Corporate Social Responsibility and Business-Community Relations in Africa: the Case of Ethiopia

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Abstract

Purpose: This study aims to assess the CSR practices, business-community relations, and the missing links in CSR-community development in Ethiopia.

Approach/Methodology/Design: Case study and thematic analysis of data on 45 structured interviews of key informants from federal and regional government, companies, and local community was collected, transcribed, and analyzed to identify the current CSR practices and consequences, and the missing links in CSR-community development interface.

Findings: The CSR is ad-hoc philanthropy activity based on neo-liberal and voluntary approach motivated by market performance, reputation and image building objectives. There is no community development orientation, no social and environmental impacts. There are tax dodging, deforestation, water and chemical pollutions, britches of labour and community rights, and related CSiRs. National indigenous culture based community development oriented mandatory CSR policy, coordinating agency, engaging community, measuring the implementation, rewarding good CSR performance and punishing CSiRs are recommended.

Practical Implications: The study has implications for academics, managers, policy makers, public administrators, community activists and leaders. It contributes to CSR approach in developing countries, CSR theories, thinking, and practice in African context, the business-community relations, the business management approaches, and scope of stakeholders in improving CSR to contribute to community development.

Originality/value: This study’s originality lies in bringing Ethnic diversity, federal-regional government, political history, collective rights, power of community and nationalism in CSR to the front.

1. Introduction

With the private sector assuming a driving role in the development of a country, the issue of corporate social responsibility (CSR) and ensuring sustainable development is becoming critical (UNCTAD, 2015; Banksa et al., 2016). Despite the large body of research and business cases, CSR remained a difficult and contested concept to describe and implement (Idowu, 2013). It is criticised as ineffective and failed concept (Fleming & Jones, 2013) with no social and environmental impacts (Feix & Philippe, 2020; Schneider, 2020; Kaplan, 2018). Feix and Philippe (2020) attributes the ineffectiveness of CSR to the conflicting nature of business profit objectives and community needs, lack of commitment of multinationals to fund the climate issues, and lack of effectiveness of CSR institutions. Schneider (2020) attributes the limited results of CSR to its origin as the corrective measure to shortcomings of capitalism and suggests systemic change in capitalism and exploring how to improve the effectiveness of CSR. With all the growing acceptance of CSR, the existence of systemic problems of poverty, environmental
exploitation, pollution, modern day slavery, climate change, tax evasion, and different forms of corporate social irresponsibility (CSiR) have made some scholar question the usefulness of the CSR under the capitalist system (Crane et al., 2014; Fleming & Jones, 2013; Wickert & Risi, 2019; de Bakker et al., 2020).

CSR is of US capitalism origin and promoted as a voluntary mechanism developed and managed by the companies. This neo-liberal assumption is the dominant view in management and business publications and CSR takes only marginal position in corporate strategy. Europe adapted a neo-Keynesian approach to CSR based on their cultural values and enforced CSR standards. Here there are CSR standards and the state plays positive regulating roles but the implementation is still voluntary. The radical political approach or coerced CSR asserts companies should contribute to society and governments should establish and enforce CSR standards (Idowu, 2013). Therefore, depending on the culture, social, political, and institutional contexts of countries the way CSR has been adapted and evolved across the world varies (Carroll & Brown, 2018; Matten & Moon, 2008; Žukauskas, Vveinhardt, & Andriukaitienė, 2018). Because of these contextual differences there are many unknowns and CSR is considered as a new area of research (Crane et al., 2009). Therefore, there are calls for further research on how to make CSR contribute to social and environmental problems (Carroll & Brown, 2018; Zhang & Zhang, 2020). More specifically, CSR in emerging economies is the less well understood area of CSR research (Carroll & Brown, 2018; Syeddah, 2011). In emerging markets the expectations and the development gaps of the societies are higher, while the governments’ capacity and means are limited. Evidences show that emerging market economies are adapting CSR standards based on their context and priorities. Countries like Malaysia, India, and South Africa, have adapted a home grown approach to CSR (Syeddah, 2011). Indian CSR guide is considered as an extreme case and imposed 2% of the profit for CSR mandatory (Carroll & Brown, 2018). Similarly, Jamali and Karam (2016) noted that CSR in developing countries is contextualised and locally shaped by multi-level formal and informal actors with variations among developing countries. They suggest further research to explore the meaning and practice of CSR outside of neo-liberal assumption, reconceive the business-society relationship, institutional voids, irresponsibility, antecedents, and consequences of CSR in developing countries context.

In Ethiopia the business society relationship is very weak with insignificant social benefits to the local community. Evidences show businesses engage in corporate social irresponsibility (CSiR) environmental degradation, pollution, breach of labour standards, and other problems (Yonayad et al., 2017; Senbet & Wodajo, 2017). This has resulted in ethnic conflicts and youth protests against the regime in 2018 and backlashes on privatised enterprises and investments with CSiRs across the country (Home Office, 2017) some of which are closed to date. The riots and protests have only uncovered and exposed the long standing political and socio-economic problems (Okay Africa, 2015). The continued abject poverty and growing unemployment are manifestations of lack of socio-economic empowerment. According to Oakland Institute (2011), besides the large land grabs by foreign companies; the majority of land was allocated for local and diaspora investors who have neither agriculture knowledge nor financial capacity to
implement. They are all done with no consultation with local communities and there are no mechanisms in place for the local communities to benefit from this investment and are left to bear the adverse impacts only. The commercial investments have only increased food insecurity in their vicinity (Oakland Institute, 2011; Desalegn, 2013).

Therefore, this study aims to assess the current CSR and CSiR practices in Oromia and Ethiopia, identify missing links and suggest measures to improve CSR community development potentials in emerging markets. It contributes to CSR in developing countries’ literature, to the extension of theories underpinning CSR, to public policy makers, public administrators, and company managers in improving CSR to contribute to community development.

2. Literature Review

2.1 Corporate Social Responsibility

At the heart of government, business, and society relationship is the concept of CSR. The origin of the concept goes back for centuries in history and through time its meanings and scopes has evolved and become broader. It is currently being used by government, businesses, and other types of organizations as a framework for sustainable development (Ite, 2007; Okomoh, 2004). According to Carroll and Brown (2018) corporate in CSR refers not only to corporate form of business but all types of small, medium and large businesses. Social refers to the human society, a community, a nation, state, or the world; and to other non-humans and the natural environment. Finally, responsibility refers to the businesses being accountable and having obligation to the society.

The World Business Council for Sustainable Development (WBCSD, 2000) defined CSR as the commitment of business to contribute to sustainable economic development working with employees, their families, local community, and society at large to improve their quality of life. This definition represents an expanded version of corporate social responsibility where companies are expected to contribute to societal development and progress. Sustainable development is defined by the World Council for Economic Development (WCED) as “development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs” (WCED, 1987:34). That is, the exploitation of resources, the direction of investments, the orientation of technological development and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations. Therefore, in its current scope the concept of CSR is regarded as a cluster concept which overlaps with such concepts as business ethics, corporate philanthropy, corporate citizenship, responsible competitiveness, sustainability, environmental responsibility, and corporate sustainability (IISD, 2007).

Similarly, Rahman (2011) noted the 10 dimensions of CSR are obligations to the society, stakeholders’ involvement, improving the quality of life, economic development, ethical business practice, law abiding, voluntariness, human rights, environmental protection, transparency, and accountability. Additionally, CSR typically includes beyond law commitments and activities pertaining to: corporate governance and ethics, sustainable development,
community involvement, development, and investment; involvement of and respect for diverse cultures and disadvantaged peoples; customer satisfaction and adherence to principles of fair competition, anti-bribery and anti-corruption measures; accountability, transparency, and performance reporting; and supplier relations, for both domestic and international supply chains” (IISD, 2007, p. 5).

Nevertheless, despite its popularity; CSR was criticised as ineffective in addressing social, environmental, and sustainability problems. Though CSR practice differs across the world; its capitalist system root has constrained its performance focus outside of its primary stakeholders. In emerging economies the interests of the society are barely considered and CSR has no significant social, environmental, and sustainable community development impacts.

2.2 Corporate Social Responsibility in Africa

Though many of African countries have adapted sustainable development strategies, liberalized their economy, and promoted private sector development; CSR in sub-Saharan Africa is at an infancy stage (Cheruiyot & Onasando, 2016; Idemudia, 2011). The little practices are results of multinationals and few large local companies’ philanthropy and related activities (Vertigans et al., 2016; Kivuitu, Yambayamba, & Fox, 2005). In many cases, a systematic and adequately coordinated approach fails to exist among the business sector or public authorities. Most of the countries do not have a national corporate social responsibility policy and coordinating department. Even if there are legislations and standards the institutions lack capacity and resources to monitor their implementation by companies (Vertigans et al., 2016).

Besides this, despite impressive economic growth in Africa over the last decade, the benefits of growth did not reach the poor people. Therefore, the challenges of African countries are sustaining this growth, narrowing the income gaps, and bringing about inclusive development (Gaye et al., 2015).

In some countries like Ethiopia and Kenya there are a meso level CSR framework driven by the export market requirements to promote companies reputation of the floriculture industry. There are no national level codes and responsible bodies for promoting and ensuring CSR. CSR activities in the Kenyan floriculture industry mainly cover employee rights and HR issue (Cheruiyot & Maru, 2014; Dolan et al., 2003; Opondo, 2006). The Ethiopian floriculture CSR code of practice and the commercial agriculture sector CSR guiding document adapted a much broader standards covering employee rights and HR, corruption, sustainability, and environmental standards (MOA, 2010).

The only country that has corporate social responsibility practice with strong legislative, policy, and institutional arrangement is South Africa. The government of South Africa has adapted relevant international CSR standards in its national laws and norms. It has initiated a broad based black economic empowerment strategy to address inequalities. The private sector has voluntarily adapted CSR programs in their strategy in line with the sustainable development agenda of the country. Currently; corporate social investment in South Africa is significantly higher than that of wealthier countries outside Africa (Southern African - German chamber of commerce and
industry, 2010). Large companies have linked their CSR strategies to sustainable development of their local community, supported education, training skills, environment protection, and social and economic improvement related projects (Kabir et al., 2015). The local government proactively facilitates corporate social investment of business companies in their community’s development. The implementation of CSR by each company is assessed against corporate social responsibility index (CSI) called broad based black economic empowerment (B-BBEE) score card containing “ownership, management, employment equity, skills development, preferential procurement, enterprise development and socio-economic development to measure companies implementation status and ensure their compliance” for companies to measure and enforce compliance with BEE transformation initiatives (Rampersad & Skinner, 2014, p. 723).

Furthermore, there is support from the relevant government departments in the implementation, monitoring, and assessing their CSR performance (Kioppers & Fure, 2014). Nevertheless, the CSR efforts in South Africa are not yet embraced by SMEs and are criticized for not being widened to include the core business practices and address the root causes of deepening inequalities (Vertigans et al., 2016; Seekings & Nattrass, 2011). Zambian government also adapted a broad based citizens’ economic empowerment (CEE) to broaden Zambians involvement in the economy. CEE was established through an act no.6 of 1996 that also established CEE Commission. Accordingly it aims to broaden citizens’ business ownership, employment, skills training, etc… and enforced through CEE index and reporting (UN, 2007). Nevertheless, the CSR in Africa is criticized as basing on free-market approach (Cronjé, Reynene, & Chenga, 2017) and not adapting indigenous values and norms based approach (Darkey-Baah & Amponsah-Tawiah, 2011), and of little or no community development impact including that of large mining companies (Hilson, Hilson, &Dauda, 2019).

2.3 CSR Practice in Ethiopia

Ethiopia for the last over 3 decades has liberalized its economy, privatized public enterprises, and taken measures to attract foreign direct investment besides macro-economic measures to promote local private sector drive the development (Estrin, 2015). The government has adapted 5 years strategy based development planning to steer socio-economic development in the country. It also aimed to build a green economy and more recently embraced the Agenda 2030 (FDRE, 2017). Nevertheless, these agendas require “contextualization and its implementation should be people-centered, inclusive, participatory, and transparent” (Fekadu, 2017 in UNDP Ethiopia, 2017).

Socio-culturally Ethiopia is a diverse country with 88 ethnic and language groups with uneasy political-economic history of subjugation by ruling elites from one or two groups and marginalization of others. The ruling elites’ centralized and autocratic governments abused land allocation and privatization mainly for political ends with no empowerment of local communities. Neither the bureaucracy nor the business people society oriented. Neither the local community nor the local government are considered as active stakeholders, and there is lack of clarity on the division of power between the federal and regional, regional and local government (WB, 2016). Constitutionally land is the property of regions but the federal government
centralized the allocation of land for investment under the cover of expediting investment. This has led to the abuse of land, environment degradation and pollution, food insecurity, and poverty of the people in the vicinity of investment (Oakland Institute, 2011).

Despite reports of Ethiopia’s being the fastest developing economy in Africa, the impressive double digit growth did not trickle down to the poor people (Gaye et al., 2015; Tadesse, 2017). The social benefits of investment to the community in creating jobs, improved income, forward and backward linkages, outgrowing, sourcing, observance of labour standards, technology transfer, infrastructure, skills and entrepreneurship development are neither clearly stipulated nor enforced (Desalegn, 2013; keeley et al., 2014). This can be an indication of gaps in enforcing the existing legislation partly because of lack of finance, capacity, commitment to implementation and good governance (Colby Environmental Policy Group, 2011).

Studies on the area showed that privatization, investment and land grab policies for commercial farms have not achieved their objectives of efficiency, productivity, job creation, environmental protection, foreign exchange earnings, and contribution to socio-economic development (Tadesse, 2017; Selvam, 2007; Aisbett & Barbanante, 2016). The investments have not brought social benefits in the form of employment, technology transfer, local infrastructure etc… (Desalegn, 2013; Araya, 2013). No significant efforts were made to ensure whether the investment has created job opportunities, protected the environment, and complied with the laws of the country (Yonayad et al., 2017).

There is no national CSR policy, coordinating central organ at macro, meso, and micro levels like other African countries. In relation with the environment policy and mining sector, the CSR issues especially environment protection and stakeholder engagement are incorporated in the policy documents (Colby Environmental Policy Group, 2011; WB, 2016) and also some companies in the mining industry like AFRICA OIL Ethiopia has CSR policy (Africa Oil Ethiopia, 2016). Despite the existence of some CSR elements in labour and environment related legislations, the community engagement, enforcement of labour and environmental standards is low because of limited capacity, resources, coordination, and commitment (WB, 2016; Colby Environmental Policy Group, 2011). These show that new investments and privatisation of public enterprises in the absence of clear government policies to generate socio economic benefits to the local communities, local community engagement, and effective government structure to enforce may not bring about socio-economic benefits at the local level (Desalegn, 2013; Araya, 2013; Oakland Institute, 2011). Furthermore, the impressive double digit growth did not trickle down to the poor people (Gaye et al., 2015).

3 Methodology and Procedures

The study reports on field study of two business units MIDROC-GOLD and Elfora Agro Industry (Chefa and Natliefarms) of a multinational company MIDROC Investment group. MIDROC is a global multinational company owned by Saudi-Ethiopian tycoon Sheik Mohammed Hussein Al-Amudi. Case study approach and thematic analysis of 45 structured interviews of relevant stakeholders from the federal and regional government, the two business units’ management, and the local communities was used. The federal government’s relevant
parliamentary committees, Ministry of Mines, Investment Authority, Environmental Protection Authority, and Ministry of Labour and Social Affairs and their regional replicas in Oromia region were covered. Based on review of literature on the area the structured interview schedule was develop for each stakeholders, data obtained was transcribed, coded, and analysed around the two themes of the study: the current practice of CSR and Community development, and the missing links in business-community relations and development.

4 Results and Discussion

4.1. Current CSR practices, business-society relations

The CSR practice barely exists in Ethiopia. The Multinational companies like MIDROC have philanthropy and ad-hoc gap filling activities based on free-market and voluntary approach driven by company reputation and image building objectives. The companies are not aware of their strategic CSR responsibilities to community development. Their relationship with the community is full of conflict and enmity. Because of this, MIDROC Gold has been closed since the 2018 nationwide riots that led to regime change. The ELFORA farms have been occupied by local communities, and properties and crops destroyed with losses in millions of dollars. The community demands regaining parts of the farm lands (their ancestral lands). The government’s effort to protect the security of the businesses through deployment of armed forces did not guarantee security of the businesses.

The interviewee in the mining site noted “the community wants local development, infrastructure, environment protection, and equity in the use of their natural resources. They want to be heard and justice.” Those in the community of commercial farms site “want local development, employment opportunities, and welfare improvement”. This has been recognised by many international development and human rights agencies reports on the country (Human Rights Watch, 2016; IPI Global Observatory, 2017). This implies the top down approach to investment promotion and governance did not recognise the rights of the community and citizens affected by investment.

Different business models have been recommended by researchers for agricultural investments, mining, and other businesses to promote community based investment. For instance in agriculture contract farming, outgrowing, subcontracting or sourcing, marketing, etc... can be used (Campbell et al., 2012). There are ranges of alternative models to be considered for win-win but based on the context of a country’s investment projects that benefits the small farmers, local community, and the investors are more likely to be successful (FAO, 2013). These models may have benefits of building the capacity of small farmers, providing inputs, capital, market linkage, etc... by the investor that can improve agricultural productivity, farmers’ income, commercialise agriculture, improve quality, and market access without land grab (Tambunan, 2012).

The informants also noted that people have questions on the way investment has been managed for the last 44 years. All of our respondents are of the same conviction that these should change and the affected community should benefit from the investment in tangible socio-economic
terms. On the mining too, the engagement of the community and some form of contracting and sharing, preferably joint venture or business cooperation by contract with the community based organizations like cooperatives, unions, or share companies, or PPP can be a possibility (Songwe & Deininger, 2009).

**The Missing Links in Business-Society Relations**

The investment policies and incentives are in favour of the investors than small farmers and local people are evicted and disposed of their land and livelihoods (Yonayad et al., 2017; Desalegn, 2013). According to informants “there are policy and legal gaps. The current laws on the area do not require the companies to contribute to local communities’ development. Both the rights of companies and communities should be respected. The current law does not have mechanisms of enforcing the community rights and local development related responsibilities. Lack of awareness is also one of the causes.” Furthermore, the federal and regional government relations are contentious. The informants are of the opinion that the investment, urban land, and mining proclamations are unconstitutional. They evade the rights of people, nation, and the mandate of the regional state. Moreover, the centralisation of investment authority did not result in efficient land allocation and utilisation. Land allocation in Ethiopia was managed haphazardly, with inadequate analysis of the investor’s capacity, where the land was mainly taken by party affiliates for speculative purposes (Keeley et al., 2014; Oakland Institute, 2011). The remedies for this are involving stake holders, adapting an investment model with better social benefits, creating awareness, building capacity, and engaging the affected community throughout the project (Oakland Institute, 2011; WB, 2016).

The informants also noted “with all the gaps in the policy and legislation there are enforcement problems on job creation, labour and safety standards, environmental standards, and other social benefits”. Furthermore, they noted that “the investment in the past is macro managed from the centre and the regional state government does not have major roles. The companies think that they are accountable to the federal government and did not let the regional relevant departments inspect and enforce the existing labour and environment standards. The companies pay taxes, royalties, etc. to the federal government”. The agencies lack capacity and technology to enforce chemical related pollution standards. Countries with diverse ethnic groups like Ethiopia are advised to empower local governments and let them protect the interests of their constituencies (WB, 2016), and build the capacities of the local government and the communities to engage with the business & protect their interest (Oakland Institute, 2011; Songwe & Deininger, 2009).

Additionally, they noted coordination problems among the relevant bureaus- labour and social affairs, investment, and environment protection. There is also lack of commitment to enforce their mandate. These together with lack of capacity, technology, and resources, and policy and legislation gaps have led to displacement of farmers, and social and political crises that have brought about a regime change, and halted so many businesses operation and losses. These conditions will sustain the current conflict between business and community or aggravate the political crises which may have repercussion for the government itself. Ensuring a very good
relationship with the local community from the very beginning is beneficial to the business in licensing, averting risks, and long-term performance (Guerra, 2002; Yankson, 2010).

5 Conclusion and Suggestion

The CSR practice in Ethiopia is at its infancy stage with nominal and ad-hoc philanthropy activities based on neo-liberal assumptions. The businesses are managed to maximise profits with no social objectives. The relationship between companies and the federal government is based on political patronage, with regional state, and local government is weak. The only CSR code based initiative is that of the floriculture sector, driven by trade and access to foreign market requirements and NGOs advocacy. There are no incentives and obligations to engage in CSR. The companies are blamed for CSiRs on tax evasion, tax dogging, environmental damage through destruction of forests, animal ecosystem, water overuse, and chemical pollutions. The historical centrist formulation and management of investment and business-government relations, contributed to marginalisation of communities, abused individual and group rights to their land, demand to be heard, justice, and equity in the use of their resources, and want their socio, economic, and political marginalisation to end.

The enforcement capacity of the federal and regional governments on the existing labour and environmental standards is limited by lack finance, skills, technology, good governance, and commitment. There is no investment audit, reporting, and enforcement of the standards. Because of centralisation in licensing and tax collection, the companies’ perception of accountability to federal and not regional government has limited the enforcement capacity of regional and local officers. There is also lack of coordination among regional relevant line departments. The role of the local community as key stakeholder is undermined by the policies and legislations that emphasized land as the property of the government at the expenses of the people. They are neither consulted nor heard even when their right to life and property is disposed.

Adapting context specific political approach, developing indigenous cultural values based pro-community development national CSR policy, establishing coordinating agency at each level of the government, decentralised governance of investment, engaging communities, creating awareness of business and community, building the capacity of government, community, and business association to facilitate CSR implementation, monitoring and enforcing reporting, measuring CSR performance, and rewarding good performers and punishing CSiRs are suggested to improve CSR practices. The business community should understand the historical-political issues of the local community, understand and respect the nations, nationalities, ethnic groups, and local community culture, values, and rights; adapt CSR as a business strategy, mend and manage cooperative relationships with the community, and contribute within its means to community socio-economic development. Future researches might consider the effects ethnic diversity, cultural differences, historic injustice, and power relations have on the CSR policy and practice in developing countries context.

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A Literature Review of Corporate Social Irresponsibility (CSIR)