

**Corporate Social Responsibility Practices and Financial  
Performance of Manufacturing Firms in Special Zone,  
Administration of Oromia Surrounding Finfinne: A Case  
of Sebeta and Gelan Town**

**Research Report Submitted to the Research, Graduate Studies &  
CBE Office**

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**and**

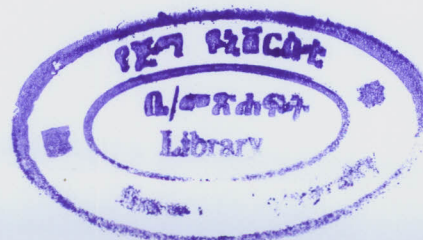
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## **Abstract**

The paper examine attitude of managers, employees and local communities towards CSR practices. We used structured questionnaire to secure data from respondents. We find that manufacturing firms surveyed have not properly carried out CSR activities especially in waste management. Public owned manufacturing firms are found to be more responsive to communities CSR activities than foreign owned and private owned firms in the study area. Furthermore, larger firms are more responsive to CSR than smaller ones and socially responsible firms are found to be financially successful than others. The more manufacturing firms exert responsibility on CSR the better their financial performance.

## **List of Abbreviations**

ANOVA	Analysis of Variance
CSR	Corporate Social Responsibility
FP	Financial Performance
OSD	Organization for Social Development

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# Chapter One

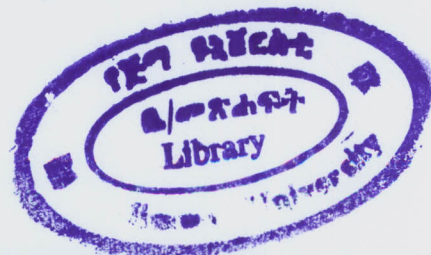
## 1. Background of the Study

### 1.1 Introduction

An important issue facing today's managers is whether corporate sector has some responsibility to improve the society or only to improve their earnings. Until the last decade, particularly in developing countries a firm was generally viewed, as an economic institution to provide wanted goods and services for public consumption and a profit for the owners (Potluri and Zelalem, 2008). Since Ethiopia is one of the developing countries, the philosophy of corporate social responsibility is not well developed and also the governance system takes the form of mere control and decision making rather than well developed ethical code of conduct.

Chahal and Sharma (2006) define Corporate Social Responsibility CSR as a firm's commitment to protect and improve society and its organizational welfare by utilizing different business and social actions to ensure that it provides equal and sustainable benefits for diverse stakeholders. Moreover, Branco and Rodrigues (2006) found that CSR includes many issues, such as human resource management, healthy and safe working conditions, and building relationships with local communities, suppliers, and consumers. They further suggest that firms should deal with problems resulting from their operation independently, without being forced by laws and governmental regulation.

The issue of CSR has been one of the topics of discourse in the last four or five decades. Many manufacturing and service companies have also been saying that they have a component for Corporate Social Responsibility. On the other hand, many blame those companies especially manufacturing firms for being irresponsible with regard to CSR. Most of the manufacturing industries in Ethiopia in general and in the study areas in particular are newly emerging industries because of the country development strategy emphasising on import substitutions for saving foreign exchange and give a work opportunity to many jobless society. Due to this direct and indirect support from the government, a number of manufacturing firms particularly in the study towns emerged and continued to increase in size and type.





However, the industry is accused for environmental and socio-economic problems. Environmentally ecological concerns such as pollution and waste disposal are the major ones. In addition, socio-economically the industry has a problem with the community like labours are not paid the right amount of wage; the machines used by most of the firms are outdated and not safe for employees operating with it. Because of these employees in some firms suffering health problem and even their right to form a union and bargain on their working condition is also denied in some firms. According to study by Belwal & Chala (2008), many environmental activists still argue that environmental policies or standards, labor regulations are not implemented by many companies within the industry as per the standards provided by the government. Therefore, this study will assess the corporate social responsibility practices of manufacturing firms and the linkage between CSR practice and firms financial performance.

The purpose of this study is to explore the CSR practice of manufacturing firms in terms of the four major stakeholders'; community, customers, environment and employees in Sebeta and Gelan town. In spite of lack of well organized form of corporate social responsibility practice in the developing country like Ethiopia, the study assesses how the manufacturing firms practice corporate social responsibility both within the organization as well as to the community including issues related to environment. Furthermore, assessment was made to see the link between corporate social performance and financial performance of the manufacturing firms in the study area.

## **1.2. Objectives of the Study**

The main objective of this study is to explore CSR practice of selected manufacturing firms in Sebeta and Gelan town and to examine the links between firms' CSR practices and their financial performance.

**Specifically, the objectives of the study are:-**

- To assess the managers and employees familiarity with the term of CSR and level of participation.
- To examine the contributions of the firms in terms of the four major stakeholders; community investment, environment stewardship, customers and employees.

- To analyze the relationship between demographic factors (years of operation, size of the firm and ownership) and firms CSR practices.
- To investigate the relationship between CSR activities of the firm and its financial performance.
- To identify the major barriers for manufacturing firms to practices CSR activities in the study areas.

### 1.3 Theoretical Framework

To meet the objectives outlined above, a model was used as a guideline; namely a theoretical framework. The model we used will assumed to cover the four major stakeholders as a measure of CSR practices of the manufacturing firms and then link of the CSR to the financial performance of the firm. Figure 1.1 below describes the theoretical model.

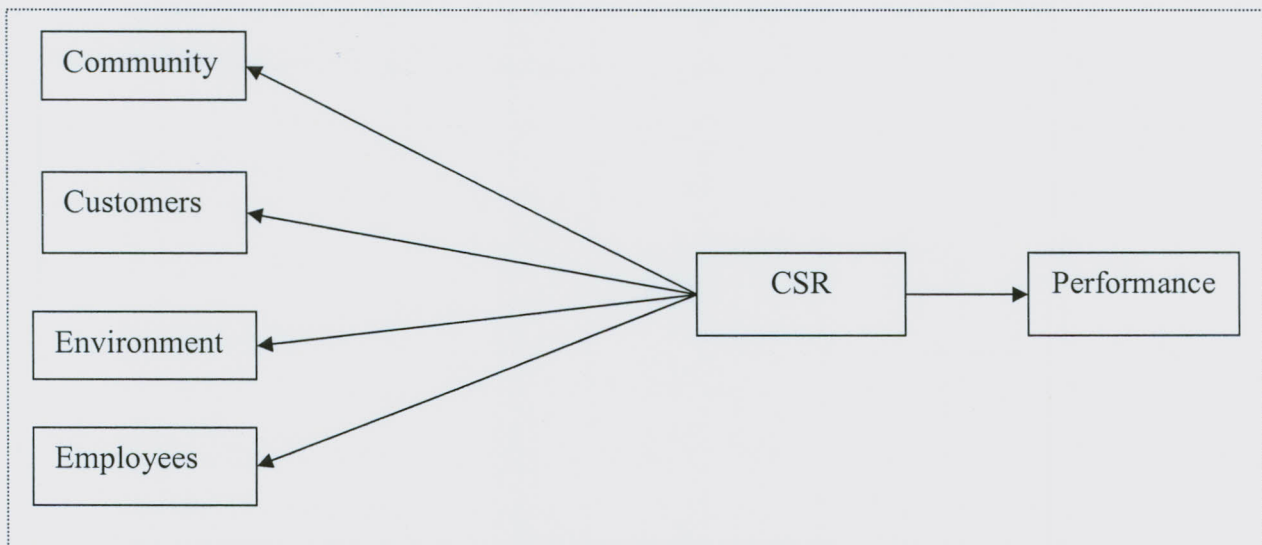


Figure 1.1 Theoretical Frameworks

### 1.4. Significance of the Study

Corporate social responsibility is not a familiar concept in the Ethiopian business environment as well as the legal system administrating the various business sectors (Organization for Social Development (OSD), 2010). According to OSD (2010), CSR practices are witnessed in unorganized manners in many initiations and activities undertaken by business sector, chamber sector associations and government agencies. From this experience we can imagine that, the Ethiopian business arena needs further study and

understanding in order to employ the concept and practice of CSR. Hence, this study has the following importance:

- The study is significant in that it help policy makers and other stakeholders to understand the level of the societal contribution of manufacturing firms in the study areas.
- The study during the time of data collection and lastly the findings of the study may increase the awareness level of managers, employees and community as a whole about CSR.
- It can be used as a base line data for further researches conducted in the area of corporate social responsibility and its correlation with organization's performance.
- Based on the results of this study, we felt that much of the manufacturing firms in the study areas had not and were not adequately dealing with many of the social problems of the surrounding community. Thus, the result of this study may provide important input for managers and concerned bodies to re-examine their CSR policies and activities.

### **1.5 Organization of the Paper**

The study is divided into four chapters. The first chapter provide the overview of the research. It addresses the introduction to the research objective of the study, theoretical perspective and significance of the study. Chapter two address the details of the research methodology. It will incorporate the target population, sample size and sampling procedure, research design, data collection instrument, and data analysis. Chapter three will present the results and discussion for the collected data side by side with the findings form literatures (empirical studies). Finally, Chapter four provides the conclusion and limitations of the study.

## **Chapter Two**

### **2. Research Methodology**

This study focussed on selected manufacturing firms in two towns; Sebeta and Gelan in Special Zone, Administration of Oromia Surrounding Finfinne. The areas considered as the major industrialized area as a number of manufacturing firms could be found.

#### **2.1 Research Design**

The study employed a quantitative research approach as quantitative methods help us to generate statistics through large scale survey research using questionnaire (Dawson, 2007; Creswell, 2003). The survey instrument has become a widely used and acknowledged research method worldwide. It consists of asking structured questions (Malhotra and Birks, 2000) of a representative cross section of the population at a single point in time. Thus, this study employed a cross sectional survey method using structured questionnaire. Furthermore, the research is a multi-organizational study and the methods and procedures constitute descriptive research to describe rather than explain a set of conditions, characteristics, or attributes of respondents in a population, based on measurement of a sample.

This study examined the attitudes of managers, employees and the local community towards firms' CSR practices. It is assumed that by understanding an individual's attitudes towards something, we can predict that individual's overall pattern of response to object (Zu, 2009). An assessment of a manager's attitude toward CSR may provide an indication of the managers' predisposition to respond in a particular way to CSR. Similarly, the assessment of the communities' attitude toward the firm's contribution to the society may provide an indication of CSR.

#### **2.2 The Target Population**

As it was described above, the target population for this research are manufacturing firms operating in Sebeta and Gelan town by taking into consideration the firms' ownership (public, private and foreigner). The firms in operation for the past five years were considered as the target population of this study.

### 2.3 Sample Size and the Sampling Procedure

The survey study was used to examine the attitudes of managers, employees and local community toward CSR activities of the manufacturing firms in the two towns. The total number of respondents for the questionnaire were determined by the formula for infinite population  $n = \frac{Z^2 p(1-p)}{e^2}$  (Kothari, 2004). When the reliability is estimated to 95% and  $\pm 5$  % error  $n = \frac{(1.96)^2 * 0.5(1-0.5)}{(0.05)^2} = 385$ . However, some 235 valid responses were received producing a response rate of 55% and used in the analysis.

The sampling procedure was a simple random sample of the target population. A random sample was used in order to attempt to insure that the sample was unbiased and had a high degree of probability that it was representative of the target population as a whole. Hence, respondents from employee and local community were selected randomly to fill the questionnaire. Sproull (1988) states that the simple random sample is a probability sampling method in which each element within the target population has an equal, known, and non-zero chance of being selected for inclusion in the sample. The advantages of the simple random sample being bias free and having control over the variables outweighed the major disadvantage of the simple random sample that a fairly large number of elements or respondents are necessary in order to achieve representativeness in the sample.

### 2.4 Method of Data Collection

The study employed structured questionnaire for self-completing by managers and employees and interview for the local community to collect primary data. Based on the research objectives and the review of literature, structured questionnaire was designed for primary data collection. The questionnaire was structured in five parts. The first part of the questionnaire devoted to collection of information about the profiles and background of manufacturing firms: including years of operations, firms' size in terms of number of employees, ownership.

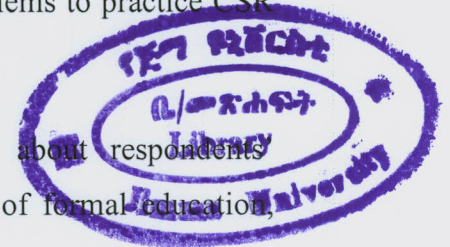
The second part of the questionnaire was designed to gather information on the CSR practice of firms in the study areas. This part of the questionnaire was incorporate different types of questions about the contribution of firms towards the four major stakeholders and about the

perception of managers and employees towards CSR. All the questions in this part of the questionnaire were designed as close end questions with single response quantified using a Likert scale with six possible answers (1 = strongly disagree, 2 = disagree, 3 = inclined to disagree, 4 = inclined to agree, 5 = agree, 6 = strongly agree) with the statement. The reason of using symmetric scale is to eliminate the tendency of respondents to a neutral position.

Part three of the questionnaire was dealt with financial performance of the manufacturing firms in the study areas. Questions were designed to assess the response of managers and employees on the financial performance of the firm in terms of sales and profit; and respondents were rate subjectively from much higher than expected to much lower than expected.

The fourth part of the questionnaire was included questions on barrier to CSR practice of the firms. In this section, we identified some major hindering factors/problems to practice CSR and the responses were ranked accordingly.

The final part of the questionnaire was consisting of questions about respondents background information such as their job category or position, level of formal education, work experience, and gender.



A pilot survey was conducted for validation purposes of the questionnaire. The response from the pilot survey of five managers, 10 employees and 10 community representatives was used in the modification of the final questionnaire. So that irrelevant questions and words that was deemed difficult to the respondents were removed from the questionnaire.

The technique of the interview was standardized structured interview; respondents were asked standardized questions with no freedom for thinking outside the direction. This interview was conducted for local community respondents through interviewers.

## **2.5 Method of Data Analysis and Interpretation**

The data collected through questionnaire from the sampled respondents were edited, coded, classified and summarized to make suitable for statistical application. Validity and reliability of the survey questionnaire was assessed. Content validity, appropriateness of the questions and the clarity of the language was evaluated by peers and other academicians' responses.

Moreover, reliability was assessed by using Cronbach's alpha and the result presented in table 2.1.

Table 2.1 Internal Consistency- Coefficient Alpha

Variable	Cronbach's alpha( $\alpha$ )
Community	.896
Customer	.812
Environment	.802
Employees	.910
Attitudes	.776
Performance	.701

Source: Researchers computation

When the Cronbach's alpha is low, it indicates low reliability and this means that the measuring instrument is not consistent in its measurement. According to Leech, et al., (2005) an instrument can be considered reliable if the results of alpha coefficient value is .70 or greater. Similarly, Morgan, et al. (2002) indicated that reliability coefficients of .70 are adequate for research instruments. Therefore, from the alpha value obtained, we can conclude that the research instrument is reliable and consistent.

The data collected from the respondent via questionnaire were analyzed by using both descriptive and inferential statistics with the help of SPSS. To deal with descriptive data; we employed descriptive statistical tools such as percentage, mean, and standard deviations. Correlation and other statistical procedures such as t-test and ANOVA were used to examine the relationship and difference between the study variables.

## Chapter Three

### 3. Results and Discussion

#### 3.1 Characteristics of Respondents

This section of the study provides background information on the respondents of the questionnaire. Previous studies have been shown that personal characteristics of those responsible individuals in the organization have a significant influence over the CSR activities within an organization. In particular the educational level and work experience of managers' are believed to have impact the extent of CSR within an organization (Schaper and Savery, 2004). Hence, table 3.1 and 3.2 present's descriptive analysis about respondents (manager, employee and local community) personal information and their firms' background respectively.

Table 3.1 Descriptive statistics on respondents category, gender, education level and work experience

Items		Respondents	
		N	%
Respondents Category	Managers	47	20
	Employees	42	18
	Local Community	146	62
Total		235	100
Gender	Male	161	68
	Female	74	32
Total		235	100
Level of Formal Education	Less than 12 Grade Certificate	42	18
	Diploma	30	13
	First Degree	72	31
		86	36
	Masters Degree and above	5	2
Total		235	100
Total Work Experience	Below 5 years	19	21
	5 - 10 years	39	44
	11 - 15 years	17	19
	16 - 20 years	9	10
	Above 20 years	5	6
Total		89 <sup>a</sup>	100

<sup>a</sup> The total work experience was analyzed only for manager and employee respondents

Source: Survey Questionnaire, 2012.



Table 3.1 reveals that the sample represents 20 % of managers, 18% of employees and the remaining 62% of local community. Though we tried our best to influence respondent managers to fill the questionnaire through personal contact and frequent telephone calling; the response rate is very small as compared to the number of questionnaires distributed to them. This is because managers in some organizations were not willing to respond on the issue of corporate social responsibility. In addition to this, some other managers were busy to fill the questionnaire. The 18% respondent of the employees in the organization is also small as compared to our research plan, this is mainly because of some firms totally blocked us not to consult their employees for unjustifiable reasons. Despite of these facts, the variety of respondent category shows the analysis of the problem is based on different source of information. Male respondents represent 68% of the respondents and female respondents 32%.

Table 3.1 also shows that 36% of the respondents have first degree and only a few respondents (2%) have masters and above. A separate analysis of formal educational level for managers and employees was made and the result shows that 56% of the respondent managers and employees are first degree graduates and only 3% have masters degree and above.

Bessera and Miller (2000) found managers with higher educational achievement reported higher levels of community involvement. Schaper and Savery (2004) argue that level of education significantly affect manger's propensity to donate to charity. Some slightly similar findings were noted in this study on single item questions to the respondents. For instance, 59.3% of manager respondents having first degree and above responses indicate the firms overall contribution for the local community and local investments increases for the past five years as compared to 40.7% manager respondents having diploma or lower education level. However, the ANOVA test result for the overall contribution of firms to CSR in terms of community, customer, environment and employee indicates a insignificant relationship between managers' level of education and firms' contribution to CSR.

Concerning the work experience of managers and employees, 65% of the manager and employee respondents have less than 10 years of total work experience and only 6% above 20 years.

Table 3.2 Descriptive statistics on firms size, year of existence, and ownership (N\* = 89)

Items		Respondents	
		N	%
Ownership	Private-Ethiopian owned	34	38
	Public	16	18
	Foreigner	39	44
Total		89	100
Firm Size (Total number of Employees)**	Below 150	16	18
	150 - 300	36	40
	301 - 450	12	14
	451 - 600	11	12
	Above 600	14	16
Total		89	100
Years of operation	Below 5 years	--	--
	5 - 10 years	61	69
	10 - 15 years	11	12
	15 - 20 years	5	6
	above 20 years	12	13
Total		89	100

\*N is the sum total of managers and employees responded to the questionnaire not the number of firms

\*\*Total number of employees both permanent and temporary

Source: Survey Questionnaire, 2012.

Table 3.2 summarizes that 44% of the respondents who fill and return the survey questionnaire were from foreign owned firms and 38% from private Ethiopian owned firms. With reference to the size of the firms in terms of number of employees, manager and employee respondents were asked to indicate the number of employees currently working in the organisation. The result was summarized into five options as it was indicated in table 3.2, most of our respondents (40%) were from firms employing from 150 employees to 300 employees. Moreover, only 18% of respondents of managers and employees were responded from firms employing less than 150 employees.

Even though a number of manufacturing firms operating less than five years are there in the study areas, those firms were not considered in the study assuming that the time is too short to evaluate their CSR activities in the areas. However, 69% of the respondent managers and employees were from firms in operation from 5 – 10 years. This shows that, except few public owned firms, most of the manufacturing firms in the study areas have an average year of operation less than 10 years.

### 3.2 Familiarity with Term CSR and firms' level of participation

The findings of the questionnaire have been analysed in relation to each objective. The first objective of this survey study is to assess the familiarity of the term CSR and firm's level of participation.

#### 3.2.1 Familiarity with Term CSR

Manager and employee respondents were asked whether they are familiar with the term CSR and the result was presented in table 3.3 below.

Table 3.3 Respondents Familiarity with term Corporate Social Responsibility

Items		Respondents	
		N	%
Are you familiar with the term Corporate Social Responsibility?	Yes	57	64
	No	29	33
	Missing	3	3
Total		89	100
Does the firm have any concerned department to handle CSR?	Yes	21	24
	No	66	74
	Missing	2	2
Total		89	100

Source: Survey Questionnaire, 2012.

The majority of respondents were familiar with the term, as table 3.2 illustrates, 64% of respondents answered yes to the question, "Are you familiar with the term Corporate Social Responsibility?" In today's modern business, different authors argue that CSR is an issue of growing importance in all business regardless of type and size (Basu and Palazzo, 2008; Burton and Goldsby, 2009). However, 74% of the respondent managers and employees replied "No" for the question "Does the firm have any concerned department to handle CSR?" This indicates that even though managers and employees are familiar with the term, there is no responsible body in their organization to carry out CSR activities.

### 3.2.2 Level of Firm's Participation

A question is raised to respondents whether the firm contribute to the local community and philanthropic in the areas of operation. The responses for the questions were presented in the following table.

Table 3.4 Contribution of firms to the local community

Items		Respondents	
		N	%
Does the firm contribute to charity	Yes	109	46.4
	No	125	53.2
	Missed	1	.4
Total		235	100
Does the firm contribute to the surrounding community in terms of skills and time of employees?	Yes	96	40.9
	No	130	55.3
	Missed	9	3.8
Total		235	100

Source: Survey Questionnaire, 2012.

Table 3.4 shows that, 53.2% of the respondents believe that the firm did not play discretionary role to help the surrounding community. The 55.3% responses of the respondents also show that the contribution of firms in terms of skill and time of employees to the local community was limited.

Further analysis was made to see if there is difference between managers & employees and local community respondents on the contribution of the firm for the local communities. The result of the independents t-test between the two group managers & employees and local community was presented in table 3.5 below.

Table 3.5 Independent sample test

Item	Mean difference	df	t	Sig. (2-tailed)
Contribution of firms to the local community*	.264	233	4.08	.000

\*Average of the two questions in the table 3.4. above

Source: Survey Questionnaire, 2012.

The independent sample test reveals that managers and employees favourably agree with the social contribution of the firm as compared to local community counterpart. That is, there is significant difference in responding to the question  $t(233) = 4.08, p < .001$ . From this we can

infer that either the firm contribution is limited or the firm fail to communicate what it contributed to the community. To support this argument, a question “How many times the firm discuss about CSR with the local community per year” was asked to respondents and 75.5% of the respondents responded that the firm do not discuss the issue of CSR at all with any concerned bodies in the areas.

### **3.3 Evaluating CSR contribution of the firms**

The second objective of this study is to examine the contributions of the firms in terms of community investment, environment stewardship, customers and employees. Previous research studies by different authors show that, CSR was viewed to be implemented through stakeholder theory and the main stakeholders include; the environment, community, customers and employees (Sweeney, 2007; Agle and Mitchell, 2008; Vaaland et al, 2008). In line with literature, the following section analyses the extent of various activities undertaken for the benefit of community, customer, environment and employee.

A likert scale with six scale questions asked to the respondents and respondents were rate each item separately from strongly disagree (1) to strongly agree (6) and the results were summarized into two response scale [1 (strongly disagree) + 2 (disagree) + 3 (inclined to disagree) = 1 disagree; and 4 (inclined to agree) + 5 ( agree) + 6 (strongly agree) = 2 agree].

#### **3.3.1 Community**

Six positive statements were listed in questionnaire to respondents of local communities, managers and employees so that they rate favourably or unfavourably.

Table 3.6 Descriptive statistics on community contribution of the firms

SN	Items	Respondents					
		Disagree		Agree		Total	
		N	%	N	%	N	%
1	Staff members are involved in voluntary activities on behalf of the firm	115	59.0	80	41.0	195	100
2	The firm has purchasing policies that favour the local communities	110	56.4	85	43.4	195	100
3	The firm has recruitment policies that favour the local communities	114	58.5	81	41.5	195	100
4	The firm actively involved in a project(s) with the local community	116	59.5	79	40.5	195	100
5	The firm has programmed budget to contribute for poverty reduction in the local community.	55	61.8	34	38.2	89*	100
6	The firm is acting as it is expected toward improving the life of the community	112	57.4	83	42.6	195	100

\*Only manager and employee respondents

Source: Survey Questionnaire, 2012.

Table 3.6 indicates that 59% respondents disagree with the staff (employees and managers) involvement in voluntary activities on behalf of the firm. However, there is difference between community; and manager & employee respondents that is, 41.6% of local community respondents disagree with staff involvement as compared to 17.4% manager & employee respondents. The senior management and employee involvement in voluntary activity with surrounding communities found in previous research (Quinn, 1997; Sweeney, 2007) that the involvement of senior management is vital for the effective implementation of CSR activities. Similarly, there is also slight difference between manager & employee and local community respondents regarding recruitment preference of the firm. Hence, the majority of manager & employee respondents agree with the statement that the firm favour the local communities for recruitment as compared to community respondents.

### 3.3.2 Customers

We identified four items in the questionnaire related to customers and the responses of the respondents were summarized in the following table.

Table 3.7 Descriptive summary about the business responsiveness of firms towards customer

SN	Items	Respondents					
		Disagree		Agree		Total	
		N	%	N	%	N	%
1	The firm supply clear and accurate information about products to customers	119	61.0	76	39.0	195	100
2	The firm resolve customer complaints in a timely manner	123	63.1	72	36.9	195	100
3	The quality assurance criteria is adhered to in production	29	34.1	56	65.9	85*	100
4	The firm committed to providing value to customers	117	60.0	78	40.0	195	100

\*Respondents for the question were the managers and employees only

Source: Survey Questionnaire, 2012.

Table 3.7 reveal that respondents disagree with the statements about the firm's responsibility towards customers for the three statements. The manager and employee respondents for the quality assurance of the firm agree (65.9%) with the firm adhered to quality.

### 3.3.3 Environment

Four likert scale questions in the questionnaire were rated by managers, employees and local community respondents. Summary of the response of the respondents were presented in the following table.

Table 3.8 Descriptive summary about the responsibility of the firms towards environment

SN	Items	Respondents					
		Disagree		Agree		Total	
		N	%	N	%	N	%
1	The firm contribute to improving environmental quality and pollution control	118	59.6	80	40.4	198	100
2	The firm follows the responsible disposal of waste and residuals	125	63.1	73	36.9	198	100
3	The firm has policies for preventing direct and indirect pollution of soil, water, and air	114	57.6	84	42.4	198	100
4	The firm has systems and techniques for producing environmentally safe products	108	54.5	90	45.5	198	100

Source: Survey Questionnaire, 2012.

Table 3.8 indicates that the majority of respondents do not believe with the statement the firm contribution to improving environmental quality and the firm follow responsible way of

wastes disposal. That is, 59.6% of the respondents disagree with the statement the firm contribute to improving environmental quality. Likewise, 63.1% respondents believe that the firm do not follow the responsible way of waste disposal. During the time of data collection we personally observed that the manufacturing firms in one of the research area carelessly release wastes to the surrounding river which threat the local community to use the water for their animals and for smaller irrigation.

### 3.3.4 Employees

Six likert scale questions in the questionnaire identified to examine the social responsibility of the firm related to employees. Table 3.9 indicate the responses of manager and employee respondents for each item.

Table 3.9 Descriptive summary about the responsibility of the firms towards employee

SN	Items	Respondents					
		Disagree		Agree		Total	
		N	%	N	%	N*	%
1	The firm provide a healthy and safe working environment for employees	47	52.8	42	47.2	89	100
2	Bonus and benefits fair compared to profits generated by the firm	49	55.1	40	44.9	89	100
3	Employee safety is a prime concern than productivity in the company	50	56.2	39	43.8	89	100
4	The firm encourage employees to develop real skills and long-term careers	47	52.8	42	47.2	89	100
5	Employee related activities of the firm are against all forms of discrimination	52	58.4	37	41.6	89	100
6	The wage rate is better related to the average wage rate of the sector.	62	69.7	27	30.3	89	100

\*Manager and employee respondents

Source: Survey Questionnaire, 2012.

Table 3.9 overview the social responsibility of the firm related to its employees. The result indicates that the majority of respondents disagree to each of the six questions in the questionnaire. Moreover, 55.1% of the respondents agree that the bonus given was not fair as compared to the firm's profitability and 69.7% disagree with the betterment of their firms wage in the sector.



### 3.5 Mean Difference for the response on contribution of firms to CSR.

ANOVA and independent t test were employed to test if there is difference in perception between manager & employee and local community respondents and among firms based on ownership regarding their role towards CSR.

Independent samples t-test was conducted to see if there is significant difference between managers & employees and local communities on their responses about the CSR role of firms based on the average value of community, customer and environment presented in table 3.6, 3.7 and 3.8 respectively. Similarly, the t test was employed to examine the difference in response between managers and employees on firms CSR towards its employee based on the average score of table 3.9. Accordingly, table 3.10 present the results.

Table 3.10 Comparison of response on the bases of the community, customer, environment and employee

Variable	N	M	SD	t	df	P
<b>Community</b>				1.731	193	.085
Managers & employees	85	2.72	.99			
Local communities	110	2.46	1.26			
<b>Customers</b>				3.487	193	.001
Managers & employees	85	2.85	1.17			
Local communities	110	2.07	.99			
<b>Environment</b>				4.227	196	.000
Managers & employees	88	2.83	1.29			
Local communities	110	2.15	1.13			
<b>Employees*</b>				6.177	87	.000
Managers	47	3.29	1.10			
Employees	42	1.78	1.06			

\*The t test was made for the response difference between managers and employees

Source: Survey Questionnaire, 2012.

Table 3.10 shows that, there is no significant difference between managers & employees and local communities' response regarding CSR role of the firm towards community. This indicates that both manager & employee and local community respondents believe that the contribution of the firm to help community is not sufficient. However, concerning customer [ $t(193) = 3.49, p < .01$ ] and environment [ $t(196) = 4.23, p < .001$ ], there is significant difference between the two respondent categories. Inspection of the two groups mean

indicates that in both case manager & employee respondents' score tend to favour firms CSR role as compared to local community respondents.

With respect to the CSR role of the firm towards employee, there is statistically significant difference [ $t(87) = 6.18, p < .001$ ] between employee and manager respondents score (table 3.9). An examination to the mean score for the six scale reveal that managers agree with the firms CSR activity towards employee as compared to their employee counterpart.

An analysis of variance (ANOVA) was conducted to see if there is difference among firms based on ownership in their role of CSR contribution regarding the four stakeholders (community, customer, environment and employees).

Table 3.11 ANOVA test for the difference among different firms ownership on their CSR

		Sum of Squares	df	Mean Square	F	Sig.
Community	Between Groups	9.91	2	4.95	3.257	.043
	Within Groups	130.77	86	1.52		
Customer	Between Groups	.01	2	.01	.002	.998
	Within Groups	121.25	86	1.41		
Employee	Between Groups	3.06	2	1.52	.946	.392
	Within Groups	138.95	86	1.62		
Environment	Between Groups	3.59	2	1.79	1.072	.347
	Within Groups	143.88	86	1.67		

Source: Survey Questionnaire, 2012.

Table 3.11 shows that there is statistically significant difference between firms owned by public, private and foreigner with respect to their contribution to the community [ $F(2, 86), p < 0.05$ ]. An examination of the mean indicate that public owned firms are better contribute to the betterment of the community as compared to the private or foreign owned manufacturing firms in the study areas. However, there is no statistically significant difference among firms in relation to customer, employee, and environment.

### 3.6 Associations between company profile and CSR

The third objective of this study is to investigate if there was a statistically significant association between demographic factors (year of establishment and size of the firm) and firms CSR contribution towards community, customer, environment and employee.

Table 3.12 Partial Correlations for the association b/n Demographic factors and CSR activities

Variable	M	SD	1	2	3	4	5	6
1. Years of Operations	1.81	1.36	--					
2. Size (in terms of employees)	2.86	1.44	.199	--				
3. Community	2.56	1.11	.191	.38**	--			
4. Customer	2.25	1.09	.118	.15	.59**	--		
5. Environment	2.58	1.24	.067	.21	.54**	.58**	--	
6. Employee	2.38	1.27	.031	.34**	.80**	.68**	.61**	--

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

N.B: firms ownership, education level of managers and respondents category controlled

Source: Survey Questionnaire, 2012.

A positive significant association was observed between firm's size in terms of employees and the CSR activities of the firm towards community ( $r = .38, p < .01$ ) and employees ( $r = .34, p < .01$ ). However, there is no significant relationship between firms' years of operation and their CSR activities.

This study result was partially consistent with previous research by different authors that larger firms more extensively involved in CSR than smaller once (Sweeney, 2009) as larger firms have a greater impact on society; they employ a larger number of people, consume a larger number of resources, produce and sell a larger number of products and often make large profits, larger firms also produce a larger volume of waste (Carlisle and Faulkner, 2004; Lerner and Fryxell, 1994). As a result of this, large firms have a better contribution in the area of CSR (Fox, 2005).

### 3.7 Importance of CSR to the firms

A six likert scale type questions were rated by managers and employees respondents, to examine their perception on the importance of CSR to the firms. The scale is summarized into two agree or disagree and presented in table 3.13.

Table 3.13 Descriptive analysis of the attitude of manager and employee respondents on the importance of CSR to the firm

SN	Items	Respondents					
		Disagree		Agree		Total	
		N	%	N	%	N	%
1	A socially responsible firm could avoid additional regulations imposed by the government	33	37.1	56	62.9	89	100
2	Contributing to local community's development would bring in firms' long-term profitability	30	33.7	59	66.3	89	100
3	Donation to charitable and public welfare is very important	32	36.0	57	64.0	89	100
4	Contributing for CSR is considered as long-term investment, not as pure cost	39	43.8	50	56.2	89	100
5	It is important to makes timely payment of taxes	26	29.2	63	70.8	89	100

Source: Survey Questionnaire, 2012.

Table 3.13 indicates that both manager and employee respondents have a positive attitude towards the importance of CSR for their firm. 70.8% of the respondents agree that it is important to pay taxes on time, 66.3% agree that contributing for local community development is important. Similarly, 56.2% of the manager and employee respondents agree that CSR contribution is a long term investment. Nonetheless, the social contribution of manufacturing firms in the research areas remains insignificant.

### 3.8 Relationships between CSR and FP

The fourth objective of this study is to investigate the relationship between CSR activities of the firm and its financial performance. The data related to financial performance of the firms collected from the managers and employee respondents subjectively. That is, the measures of financial performance rely on self reports from respondents regarding their firm's profit and sales performance. The reason for using the subjective self reporting rather than the objective (sales and profit from income statement) is that, all firms are not willing to give us their financial statement or any report related to sales and profit during pilot study. Previous research in a similar studies were also used the subjective performance measures; sales and profit reported by respondents (Moore, 2001; Wall et al, 2004; Burton and Goldsby, 2008). According to Richard et al. (2009), the use of subjective or objective measures should be determined based on the favourable measure under the particular circumstances of the research context. Thus, five questions in the questionnaire with Likert scale of five (1 much

lower than expectation; to 5 much higher than expectation) presented to manager and employee respondents and they rate accordingly. Finally, a Cronbach's alpha was checked ( $\alpha = .701$ ) and the items summed into one to find the association between financial performance and firms CSR activities in terms of community, customer, environment and employee. The results of the relationship indicated in table 3.14.

Table 3.14 Pearson correlations for CSR activities and firms' performance (N = 89)

Variable	M	SD	1	2	3	4	5
1. Firms' Performance	3.72	.68	--				
2. Community	2.56	1.11	.263*	--			
3. Customer	2.25	1.09	.230*	.632**	--		
4. Environment	2.58	1.24	.204	.545**	.497**	--	
5. Employee	2.38	1.27	.288**	.805**	.689**	.619**	--

\* Correlation is significant at the 0.05 level (2-tailed).

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

Source: Survey Questionnaire, 2012.

The community, customer, and employee related CSR activities of the firm have a significant correlation with firms' financial performance. The Pearson correlation for firm's performance to community contribution  $r = .26$ ,  $p < .05$ ; firm's performance to customer  $r = .23$ ,  $p < .05$  and firm's performance to employee  $r = .29$ ,  $p < .01$  show that as the manufacturing firms improve their contribution to community, handling customers and employees responsibly, the firm's financial performance improve.

In addition to the above analysis, the correlation was tested for the sum of all the four stakeholders of CSR activities of the firm against the financial performance (FP). The results indicate that firms' financial performance is statistically significantly and positively ( $r = .29$ ,  $p < .01$ ) related to firms CSR activities, see table 3.15 below.

Table 3.15 Correlations between CSR and financial performance

		Performance	CSR
Performance	Pearson Correlation	1	.290**
	Sig. (2-tailed)		.007
	N	86	86
CSR	Pearson Correlation	.290**	1
	Sig. (2-tailed)	.007	
	N	86	89

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

Source: Survey Questionnaire, 2012.

The results of this investigation are consistent with the theoretical constructs of corporate social performance that predict a positive corporate social performance and FP link. It is also consistent with several previous research findings by different research scholars. According to O'Bannon, (1997) social and financial performance are positively associated, but that the causal or lead-lag relationship is from financial to social performance. In the same way, Da Rocha (2006) and Weber (2008) similarly found a weak positive significant relationship between these two variables.

Moreover, study by Fombrun et al (2000) and Sweeney (2009) found a positive indirect relationship between CSR and financial performance with intermediate variables like customer loyalty, employee attraction, retention and motivation, social reputation, business reputation, access to capital between firms CSR activities and FP.

However, even if there is a positive relationship between CSR and financial performance, it is not necessarily the case that CSR has brought about greater financial performance. As has been argued in the literature (Stanwick and Stanwick, 1998, Rettab, et al. 2008, Lin et al., 2009), it may be the case that strong financial performance allows a firm to undertake CSR activities. Other studies have also indicated there is no significant relationship between CSR and FP. For instance, Hitchens et al (2003) found out that CSR has no impact on financial performance.

### **3.9 Major Problems Hindering manufacturing firms to carryout CSR activities**

The final objective of this study is to assess the major barriers for the firm to practice CSR activities. We identified six problems also considered as barrier in similar studies, in the final part of the questionnaire. The manager and employee respondents were asked to rank the problems on a scale of 1 to 5 (1 not at all a barrier to 5 at a great extent) to see which identified problem is mainly hinder the CSR activities of a manufacturing firms in the research areas. Table 3.15 presents the means and standard deviations for the problems and the ranks for the mean.

Table 3.16 Mean, standard deviation and rank of the barriers to the CSR activities

Variable	N	M	SD	Rank
Lack of business strategy & policies related to CSR	89	3.75	1.22	1
Lack of coordination (from other firms or communities)	89	3.72	1.20	2
Lack of collaboration from local authorities	89	3.65	1.14	3
Top management does not support it	89	3.51	1.50	4
Lack of resources (human, money, material etc.)	89	3.22	1.43	5
Lack of time	89	3.10	1.37	6

Source: Survey Questionnaire, 2012.

An examination of table 3.16 reveals that the manager and employee respondents rate lack of strategy and business policy, lack of coordination (from other firms/local communities) and lack of collaboration from local authorities as the first three top barriers for the manufacturing firms in the area to practice CSR. While top management does not support it, lack of resources (human, money, material etc.) and lack of time are considered as the least problems respectively.

Independent sample test was conducted to see if there is difference between manager and employee respondents in rating the barriers to CSR of the manufacturing firms. The result shows that there is no significant difference between manager and employee respondents in rating all the listed items.

## Chapter Four

### 4. Conclusion and Limitations of the Study

This part of the paper focus on the key conclusions and limitations of the study.

#### 4.1 Conclusion

The aim of this study was to explore CSR practice of manufacturing firms and investigating the linkage between CSR activities of the firms and their financial performance. In line with the theoretical framework that the CSR practice of the firm measured through the four stakeholders'; community, customer, environment and employee; and these practices lead the firm to better financial performance, the following conclusions were made from the analysis.

Despite the fact that, manager and employee respondents are familiar with the term CSR; the majority of respondents felt managers and employees were not involved in CSR. Worthington et al (2006) argue that senior management and employee involvement have major influence on CSR. Additionally, majority of the respondents believe that there is no concerned department in their respective firms to handle the issue of CSR.

The overall data analysis for the four major stakeholders' community, customer, environment and employee; indicates that the majority of respondents believe the firms do not properly carryout CSR activities. Especially regarding the environmental pollution, unless corrective measures are taken, ecological problem caused by those manufacturing firms may become severe.

ANOVA test show that there is statistically significant difference among firms in their CSR activities related to community. Accordingly, firms owned by public are more responsive to the local community as compared to private and foreign owned firms. On the other hand, there is no significant difference observed among firms with respect to social performance towards customer, employee and environment.

There was a positive correlation noted between extent of CSR activities towards community and employee and firm size. Statistically significant partial correlations at  $p = .01$ , with control of ownership, and respondent category, was observed between firms size and firms' CSR activities.



Different studies found out that, in the long run, having business strategies towards CSR resemble drivers for profitability of the organizations. Regardless of this fact, this study found that the major problem for the practice of CSR by manufacturing firms in the study areas is lack of business strategy related to CSR as ranked first by respondents.

In line with some of the previous research findings, this study found that a positive significant relationship between CSR and FP. Financial performance was found to have a positive relationship with community involvement, customer and employee contribution of the firm. In spite of the limitations of this investigation and the need for additional research, the results of this analysis are encouraging because the prospect of a positive corporate social performance and financial performance link means that firms can be both socially responsible and financially successful.

## **4.2 Limitations of the Study**

This study has several limitations that one needs to bear in mind while using the results.

First, as pointed out by Waddock and Graves (1997), measurement is problematic when studying CSR. Relying as we did on survey methodology, we did not have an “objective” measure of a firm’s corporate social performance and financial performance. Because it is possible that the sample representatives of some of the firms may have exaggerated their firm’s commitment to social responsibility, and some local community respondents may have understate the firms’ social performance, thereby causing bias.

Second, the sample was very limited and the study did not control important variable that could influence the relationships between the variables such as politics, socio-cultural, etc; moreover, it is based on cross sectional survey method (i.e. information has been obtained at a single point in time). A longitudinal study may provide more detailed information regarding the relationship between CSR and financial performance as it would allow financial performance to be measured over time as levels of CSR changed.

Thirdly, this research focused on the four stakeholders; employees, customers, environment and community. Nevertheless, these are not the only stakeholders of an organisation; other primary stakeholders include suppliers and shareholders (Maignan and Ferrell, 2001) were not incorporated.

Lastly, it should have been better if the study had incorporated all manufacturing firms in the zone especially those found in Burayou town and Sululata town to draw more comprehensive conclusion of the CSR practices.

Regardless of the above mentioned limitation, we believe that the results of this study carry numerous important implications for future research.

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