



The Determinants of Corporate Social Responsibility: The case of Surrounding Finfine Oromia Special Zone

Bekabil Endale Rago¹, Wesenu Berhanu Enoro² & Workineh Bayisa³

¹ Addis Ababa Science and Technology University, College of Social and Natural Science
Email: bestmery1@gmail.com

² (Corresponding Author) Ambo University, College of Veterinary Medicine, Ambo, Ethiopia
Email: kuuliikoo63@gmail.com

³ Addis Ababa Science and Technology University, College of Social and Natural Science
Email: workinehb@gmail.com

Abstract

The purpose of this study is to examine the determinants of CSR: the case of Oromia Special Zone Surrounding Finfinnee. Regarding CSR, prior studies were limited to customer and employee satisfaction and neglected the local community's worth of research findings. The study used both primary and secondary sources of data. A multistage purposive, proportional probability system, stratified simple random sampling technique was employed to select 154 samples, while 143 respondents responded to the questionnaires. The data collected were analyzed by descriptive statistics and inferential statistics (Logit econometric model) analysis.

In line with the general conceptual understanding of CSR, the result of the finding reveals that the majority of respondents did not have a detailed understanding of the subject. Regarding practices applied by firms, findings reveal only one third of companies were committed to engaging in CSR. Financial donations based on requests, supporting infrastructural development, sponsoring social events and cultures, and employment opportunities are most of the activities that are implemented by firms.

The study investigated that firm size, profitability, media pressure, age of the company and legal environment variables are statistically significant at 5 percent level of confidence keeping other things constant holding their expected positive signs. While the company's diverse board of directors and family ownership are statistically significant at a 10% level of confidence, keeping other variables constant is a positive expected sign. Among explanatory variables, industry type was not statistically significant. Based on the study results, the researcher recommends that there should be regular dialogue and communication to enhance the understanding of CSR. Policymakers should give due attention by formulating legal bindings and motivating stakeholders through the media. Moreover, companies should be obliged to disclose their CSR implementation at regular intervals of time.

Keywords

CSR, Local Community, Binary Logit

Background of the Study

Introduction

CSR is becoming the development mantra of the twenty first century; hence, globalization and the expansion of global value chains have increased more social and environmental expectations of the world society. It has been taken as a part of solution for the main socio-economic problems of both developed and developing countries (Asnake, 2016).

According to Delautre and Abriata (2018), an increasing number of companies were the reason for the emergence of the concept of Corporate Social Responsibility that was designed to respond the pressure of expectations by taking more or less formalized commitments and

communicating on their operations and values.

In the last decade, in particular, researches have investigated various determinants of CSR and provided evidences that CSR is a multi-dimensional construct (Abdulhamid, 2013).

Scholars have categorized the determinants of CSR based on certain characteristics such as firm characteristics, corporate governance characteristics or institutional or industry characteristics (Birhanu, 2018). Researches have brought evidences of several firm characteristics as determinants of CSR which includes firm size, profitability, capital structure, or investments in Research and Development that affect the firm's level of CSR engagement (Birhanu, 2018). As stated by Bruns (2017), the level of debt in the firm's capital structure can also determines the involvement of firms in CSR.

As per identified by research, findings evidenced that corporate governance that is expressed as ownership and board of members are influential determinant factors of firm's to engage in CSR (Harfsi & Turgut, 2013).

Additionally, Park and Ghauri (2015) categorized that there are primary and secondary stakeholders that determines CSR. Primary stakeholders are employees, suppliers and customers, while, secondary stakeholders that influence a firm's decision to engage in CSR activities are competitors, governmental and NGOs.

CSR writers have also identified further determinant factors of CSR such as pressures from the general public: NGOs (civic society campaigners), trade unions, and media CSR may also be performed in response to CSR tools such as CSR guidelines/initiatives and award schemes that could be generally termed as legal framework (Yohannes, 2017).

According to (Yohannes, 2017), there are also some other determinant factors of CSR such as domestic regulations and responsiveness to stakeholders, both internal (shareholders and employees) and external (customers, local community, and suppliers).

However, the focus of this study is on the social responsibility of private corporations in Ethiopia and most importantly in Oromia regional state, particularly in Surrounding Finfine Oromia Special Zone. Thus, it is important to highlight in glance off about the existing status of CSR in private investment companies in the country, so as to reveal soundly the worthiness of conducting about CSR in the selected study area.

In the case of Ethiopia, however the country has received significant number of private corporate companies in different economic sectors in the past three decades, and also still as mentioned in UNDP (2018), the government of Ethiopia commenced economic reform and set a policy direction in order to fully and/or partially liberalize and privatize state owned enterprises to private investors to revitalize the role of private sectors in economic growth but studies revealed that only few big global firms have introduced CSR programs; while the majority of homegrown corporations never executed yet (US Department of State 2014; cited in Asnake, 2016). This has conveyed that Ethiopia encounters serious challenges in ensuring a responsible and productive CSR opportunity in the face of the critical need and importance of the same for achieving sustainable development.

Harmoniously, following FDRE economic policy, Oromia regional state has also the strategy that encouraged the engagement of private corporate companies towards poverty reduction (Husen, 2017 and Meskerem, 2014). But there is a scanty of literatures regarding the status and practice of CSR; and also factors that determine the execution of CSR in the region is not well studied.

Other than the rest areas of Oromia zones, due to its proximity to the center of national market, and capital city of the country which has relatively better access of infrastructures including electricity and alternative means of transportation, SFOSZ has been becoming one of the most destination area for private investment companies and holds significant number of licensed domestic and FDI corporate companies.

Statement of the Problem

According to Dyduch and Krasodomska (2017), companies should be socially responsible by following the law as well as by integrating social, environmental, ethical, consumer, and human rights concerns into their business strategies and operations.

In contrast, the rapid expansion of corporate companies has caused a number of social and environmental problems, including degradation, resource depletion, product quality and safety, social

The Determinants of Corporate Social Responsibility: The case-----Rago, Enoro & Bayisa

injustice, persistence of poverty, and lack of labor protection (Wang et al., 2013).

Moreover, according to (Asnake, 2016): as as

“There is no comprehensive CSR policy or law in most countries in the Sub-Saharan African region; rather some ad hoc legislative and non-regulatory activities are common.”

Objective of the study

The main objective of this study is to examine the determinants of corporate social responsibility in private corporate companies in Finfine Surrounding Oromia Special Zone.

Specific Objectives of the Study

- 1) To explain the conceptual understanding of CSR by private investors/managers, and concerned public officials.
- 2) To examine the determinant factors of CSR in the study area.
- 3) To describe CSR practices that private corporate companies undertook in the study area.

Research Methodology

Under this section, a description of the study area, the main research designs, data sources and collection instruments, sampling designs including sample size, sampling techniques and sampling frame, and data collection and data analysis methods were discussed.

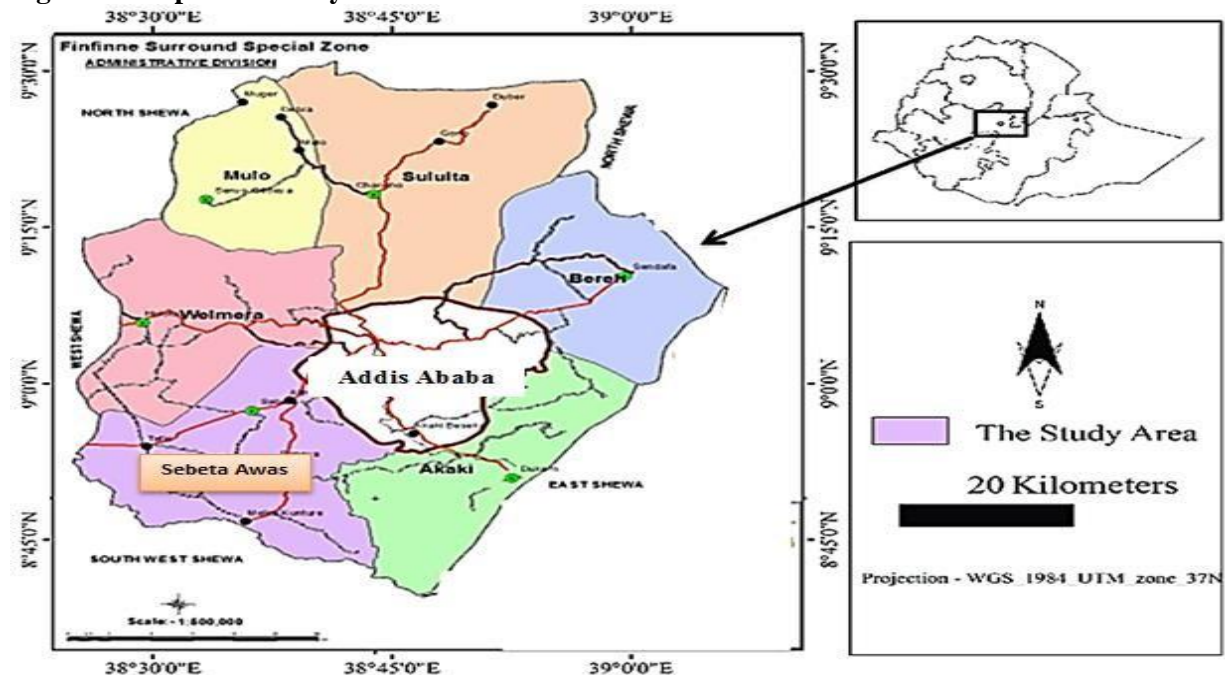
Description of the Study Area

The Oromia Special Zone Surrounding Finfine was formed in 2008 by Oromia State. It was formed from parts of the North Shewa, East Shewa, South West Shewa, and West Shewa Zones. The Zone comprises 6 woredas and 8 towns found around Finfine/Addis Ababa, namely: Akaki Woreda, Berek Woreda, Mulo Woreda, Sebeta Awas woreda, Sululta Woreda, and Wolmera Woreda, which were the focus of this study, and also eight towns found in the zone, namely: Burayu, Dukam, Galan, Holeta, Lege-Tafo-Lege-Dadhi, Sebeta, Sendafa, and Sululta. The Zone, in general, and the kebeles near towns, in particular, has experienced rapid urbanization and industrialization. Currently, development and expansion have been widely taking place at an alarming rate in the zone, particularly in peri-urban rural areas. Hence, the motive behind this study was to identify determinant factors of corporate social responsibility in the study area from the aspects of the local community.

Economically, the zone is predominantly plough-based agriculture and livestock production, consisting predominantly of cereal and pulse crops; spices; and perennial cash crops like teff, wheat, and barley from cereals; chickpea, lentil, beans, peas, and rough peas from pulses; and natural gum (Chat) among perennials. The zone is one of the surplus crop producers in the region.

Besides crop production, the farmers of the zone raise livestock for their own farm, for commercial purposes (fattening and raw milk), and for their own consumption (OSZSF Agriculture and Natural Resource Office, 2022).

Figure 1: Map of the study area



Source: Sketched from Google (2022).

Research Design

In accordance with the research design classification, this study is an explanatory research design. But, it also has descriptive parts that were designed to present qualitative research questions. Hence, the title of the study pursues describing the existing fact phenomena, and further, it seeks to examine the reasons why phenomena arise, and it requires a detailed explanation of the existing situation, narrating facts and investigating phenomena.

Regarding the research approach, qualitative and quantitative mixed approaches were used. The qualitative approach is aimed at discovering the perception of CSR of respondents in line with their real experience, and it allows for contributing to and yielding a deep knowledge of social reality. Furthermore, a quantitative research approach is aimed at presenting the determinants of CSR through inferential statistics.

Source of Data

In order to achieve the objectives of the study, both primary and secondary sources of information were used. The primary data for this study came from informants such as company managers and government officials, all of whom have a consistent role with the title and the sector. To enhance the data from primary sources, available secondary data was more referred to from different books, journals, articles, and literature dealing with the issues under investigation.

Methods of Data Collection and Data Collection Instruments

To exploit and generate the knowledge of respondents related to the study title, different data collection methods were employed, such as: questionnaires and structured/semi-structured interviews.

Accordingly, in order to obtain necessary information from respondents, the researcher carried out both open-ended and closed-ended questionnaires. More specifically, questionnaires were employed in order to analyze data by using inferential statistics.

Interview and semi-structured questionnaires were prepared for public officials of different levels, from local to higher ones, and also for company managers or owners. Sampling Design and Procedures

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample; that is, the size of the sample.

Study Population

It is first necessary to define the target population, which is the collection of elements about which the researcher wishes to make an inference. As a result, because the study's goal is to identify determinant factors of CSR from a local community perspective, it is critical to consider only one set of target population. These are licensed private companies established in the study area. Besides, concerned government bodies/sectors are also considered as study populations. Thus, the study population for this study is 426.

Sampling Frame

A sampling frame is a source list from which a sample is to be drawn. It seeks, as a remedy, to identify every single element and include any in a sample. The most straightforward type of frame is a list of elements of the population (preferably the entire population) with appropriate contact information. It contains the names of all items in a universe if it is finite, while if a source list is not available, the researcher has to prepare it. Such a list should be inclusive, correct, reliable, and appropriate. It is extremely important for the source list to be as representative of the population as possible. Accordingly, to frame the samples, the list of 426 private companies in OSZSF was collected. But, the researcher used the list of 254 companies because the remaining companies were not in operation. Sample Size Determination

The sample size calculation depends primarily on the type of sampling design used. However, for all sampling designs, the estimates for the expected sample characteristics (e.g. mean, proportion or total) desired level of certainty, and the level of precision must be clearly specified in advance. The statement of the precision desired might be made by giving the amount of error that we are willing to tolerate in the resulting estimates. The level of precision for this study was 5%. Hence, the number of private companies is known, the researcher used (Kothari, 2004) sample size determination formula, which is:

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

Where:

n = the desired Sample Size

Z = standard normal deviation (1.96 as per table of area under normal curve for the given confidence level of 95%),

e = margin of error for this study 5% was taken (0.05); the general accepted margin of error for representative sample is 5 % or less.

N= total number of private companies of the study area are (254), taken from Zonal investment Office.

p = sample proportion, success for each population to be included in the sample, for this study assumed to be 0.5.

q = 1 – p= 0.5, failure for each company to be included in the sample.

$$\text{Then: } n = 0.05^2 \frac{1.96^2 * 0.5 * 0.5 * 254}{(254-1) + 1.96^2 * 0.5 * 0.5} ; n=154$$

Sampling Techniques and procedures

In order to facilitate sample selection, the researcher set a criterion. The first criterion was that samples should be drawn only from those of operational companies. Next, proportional probability sampling was employed in each of the study target areas.

Lastly, based on the number of companies under operation from each target woredas, the samples were stratified based on sector of engagements.

Thus, samples were taken from four woredas, namely Barak, Sebeta Awas, Wolmera, and Sululta woreda. Then, a sampling frame of 254 companies was established.

Then, stratified sampling was employed to select the sampled respondents using a probability proportional to size.

According to the data obtained from the OSZSF Investment and Industry Office, among the total manufacturing sector (155), agriculture (48), and service sector (103), which are under operation, only 70, 36, and 103 companies were taken respectively based on proportional probability sample size determination. Here too, domestic and foreign investment companies were included in the sample size based on the proportional probability sampling mechanism. To sum up, the employed sampling procedures for this study have been depicted in figure 3.1 below.

Data Analysis Method

Data was analyzed using descriptive and inferential statistics to logit. The descriptive statistics, primarily central tendency, frequency distribution, graphs, and tables, were employed to rate the frequency of phenomena and to compare and contrast different categories of the sample units.

In order to achieve the objective of the study, that is to identify the key determinants of CRS, the Logit Econometric Model was employed, and so the data obtained from company managers and owners was analyzed using SPSS 20.00 software.

Results and Discussions

This chapter focuses on discussing and explaining important findings and results obtained from analyzed data. The first section presents the descriptive statistics followed by econometric analysis.

Descriptive Analysis

The questionnaire was organized into four sections to collect data. The first one is the demographic profile of respondents. The next step is to present and discuss the findings from the overall understanding of CSR as well as the descriptive analysis of factors influencing CSR implementation. The next is about presenting and summarizing questions related to CSR practices. The last session will be devoted to presenting and interpreting econometric results.

Demographic Profile of Respondents

Table 1: Respondent’s Gender.

Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Female	4	2.8	2.8	2.8
Male	139	97.2	97.2	100.0
Total	143	100.0	100.0	

As shown in table 1 above, the number of females that took part in management positions is too low.

The Determinants of Corporate Social Responsibility: The case-----Rago, Enoro & Bayisa

Table 2: Respondents Position at Company

Position's	Frequency	Percent	Valid Percent	Cumulative Percent
Manager	121	84.6	84.6	84.6
Supervisor/director	3	2.1	2.1	86.7
Administration and Finance	19	13.3	13.3	100.0
Total	143	100.0	100.0	

Table 3: Respondents level of education.

Level of Education	Frequency	Percent
1 High school	2	1.4
2 Diploma	4	2.8
3 First degree	132	92.3
4 Master's degree and above	5	3.5
Total	143	100.0

Overall understandings of respondents on CSR

Table 4: The ideas of respondents about CSR

Do you have any idea about CSR?	Frequency	Percent	Valid Percent
No	64	44.8	44.8
Yes	79	55.2	55.2
Total	143	100.0	100.0

Corporations policy and strategy about CSR

Table 5: Corporate policy and strategy about CSR

Does your company have CSR policy and strategy?	Frequency	Percent
No	128	89.5
Yes	15	10.5
Total	143	100

Corporations policy and strategy implementation of CSR

Table 6: Implementation of companies' policies and strategies for CSR

Do you implement CSR activities according to your policy and strategy?	Frequency	Percent
No	125	87.4
Yes	18	12.6
Total	143	100.0

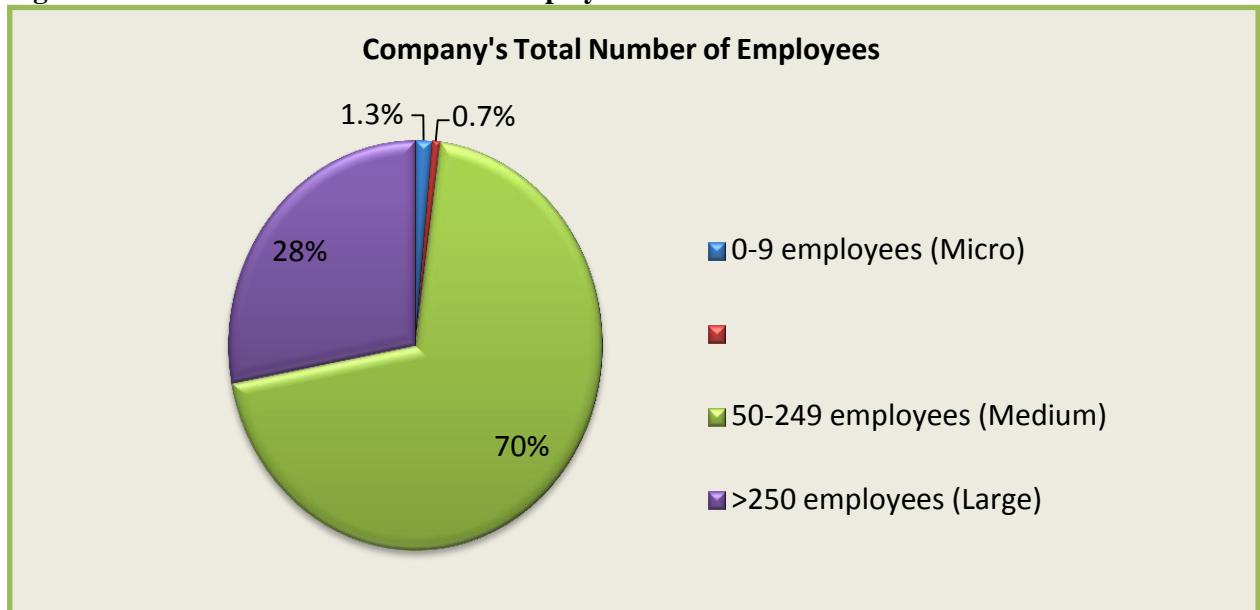
Table 7: About the relationship between companies and local communities.

How do you evaluate the relationship between your organization and the surround community?	Frequency	Percent
Highly intimated	7	4.9
Good relationship	42	29.4
Not good	2	1.4
Unknown	92	64.3
Total	143	100.0

Table 8: How CSR is integrated in companies' strategic management?

How do you integrate and build CSR in your organization strategic management governance?	Frequency	Percent
Including in the organization's vision/mission statement.	29	20.3
Adopting written codes of conduct that specify the organization's commitment to social responsibility	8	5.6
Including social responsibility as a key element of the organization's strategy.	11	7.7
Not clearly integrated in company's strategic management.	95	66.4
Total	143	100

Figure 2: Firm size based on number of employees.



Source: Own drawing (2022).

Table 9: Company's Profitability

Does your company making considerable profit from its operation?	Frequency	Percent
No	4	2.8
Yes	139	97.2
Total	143	100

Source: Own survey (2022).

Table 10: Family concentration of Company's management

What is the composition of your company management from family perspective?	Frequency	Percent
Managed by family	24	16.8
Non-family shareholders	12	8.4
Mixed of family and non-family	107	74.8
Total	143	100.0

Table 11: The role of family members in companies

What is the role of family member's involved in your company?	Frequency	Percent	Valid Percent
Company manager	131	91.6	91.6
Director/supervisor	12	8.4	8.4
Total	143	100.0	100.0

Source: Own survey (2022).

Table 12: Forms of businesses

What is your company's form of business?	Frequency	Percent
Sole proprietor	58	40.6
Share company	85	59.4
Total	143	100

Chi-square and log-likelihood values of the model

The omnibus tests are measures of how well the model performs. The Omnibus Tests of Model Coefficients gives us an overall indication of how well the model performs, over the one with none of the predictors entered into the model.

The Chi-square values of the SPSS outputs of the model are presented in the table. For this set of result, the chi-square value is 60.885 with 8 degrees of freedom. It is highly significant at sig. level of $P < .05$ which is 0.000. This implies as a model is "goodness of fit" test and indicates the wellness of the mode.

Conclusion and Recommendations

Conclusion

The purpose of this study is to investigate the determinants of CSR in the case of SFOSZ. The study's specific objectives were to explain the conceptual understanding of private investors and managers and public officials; examine determinants of CSR; and describe CSR practices that were undertaken by the firm's owners. The results obtained from the survey data have been explained as follows:

First, regarding the conceptual understanding of CSR, more than half of the respondents have a better understanding, which is parallel with the concept given in different literatures, which is that the responsibility of a business is to minimize negative impacts and maximize positive impacts that go beyond business competences yet, a significant number of respondents have no idea about CSR. While linking their understanding with CSR dimensions, there is a lack of consistency or uniformity among respondents. Most respondents consider it only an environmental responsibility, while most of them do not know the details of CSR dimensions as well. From the findings, it could be concluded that the mode through which CSR is addressed is more philanthropic and environmental. Moreover, we can conclude that there is a lack of full understanding at the firm owner/manager level and also at the public official level. If they have knowhow about the subject, they are suspected to have a guiding policy (plan) to implement it, but the majorities of respondents implement it arbitrarily rather than guided by a strategic nature, and also a systematic implementation of CSR is lacking. Moreover, the result of the findings indicates that there is no regular evaluation and monitoring system.

Recommendations

- This study makes several important contributions to the literature on the implementation of CSR practices. It provides interesting insights on such topics as: conceptual understanding of CSR, practices implemented by firms, and determinants of CSR.
- Based on the findings of the study, the following areas of improvements are suggested in view of the conclusions above by focusing on gaps for concerned stakeholders, including policymakers, regarding CSR.

Declarations

Ethics approval and consent to participate

This study was performed following the recommendations of Addis Ababa University Research and Ethical review guideline. The Social Science Research Ethics Review committee of Addis Ababa University approved the protocol of the study.

Consent to Participate declaration: not applicable

Consent of publication: Not applicable in the manuscripts

Data Availability

Not applicable (this manuscript does not report data generation or analysis)

Competing of Interests

The all contents of this manuscript belongs to the authors (Bekabil Endale Rago, Wesenu Berhanu Enoro, and Workineh Bayisa) report no conflicts of interest for this work.

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Author Contributions

Bekabil Endale Rago, did data collection, data analysis, and writing up the manuscript. Wesenu Berhanu Enoro follow up for publication, and Workineh Bayisa. was the advisor during the manuscript writing up.

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Author information

Department of Industrial Management, Addis Ababa Science and Technology University, P.O. Box 1176, Addis Ababa, Ethiopia

Bekabil Endale Rago

Department of Veterinary Laboratory Technology, P.O. Box 19, Ambo, Ethiopia

Wesenu Berhanu

Department of Industrial Management Addis Ababa Science and Technology University, P.O. Box 1176, Addis Ababa, Ethiopia

Workineh Bayisa

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