



# **Corporate Social Responsibility Learning in the Ethiopian Leather and Footwear Industry**

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## List of Acronyms

CBO	Community Based Organization
CSO	Civil Society Organization
CSP	Corporate Social Performance
ELIA	Ethiopian Labour Industry Association
ELICO	Ethio-Leather Industry Company
EPA	Environmental Protection Authority
FDRE	Federal Democratic Republic of Ethiopia
LIDI	Leather Industry Development Institute
MoI	Ministry of Industry
NGO	Non-Government Organization
OL	Organizational Learning
UNIDO	United Nations Industrial Development Organization

## **Abstract**

The past few decades have shown an increasing progress towards business role in social and environmental concerns other than business as usual. Such corporate social responsibility role became an important tool for corporate success and inclusive development all over the world despite it emerged in advanced countries. To that end, learning business organizations strive to erudite sustainability practices to meet the interests of stakeholders. Applying organizational learning concepts and norm life cycle theory, this study was carried out to investigate CSR learning in the leather and footwear firms of Ethiopia.

The study was carried out as a qualitative case study, informed by the selected leather and footwear firms, industry association and leather industry development institute. Interviews and content analysis of policy/regulatory documents were the main methods employed. The firms and the state were at the centre of the analysis. The issue of analysis was empirical CSR practice and how regulative, normative and strategic motives shape firms learning towards responsible business.

Findings show that firms' learning social responsibility is at emergence stage with the state and foreign market pressure as key motivators. While regulating environmental and labour conditions, the state offer incentives for higher economic responsibility of firms. Then, there exists collaborative learning in the firm-state institutions affinity. The civil society organizations are away from nurturing responsible investment and are not sources of social responsibility unlike advanced nations. Because firms see each other as rival, there is isolation which deter inter-firm learning too. Responsible investment, to move forward in the industry, needs multi-stakeholder dialogue and learning platform to share experiences and develop organizational learning.

## **Relevance to Development Studies**

This study is pertinent in development studies for certain reasons. Firstly, it is vivid that business enterprises are key actors in poverty reduction and sustainable development. An important role of them is associated with social responsibility engagement which is inclusive business practice. Hence, understanding how firms learn to get involved with social and environmental concern is relevant for research, advocacy and policy intervention.

Secondly, firms themselves can get savvy of their limitations as learning organizations. Inclusive industrial development is a function of learning in each firm towards a more sustainable practice. By plugging their limitations through learning and embracing a more socially responsible investment, can generate long term profit. Therefore, this study gives firms current status of social responsibility adoption and the way forward.

## **Keywords**

Corporate Social Responsibility, Organizational learning, firms, norm life cycle, state.



# Chapter One: Introduction

## 1.1 Background of the study

Corporate Social Responsibility is a concept that indicates the increasing role of businesses in the society despite the controversies in meanings given by different scholars. The promise for CSR is that business organizations behave in a way that is ethically acceptable and at the same time contributing to the economic development and improvement of the living conditions. Recent growth in the number and size of multinational firms, coupled with their expanding global reach, has heightened awareness of CSR as an international topic (Damiano & Pompermayer, 2007; Eweje, 2006) in Robertson (2009). The increasing interest in CSR in recent years has stemmed from the advent of globalization and international trade, which have reflected in increased business complexity and new demands for enhanced transparency and corporate citizenship.

As we know, increasing awareness of environmental challenges, shift in consumer interests, competition in the market and other factors pushed the business world of today towards more sustainable alternatives. Many businesses are re-organizing their operational activities to enable a more responsible way of production and are developing a more open attitude towards the public by involving their stakeholders in their journey to improve the level of Corporate Social Responsibility (CSR). Behind such escalating CSR engagement, there exists organizational learning towards responsible behavior to comply with changing standards of business practices and meet expected gains.

When CSR issue is raised, different studies have been carried out. But while growing emphasis has been given in recent years to CSR, as a postulate for ethical and responsible behavior in business, very little is known of the development of it in developing countries and how firms do learn to do so. Various scholars have indeed highlighted the Western centric nature of academic publication on the topic. For instance, Belal (2001) notes that most of the CSR studies conducted so far have been in the context of developed countries such as USA & UK. Hence it demands context specific studies to explore how it emerges and develops. This study is carried out with the rationale to explore the CSR learning and adoption scenario in a developing country industry context.

For most major companies, the inclusion of CSR policies can be understood as a strategic response to address reputational issues surrounding public concern over the environmentally damaging practices (Dashwood, 2012). To grasp why and how firms adopt CSR policies, however, rationalist calculations must be brought together with an analysis of organizational learning and norms socialization processes. Organizational learning literatures provide important insights into how management interprets and responds to CSR pressures to improve their policies and practices. For better understanding of learning towards corporate social responsibility, organization learning theories and norm life cycle approach are reviewed in this study. The review of such literatures gave better step to conceptualize the way CSR learning and adoption is carried out in the leather and footwear firms. The central initiative of this thesis was, with concepts of organizational CSR learning and socialization of it as a norm, to investigate and understand why and how firms in Ethiopian leather and footwear industry adopt CSR practices.

## 1.2 Problem Statement

Ethiopia is one of the developing countries striving to develop private sector role in its development. Being under the challenge of poverty, governance gaps, and access to social services etc., there is desperate need for role of private firms in various sectors. Until 1991, the country was socialistic and private ownership of firms did not exist. A market oriented economy was declared in 1991 which brought the emergence of private companies in various sectors with the intention to reverse a decade of economic decline. When the economic reform was done, big private sector responsibility is attached to create jobs, improve production, raise export and reduce poverty which is the challenge to the nation.

Ethiopia is a predominantly agrarian economy, and its major products are coffee, meat, and animal hides. Following the deregulation and privatization policy with the existing regime, firms entered to different kinds of industry except service industry. With its national development policy, Agricultural Development Led Industrialization (ADLI), the country works to boost the manufacturing industry basing advantageous agricultural inputs. In this respect, the private sector is expected to be the dominant actor in the economy with the favorable investment environment created. However, many people believe that companies are not shouldering their responsibility to their employees, environment and society. Among the most common claims raised in the country's private sector are low wage, poor working condition and environmental impacts.

Firms learn and adopt CSR elements for strategic business reasons and by external pressure or both. Some of the factors driving corporate social responsibility in a developing country context are different from advanced nations where CSR is believed to come from. CSR in developing country is influenced by national and international motivators (Visser, 2008) ranging from socio-economic priorities and governance gaps to supply chain and compliance to international standards.

In developing countries like Ethiopia, responsible operation of firms is basic for social and economic development. With this premise, firms in Ethiopia need to adopt a socially responsible business practice given they operate in a society that is challenged with social, economic and environmental problems which indirectly will affect their survival in long time. Their social responsibility engagement is imperative for their profitability and success as it builds their reputation, customer attraction and compliance to international supply chain standards as well. In addition, adoption of socially responsible practices in Ethiopia is essential for the country's green economy policy initiated in 2011.

In a study carried out by Mouly and Temesgen (2008), Ethiopian companies expressed 100 percent positive attitude in implementing CSR towards all stakeholders but only 40 percent of them felt positive in periodic disclosure to shareholders. It is unclear why they were not interested to disclose to date. In another study carried out by Robertson (2009) revealed that the private sector in Ethiopia strives but not active in CSR and private-public partnership is very limited. Shiferaw (2007) in Robertson (2009) also added that when private sector grows stronger, CSR will experience parallel growth. The learning process towards responsible business in Ethiopia is unexplored which need investigation so that the status of firm's adoption of CSR can be known.

Industries related to food processing, beverages, textiles, leather and footwear, wood and furniture, paper and printing, chemicals, metals processing, cement contribute significantly to the Ethiopia's GDP (Mouly & Temesgen, 2008). Among these, a sector of leading role in its economy and employment is the leather & footwear industry. This industry is known for its significant contribution in employment & foreign currency earnings. This is because the country has one of the largest livestock in Africa and produces high-quality semi-processed leather (Staveren & Knorringa, 2007). On the reverse side, it's known for environmental pollution as a result of hazardous chemicals in the tanning process.

Researching social responsibility in the leather and footwear industry is a value added in exploring CSR erudition and adoption for inclusive development. It was unclear in the past how leather industry firms in this country learn and their progress to engage in social responsibility. Therefore, this study addressed CSR learning and practices in the leather and footwear industry taking high performance companies as a case. It investigated how firms in this particular industry are learning and adopting social responsibility based on guiding questions mentioned below.

### **1.3 Research Questions**

How firms in the leather and footwear industry learn to practice corporate social responsibility?

#### *Sub Questions*

- What kinds of practices constitute the CSR engagement of firms in the industry?
- In what ways different motives influence firms to adopt CSR practices?
- What kinds of industry specific support firms are obtaining for CSR engagement?

### **1.4 Study Objective**

This study aimed at investigating and analyzing CSR learning in Ethiopian leather & footwear industry. The study, therefore, focused on how firms understood and learn to adopt CSR along with what roles industry specific stakeholders play. The study outcome is expected to serve as a base for better dialogue among stakeholders in the industry on how to make firms further socially responsible and contribute to community/national development. It will, then, clarify what challenges and opportunities exist in the learning process.

### **1.5 Scope of the Study**

This study is of case nature with selected firms in the leather and footwear industry. Hence, by no means the conclusions are applicable to the industry or the country in general. The conclusions are made within the boundary of the selected firms and accompanying actors involved in the study.

## **Chapter Two: Literature and Theoretical Framework**

### **2.1 Defining Corporate Social Responsibility**

Literatures on CSR reveal that there are diverse definitions for the concept CSR and a universally accepted definition does not exist (Carroll, 1999, Heemskerk, 2012). Most of these definitions share that businesses have a responsibility towards society and the environment. Also different scholars, organizations, and companies emphasize different or multiple aspects of it. The scope of the definitions given from time to time has shown significant breadth in that a move from specific aspect of CSR to multiple components has been observed. Here below are some of the definitions which can be traced back among the many others.

Sheldon (1924) stated that the cost of building the Kingdom of Heaven will not be found in the profit and loss accounts of industry, but in the record of every man's conscientious service to indicate ethical management.

Bernard (1938) focused on multiple aspects defining it as analysis of economic, legal, moral, social and physical aspects of the business world.

Friedman (1962) stated that social responsibility of business is to upsurge their profit which is in contrary of all other definitions.

Jones (1980) mentioned “the notion that corporations have an obligation to constituent groups in society other than shareholders and beyond that prescribed by law or union contract.

Commission of the European Communities (2002) expressed CSR as a concept whereby companies mix social and environmental concerns in their operation and interaction with stakeholders on a voluntary basis.

Although the meanings given to the social responsibility are not limited by the aforementioned ones, it give enough ideas to understand CSR in line with the purpose of this paper. In many of these definitions, the idea of voluntary commitment to stakeholders and natural environment is included, not to legally force firms work on it. However, recent public policy advocates discuss a soft legal approach (discussed later in this chapter) is also one means by which the state can use to enforce socially responsible business practices. Taking in to account the various definitions and views, the researcher used to define CSR as stated by Lepoutre & Heene (2006) which involve firms’ attention to their responsibilities to their customers, employees, the local community, and the environment.

### **2.2 Corporate Social Responsibility Learning Concepts**

Literatures reveal that learning occurs in different modalities both at individual, organizational and societal levels. Firms do learn new systems, operations and ways of doing things through different mechanisms and for different purposes. The process of firms’ adoption of social responsibility is a process of organizational learning. Grant (1996) stated that organizational learning requires knowledge acquisition, and acquiring knowledge thus entails that the information is existing and

that the firm actively searches for this information. Adapting Javernick-Will's (2009) conception of organizational learning, firms learn through two modalities. One is direct experience by themselves and the other is experiential learning which denotes experience sharing from other organizations. Yeung et al. (1999) further discussed that contextual characteristics in which an organization operates- including rapidity of environmental change, competitive strategy, slack resources, and present-day success of organization affect the choice of learning method including industry specific features. Hence, firms adopt new norms and systems of operating depending on the specific context in which they operate.

An important question when one talk about organizational learning is why do firms learn to adopt new norms like CSR into their systems. The purpose of learning differs from one firm to another, the subject of learning and industry to industry as well. A number of scholars indicate that organizational learning should develop the performance, create competitive advantage and strategic capability in the world that change has become a norm (Fiol & Lyles, 1985). This conception specifically works in the world where the norm of socially responsible practice is diffusing across countries and industries. In strict commercial sense, firms learn either to exploit existing opportunities or explore new advantages to their success. With respect to CSR, firms learn new socially responsible practices either for strategic reasons i.e. securing their good will and keep markets or by the pressure from their stakeholders like consumers and supply chain partners. In developing countries, the power of consumers and primary suppliers is not as such strong. Literatures also argue that firms in developing countries context learn more by NGO advocacies, government advocacy/incentives and international chain pressures.

The idea of CSR has significantly evolved in recent years. Porter (2011) mentioned that firms should add the CSR issues in their profit function. Firms learn the application of different CSR practices (social, economic and environmental) from different sources and in different ways. Some writers say CSR learning is a civil learning. Civil learning here indicates pressures from society, government, media, activists, NGOs etc. on firms and the latter's effort to adapt to the changing needs of those pressure leads to *civil learning* (Zadek, 2004). Such learning asserts that firms need to respond to the changing needs of the society in order to secure legitimacy and sustain their business. Indirectly, this notion is what the institutional theory defines. This theory asserts that institutional pressures rather than strategic needs of social issues and stakeholders could be used to explain the way firms learn new business practices (Husted and Allen, 2006).

### **2.3 Corporate Social Responsibility Learning Stages**

CSR learning, according to Zadek (2004), has five progressive stages by which firms exhibit different level of practice at each stage. It begins with completely denying the existence of problem on the firm side (*Defensive* stage) to adopt the minimum level of responsibility as a cost of doing business (*Compliant* stage). Then firms learn to integrate social issues into their daily business operations (*Managerial* stage). Through the evolution, firms realize that CSR could be a source of strategic opportunity and competitive market advantage and they integrate social engagement into their strategies (*Strategic* stage). Finally there is civil learning where firms promote broad industry participation in corporate responsibility to enhance *long-term* economic value and realize gains through collective action.

In contrast to the Zadek's five stage process, the broader organizational learning theory identifies two stages of learning in organizations depending on the scope of learning. One is lower levels of learning (*superficial* learning) -which is reactive learning that happens within a given organizational structure and set of rules. The other is higher levels of learning (*substantial* learning) which is proactive learning that try to adjust the overall rules and norms rather than specific activities and behavior (Yeung et al., 1999). However, these approaches to CSR learning process lacks to elaborate the mechanisms such as intra/inter-firm learning, partnerships, state & CSO dynamism in advancing CSR just focusing more on the business case learning for strategic purpose.

## 2.4 Types of Social Responsibility Learning

There are different ways by which organizations learn new and acquisition of new knowledge is made. Literatures assert that learning occurs in diverse planes. A common typology of organizational learning schemes is of three ways. Firms learn internally themselves (intra-firm), from other firms in same industry (inter-firm) or from other sector organizations (cross-sector alliance learning).

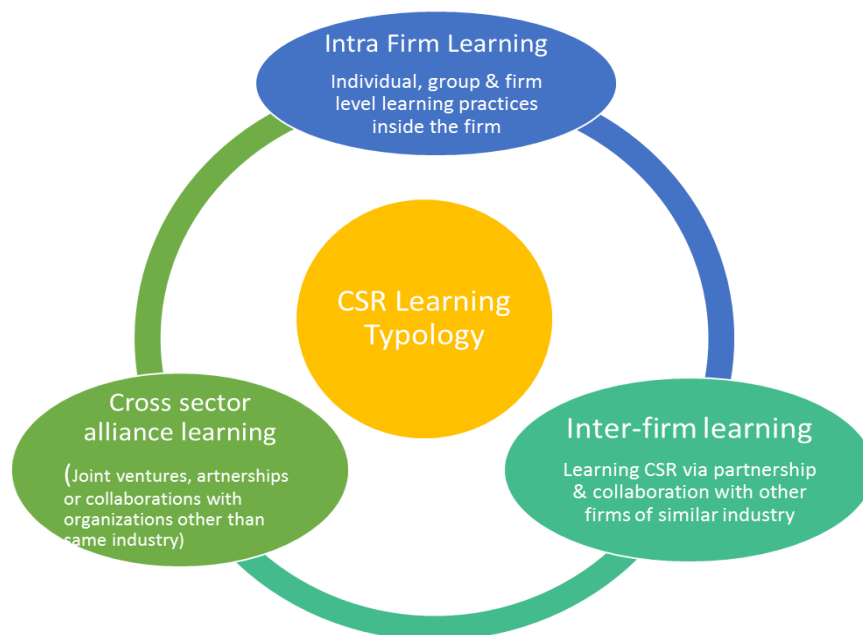


Fig 2.1. CSR Learning Typology

### 2.4.1 Intra-firm Learning

Organizations regularly assess their gaps to improve existing system through acquiring new knowledge. Such intra firm learning occurs when an organization creates and shares knowledge with in the firm to improve or tackle existing limitations. Cangelosi and Dill (1965) suggested that such learning occurs at individual, group, and organizational levels. However, there is no consistent theoretical make up to indicate at which level effective learning occurs.

Some literatures argue that the individual is the most important source of learning. Simon (1991) stated that all learning takes place inside individual human heads; an organization learns in only two ways. One is by the learning of its members and the other by ingesting new members who have knowledge the organization didn't previously have.

Others argue that, because there is a need to communicate to share knowledge, so group & organization level learning is the way forward. Daft & Weick (1984) & Huber (1991) recognized that there is group learning as well even if many theoreticians recognize that learning occurs at the individual level. They justified that OL would be incomplete unless information is shared and no common meaning developed in that the knowledge generated by the individual does not come independently. Hence, learning is substantiated by March and Olsen (1976) as it has to be shared, evaluated and integrated with that done by others. Literatures also indicate R&D, seminars, workshops and in recent times digital ways of communications are key instruments for organizational learning from within.

#### **2.4.2 Inter-firm Learning**

Inter-firm learning is one important way to adopt new styles of operation in firms. As the degree of innovativeness, strength and other features vary between firms, one learns from the other to shape its operation and meet expectations from consumers, government, activists and other actors. However, the degree of social capital in an industry and trust between firms will have its impact on the degree of inter-firm learning. Inter-firm learning can be within or across industry. Inter-firm learning is experiential learning where one firm's experiences and practices are benchmarked or adopted in partnership learning. Slater & Narver (1995) also discussed, organizational learning theory suggests that learning partners are critical dimensions of organizational learning. By gaining and exploiting knowledge of others, it is argued that "learning alliances allow firms to increase the speed of capability development and minimize uncertainty" (Rothaermel & Deeds, 2004). It is also revealed that organizational learning marks the value of inter-organizational collaboration for sharing knowledge and generating synergistic solutions (Hardy, Phillips & Lawrence 2003).

#### **2.4.3 Cross-Sector Alliance Learning**

In line with inter-firm learning is cross sector alliance learning. It is evident that joint efforts between businesses, not-for-profit groups representing poverty, human rights, activist and mainstream environmental groups for formulation governance of codes of conduct in a variety of industries are on the rise (Overdevest, 2004). According to Bindu & Jane (2006), cross-sector alliances are defined as partnerships between for-profit organizations and not-for-profit organizations such as local and international NGOs or IGOs. Cross-sector alliances are identified as precursors of increased learning in that sectors can learn from one another while meeting the needs of partnering institutions (Sagawa and Segal, 2000). Within this framework, firms being in the for-profit sector can learn from civil society organizations for instance to adopt certain practices. Organizations as open systems interact with other institutions which brings interdependence said Pfeiffer (1976) and creates uncertainty which can be reduced by cross sector alliance learning.

## 2.5 Learning Space for CSR

Another important issue is about learning spaces by which firms use to learn and develop new norms or systems. Organizational learning needs spaces to interact or communicate and share knowledge. Spaces to learn responsible practices may be physically located within companies, they may be facilities shared by organizations, and they may be virtual (Nonaka & Toyama, 2001). Face-to-face interactions for learning together within and between organizations including conferences and focus groups being supplemented by virtual learning are common ways of sharing knowledge. In same way, different organizations can establish a space for inter-organizational learning and knowledge creation. For example, internet and related communication helps to interact with multiple stakeholders and generate feedback for learning. This can be in each firm for internal learning and at association level for industry level learning or in partnership between groups of firms.

When speaking about spaces for learning CSR in an industry, there exists the role of industry association. Literature support that the participation of business associations in the process of CSR development is active across the developing economies. Firms learn together in associations and this helps to develop shared norms in an industry. This is a collaborative approach where associations interact with public sector, development agencies, trade unions and other multi-stakeholder forums on behalf of firms with in industry. As center of experience sharing, associations develop common understanding among firms under their domain.

## 2.6 CSR as a norm: a Constructivist Norm Life Cycle Approach

In the literatures on corporate social responsibility, there are different theories developed by different scholars and institutions. This encompasses the stakeholders approach, Carroll's Pyramid (Carroll, 1991), legitimacy theory, ISO 26000, Triple Bottom Line, Developing Countries CSR Pyramid (Visser, 2006) etc. Despite their relevance in explaining and understanding the empirical CSR practice and its impacts from different angle, they lack to reflect how the norm is build. Therefore, a study on the learning process of CSR needs further means to conceptualize the stage by which firms reach in adopting CSR and the purpose for what they do so. The constructivist norm life cycle is then helpful to conceptualize CSR norm in the leather and footwear industry of Ethiopia.

Constructivism assumes that norms emerge and get socially constructed gradually. An important approach in constructivism that directly relates to the study of norms like CSR is the "**norm life cycle**" model formulated by Finnemore and Sikkink (1998). A norm, according to Barnett (2011) is to mean "standards of appropriate behavior for actors with in a given identity. Finnemore also defined a norm as collectively held understanding of acceptable behavior with in a given realm. Constructivists contend that a norm is constructed habit that changes over time, not a fixed idea that spreads in the world. In this respect, corporate social responsibility is a good example of norm shared by many actors and agents.



The Norm “Life Cycle” Model is an prototypical case of a theoretical vehicle to conduct research on the role that norms play (Nora, 2011). It contains arguments regarding the origins of norms, which norms will be significant and how they affect actor's behavior as well as the conditions needed for this influence to take place. In this constructivist model, a socially constructed norm passes through stages towards a level of standardization or internalization. It distinguishes three stages which are norm emergence, norm cascading and internalization. CSR, therefore, is adopted as a norm construction understood via stages, each marked by a different social process and logic of action (Nora, 2011). The diagram below exhibits how a norm like CSR is constructed.

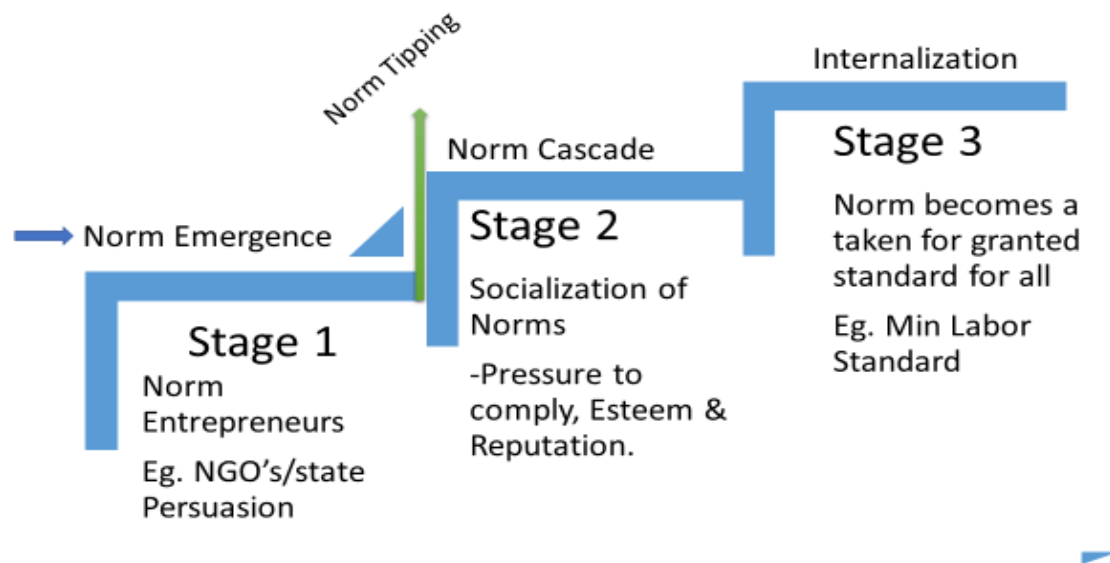


Fig 2.2 Norm Life Cycle (Finnemore and Sikkink, 1998)

### 2.6.1 Norm Emergence

In the concept of norm life cycle, the first stage is comprised of acts such as altruism, empathy, idealism and commitment (Knorringa, 2010) which are the motives behind norm entrepreneurs to push for those behaviors. An important example mentioned in this step is a push for better labor standards in firms. As shown in the diagram above, the development of norms is seen as part of a process of production and replication of social activities in a given context. Segerlund (2007) also stated that a successful norm creation contains two common elements i.e. norm entrepreneurs and organizational platforms.

Norms to emerge, key agents with strong convictions raise awareness or create the space for such a purpose. In a study on responsible production, Knorringa mentioned CSOs as important components in first stage in either showing effective ways of practicing norms or through blaming and shaming approach to force companies to behave in a socially responsible manner. Despite the controversy between Marxists and mainstream economists on its role, government is also usually prominent actor in nurturing new norms and practices through rule setting for companies (Knorringa, 2012).

### 2.6.2 Norm Cascading

Once a norm is recognized and is well promoted by norm entrepreneurs, it will then transform to a **cascading stage**. And norm tipping takes a norm to the cascading phase where legitimacy, reputation and esteem become the motives for companies to engage in what is believed as the right thing to do (Helmsing & Vellema, 2012). Organizations involved in CSR after tipping period in early 1990 range from various fields and motivations. Kåsin & Skogseth (2014) discussed that high profile NGO's such as Amnesty International and powerful state actors such as the United Kingdom became involved in the cascading of socially responsible practices in their institutions and demanding others.

**Norm tipping** indicates the institutionalization of a norm through international rules, organizations (such as ILO), agreements etc. Norm tipping to occur, certain mass of actors including non-state ones are needed to support and need to become norm entrepreneurs/leaders themselves and also adopt the norm (Segerlund, 2007). The second stage, norm cascading, then involves demonstration and process of socialization while those violating the norm are pressured to comply. Knorringa also quoted that some CSOs like Solidaridad predominantly work for increased reach where the aim is to convince broader mainstream business initiatives and are positioned in norm cascading. Norm entrepreneurs that have formed networks as well as international organizations can also take part in pressuring for socializing the norm at this stage (Segerlund, 2007).

### 2.6.3 Norm Internalization

At the third stage, **Internalization**, norms which were a matter of socialization previously have now become generally accepted and internalized by actors and are more or less taken for granted. A norm at this level is a generally accepted minimal standard to which all companies need to conform (Helmsing & Vellema, 2012). For instance, a new law on minimum labor standard might be institutionalized further in this stage. Professional training, law and bureaucracy constitute important agents in the internalization process where as the motive behind actors is conformity through habit and institutionalization.

However, Segerlund (2007) argued that there is no direct process to internalization and can discontinue at any moment. A driving force between the second and third stage of the norm life cycle, which she called norm consolidation is required for the continuation of the process in the cascading. A norm at this level is to mean a regular and habitual action by each member of a group. Segerlund wrote that if it reaches stage three, it will entail conformity to CSR in adoption and compliance with legislation support and adherence to voluntary regulation initiatives- idea of standard of appropriateness.

## 2.7 Motivations for firms' CSR adoption

The factors motivating firms to adopt and implement social responsibility within their business realm vary across enterprises, sectors, and geographic locations. One of the widely known researches to identify what drives firms in developing countries context was carried out by Visser (2008). It identified ten driving factors that shape CSR engagements in developing countries which

are categorized as national (emanated within a country) and international factors (those at international level). Governance gaps, socio-economic priorities, crisis, reforms, market access & culture are national motivators. At international level, supply chain, standards, stakeholder activism and investment incentives attract and/or push firms in developing countries.

However, in most of the literatures, three streams of factors are seen as motivating firms to practice socially responsible operation i.e. (i) strategic business motivations, (ii) ethical and moral motivations and (iii) existing and future regulations in the business world. The three streams of motivational factors bring either a push or an attraction to firms to adopt social responsible practices.



Fig 2.3. Motivations for learning social responsibility

### 2.7.1 Strategic Business Motivations

Van & Graafland (2006) discussed strategic and business motivations are derived from the belief that CSR efforts will (in the long term) have a positive influence on the firm's economic gain on the belief that it improves the company's reputation, increases employee motivation and organizational commitment as well as innovation. In many studies, it is found that CSR has positive correspondence with financial performance of enterprises. The financial performance of firms through CSR is associated with the latter's positive effect on firm reputation, greater employee engagement and innovation.

CSR can improve the company's reputation in the consumer market said Fombrun & Shanley (1990). For instance, Miles and Covin (2000) also found empirical support for the claim that environmental stewardship creates a reputational advantage which augments marketing and financial performance. The financial and marketing return from responsible investment motivates firms to take the CSR initiative which is an important attraction. Villanova et al. (2009) argued also that enactment of sustainability policies in a firm itself serve as a trigger for further engagement with CSR since it kindles intra-firm learning and therefore advances competitiveness. There is learning within that can increase business gain for a firm by integrating CSR policy framework in its corporate strategy. The CSR-firm link advocates that attaining legitimacy may improve a company's ability to compete for resources, reap stakeholder approval (Rao, 1994), and provide a goodwill during times of crisis (Godfrey and Hatch, 2007).

### **2.7.2 Ethical and moral motivations**

Besides a financial motive to engage in CSR, as many companies have a culture that is committed to certain business principles including moral duties (Van & Graafland, 2006). The notion of moral motivation is associated with what is reflected as legitimate behavior expected from business enterprises. Suchman (1995) deliberated legitimacy as a perception that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values & beliefs. Roberts (2003) defined ethical and moral motivations as ‘the right thing to do’ and that firms are morally obligated based on the belief that behaving in a social responsible way is a moral duty. This implies that CSR related efforts are considered to be moral duty towards the society. The premise that being ethical business runner brings intrinsic motive and lead firms to engage and work towards society.

### **2.7.3 Regulations & Standards as Motivators**

Institutional theory is an important way to conceptualize the motive towards CSR associated with regulatory environment both at national and international level. It brings interdependencies between and interfaces among stakeholders into the scrutiny, which is vital to understanding CSR (Matten and Moon, 2008). Theorists in the institutional conceptualization of CSR development (Scott, 2008, Doh and Guay, 2006; Campbell, 2007) have asserted that several important institutional forces may be at play in determining the level to which a firm may embrace responsible business operations.

These institutional motives reside at inter/national level where some are mandatory requirements and others are voluntary standards. The most common regulatory interventions towards CSR emanate from state regulations on different aspect of CSR. It encompasses labor, environmental and social oriented laws that require firms to comply. In an effort to comply with the legal requirements on social and environmental standards, firms learn and adopt what constitutes responsible investment.

Also conditions which offer for monitoring corporations’ behaviors, such as independent organizations are considered encouraging for ensuring responsible practice. Primarily, codes, standards, conducts on CSR are important drivers for enterprises especially for those operating in international market. For instance, standards such as ISO 26000 is key facilitator for environmental engagements. Babiak & Trendafilova (2011) contend that the possibility of acting dutifully increases when normative standards, widely accepted by society, support such behaviors. Institutional stakeholder’s pressure in general and regulatory schemes in particular brings firms to consider responsible investment. Drive of existing and future regulations is to reveal the presence of regulatory pressures on companies to behave in a responsibly and the role of the state to monitor and enforce these regulations when necessary (Campbell, 2007). Especially, international private standards such as ISO, Fair trade, B Corp, GRI, SAI and IRIS among others brought the CSR adoption in to business practice these days. These standards and certifications attract and push firms towards adopting corporate social responsibility.

## 2.8 CSR Practice in Developing Countries

Literatures reveal that the idea of social responsibility emerged in advanced countries. Now day's firms and other actors in developing countries as well are working to promote responsible investment and work together on various societal problems. Carol (1991) developed a pyramid to explain four dimensions in which a firm is supposed to shoulder its responsibilities to various interest groups. This model explains also why firms need to adopt a socially responsible practice in a developing country context. These dimensions are economic, legal, social and philanthropic responsibilities respectively in terms of vitality. This model of CSR has been tested and supported by the findings (Carroll & Hatfield, 1985) but mostly in American context (Visser, 2006) which makes it difficult to adapt to developing countries as it is.

The developing countries CSR pyramid was developed by Visser (2006) to contextualize the concept. He extended Carroll's pyramid to the African context and argued that the order of importance of the four dimensions differs. This is associated with the economic and social challenges to the society and governance gaps in Africa. Countries in Africa look for more investment to create jobs, offer better social services in health and education. As a result, economic responsibilities are still valued as most important, while philanthropic responsibilities are emphasized as second with legal and ethical responsibilities third and fourth respectively. Hence, it helps to explain which component is focused in learning towards responsible business in practice.

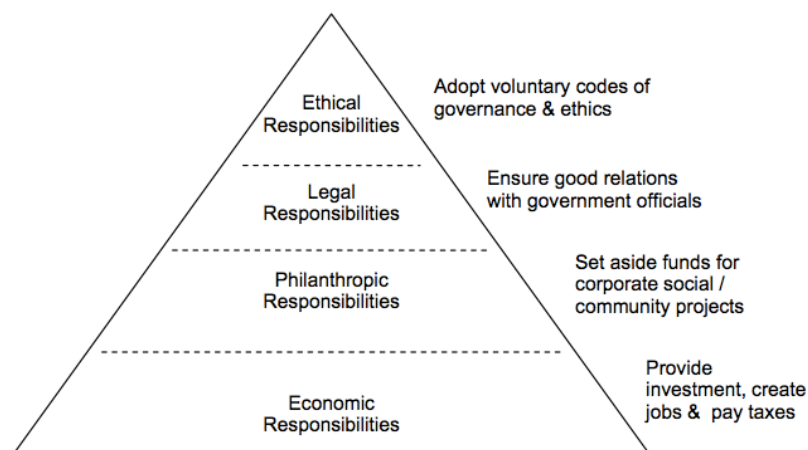


Fig 2.4. Africa's Corporate Social Responsibility pyramid (Visser, 2006)

In the traditional business sense, the idea of business referred to profits which are recorded in financial statements (Elkington, 1999). In his former work, Carol (1979) also mentioned that the basic function of a corporate is to produce goods and services that the society desire and sell them with profit. However, this claim was contested in that ***economic responsibility*** is beyond generating profit or meeting shareholders expectations. Visser (2006) argues that due to Africa's high unemployment rates, shortage of Investment and high poverty, the economic role of companies is of prime value, thus leading to the importance of economic responsibilities in the African context. Companies that operate in developing countries progressively report on their economic responsibilities by indicating 'economic value added' statements (Visser 2008, p 490).

**Philanthropic actions** are second most important in African businesses to work with and is associated with explained by the high socio-economic needs of African society. Visser (2006) argues that these needs are so great that philanthropy is an expected norm. As newly developed concept in Africa, CSR is used with philanthropy interchangeably. Because, business can't operate in a society that fail, they set funds to contribute for community/social development in Africa.

**Legal responsibilities** are of third level in the pyramid and do have lower priority compared to advanced nations but not to mean are less important. This responsibility is about how a business works with in legal framework formulated to operate safe business by the state. Developing countries have weaker legal infrastructure, lacks administrative efficiency and put low pressure for good business practices. It is to mean develop smooth relationship with government.

Lastly, **ethical dimension** of CSR exists which seems to have the least influence on the CSR agenda (Visser, 2006). However, this doesn't mean developing countries do have or need least ethical practices and for instance South African companies have led the world in their inclusion of CSR issues during 1992-2002. Ethical practices constitute voluntary adoption of governance codes and ethical practices. Such practices make firms to have smooth relation with stakeholders both inside and outside of a nation.

## 2.9 The State and NGOs in CSR Development

CSR indicates the role of private entities in meeting the interest of multiple stakeholders including the broader society. Then, there is an increasing intervention of the state and NGOs to boost social responsibility in private firms. The state intervene because public engagements of the business entities ultimately serve the wider society both directly and indirectly. Therefore, CSR is not something which can be delimited solely to the private sector business entities as Nelson (2008) mentioned the most challenging conditions for responsible firms are when there are governance gaps or institutional failures.

According to the United Nations industrial development organization (UNIDO), sustainable and equitable development emphasizes the importance of gaining a better savvy of the role of public policy in CSR. In the last few decades (Moon, 2004), governments have joined other relevant stakeholders as drivers of CSR. However, whether the soft, hard or both ways of CSR public policies should be adopted remain a point of contest. The most common public policy options in CSR development, according to Fox (2002), are mandating, facilitating, partnering and endorsing. Most writers and institutions advocate softer forms of government CSR intervention than mandating for sustainable outcomes (Joseph, 2003; European Commission, 2002). However, both voluntary guidelines and binding policies publicly communicate the government's position regarding CSR in a way that could potentially influence companies' behavior (Ascoli & Benzaken, 2009).

More specifically, a government deploy instruments of intervention to promote CSR practices in business enterprises. These are informational, economic and legal forms (Steurer, 2010). With the rational of moral persuasion, the informational role involves creating CSR awareness to businesses via different modalities such as campaigns and trainings. Economic instruments work

with financial incentives and market forces to nurture responsible behavior which include awards, tax abatements, subsidies etc. Third option is enforcing legal instruments (sticks) in state institutions towards businesses however in soft manner such as directives. Partnerships are another ways to foster CSR engagements too where firms and state entities work jointly on responsible practices. Stakeholder forums or negotiated agreements and public private partnerships are of pivotal CSR policy instruments (Fox et al. 2002). Besides all those possible ways, hybrid application of instruments can be used also.

On the other hand, NGOs played great role in pushing firms and public policies for sustainable alternatives at the international level. Among others, campaigning groups have been key drivers of negotiations ranging from the regulation of hazardous wastes to a global ban on land mines and the abolition of slavery ([www.iisd.org](http://www.iisd.org)). It is repeatedly discussed in the literature that NGOs, in the increasing period of deregulation and retreat of the state from a number of public functions, begun to repair limitations in recent decade investments. As a result firms moved from the classic profit oriented shareholder view towards stakeholder perspectives.

One aspect of NGO role is in the advocacy of responsible investment. As the state retreat from a number of public functions and regulatory activities, NGOs begun to fix their sights on corporations ([www.iisd.org](http://www.iisd.org)). There has been and is an increasing pressure from NGOs in exposing firms to adopt sustainability in their business mission. NGOs follow different strategies to influence the development of CSR in the business world. What Winston (2002) named as engager NGOs try to draw firms into dialogue in order to persuade them by means of ethical and prudential arguments to adopt voluntary codes of conduct.

Other types of NGOs use confrontational path through shaming and blaming firms which is a moral stigmatization. However, in both ways it is unlikely to influence companies in the long run unless they are able to mobilize two other important constituencies: consumers and governments (Winston, 2002). Studies reveal that there is an increasing motivation on consumers' side to avoid products with child labor at the back and less green. The differential response from consumers to inform about good and bad conditions shows the intervention of activists in firms for standards. The lobby and advocacy role of NGOs is of high influence for both firms and governments. A notable example is found in the Fair Trade Labelling Organization (FLO) which is aimed to improve the position of the poor & vulnerable in developing countries (FLO, 2002). And this is done by setting Fairtrade standards & by creating favorable framework for those groups of firms.

## **2.10 Summary**

This chapter offered what social responsibility is, OL for social responsibility and how can be conceptualized to undertake a study. It clarify the way firms learn knowledge to CSR engagement at organizational level and as a norm at industry level. Also the motivations for social responsibility engagement both those pushing and pulling are elucidated in this chapter. Lastly, it offers the relevance of CSR in a developing country context and the role of state and non-government organizations as key actors in development. The concepts and theories discussed in this chapter served as a base for methodological design and subsequent data analysis. In chapter four and five, data analysis is done considering what the CSR literatures and learning theories say all about it.

## Chapter Three: Methodology

This part of the paper contains the research approach, methods of data collection, data sources and sample respondents, presentation and analysis used in the whole process of the study. It is intended to give a clear direction to the researcher and readers on how the study was done as a case study in selected firms.

### 3.1 Research Approach

The purpose of the study was to identify and gain deeper knowledge of the way in which enterprises in the leather and footwear industry learn and engage in CSR, what motivates them and how they are incentivized to do so. A qualitative research approach is selected for this study. Qualitative case study is an approach to research that facilitates exploration of a phenomenon within its context using a variety of data sources (Pamela & Susan, 2008). According to Yin (2003) a case study design should be considered when the focus of the study is to answer “how” and “why” questions and you cannot manipulate the behavior of those involved in the study. This study is carried out with firms which cannot be manipulated and on how they learn social responsibility. In other words, case study is appropriate approach when research addresses either a *descriptive* question—“What is happening or has happened?” Or an *explanatory* question “How or why did something happen (Shavelson & Towne, 2002). Hence, qualitative case study approach was found to suit the objectives of the research.

### 3.2 Data Collection

In this study, both secondary and primary data are utilized. According to Bryman & Bell (2011), primary data are those collected by interviews, questionnaires, experiments and observations. Many writers support primary data collection as it is more reliable than secondary one. Primary data for this study was collected through semi structured interview administered to the sample firms and other industry specific organizations. The interview questions set for firms had different parts dealing with different component. The first part deals with characteristics of firms and interviewees. The second part deals with current CSR practices in the enterprises. Third section addressed sources and purposes of CSR learning or what are the motives to adopt including state role in the firm’s adoption of CSR. The interviews with leather industry association and leather industry development institute had separate guiding questions to help probe further insights. On secondary sources, relevant literature, company reports and state regulatory documents linked to responsibility promotion were reviewed to strengthen the analysis.

### 3.3 Selection of industry and sample respondents

The leather and footwear industry is selected for certain reasons. It is known for its export earning, more employment and attraction to FDI on one hand. It is also known for its adverse environmental impact since the tanning and leather processing operations involves chemicals and ends with hazardous waste disposal. Hence, it is worth studying how responsible production firms pursue and the way they acquire knowledge of CSR.



Firms in the industry are dispersed in different provinces across the country. These firms are engaged in leather tanning and production of leather products including footwear and bags which they sell in domestic market and export. Purposefully, a sample is taken from those firms operating with the leather industry association. They are classified under small, medium and large enterprises in terms of production capacity and employment. Therefore, the researcher contacted the industry association and the latter provided best performing firms in terms of production capacity and export performance. According to the association's membership data, there are a total of 23 tanneries, 14 footwear manufacturers and 8 leather products producers with a total of 45 companies. Udayasankar (2008) argued that firms with large scale operation, higher visibility and resource access are more likely to take part in social responsibility. With such ground, researching with best performing firms sounds more. Then, five top performing firms were chosen for the study. These firms are export oriented big size producers with diverse stakeholders.

### **3.4 Description of Interviewees**

Those detailed below are informants interviewed about empirical CSR learning context. The interviews were carried out with each one of them separately and a discussion of who these entities are is important. The portrayal of interview respondents from firms, state institutions and other actors including the industry association is discussed below.

#### **A. Ethiopian Leather and Footwear Industry Association**

The Ethiopian leather & footwear industry association was established in 1994 with the mission of providing efficient and up-to-date service and support to all members & enable them become internationally competitive in leather products. It is managed by board of directors and has functioned for more than twenty years broadening its members from time to time. Its main objective encompasses representing members to cooperate with the Government in developing the industry and to facilitate in matters related to quality and standards. It plays a liaison role in negotiating with other parties on behalf of member firms while promoting activities in seminars, workshops, export promotions and trade fairs. The interview was carried out with the head of the association; Mr. Abdias Adugna who served ELIA for the previous 10 years.

#### **B. Ethio-Leather Industry Plc (ELICO)**

Ethio-Leather Industry (ELICO) was established in August, 1997 after acquisition of three factories from the Ethiopian Privatization Agency. It has three Operating Units, namely, the Gloving and Hides Unit, Goat hide and Shoe Leather Unit and Leather Goods and Garment Unit. It produces finished leather garments for men and women, sports gloving leather from sheepskin, finished goat suede for shoe upper, finished cowhide for shoe upper, finished crust lining leather, cowhide crust and other leather goods and articles. It has four plants with a total of 1687 employees i.e. Awash tannery, Abyssinia tannery, Universal leather products and Fontanina shoe factories. According to the association and industry data sources, it is a pioneer firm in achieving higher level production and export of leather products. General Manager of ELICO Mr. Gizaw Molla was interviewed on how this firm is learning and practicing CSR. He served in the company

for more than eight years as manager and has given adequate explanation about ELICO's CSR engagement and learning besides the information from its website.

### **C. SoleRebels**

When someone talks about entrepreneurial success in Ethiopia, Solerebels is the vanguard and has secured many achievements in the footwear industry. soleRebels is a footwear company founded in 2004 by company founder & director, Bethlehem Tilahun Alemu in her community of Zenab-work, Ethiopia. It has operated for the past 11 years and now has a total of 481 employees both in Ethiopia and in retail stores abroad. This company produces different types of leather shoe and supply to both domestic and export market including its own shops in more than five counties. The interview on the CSR learning and practice of SoleRebels was carried out with the managing director who leads the company since the time of establishment.

### **D. Peacock Shoe Factory**

This footwear is one of the largest shoe manufacturers in the industry. It has operated for more than 23 years in shoe manufacturing. It supplies footwear both for domestic and foreign market. However, 95% of its shoe supply is to Italy with contractual agreement since 2004. It has employment of 582 at this time and has production capacity of 2500 shoes/day. The factory has four plants for its sub processes from cutting up to finishing all located in the city Addis Ababa. The interview was with general manager of the company, Mr. Ayansa. He served in the current position for the past five years.

### **E. Dire Tannery**

Located in Northwest Addis Ababa, Dire tannery was founded in 1972 as a private limited company business and processes locally sourced bovine hides' and sheepskins to make finished leather for shoe uppers, shoe linings, gloves and garments. The factory has been a pioneer in Ethiopian tanning by taking its production all the way through to finished leather and by setting up primary and secondary effluent treatment on site. In the tannery of the year contest at international level by UNIDO, Dire tannery was selected as African tannery of the year 2014. It has an a daily capacity of processing 600 cattle hides and 5000 ship skins which is the highest level in the industry. The interview was conducted with the corporate communication manager who served the company for more than fifteen years in total.

### **F. Walia Leather & Leather Products Plc**

Located in East Addis Ababa and founded in 2003, Walia leather is one of the leading leather gloves and footwear manufacturers in the country with installed production capacity of 1000 pairs of shoes and 3000 finished waxy per day. It has a total employment of 447 and average annual turnover of \$250,000 (Walia annual report, 2014/15). It supplies leather and shoe products for both domestic and foreign market with 75% to export with main destination to Italy and Germany. The interview was carried out with the general manager who served in it since the establishment of the factory.

## **G. Ethiopian Leather Industry Development Institute (LIDI)**

The leather industry development institute (LIDI), formerly known as Leather and Leather Products Technology Institute (LLTI), is an autonomous public authority with legal personality established in 1999 by the council of Ministers regulation No 181/2010. It is accountable to the Ministry of Industry and works specifically to the leather and footwear industry development. LIDI has three core work processes i.e. investment, market development and technology diffusion with fifteen other support service directorates. When established, the institute had an objective of facilitating the development and transfer of leather and leather products technologies and to make it competitive in the international market (Federal Negarit Gazeta, 2010). Hence, an important player in nurturing new production systems and helping firms raise their capacity to higher level of production and export. The deputy director of LIDI has given the interview on the role the institute play to develop social responsibility in partnership with inter-government organizations like UNIDO. The v/director has worked for more than 5 years in the position and gave details on the learning process besides official data generated.

### **3.5 Method of Analysis**

The study involves qualitative data collected through semi-structured interview and secondary documents review. Hence the analysis scheme is basically of qualitative nature. It involves concurrent content analysis of primary and secondary data. According to Titscher et al. (2000), content analysis is the longest established method of text analysis among the set of empirical methods of social investigation. It helps to explain how a particular phenomenon develops and its existing stage. The researcher is convinced that content analysis makes great sense to analyze CSR learning in firms and the rationale behind then. The analysis is divided in to two chapters. The practice, learning and motivations for CSR are discussed in chapter four. Because the role of state in the CSR learning and adoption is broader, it is discussed in chapter five separately. This is done to clearly analyze the role the state play in the process of CSR development as a main actor in a developing country industry context.

### **3.6 Risks and Ethical Challenges**

It is known that research need certain level of ethical consideration. One of the most important issues is confidentiality. The researcher kept data from both firms and others institutions with confidentiality. The researcher told interviewees that their information is confidential which in turn reduce the challenge of generating optimal data. Moreover, consent with respondents is ensured in both the document review and interview. The political circumstance which influence firm's spending on CSR is also considered as a challenge to analyze the data.

## Chapter Four: Discussion and Analysis

### 4.1 Corporate Social Responsibility Engagement in the industry

#### 4.1.1 Firms Definition of Social Responsibility

Social responsibility conception in leather and footwear firms has variation in focus. The interviews carried out with individual firms and review of data from their websites has brought insights on their social responsibility. In the first place, the way these firms understood CSR is somehow different.

Firm	CSR definition
<b>ELICO</b>	Social investment to protect the natural environment, improve welfare in society and contribute to national development endeavours.
<b>Dire Tannery</b>	Waste treatment & cleaner production to protect environment and being part of social projects like health and education.
<b>Walia leather</b>	Handling waste and develop eco-friendly production process as steps to shoulder social responsibility.
<b>SoleRebel</b>	Integral part of the business to give back to society via job creation, social justice, environmental protection and clean production.
<b>Peacock Shoe</b>	Responsibility towards caring for environment and conformity to regulatory standards.

Table 1. Definitions of social responsibility of firms

In firm's conception of CSR, there is more emphasis to environmental component. These firms perceived compliance to environmental standards determine their economic success and then their philanthropic capacities. Also, leather production process by its nature has environmental impact as it consumes more water, chemicals and dispose polluted waste. Hence, firms emphasized responsibility to handle environmental impact as a step to shoulder social responsibility.

#### 4.1.2 Firm's social responsibility in practice

As the way CSR is perceived in each firm slightly differs, the practices also vary in terms of scope. According to Lepoutre & Heene (2006), social responsibility involves firms' courtesy of their responsibilities to their customers and employees, the local community, and the environment. ELIA explained that, when the issue of social responsibility is raised, environmental concern is prime and regular in the leather & footwear industry. Mostly, firms to shoulder their environmental responsibility strive to knob their waste and improve treatment of chemicals.

ELICO engages in CSR through philanthropy, environmental protection and effort to ensure green production. Outside the firm, it donates schools to reduce drop out of students from economically poor families, fund establishment of community health centers, plant trees annually

with employees, constructs roads for communities around its manufacturing plants. The donations for community social services are offered in kind and cash depending on the request from local health, education or other offices. In this case, it reveals a superficial or lower level practice where the intention is reacting to the interest of a given stakeholder. The donation requests from local level social project offices signify a norm entrepreneurship role of local social service offices.

*“We support the community around when they need us to be involved”.*

The company also strives to improve the production process to meet environmental expectations (waste treatment in the tannery and eco-friendliness in leather garments and footwear items) which is mentioned as basic part of its business responsibility. The environmental engagement is partly to comply with the different legal requirements formulated specifically for tanneries as well for industry wide. Besides these, internally it offer sport facilities and education sponsorship for employees who study to upgrade their education.

Likewise, SoleRebels has also different CSR practices both within and outside of the company. The managing director explained that the company has an education fund for children of artisans and 100% medical coverage for employees. It also pay a salary 3 times higher than industry average and 4 times of minimum wage in the country. Externally, it is engaged in culture preservation through integrating cultural arts in to its brands. This is aimed at promoting culture at international level. It also engages in greening environment via plantation of trees in Zenebework (plant area) and supplying certified green footwear products.

*“We are the first fair trade certified foot wear company at national and international level which helped in attracting more customers resulted from our compliance to northern consumers”<sup>2</sup>.*

CSR practice in Peacock shoe is limited in scope compared to other firms in the study. The idea of CSR is new to the company said company manager. He mentioned that Peacock is responsible company as far as its production process complies the legal standard in terms of chemical usage, waste management and meet agreed export performance with the Ministry of Industry. Up on invitation, it also contribute for development projects like the renaissance dam and fistula Hospital in Addis Ababa.

CSR in Dire tannery is composed of donations to health centers in the surrounding, effluent treatment and meeting export expectations of government. It contributed funding to health extension services in North West Addis Ababa from 2013-2015 for instance. The plant manager explained that much of the responsibility focus is on environmental impact. In order to achieve our economic goal and improve our environmental performance, we have started our staff training on environmental matters, environmental audits, environmental action plan, and use ISO 14001:2004 as one of environmental management tools”. This is because the company is in tanning operation which is pollutant by its nature and needs special emphasis.

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<sup>1</sup> interview with Mr. Gizaw Molla, General Manager at ELICO, 17 July 2015

<sup>2</sup> Interview with Ms. Bethelhem Tilahun, Managing Director of Solerebels; 31 July 2015

Walia tannery explained that the firm has multiple ways of CSR engagement. He started with creating jobs, producing eco-friendly bags and garments so that contribution to both domestic and foreign environmental safety is there. In its annual report from 2011-2014, it is also expressed that donations have been contributed to primary schools in Kality Sub city, public sport centers and one time only for fistula hospital which offer free medication for rape victim women. “Also our compliance to labor and environment standards is a manifestation for our responsibility” said the general manager.

Firms, in sum, consider compliance to legal, economic and environmental performance standards as key responsibilities while they reactively engage in philanthropic activities as well. Their practice is to a great extent compliance driven including the philanthropy. It is difficult here to conclude, however, on the counterfactual scenario of philanthropic engagements had there been no invitation for firms from community project offices.

#### **4.1.3 How CSR task is organized?**

Social responsibility, as part of regular business operation, can be planned and organized or may not depending on organizational context. Firms synonymously expressed that they don’t have an organized department exclusively to handle social responsibility. One thing is that donations are carried out when request comes from stakeholders in each firm. It is reactive and is irregularly performed at any time in the budget year. For instance, CSR in ELICO is under management information department with direct supervision of the general manager. In SoleRebels, the owner manager decides on each aspect of CSR in consultation with the advisor.

Though firms expressed that environmental responsibility is main part of regular business operation, none of them do have a so called CSR budget and department to deal with it. They raise money for philanthropy either from contingency or from profits generated and contribute for community social projects up on request. Only Dire tannery has a separate department to deal with environmental impact assessment task on regular basis. This department, however, does not concern social and economic responsibilities and the later CSR aspects are under top management. Firms do not have also CSR reporting scheme to stakeholders. They only provide export performance report to the MoI where incentives are provided up on meeting the threshold. Absence of comprehensive CSR reporting signifies the reactive approach of firms to practice CSR as seen in their community involvement for instance. This scenario also indicate low awareness and emphasis on social responsibility.

#### **4.1.3 What matters most in firm’s responsibility?**

Engagement in all components of social responsibility is difficult and impossible to give equal emphasis too. This is due to resource constraint, strategic relevance and degree of stakeholder pressure on a particular aspect of CSR. Firms were asked which aspect of CSR engagement is/are more important given they operate in leather industry. Among others, job creation, education, health, environment, natural environment protection, human right and infrastructure were raised to see which are perceived as more important to work on. It is mentioned that all are important in the industry but differ between tanneries and footwear firms. Tanneries prioritize environmental

protection as it is more associated with their daily operation while footwear firms said that job creation is more important.

*“Creation of job for the society is the one that makes greater sense because unemployment is critical problem of our society<sup>3</sup>”*

Tanneries justified that their operation affects natural environment and indirectly affects healthy living. Hence, working to be environmentally responsible makes greater sense which is against Visser’s argument. Despite Visser (2006) stated that economic and philanthropic activities are first and second most important in developing country, it is the environmental responsibility that comes first in practice because it determine economic success and then capacity for philanthropy. Footwear firms saw it from society on pragmatic basis and indeed creation of jobs sound more relevant.

## **4.2 Social Responsibility Learning in the industry**

This part of the analysis came up with the ways and conditions by which firms generate knowledge of social responsibility as a norm. It addressed the different ways of learning in organizations both within the firm and through interaction with other entities. As the establishment time of firms differ, the time they deduce CSR also vary despite the practice is existent at least the philanthropic and compliance to environment domain. ELICO and SoleRebels are youngest firms among those considered for this study. Older firms did philanthropy by funding social and environmental projects until the late 1990s where the idea of CSP (corporate social performance) emerged. ELICO and SoleRebels, as firms established after the concept of corporate social responsibility developed, they function in it knowing the idea despite their focus and perception vary. In the interview, it is manifested that the idea of CSR is not recent but has passed the last two decades except in SoleRebels which is established in the last decade.

### **4.2.1 Source of the social responsibility Concept**

The social responsibility norm cannot emerge in a vacuum. Norm entrepreneurs and promoters seek to influence firms to change their practices to adopt a new norm (Sjöström, 2009). In the literature, the most common sources of CSR idea for firms, especially in developing countries, includes government, CSOs, supply chain firms, and industry associations. In the leather industry, firms mentioned that government was the first to inform about environmental responsibility and labor safety.

The state is the prime norm entrepreneur in Ethiopia unlike the case in industrialized nations where the civil society activists are known for lobby and advocacy. This is through mandating firms in regulations to adhere to certain labor and environmental standards. However, this is not done by the state with explicit CSR package. Rather, environmental, economic and labor compo-

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<sup>3</sup> interview with Mr. Ayansa, Manager of Peacock Shoe, 29 July 2015

nents separately are regulated which reinforce responsible investment. The different laws (discussed in next chapter) on labor condition, waste treatment & chemical usage etc. introduced the responsibility of these firms.

Besides, conferences with chamber of commerce and MOI on export of leather products are common places where firms got reminder that social responsibility is integral part of business. Also, in the last two decades, foreign buyers of leather products request for sustainability standards in the production of leather items and along with these requirements, new ideas and production systems are introduced in to these leather firms.

While explaining where the idea of CSR was heard first for instance in ELICO, different sources are applicable depending on the line of responsibility. Government is the prime actor in closely regulating and fostering CSR notion in the company focusing on environment and putting export performance standard. Then, the details emanate from the company side to conform to the demands of foreign market since sustainable production certification is becoming important factor.

#### **4.2.2 Presence of standards of practice**

Standards of business practice are increasingly becoming integrated to business organizations. In the context of the leather industry in Ethiopia, CSR is at early stage of development and there are no nationally initiated voluntary standards. Apart from the legal standards on labor and environment, firms adopt international standards of quality and production process. Giovannucci and Ponte (2005) wrote that standards are becoming increasingly important in international trade and undergo a shift from being neutral market lubricants to also being tools of product differentiation.

ELICO and Dire Tanneries do have ISO 9001 and ISO 14001 certifications as standard for quality and environmental management respectively. In Peacock and Walia Leather, ISO 9001 is adopted as a standard quality management practice where as SoleRebels has ISO 9001, ISO 14001 and fair trade international certificates as standard practices to enhance responsible production. These firms adopted these standards as a benchmark for improved production system and for compliance with foreign market.

Standards have two sided implication for developing country producers. They are entry blockades for new entrants in a value chain on one hand. Also provides opportunity for selected suppliers to add value, assimilate new functions, improve products and even spur cooperation among actors in a specific industry/country (Javee, 2003). For instance, the fair trade international certificate is found useful means of differentiation in SoleRebels. However, none of these standards are found in spurring cooperation among firms and other actors in the leather industry.

ELIA and LIDI mentioned that voluntary standards are individual firm initiatives and are not adopted by all firms across the industry. It shows that the more a firm is linked to international market, the greater voluntary standards are adopted. It is notable here that those firms with successful export oriented production have learned the importance of these standards or are forced to accept and adopted them. Interviewed firms mentioned that the contents of these standards



and certifications helped them to gradually improve their waste treatment, ensure employee engagement and increased export.

*“The foreign market is increasingly seeking certifications for eco-friendly production and quality standards & such standards are becoming a must now days<sup>4</sup>”.*

Firms in all domains of the leather industry strive to meet these expectations from foreign market. To do so, they initially adopted quality certification ISO 9001 and later ISO 14001 which signify progress in improving their practices. New standards are developed every time and these firms strive to catch up them which in turn leads to increased learning.

### **4.2.3 Motives for learning social responsibility**

For the aforementioned social responsibility practices and voluntarily adopted standards, there are motives that attract and push firms. It is then noted that the factors behind each subset of social responsibility practice are different. This is to mean environmental responsibility and community engagements are associated to different motivators.

In theory, culture is an important motive to shape altruism to social engagement since it helps for legitimacy. There is historic culture of giving for those needy in the Ethiopian society and firms reveal that they feel as part of that to explain philanthropy. Also expressed that firms grew up in the society and feel part of it. Director of SoleRebels added that it is impossible to sit aside looking different societal problems as a business with in society. However, firms are not altruist by their own initiation to take part in social projects. Nor there exists civil society to encourage firms for altruistic practices. Only the local social service offices invite firms to donate and the role of culture is not visible in this respect. Hence, culture has no practical role to motivate firms because the instigation for philanthropic engagement comes not from within firms.

On the other side, labor rights, environment protection and improving green production are triggered by external factors. Government has regulated these firms to work with the legal framework to improve waste treatment & management as well as offer safe working condition for employees. In an interview with Dire tannery and Peacock shoe, the regulatory tasks by environment authority and ministry of labor have well mandated to adopt responsibility on labor rights and environment. The regulatory framework for manufacturing sector in general and specific laws for leather industry served in guiding these firms on how to become socially acceptable especially with respect to protection of labor and the natural environment. A notable frame, for instance, from which tanning firms learn to reduce carbon footprint is the one formulated by environmental authority. The regulatory intervention is a push factor which trigger firms towards responsible practice.

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<sup>4</sup> Interview with Mr. Abdisa, Secretary of ELIA

*“Improving the environmental friendliness of leather products determines our competitiveness in international market and this requires changing production process as well as selection of less toxic chemicals”<sup>5</sup>.*

In addition to culture and regulations, CSR is shaped by its competitiveness role in the export market. This is strategic business motive for firms to seek adoption of social responsibility. Competitiveness role of CSR with clean production is a recent development as these firms focus on export market where different firms from different countries also engage in leather products export. Predominantly, the leather firms in Ethiopia strive to compete with Chinese, Vietnamese and Indian producers.

*“The present day export market is determined not only by how much a firm produce and is able to export but by the degree to which products conform to the standards of foreign market”.*

Visser (2008) asserted that social responsibility is shaped by national and international motives. However, factors such as concern for governance gaps in the society, political reform, and crisis response are not found applicable motives in the leather industry context. Motivations in one or another way come from international standards, state incentives/regulation, competitiveness and supply chain among Visser’s assertions.

#### **4.2.4 The schemes of learning social responsibility**

Learning is described as the process of adjusting behavior in response to experience (Law and Chuah, 2004). Instrumentally, organizations learn internally themselves, with other firms in same industry, in partnership with organizations in another industry/sector or in combinations of these forms of learning. Organizational learning is the effective way of making use of past experience and adapting to changing environment (Berends *et al.*, 2003).

##### **(a) CSR Learning within firms**

Organizational learning theory argued that most effective organizations develop effective learning processes at all levels of organization (Opoku and Fortune, 2011). Leather firms use laboratory experiments and marketing research operations which constitute knowledge creation inside them. In an interview with ELICO and Dire tannery, it is explained that they do have experimental laboratory to assess tanning quality and chemicals in production processes. It helped them to engage in improving tanning systems from time to time to tackle environmental impact. In an effort to fill the gaps in the production process and quality of products against standards, they develop new competences.

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<sup>5</sup> interview with Mr. Gizaw Molla, General Manager at ELICO, 17 July 2015

<sup>6</sup> interview with General Manager of Walia Leather, 13 August 2015

*“Our Company does not pursue short term benefits and insists and focuses on a win-win problem solution scenario on a long term basis. It fosters fraternal relationships and learns from the negatives and grows from the positives<sup>7</sup>”.*

These tanneries and footwear firms also share that market research is an important tool to learn internally. They collect information on available sustainable leather product technologies, foreign market quality standards and competition. They then share it to employees via conferences, and seminars as information sharing platforms. For instance in SoleRebel's ecofriendly systems of shoe production is reviewed every three months with joint leather experts from LIDI and the company itself. Then, results are disseminated to all departments to know the desired or planned improvements in the production process. ELICO and SolerRebels do have website and intranet to share updates online while others use manual documents and seminars. However, knowledge acquisition is carried out at organizational level where new updates and ideas are disseminated down to departments. Heads of firms and management information department in some cases handle knowledge acquisition and dissemination. This indicates that individuals are less encouraged to create and develop new ideas and competencies. This scenario is likely to weaken sustainability learning because the most productive erudition in firms can be ensured when individual members are encouraged to take part.

#### **(b) Inter firm CSR learning**

Another important way of learning responsible production is from similar firms in same industry. This is experiential learning to increase knowledge of responsible production. By acquiring and exploiting knowledge of others, it is argued that “learning partnership allows firms to increase the speed of capability development and minimize uncertainty” (Rothaermel & Deeds, 2004). Firms under this study were reviewed if they go through inter-firm learning and found that they do not have horizontal learning with similar firms in the industry. Neither benchmarking other firm nor collaboration or partnerships to share knowledge are existent.

ELIA associated absence of inter firm learning to lack of trust and inadequate dialogue spaces to share experiences. Trust is an important enabler of learning at the inter-firm level (Dodgson, 1993). Knorrunga and Staveren (2006) on the other hand state that inter-firm collaboration in terms of carrying out joint activities is not very significant. This is due to greater degree of isolationism and lack of trust between the enterprises in the industry and such isolation brought the possibility of experiential learning down.

The only knowledge sharing exists with the supply chain firms buying products in foreign market. This is from their back-forward integration and flow of new sustainability/quality standards from buying firms to producers. This form of knowledge transfer is regulated by foreign buyers and limits the amount of knowledge producer firms can generate. Hence, the value of such erudition is unsustainable because it is delimited to the interest of the particular buyer-producer relation.

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<sup>7</sup> interview with General Manager of Dire Tannery, 21 July 2015

The data show that it is uncommon to work together and develop new knowledge in the industry but the opportunity exists to share to others. An example quoted was the collaboration with small scale footwear cluster supported by UNIDO to allow them export with ELICO's brand name. ELICO offers training and capacity building for selected micro footwear clusters in order to let them produce with foreign market standard. However, this is one way learning where the small footwear producers adopt production standards from ELICO to comply with foreign market product standards. Manager of Walia leather also explained that they meet other firms in industry wide conferences or workshops organized by the industry association, chamber of commerce or Ministry of Industry. In quarterly leather export conferences at the Ministry of Industry, all exporting firms attend and share their updates. However, only environmental and performance in export are raised since the focus of the Ministry is promotion of export above all. Chamber of commerce also organize three to four times of trade fair in a year where firms meet in each industry and that event allows firms to meet each other, see new developments including through information in fliers and pamphlets.

Embeddedness in competitive environment of particular market and time has negative implication on the potential social capital between organizations. Leather firms grew out of domestic market rivalry each other from beginning. Hence, firms seem to be embedded in home market competition each other which force them to work in isolation. It is partly due to this rationale that firms do have different level of responsibility practices which they consider strategic for business. Solerebels director mentioned that innovative business grows in competition in any context which we are working with. In its study of social capital, Knorrunga and Staveren found that inter firm cooperation is low in Ethiopian footwear industry. Then, individual firm partnerships or networks for learning is not a practical condition. However, it is expressed that firms would welcome if other firms show interest for collaboration to learn. This scenario seeks a game theory analysis and also implies a shared space for dialogue and collaboration platform where the role of the industry association, LIDI and potential CSOs is imperative.

### **(c) Cross Sector Alliance for Learning CSR**

Lastly, development of social responsibility is via cross sector alliance learning. This is about partnerships, collaborations or joint engagement in social, environmental and economic affairs with organizations other than those in the leather/manufacturing industry. According to Bindu and Jane (2006), cross-sector alliances (between for-profit and nonprofit sectors) present a learning platform for instilling participants with greater incentives for social responsibility. An interview was made to know if firms have alliance to develop knowledge and experience with NGOs, CBOs, Universities or other sector organizations both within Ethiopia and abroad. Dire tannery, Walia leather and ELICO expressed that certain level partnerships exist with Addis Ababa institute of technology on research for waste water treatment. They also take part in forums and training opportunities arranged mainly at Addis Ababa University.

Neither domestic nor foreign NGOs nor other non-state entities are close ally for these firms to work on responsible investment except ISO and fair trade international (in limited case). In philanthropic engagements, it is local government working with firms inviting for donations to social projects. Only one firm is found attached to Fair Trade international as partner to assess

green production and trade from non-state actors. SolerRebels takes part in international conferences including World Economic Forum and entrepreneurship symposiums which it has given an understanding of sustainable production. This implies that multi-stakeholder spaces play a paramount role in sustainability education. Peacock Shoe also expressed that the prime ally for the company is LIDI where it learns much of its economic and environmental responsibilities including chemical proofing to improve green footwear production for the western market mainly.

Despite evidence suggesting that joint effort between businesses and not-for-profit entities on governance of codes of conduct in different industries are on the rise (Overdevest, 2004), cross-sector alliance for responsible production is delimited to firm-state institution collaboration. This firm-state institutions alliance conforms to the conception that cross-sector alliance is a function of interdependence and risk reduction strategy. Firms have neither partnership with civil society organizations nor advocacy exists from the latter to motivate responsibility because there is low interdependence between the two entities.

To sum up, chapter four addressed the empirical CSR context in the selected leather and footwear firms. It also explained the way these firms are motivated to learn and schemes of learning social responsibility. The next chapter addresses how the state, as a prominent actor in the leather industry context, plays its role in nurturing responsible production.

## Chapter Five: The State in Nurturing Social Responsibility

Being a developing country with two decades of private sector in the economy, the state play paramount role in nurturing sustainable investment. A detailed role of the state, its laws and interventions in nurturing responsible investment is addressed in this chapter. The state formulated policies on industrial development, environmental protection and employment. Different state departments, sectors and subsectors in government also formulate specific rules, regulations and capacity building initiatives with reference to national policies. Firms and industry associations refer these laws and regulations as a base to define their industry values to conform to legal and social expectations.

As part of its economic and environmental policies, government cherishes economic and environmental responsibility in firms. One is through regulation on certain aspects of responsible production. The other is via a softer mechanism to support firms to function responsibly. According to Fox (2012), a government can have four types of public policy approach towards CSR i.e. mandating, facilitating, partnering and endorsing of which the first two are applicable in the leather industry under study. It is mandating firms to adhere to certain standards mainly with respect to environmental protection and labor safety. The regulatory directives give firms the threshold to work against it as parameter to assess how responsible they are. Different proclamations were ratified to handle such matters both universally for all businesses as well as specifically to the leather & footwear industry. However, working in jointly initiated social projects and endorsement for firms engaged in altruism is not found in firms in the study domain. The industry association explained that there is no tangible soft promotion tool for the industry and it hopes promotion interventions will be on the ground ahead of time.

An important aspect of CSR focused by the government is protection of environment along with increased export performance requirement. At national level, the constitution states that everyone has the right to live in safe environment (Art 44.1). Basing this fundamental right, the environmental authority was established with the mandate to regulate environmental safety and pollution from both individuals and organizations. This authority routinely regulates environmental impact of manufacturing plants including those in the leather industry. Plants in the leather industry, therefore, consider the conformity of their production process, waste treatment system and chemicals in production to the expectations of the authority.

### 5.1 Legal instruments for CSR Development

Regulatory instruments have great contribution in enforcing firms towards responsible production. These are laws that address key components of social responsibility in the leather industry. Among others, the environmental and labor laws played significant role as parameter for firms. Some of the very important environmental and labor decrees at national/industry level shaping social responsibility are discussed below.

### ***Environmental impact Assessment proclamation (Proclamation No 299/2002)***

This proclamation necessitates that major development program; plans and projects of the private and public sectors are subject to environmental impact assessment (EIA) before their approval. It also provides a legal foundation to integrate environmental economic, cultural and social considerations into the planning and decision making process. Firms, therefore, are required to pass an environmental impact assessment to operate legally and comply with the minimum level of environmental standard. Tanneries especially do have higher level impact assessment requirement to handle their harmful waste.

### ***Environmental Pollution Control Proclamation (No 300/2002)***

This proclamation is universal and offers a framework or general rule to control pollution from all kinds of sources. It prohibits pollution of the environment from any source by any person violating the relevant environmental standard and is guided by the **precautionary** and **the polluters pay** principles as well as the use of appropriate technology “in controlling pollution. These principles govern environmental responsibility of all firms in any industry but the majority of industrial waste comes from manufacturing sector. This proclamation enforces adoption of appropriate technology to handle waste from production where tanning firms specifically are of prime target.

### ***Industrial Pollution Prevention and Control Regulation***

This regulation delivers general obligations to be pursued by all industries. It also provides the then environmental authority and competent environmental agencies with the issuance condition and suspension or pursuant grants to these regulations. Therefore, public institutions from federal to local level are required to act accordingly for environmental protection from pollution in each respective industry.

### **Provisional standards for industrial pollution control in Ethiopia (2003)**

This standard, among other things, provides guidance on effluent and emission standards. These standards also put specific emissions and effluent standards to the tannery domain of the leather industry. It addresses cleaner production in the tanning process and required operations to safeguard environment. Also explicitly states waste reduction measures and recycling mechanisms to be adopted by tanning firms. Therefore, firms consider these specific environmental standards formulated by the environmental authority at national level to comply with them and improve towards greener production.

### **Constitution and Labor Proclamation 377/2003**

The FDRE Constitution of 1994 enshrines the protection of certain worker rights. It shields freedom of association and collective bargaining for workers (Articles 42(1) (a) and (3)) and all citizens (Article 31) and the right of women to equal pay (Article 42(1) (d)). It prohibits forced and compulsory labor (Article 18(3)) including children. In this latest proclamation, firms are informed about their rights and responsibilities for safety of employees. Among others, it informs about nondiscrimination based on gender, color, ethnicity or any other arbitrary criteria.

*“Workers shall have the right to appropriately defined working hours, breaks, leisure, 6 periodic leave with pay, paid public holidays, and a safe and healthy working environment”<sup>8</sup>*

The Labor law specifies the respective rights and obligations of the parties in a labor relationship; provides safeguards for special categories of workers and specify minimum working conditions (Hiruy, 2013). An important aspect of CSR associated with labor mentioned by industry association is that of child labor. It mentioned that it is not common to see under age people to engage in work in the industry. Firms are also found conscious of this concern and do not employ children to work in the leather and foot wear industry. The proclamation dictate firms to make smooth their relation with employees and not to commit irresponsible acts. Interviewed firms expressed that proclamations on labor served as a reference to act responsibly with respect to labor and as foundation for more employee welfare practices. This is the latest labor relation proclamation next to the 1963s, 1975s (socialist one) and 1993s which address a wide spectrum of labor concerns.

Firms explained that the initial task is compliance to these labor standards. Then, offering better condition for employees is a great concern. Except SoleRebels, the rest firms do have more or less similar orientation on CSR towards employees. They focus on welfares such as recreation and sporting, awards for best performers and bonus annually. SoleRebels outperformed all others in that it pays four times of the average of firms in the industry. It also offers children of workers education fund, health cover and empowerment of vulnerable groups (disable people) through special employment. The industry is said to be abide by the labor standards of the country and respects child right laws by not employing underage. International labor standards are being integrated in to national policy and cascaded down in to each firm to promote sustainable, equitable growth and social development (Jeff & Keith, 2013). This imply that not only existing labor standards that are shaping CSR on labor but also international standards mainly transferred through ILO-Ethiopian government joint initiative where the later has ratified 22 ILO conventions for improved labor condition including occupational safety and health.

The aforementioned national regulations and industry specific proclamations are the legal sources by which responsibility towards employees and the natural environment is enforced. In the efforts made to comply with these regulations and domestic legal standards, firms regularly strive to learn what constitutes responsible business. However, as discussed earlier, these standards are not the only frameworks as there is incentive for economic responsibility of firms.

## **5.2 LIDI as key institution**

LIDI is the vanguard state institution in facilitating firm’s effort towards responsible investment. Formerly known to be Leather and Leather Products Technology Institute (LLPTI), it was established with three core work processes. The three main missions are investment promotion, market development and sustainable technology diffusion. The main objective is to support firms and

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<sup>8</sup> FDRE Constitution Article 42(2) on labour safety and condition



boost production for export market. It is within this frame that economic and environmental responsibilities are facilitated by LIDI on behalf of the Ministry of Industry and in collaboration with other industry specific actors. However, because labor and wage is governed by the market, LIDI is not working on that matter.

There are three product domains; finished leather, leather articles such as shoes and garment including bags. Compared to tanneries, apparels and shoes production does not have special impact to environment except the chemicals for laminating used and dry waste. LIDI believe that all firms are striving to minimize their pollution. However, it is difficult to conclude that factories are working with the standard level of pollution control. Some firms operate below the expected level of effluent treatment stated by environmental authority associated with capital shortage, technical knowledge and lack of responsibility of firms. LIDI works in supporting firms to become sustainable producers in environmental and economic terms.

### 5.3 Role of LIDI in CSR Development

LIDI, having multiple directorates, play great role for development of responsible production in the industry. It supports the development of social responsibility in three domains. The first is technical support for firms. Secondly, it engages in research and development. Thirdly, it provides training and education for leather professionals. With respect to technical support, it works in identifying sustainable technologies and installation as well. This is aimed at diffusing new and appropriate technologies for clean production. The study firms, except SoleRebels, have got what is considered sustainable technology to tanning and processing through LIDI.

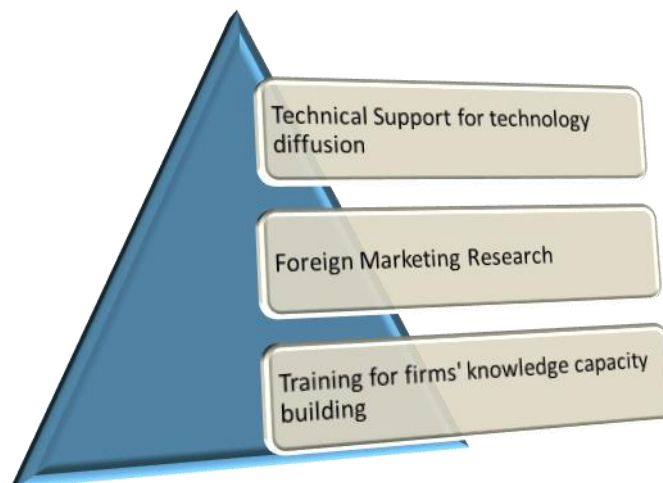


Fig 5.1: Key roles of LIDI in CSR development

With leather product and market research, LIDI works to find new production systems for firms to enable them comply with foreign market standards. It investigates new market trends and regulatory changes in product standards and competition in the foreign market. Then, it offers the findings for firms for free and also apply for its own laboratory work. Firms use of the research

findings to get updates and adapt to the changing market and regulatory requirements in foreign market which the process play great role in developing responsible production.

Besides, there are trainings for leather experts from firms on two forms. These trainings are offered either as demand based or assessment based to equip them with tools of sustainable production. LIDI regularly assess firm's technical, environmental and market situation for assistance on the spot. Annually there is nationwide assessment of firms in the industry and existing condition is published for dissemination of knowledge. The environmental directorate works with marketing and engineering directorate to increase environmental friendliness of products in each company taking in to account international market product standards. Interviewed firms also mentioned that they gain hands on training on both technical and managerial aspects to shoulder environmental expectations.

The other domain of environmental issue is about eco-friendly supply of leather products for market. Chemicals are key aspects in the leather products manufacturing. There are banned chemicals by law which are persistent organic pollutants and LIDI is following up firms not to use that. However, it can't be sure absolutely about absence of such chemicals despite less or no harm chemicals are promoted across the industry.

*“Strictly speaking it is difficult to talk about eco-friendly nature of leather products. This is because there is no eco labeling and auditing. There is no life cycle assessment from beginning to end of the production process”<sup>9</sup>.*

Some products are totally governed by international market standards like those exports to European Union. For example, the European market requires the leather product to be free from chemicals such as Chrome VI<sup>10</sup>. LIDI has accredited laboratory to test products and firms are provided with leather testing service. One of the services LIDI delivers to the leather sector is quality assurance tests for leather and shoes items. According to UNIDO (2012), the LIDI laboratory provides more than 80 different tests such as chemical and tanning material testing (5 tests), leather chemical testing (9 tests), leather physical testing (22 tests), pickled pelts testing (6 tests), process liquor testing (8 tests), water and wastewater physical and chemical testing (22 tests) and shoe testing (7 tests). This is aimed at letting firms learn product testing in long time where they can take care of both consumers and the environment. Hence, firms are not only getting the service for today market, but also exposed to learning how to offer green proved products. It is the market abroad backing product tasting and the learning in firms for conformity.

Technology research is carried out on various aspects in LIDI. New findings, if passed pilot test, are disseminated in seminars and conferences for firms. There are quarterly conferences at ministry level where firms and the association are participants. New research findings are presented and firms as well as other industry specific partners are informed.

In addition, experts from LIDI are assigned to one or group of firms to follow up their technical and market issues. Experts regularly assess every aspect of the firm including technical

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<sup>9</sup> Interview with Vice Director of LIDI, 22 July 2015

<sup>10</sup> Chromium compound that is hazardous air pollutant and identified as toxic air contaminant.

and market challenges or limitations. These experts serve as liaison in transferring new technologies and production systems on one side and collect on limitations of the firm/s on the other side for support services. In this process, managers learn new market standards to meet consumer expectations, get informed about effluent treatment technical updates and new regulations both at national and foreign market level. LIDI also publishes magazines containing various issues including environmental technologies available for leather product manufacturers and best performances in the industry for benchmarking. These are important ways by which knowledge is transferred to firms containing multiple components of CSR.

## **5.4 Partnerships in the CSR adoption process**

LIDI works in partnership mainly with EPA, ELIA and UNIDO as close collaborators. These partners support capacity building initiatives bringing foreign experiences in same industry through benchmarking and research. One important instance is UNIDO financed benchmarking of best practices from India where latest sustainable technology was experienced. Firms were informed about such tanning machinery and chemical proofing but only those with better capacity installed it. Among the firms interviewed, ELICO and Dire tannery have got it which improved their waste water treatment. UNIDO also financed research project on waste central treatment in Mojjo city.

LIDI and environmental protection authority on the other hand work jointly. Previously, EPA was regulatory while LIDI provides support for firms. EPA focused on strictly controlling environmental pollution from firms which was difficult to work with. ELIA also asserted that environmental protection authority regulates while LIDI offers trainings, checks treatments and supplies skilled labor on leather industry specific technologies and systems. This trend is changed nowadays where shared understanding is now reached to increase firm's technical capacity and social responsibility than enforcing the regulation only. This time there is an increasing joint decision making and collaboration on environment protection especially from tanneries. Such a partnership paves the way for more capacity to develop responsible production in these firms.

Adoption of new technology is essential aspect where government is key player. One important exposure for firms to see new technology suitable for green production is trade fair. Lather firms are export centered and government facilitates participation in leather fairs both at national and international level. There is African leather fair annually for example where technology firms offer new and better technologies for leather firms. This is important exposure to sustainable technologies and products for adoption. It is demand based and firms are not forced to adopt a given technology, it is voluntary. Especially, firms with better capacity, strive to customize their technology for their market development and actively search trade fairs.

From abroad, LIDI collaborates with Chennai Leather Institute in India to bring new experiences for leather firms. It also works with University of Southampton in UK and institutions in Italy as well. Hence, new knowledge is shared with different partners for better production of leather goods. The ultimate objective is to shore up clean production and raise export performance at industry level by meeting foreign market standards.

In justifying the extent to which foreign market drives adoption of social responsibility, LIDI said buyers do have different level of thinking and concern. One of the pillars for sustainability is safety of society.

*“We care for environment not for market primarily. Environmental regulation is enforced for the safety of the society, not for market. If a given production is not socially responsible, the market itself will not keep silent, will stop it”<sup>11</sup>.*

However, the influence of foreign market on need for green production depends on the type of export market. Unlike other destinations, Euro-American market enforces sustainable production, they offer better price but they also audit firm’s sustainability when needed. But now much of the export of leather items is becoming to Asia where buyers do not require that much high sustainability performance like Euro-American buyers. Hence, there is an observable incline to export to countries with lower level sustainability standards. Therefore, it is difficult to conclude that international market in general pressures social responsibility. Market pressure for social responsibility is a function of the type of market then. Firms learn standards and product qualities from different markets and in their effort to adhere to these standards, they learn the adoption of CSR values.

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<sup>11</sup> Interview with Vice Director of LIDI, 22 July 2015.

## Chapter six: Conclusion

As an important tool for success, the past decades show an increasing attraction of business organization towards corporate social responsibility adoption. The premise is that business enterprises can grow at the same time doing well for society and environment. As a result, irrespective of their industrial domain and line of business, businesses strive to learn and adopt socially responsible practices. Although much literature is devoted to increase the savvy of CSR, empirical studies that address the learning of CSR in developing country context remain scarce. By building on the organizational learning and CSR literature, this study was carried out with the purpose of investigating learning to embrace responsible business in Ethiopian leather and footwear industry.

The findings of the study show that corporate social responsibility in Ethiopian leather and footwear firms is at early stage. Firms are found at diverged level despite they are engaged in social, environmental and economic responsibilities on compliance basis. This compliance based corporate social responsibility coupled with absence of organized CSR plan in each firm shows lower level/superficial organizational learning. Such a learning means adoption of CSR values is resulted from some pressures or regulations and is weak to bring impact in development. Hence, to make use of social responsibility for development better, it needs increasing intervention of civil society organizations, community and the state jointly. Then, the norm can be cascaded down to each firm with shared awareness of its role for each stakeholder. At this stage, the state is found to be the prime actor in CSR norm building.

In specific terms, altruistic involvement center mainly on education and health projects but with initiation from local government offices. This way, their social involvement is unlikely to bring reputation and business gain. The reactive philanthropic engagement here signify that firms are less serious on governance gaps in the society. Much of welfare engagement is confined to employees than to the community around. With respect to economic responsibility, employment and meeting expected export performance are at the center. Raising export and bringing expected amount of foreign currency is big responsibility which pull firms with economic incentives.

Motives for firms CSR learning are of two streams; one pushes and the other pulls. The pull motives attracting towards CSR include higher price in Euro-American markets, sustainability standards and economic incentives from the state as a function of export performance. The more these firms adopt international sustainability standards, the greater opportunity they gain in export market. It is found that working towards environment is central part of leather industry since it determine economic performance. In addition to economic incentives, the free research and consultancy service by the state is a great public policy approach that facilitate the adoption of responsible practices.

On the other hand, certain factors impulse firms to learn and practice components of responsible business. Domestically, government mandating firms to adhere to certain regulations with respect to waste treatment, chemicals and labor safety. These standards serve as baseline and pushed firms to seek ways of adapting to them Environmental and labor standards trigger firms to learn and adopt responsibility towards employees and environment. However, wage is found to be the lowest in this industry despite other employee welfares are offered virtually in every firm. Hence, it needs further advocacy of labor condition to increase firm's concern.

Intra firm knowledge creation and dissemination is vital component for improved responsible production. Firms do have own laboratory and market research/management information section which are key ways to produce knowledge on tanning and chemical proofing. New updates are then shared to their employees via conferences and seminars while digital platform is rare. However, intra firm learning is top down and individual employees are less encouraged to come with new ideas from bottom. Ideally, a successful organizational learning happens both at individual and organizational level which these firms lack. Hence, to build sustainable knowledge, firms need to build inclusive knowledge involving individual employees and groups to organization.

On the other side, cross sector learning is confined to state-firm-donor collaboration. Learning is facilitated by the state institutions research & consultancy which supports firms in the diffusion of sustainable technology. Universities and donors take part in research, consultancy and benchmarking on improving cleaner production. Especially, donors like UNIDO are found vital players in citing where to benchmark latest sustainable leather production process since they work in multiple countries. CSOs are not existent in nurturing and diffusing CSR knowledge. Absence of multi stakeholder dialogues on social and environmental concerns, coupled with declining role of CSOs in Ethiopia in general, weakened CSO-firm affinity.

Firms do not collaborate each other in the industry which tell absence of inter-firm experiential knowledge sharing. The study realized that embeddedness of firms in rivalry relationship in market has adverse effect on social capital between organizations. Leather firms were in domestic market competition before joining export market. This earlier competitive setting in home market made them to see each other as competitor today too and resulted in absence of trust and collaboration. Hence, sharing ideas, innovations and production systems each other is seen as against their business strategy. This imply that the leather industry firms need to stop isolation and build shared knowledge platform to compete with foreign competitors.

In general, this investigation opens the door for further research in the subject matter on one side and to develop new initiatives on firms, civil society and the state on the other side. This study of the existing CSR context and firms' learning is narrow in scope which indicate a wider industry/national level study is imperative to make use of CSR for development. Hence, a study with broader scope encompassing CSOs, the state, associations and other actors is vital to use CSR as a tool for inclusive industrial development.

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# Appendices

## Appendix I

### Semi Structured Interview for firms

**Dear Sirs,**

This interview is part of an academic research project carried out to complete a Master's Degree in Development Studies at the International Institute of Social Studies, The Hague. The aim of the study is to create deeper insight in to the way in which Corporate Social Responsibility learning is carried out and practiced in the leather and footwear industry. This interview will collect data on the way in which enterprises in this industry engage in Corporate Social Responsibility, the drivers that motivate and government role in the promotion of it. Therefore, the data you give is purely for academic purpose and I kindly ask you for answering in an attached questions.

#### ***Confidentiality***

Participation is completely voluntary and this research projects guarantees respondent confidentiality. The results of this research will be processed anonymously unless allowed to be quoted.

#### ***Content***

This interview contains 4 sections that each consists of several questions. Personal profile, company profile, CSR practices and the learning process are included.

*Thank you in advance for your willingness for this interview.*

## I. Respondent Personal Profile

1. Age group    18-25 ☐      26-35 ☐      36-45 ☐      46-55 ☐      >56 ☐
2. Gender:    Male ☐      Female ☐
3. Education Level: High School ☐      Diploma ☐      Degree ☐      Masters ☐      Above ☐
4. Position in the company: \_\_\_\_\_
5. For how many years you worked in this company?  
1-5 years ☐    6-10 years ☐      11-15 years ☐    above 15 years ☐

## II. Company Profile

6. The ownership status of the company is:  
Sole standing enterprise ☐  
Subsidiary company ☐  
Share Company ☐  
Family business ☐
7. For how many years the company operated in the leather industry?  
1-5 years ☐    6-10 years ☐    11-15 years ☐    16-20 years ☐    above 20 years ☐
8. Which products are produced in your company?  
Semi-finished leather ☐  
Finished leather ☐  
Bags and clothes ☐  
Footwear ☐  
Other (if any) .....
9. For which market your product is supplied?  
Domestic market only ☐    Export market ☐    Both Domestic & Export Market ☐
10. How many employees does your company has? .....

## III. Company CSR Practices

11. Can you explain your understanding of the phrase 'Corporate Social Responsibility'?  
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12. How would you describe the CSR engagement of your company?  
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13. How is CSR practice organized in your company?
14. Does your company have annual budget for CSR?
- ☐ yes, please specify for what activities.
- ☐ No
15. In what way your company practices corporate social responsibility? (more than one answer possible)
- Donating to social projects & environmental projects, sustainable production (standard), own social, economic and environments projects, adopting national and international standards (which?) or else
16. Which issue is most important when we talk about social responsibility of firms in leather industry or Ethiopian context? Eg. Education, natural environment, health, human right, governance, infrastructure, job creation and working condition etc.
17. Why do you think these issues are important to your company CSR?

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#### **IV. On the firm's adoption process of Corporate Social Responsibility**

18. How old is since the CSR idea introduced in to your company?
- ☐ 0-5 years
- ☐ 6-10 years
- ☐ 11-15 years
- ☐ 16-20 years
- ☐ More than 20 years
19. From whom you heard the idea of corporate social responsibility for first time?
- ☐ The government
- ☐ Media
- ☐ Industry Association
- ☐ Civil Society Organizations e.g. NGOs
- ☐ Supply chain
- ☐ Consumers
- ☐ Chamber of Commerce
- ☐ other sources, please specify
20. Which stakeholders influenced your company to engage in CSR activities and how?

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21. Is there any standard CSR practice expected from your company with respect to environment, production, employees and the community?
- ☐ Yes ..... ☐ No
22. Why your company is adopting such environmental, social and economic responsibilities beyond its profit goals?
- Giving back culture in society
  - solving socio-economic and environment problems,
  - competitiveness role,
  - compliance to international standards,
  - reputation, incentives for it,
  - governance gaps,
  - Stakeholder activism etc.
23. How did your company learn to practice such environmental, social and economic practices?
- Intra-firm (own experiments, to improve way of doing, which for instance?)
  - Inter-firm (partnerships, Supply chain, collaboration or conferences or through association etc?)
  - Cross sector alliances (NGOs, IGOs, and Universities etc?)
  - Government promotion of it (How: subsidy,
  - NGO advocacy (What kind of NGOs? Environmental?
  - Community pressure?
24. Please indicate how you agree or disagree for the statements in the table below. Put “√” in the box for each statement.

CSR Statements	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
Our stakeholders are persuading us to practice socially responsible practices					
Our motive behind CSR to show altruism and empathy for others					
The motive for CSR engagement of our company is for reputation and esteem					
We feel embarrassed if we do not engage in social and environmental activities					
We are networked with other firms					
We engage in CSR to					

conform to the common practice in the leather industry					
CSR engagement is an expected behavior in the leather industry					
CSR is integral part of our business operation and practiced regularly					
We report our CSR accomplishments for stakeholders					

25. How do you explain the challenges and opportunities in practicing CSR in the leather and footwear industry?

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26. How do you explain the role and interest of government with respect to your social, environmental and economic activities?

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27. Please indicate to what extent you agree or disagree on the following statements.

CSR issues	Strongly Agree	Agree	Undecided	Disagree	Strongly Disagree
The government offers trainings and campaigns to learn about CSR					
The government offers tax abatement, subsidy/awards for good CSR practices in the industry					
Government regulates our environmental and social impacts					
We work in partnership with government on responsible					



production issues.					
The government shows us socially responsible practices as a model.					
We meet government bodies and discuss socially responsible practices					
We disclose our impacts to government regularly					





28. Please use this opportunity to say anything you would like to mention with respect to corporate socially responsible business, challenges and opportunities in the leather and footwear

industry.....  
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## Appendix II

### Guide for interview with: Ethiopian Leather Industry Association and Ethiopian Leather Industry Development Institute

#### I. Introduction

-  Introduction to the purpose of this interview
-  Explanation on the use of interview data
-  Permission for taping
-  Informed consent

#### II. The association/Chamber and its functions in the industry

Purpose of establishment, roles and goals

#### III. Corporate Social Responsibility Adoption

1. How do you explain corporate social responsibility in the leather and footwear industry?
2. What do existing CSR issues look like in the industry?
3. How do you explain the progress of CSR in the industry?
4. Who are the main actors and driving forces in the promotion of CSR in the industry?
  - Government
  - CSOs
  - IGOs
  - Media
  - Consumer association
  - Chamber of Commerce
5. How are firms learning socially responsible practices with respect to environment, social services, economy, labor right etc?
  - Intra firm
  - Inter firm
  - Cross sector alliances
  - Government regulations
  - Supply chain standards including international standards
6. What are the focus areas (environmental engagements, community social development etc) in CSR adoption process in the industry? Why?
7. What mechanisms are used to promote CSR adoption into each firm?
  - Spaces and instruments on knowledge sharing
  - Forums and discussions at industry level
  - Internet, Association conferences
8. How do you explain the role of different actors (the state, NGOs and Community Organizations etc) in shaping CSR of the industry?
  - Focus areas, Means of intervention, Scope of intervention
  - Leather industry institute role,