

# Assessment of Corporate Social Responsibility: The Case of Manufacturing Companies in Gurage Zone, Ethiopia

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## **Authors' contributions**

*This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.*

## **Article Information**

DOI: 10.9734/CJAST/2020/v39i1630780

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Complete Peer review History: <http://www.sdiarticle4.com/review-history/58583>

**Original Research Article**

**Received 20 April 2020**  
**Accepted 26 June 2020**  
**Published 27 June 2020**

## **ABSTRACT**

The overall objective of this study is to assess the practice of corporate social responsibility in the case of manufacturing companies in Gurage Zone. The data analysis was conducted based on 176 employees from sample manufacturing companies. Parametric (SPSS Version 20) and non parametric test (Friedman test) to test the concern of companies in Corporate Social Responsibility implementation towards environment, customer, community, employee, ethical & legal were conducted for analysis. Regarding the factors affects the implementation of corporation social responsibility (71.1%), (64.5%) and (61.2%) of the respondents agreed that government, awareness and media are the factors that can affect the implementation of CSR respectively. The majority, (67.8%) of the respondents said that the organization didn't encourage employees to develop real skills and long term careers (via Performance Appraisal and Training & Development. The result shows that responsibility of the firms towards environment (55.3%) of the respondents disagree, (46.7%) of the respondents argue positively, (59.2%) of the respondents disagree, the majority of respondents (60.5%) disagree, (46.1%) of the respondents agree, majority of the respondents

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(62.5%) disagree about the participation of the firms in waste reduction, recycling, energy conservation, reduction of water consumption, use environmentally friendly packaging, air pollutant respectively. Therefore, it recommended that the firms should set the direction and scope over the long term with regard to CSR, allowing them to be successful by using their resources within their unique environment to meet market needs and fulfill stakeholder expectations. It is therefore vitally important that the firms should have to design a good CSR strategy that is related with that of their business strategy.

*Keywords: Corporate Social Responsibility (CSR); manufacturing companies; Gurage zone; Ethiopia.*

## 1. INTRODUCTION

CSR encompasses not only what companies do with their profit, but also how they build the image of their company on the minds of the customer. It goes beyond philanthropic and compliance and addresses how company manage their economic, social and environmental impacts as well as their relationship in all key shares of influence; workforce, market place, the community and the public policy realm [1-3].

The issue contains a broad idea about company's responsibility. Many business owners reflect that the idea CSR directly related with only their impact on profit contribution.

Their main concern is all about how to maximize share holders' wealth. All in all the economic and legal concern of CSR is extracted deeply by many scholars. But the ethical and philanthropic concern is being ignored [4-6].

The extent that the focus of research findings was on the economic dimension of CSR leads to companies to see CSR as a voluntary action rather than something that is regulated. So these resulted companies should not relay forced to do CSR as a mandatory action. As a result of this, different companies whether governmental or private not far from the following problems: Most companies doesn't have well organized HR policies, there is no social audit mechanism that measure the performance of different companies of CSR practice, the health and safety policy and its practice are often underestimated by the companies, different Companies don't take any action to pay for health and wellbeing issue, most companies has no strict regulation and policies towards the strategic CSR , there is no strict policy towards philanthropic activity, the removal of vegetation and this will add to dust accumulation, the movement of heavy machinery, hazardous material, noise and vibration, absence of pollution prevention

mechanism and there is no occupational health policy [7-9].

These is the gap that is not covered and recommended in different literature and research findings, as a result, in order to narrow the gap this research will try to focus on the legal, business, ethical and philanthropic issue of CSR. Hence, the study were try to answer the following questions:

It is also important to bear in mind that there are two separate drivers for CSR. One relates to public policy. Because the impacts of the business sector are so large, and with a potential to be either positive or negative, it is natural that governments and wider society take a close interest in what business does [10]. This means that the expectations on businesses are rising; governments will be looking for ways to increase the positive contribution of business. The second driver is the business driver. Here, CSR considerations can be seen as both costs (e.g., of introducing new approaches) or benefits (e.g., of improving brand value, or introducing products that meet sustainability demands). This study intends to assess the practice of corporate social responsibility in the case of manufacturing companies in Gurage Zone, Ethiopia. It is intended;

- To identify the factors that can initiate the implementation of CSR.
- To investigate the companies' activities towards the environment, customer, community, and employees.
- To identify factors that can affect the practice of CSR?

## 2. RESEARCH METHODOLOGY

Descriptive research designs have been used for this study. The target population of this study is manufacturing companies currently operating in Gurage Zone, Ethiopia. Although, these companies were 21 in number, 10 sample

manufacturing companies were selected from the total population by using purposive sampling.

### 2.1 Population and Sampling Technique

There are manufacturing 21 companies in the zone. Out of this, samples of 10 manufacturing companies were taken to conduct the research. The sample size is determined based on relation adopted from C.R.Kothari (2004:179):

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N-1) + z^2 \cdot p \cdot q}$$

Where,

- n = sample size required
- N = number of population
- P = estimated variance in population
- e = Precision desired, expressed as a decimal
- Z = based on confidence level: 1.96 for 95% confidence,

The sample size is calculated as follows:

$$n = \frac{1.96^2 \cdot 0.5 \cdot 0.5 \cdot 21}{0.05^2 (21-1) + 1.96^2 \cdot 0.5 \cdot 0.5} = 10$$

These 10 sample manufacturing companies were selected from the total population by using purposive sampling. These sample manufacturing companies comprise 324 employees. Out of these, a sample of 176 employees was selected to conduct the

research. The sample size is determined based on relation adopted from C.R.Kothari (2004:179):

$$n = \frac{z^2 \cdot p \cdot q \cdot N}{e^2 (N-1) + z^2 \cdot p \cdot q}$$

$$n = \frac{1.96^2 \cdot .5 \cdot .5 \cdot 324}{0.05^2 (324-1) + 1.96^2 \cdot .5 \cdot .5} = 176$$

Simple random sampling was applied, to allocate the sample size to each company; the method of proportional allocation was applied.

Finally, the data obtained from the respondents was analyzed qualitatively and quantitatively by using descriptive statistical analysis (Such as frequencies, average mean values, and standard deviations) and non parametric test i.e Friedman test. The information obtained through document analysis, open-ended questionnaires and the interview were qualitatively analyzed to supplement the quantitative data.

### 3. RESULTS AND DISCUSSION

Questionnaire was developed and distributed to 176 employees working in the selected manufacturing companies and 152 questionnaires were filled and returned back.

Employee respondents were asked about the primary responsibility of a business and the result was presented in Table 1.

**Table 1. Primary responsibility of business**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	25	16.4	16.4	16.4
	Neutral	4	2.6	2.6	19.1
	Agree	61	40.1	40.1	59.2
	strongly agree	62	40.8	40.8	100.0
Total		152	100.0	100.0	

**Table 2. CSR activities are closely related to our business strategy**

CSR activities are closely related to our business strategy					
		Frequency	Percent	Valid percent	Cumulative percent
Valid	strongly disagree	26	17.1	17.1	17.1
	Disagree	69	45.4	45.4	62.5
	Neutral	7	4.6	4.6	67.1
	Agree	34	22.4	22.4	89.5
	strongly agree	16	10.5	10.5	100.0
Total		152	100.0	100.0	

As Table 1 illustrates, 80.9% of respondents answered “agree” and “strongly agree” to the question, “The primary responsibility of a business is to make a profit”. Only 16.4% of the respondents disagree about the question raised and the remaining 2.6% of the respondents are indifferent. In today's modern business, different authors argue that CSR is an issue of growing importance in all business regardless of type and size [2]. “Business leaders need to speak out now about their role in driving progress in society. For too long we have allowed people to think that business is interested in nothing other than profit, when in fact we see the purpose of business much more widely. We believe that the fundamental purpose of business is to provide continually improving goods and services for increasing numbers of people at prices that they can afford.” (Paul Polman, Former Group President, Western Europe, Procter & Gamble 2005).

As illustrated in the above Table 2, 62.5% of the employees respondent that they do not agree about the question “CSR activities are closely related to their business strategy”. Only 32.9% of the respondents gave positive reply for the raised issue the remaining respondents are indifferent. From this we can understand that the companies CSR activities do not relate with their business strategy. In addition to this as per the interview conducted with the managers of the companies they answered “No” to the question “do you have CSR strategy, policy and procedures?” A CSR strategy is a road map for moving ahead on CSR issues. It sets the firm’s direction and scope over the long term with regard to CSR, allowing the firm to be successful by using its resources within its unique environment to meet market needs and fulfill stakeholder expectations. A good CSR strategy identifies the: overall direction for where the firm wants to take its CSR

work; the stakeholders and their perspectives and interests.

### 3.1 Factors that Initiate to Implement CSR

Table 3 illustrates the mean and standard deviation of factors initiating the implementation of CSR in Gurage Zone. This factor was measured using nine item statements. The lowest item was item no. 4 “To improve employee motivation” ranked (2.18) with standard deviation of (1.202) while the highest was “To improve economic performance” ranked (4.00) with standard deviation of (1.19). Similarly, the manufacturing companies participate in CSR activities because of different motivator factors, as we understand from the above table; the first item; “Ethical and moral reason.” rated with a mean of (2.23) and standard deviation of (1.26). The mean for the second item “To improve community relations.” rated (2.59) with a standard deviation of (1.36).

The mean for the third item “To improve customer loyalty.” rated (3.66) with standard deviation of (1.28). The fourth item “To improve employee motivation.” rated (2.18) with standard deviation of (1.202) which is the lowest item in the rate.

The Items “To improve relations with business partners/investors and to improve economic performance” rated (3.23) and (4.00) with the standard deviation of (1.444) and (1.19) respectively. Similarly, “Pressure from third party” is another factor which has a mean value of (3.98) and standard deviation of (0.842).

The last items “To improve the reputation of the company and the company’s commitment to reduce impact on environment” have a mean value of (3.70) and (2.49) and standard deviation of (0.996) and (1.196).

**Table 3. Factors that initiate to implement CSR**

	N	Mean	Std. Deviation
Ethical and moral reason	152	2.23	1.258
To improve community relations	152	2.59	1.364
To improve customer loyalty	152	3.66	1.276
To improve employee motivation	152	2.18	1.202
To improve relations with business partners/investors	152	3.23	1.444
To improve economic performance	152	4.00	1.185
Pressure from third party	152	3.98	.842
To improve the reputation of the company	152	3.70	.996
The company’s commitment to reduce impact on environment	152	2.49	1.196
Valid N (list wise)	152		

**Table 4. Descriptive summaries about the responsibility of the firms towards environment**

<b>Waste reduction</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	36	23.7	23.7
Disagree	48	31.6	55.3
Neutral	13	8.6	63.8
Agree	37	24.3	88.2
Strongly agree	18	11.8	100.0
Total	152	100.0	
<b>Recycling</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	25	16.4	16.4
Disagree	44	28.9	45.4
Neutral	12	7.9	53.3
Agree	40	26.3	79.6
Strongly agree	31	20.4	100.0
Total	152	100.0	
<b>Energy Conservation</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	7	4.6	4.6
Disagree	83	54.6	59.2
Neutral	20	13.2	72.4
Agree	39	25.7	98.0
Strongly agree	3	2.0	100.0
Total	152	100.0	
<b>Reduction of water consumption</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	18	11.8	11.8
Disagree	74	48.7	60.5
Neutral	15	9.9	70.4
Agree	27	17.8	88.2
Strongly agree	18	11.8	100.0
Total	152	100.0	
<b>Reduction in air pollutant</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	21	13.8	13.8
Disagree	74	48.7	62.5
Neutral	13	8.6	71.1
Agree	24	15.8	86.8
Strongly agree	20	13.2	100.0
Total	152	100.0	
<b>Organization use environmentally friendly packaging</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	-	-	-
Disagree	64	42.1	42.1
Neutral	18	11.8	53.9
Agree	41	27.0	80.9
Strongly agree	29	19.1	100.0
Total	152	100.0	
<b>your organization complies with the environmental laws, rules and regulations to promote environmental protection</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Strongly disagree	61	40.1	40.1
Disagree	49	32.2	72.4
Neutral	10	6.6	78.9
Agree	22	14.5	93.4
Strongly agree	10	6.6	100.0
Total	152	100.0	

A close look at the scale of the initiating factors in the implementation of CSR indicated that the average value of the ethical and moral reasons, improving community relations, improving employee motivation, and the company's

commitment to reduce impact on environment are below average result (3). On the other hand, improving customer loyalty, improving relations with business partners/investors, improving economic performance, Pressure from third party

and improving the reputation of the company have average values more than the average (3). From this we understand that, the manufacturing companies implement CSR because of economic performance, pressure from third party, improving reputation of the company, customer loyalty. This means, ethical and moral reasons, improving community relations, improving employee motivation and the company's commitment to reduce impact on environment are not the initiator factors.

### 3.2 CSR in Terms of Environmental Protection

As it is possible to observe from Table 4, out of the total respondents (55.3%) of the respondents disagree, (36.1%) agree, while (8.6%) of them are indifferent on the subject of waste reduction. With regard to recycling, about (45.4%) of employees disagree, around (46.7%) of them agree and approximately (7.9%) of respondents are neutral. In the case of energy conservation, majority (59.2%) of the respondents disagree; (27.7%) of them agree and (13.2%) of them are indifferent. The table also shows that (29.6%) of the responses of employees agreed that the firms tries to reduce water consumption. In contrast, the majority of respondents (60.5%) disagree about the participation of the firms on the reduction of water consumption. But, (9.9%) of the respondents are indifferent concerning the participation of the firms in the reduction of water consumption. Similarly, concerning reduction in air pollutants the majority of the respondents (62.5%) disagree about the participation of the firms and (29%) of the respondents accept positively. But, (8.6%) of them are indifferent concerning the participation of the firms in the reduction of air pollutants. In addition to this, (46.1%) of the respondents agree for the question organizations use environmentally

friendly packaging and (42.1%) of the respondents disagree about the issue. But, (11.8%) of the respondents are neutral concerning the participation of the firms in the use of environmentally friendly packaging. Moreover, out of the total respondents (72.4%) of the respondents disagree, (21.1%) agree, while (6.6%) of the respondents are indifferent on the subject your organization complies with the environmental laws, rules and regulations to promote environmental protection.

To seek further interpretation, the mean of the responses is 2.73 which lies below the average value in terms of environmental issues. In addition to this, the mean of the responses of the societies concerning environmental issue is 2.83, which is also below average value. To sum up, the description reflects that the firms practicing CSR concerning environmental protection is not sufficient.

### 3.3 Factors Affecting the Implementation of CSR

From Table 5, we can understand that the majority (73%) of the respondents agreed that Government regulations are major factors that can affect the implementation of CSR. (73%) of respondents argued that skill and knowledge of employees are also considered as major factor that can affect the practice of CSR. In addition to this, (71.1%) of the respondents also argued that the competition level also a major factor that affect the implementation of CSR. Moreover, (64.5%) and (61.2%) of the respondents are agreed that awareness and media are the factors that can affect the implementation of CSR respectively. On the other hand, the other listed factors are not considered by the majority of the respondents, as a factor affecting the implementation of CSR.

**Table 5. Factors affecting the practice of CSR**

Factors	Yes		No		Total	
	Freq.	%	Freq.	%	Freq.	%
Government	111	73.0	41	27.0	152	100.0
Media	93	61.2	59	38.8	152	100.0
Product of the firm	35	23.0	117	77.0	152	100.0
Production activities	50	32.9	102	67.1	152	100.0
Location of the firm	50	32.9	102	67.1	152	100.0
Awareness	98	64.5	54	35.5	152	100.0
Skill and knowledge of employees	111	73.0	41	27.0	152	100.0
Unavailability of market for product	46	30.3	106	69.7	152	100.0
Unavailability of best technology	49	32.2	103	67.8	152	100.0
Unavailability of raw material	55	36.2	97	63.8	152	100.0
Fluctuation of product price	67	44.1	85	55.9	152	100.0
Competitions	108	71.1	44	28.9	152	100.0

To analyze the acceptance level of the respondents concerning the factors that can affect the practice of CSR, the non-parametric test, Cochran's Q-test statistics were conducted and the result was stated as follows:

<b>Chart 1. Frequencies</b>		
<b>Factors</b>	<b>Value</b>	
	1	2
Government	111	41
Media	93	59
Awareness	98	54
Skills and knowledge of employees	111	41
Competitors	108	44

<b>Chart 2. Test Statistics</b>	
N	152
Cochran's Q	8.206
Df	4
Asymp. Sig.	.084

1 is treated as a success.

From the above test result we can understand that the proportions of respondents concerning the factors are not statistically different. Because the asymptotic significance result (0.084) is greater than that of (0.05), the null hypothesis was accepted. The purpose of the Cochran procedure is to test whether the observed differences are statistically significant or not. Therefore, there is no significant difference between the proportions of respondents who selects the above mentioned factors as a factor affecting the practice of CSR. Generally, we can consider the factors as major factors affecting the implementation of CSR.

The above mentioned factors are differentiated as a major factor from the other factors affecting the implementation of CSR, through test statistics, McNemar Test. This test is conducted by taking the minimum value from the major factor and the maximum value from the other factors.

<b>Test Statistics</b>	
<b>Chart 3:McNemar Test</b>	
	<b>Media &amp; Fluctuation of product price</b>
N	152
Chi-Square	7.622
Asymp. Sig.	.006
Exact Sig. (2-tailed)	.005
Exact Sig. (1-tailed)	.003
Point Probability	.001

From the above table we understand that the asymptotic significance (p-value) 0.006 is less than that of the level of significance 0.05. This means there is a significance difference between the maximum value of the major factors and the minimum value of the other factors. Therefore, the above identified factors taken as a major factor, which can affect the implementation of CSR.

#### 4. CONCLUSION AND RECOMMENDATION

The study found that, even if the manufacturing companies involved in CSR practice, the companies are not involved in a regular bases. In addition, the majority of respondents believe that the major goals of these manufacturing companies are profit maximization.

A CSR strategy is a road map for moving ahead on CSR issues. It sets the firm's direction and scope over the long term with regard to CSR, but the companies CSR activities does not relate with their business strategy. In addition to this, the managers of the companies argued that the firms did not have CSR strategy, policy and procedures.

The study found that, a close look at the scale of the initiating factors in the implementation of CSR indicated that the manufacturing companies implement CSR because of economic performance, pressure from third party, improving reputation of the company, customer loyalty. This means, ethical and moral reasons, improving community relations, improving employee motivation, and the company's commitment to reduce impact on environment are not the initiator factors.

Finally the study found that the major challenges of CSR practice are related with that of lack of business strategy and policy related to CSR, lack of support from top management, lack of collaboration from local authority and lack of coordination. In addition to this, as per the interview conducted with the respondent managers, the participation of top management is minimal. This indicates that even though some managers have a participation in the implementation of CSR, their participation is not as such strong.

Based on the finding, the following recommendations have been given:

- The findings show that the companies are not involved CSR in regular bases and their major goals of these manufacturing companies are profit maximization. Thus the companies should have to focus on creating a vision, mission and statement of values that include CSR as one of its core elements. In addition to this, the companies should have to prioritize its CSR and perform it regularly.
- Information about CSR commitments, activities and performance reporting should be communicated visibly and frequently to all stakeholders. Whether through newsletters, annual reports, Intranet communication, meetings, training or informal mechanisms, employees must know that CSR is a company priority.

Updates on CSR should also be put on the agenda of meetings at all levels of the company.

- CSR commitments are policies or instruments a firm develops or signs on to that indicate what the firm intends to do to address its social and environmental impacts. CSR commitments flow from the CSR assessment and strategy and are developed at the point when a firm moves from planning to doing: it is therefore vitally important that the firms should have to develop CSR commitment.

## COMPETING INTERESTS

Authors have declared that no competing interests exist.

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*The peer review history for this paper can be accessed here:*  
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