices. According to Bryman and Bell (2007) convenience sample is one that is conveniently available to the researcher with its good ease of use. This research has used a self-administered questionnaire to some selected companies on simple random basis.

Target population and sampling: The population from which the sample has been selected comprises the exhaustive list manufacturing firms in the country. Top Managers, CSR workers and other key informants contacted either through questionnaire. The unit of analysis of this research is managers of these manufacturing firms. The researchers used simple random probability sampling technique which means top Managers, CSR workers and other key informants have been contacted through questionnaire.

$$n = \frac{N}{1+N(e)^2} = \frac{176}{1+176(.05)^2} = 122$$

Where, n is the sample size, N the total population size, e is the desired level of precision. And the researcher desire a 95% confidence level and ±5% precision.

Results and Discussion

The collected data were analyzed using both descriptive and inferential statistics.

Data Analysis Using Descriptive Statistics: The descriptive statistics of this study below discusses the overall CSR issue i.e. the first three research objective will be addressed through this method.

Awareness of CSR as a Terminology: In recent times, CSR initiatives have become a priority of the business organizations worldwide in the wake of increasing competition among organizations to win customers through establishing their goodwill in the society (Ntiamoah, 2014). At the age of 21 century 2nd decade where there is cut throat competition in business environment firms are expected to be aware and competent in all dimensions. Out of the addressed firms 59% of them are aware about CSR. This shows us though CSR is a new orientation in developing countries (Robertson, 2009), it widely spreading in Ethiopia at least conceptually.

Table 1: Awareness of CSR

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	72	59.0	59.5	59.5
	No	49	40.2	40.5	100.0
	Total	121	99.2	100.0	
Missing	System	1	.8		
Total		122	100.0		

Clarity of CSR to enterprises: CSR is at an evolutionary stage in Ethiopia where many companies are starting to focus on and become aware of this notion. More than 60% of companies have contributions to charity, community development, and donation in the form of cash for humanitarian or religious reason (Tewelde, 2013). However, for many companies working in Ethiopia, CSR is not prioritized and they percept differently when compared their CSR framework. Managers of firms under the study expressed their view regarding CSR clarity to their organization. As the table reveals for 58% of manufacturing firms CSR is very clear conceptually, for 30% of the firms CSR is somewhat clear, and for 7% of manufacturing firms CSR is indifferent where as 5.7% of manufacturing are not clear with the issue of CSR contextually.

Firms View on Their CSR Performance: Most manufacturing firms under the study (73.8%) replied as their firms CSR practice is getting improved and others (25%) feel as the CSR practices of their firms is getting worse.

Table 2: CSR Performance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	getting better	90	73.8	74.4	74.4
	getting worse	31	25.4	25.6	100.0
	Total	121	99.2	100.0	
Missing	System	1	.8		
Total		122	100.0		

Areas of CSR Practices: Firms under the study expressed as they engage in various CSR practices. CSR practices raised by manufacturing firms can fall either on economic, legal ethical or Philanthropic aspect of the CSR. But most of the firms didn't consider the economic responsibility and legal responsibility as part of CSR which is very

integral aspects of corporate social responsibility. Among the frequently raised CSR issues practiced by manufacturing firms are:

- Protecting the environment
- Waste management
- Building open area (statues)
- Funding the needy people in case of emergency
- Establishing soccer team
- Funding children's education
- Assisting the development projects of the country
- Sponsoring many social events and others.

When we summarize, the various areas where CSR efforts are targeted in the Ethiopian manufacturing sector. Community Development and charitable activities has the highest attention of the CSR in the sector targeted at it, followed by Youth development/Sport, Health, Women Empowerment, Education and others. This means that community development and Youth development/Sport formed the major areas where CSR activities in the sector are targeted. The review of literature and data analysis revealed that CSR is a familiar concept (especially after 2006) in the sector as most of the companies in the sector do engage in CSR activities regularly. When we summarize, the various areas where CSR efforts are targeted in the Ethiopian manufacturing sector. Community Development and charitable activities has the highest attention of the CSR in the sector targeted at it, followed by Youth development/Sport, Health, Women Empowerment, Education and others.

Firms view on CSR components: In this century firms should be at advanced strategic situation concerning CSR. More than half of the manufacturing firms under the study (55%) do not clearly know CSR components. Very few companies have a clearly defined CSR philosophy. Most implement their CSR in an adhoc manner, unconnected with their business process. Most companies spread their CSR funds thinly across many activities, thus somewhere losing the purpose of undertaking that activity. Generally speaking, most companies seem either unaware or don't monitor their company's CSR. When we see how manufacturing firms see the importance of CSR in their organizations, more than 40% of it didn't agree CSR is compulsory; it is an option which is a serious concern that firms must perceive CSR as an integral part of their strategy as we have seen above. And almost 50% of the manufacturing firms in the subsequent table respond as CSR is not aligned to their long-term and short term objectives.

Correlations Analysis

Economic Responsibility and Perceived Performance: A first minimal definition of social responsibility is generally related to the corporate choice of not breaching laws and regulations when pursuing shareholders' wealth maximization goals (Nareeman, 2013). Firms to contribute more for the society, it needs to be profitable i.e. economic responsibility is the base for other higher level responsibilities. As shown in the correlation matrix Economic responsibility has positively and significantly related to perceived performance of the organization with a Spearman correlation coefficient of $r = 0.806$, $p < 0.01$. This means that manufacturing firms' economic responsibility has positive and significant relation on perceived performance in the Ethiopia manufacturing sector.

Legal Responsibility and Perceived Performance: Legal Responsibility dimension is explored as a part of CSR activities and found that there is significant influence of legal responsibilities of CSR on customer satisfaction and perceived performance (Galbreath, 2009). The relationship between legal responsibility and firms' perceived performance matches with most empirical studies. The Spearman correlation matrix in our study shows a significant positive relationships exists between legal responsibility and perceived organization performance ($r = 0.761$).

Ethical Responsibility and Perceived Performance: Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. Ethically responsible companies have an enhanced brand image and a positive reputation change is observed on ethical standards and that is mainly caused by the establishment of multinational companies. As we have seen above most manufacturing firm of Ethiopia, majorly consider them as socially responsible by practicing ethical elements. The construct ethical responsibility ($r = 0.694$) from table 4.10 positively and significantly related with perceived organization performance.

Philanthropic Responsibility and Perceived Performance: Corporate philanthropic activities can directly influence customer demands through high level of customer satisfaction and loyalty (Tan and Komaran, 2006). Philanthropic aspects such as donation or charitable contributions, sponsorship and voluntary activities (Robertson, 2009) were found to be positively associated with organization performance. As we can see from table 4.10 philanthropic responsibility is moderately positively correlated (0.587) with perceived organizations performance.

Table 3. Correlations

		cat. perf	ECR	LR	ETHR	PHR	
Spearman's rho	cat.perf	Correlation Coefficient	1.000				
		Sig. (2-tailed)	.				
		N	121				
	ECR	Correlation Coefficient	.805**	1.000			
		Sig. (2-tailed)	.000	.			
		N	121	121			
	LR	Correlation Coefficient	.794**	.440**	1.000		
		Sig. (2-tailed)	.000	.000	.		
		N	121	121	121		
	ETHR	Correlation Coefficient	.694**	.529**	.303**	1.000	
		Sig. (2-tailed)	.000	.000	.000	.	
		N	121	121	121	121	
	PHR	Correlation Coefficient	.587**	.411**	.325**	.296**	1.000
		Sig. (2-tailed)	.000	.000	.000	.000	.
		N	121	121	121	121	121

***. Correlation is significant at the 0.01 level (2-tailed).*

Recommendation

Following the findings of the study, we recommended that companies engage in CSR policies and strategies not only to improve their performance but also to strengthening its legitimacy, reputation and building competitive advantage. As we have seen in our analysis and from the literature consumers are becoming highly aware for socially responsible firms. And most manufacturing firms are not incorporating CSR initiatives with their long term strategies. This is a huge loss for them as well as for the country especially in recent trends where consumers are aware about CSR issues. So firms must incorporate CSR programs in their strategy and it must be consider as an objective.

Implication for future study

This study only comprises companies listed in trade and industry minister of Ethiopia (on three areas), so we may not exhaustively address all manufacturing firms. It is recommended that a similar study may be undertaken using a bigger population of companies in the same sector including those that are not listed. Plus other organizations outside the manufacturing sector must be included in the study concerning corporate social responsibility. We tried to see the CSR practices and the relationship between CSR components with firms' perceived performance. A

similar study can also be conducted to see the relationship between corporate social responsibility and other performance measures like financial performance.

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