

# **Non Financial Reporting: Corporate Social Responsibility and Environmental Reporting (An Ethiopian case)**

**A project Paper submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirement for the Degree of Master of Science in Accounting and Finance**

**Prepared by: Emebet Melese**



**Project Advisor: Dr. P. Laxmikantham**

**ADDIS ABABA UNIVERSITY  
FACULTY OF BUSINESS AND ECONOMICS  
DEPARTMENT OF ACCOUNTING AND FINANCE**

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## STATEMENT OF DECLARATION

I, Emebet Melese, declare that this study entitled as “Non financial Reporting: Corporate Social Responsibility and Environmental Reporting (an Ethiopian case)” is my own work. I have carried out independently the project work with the guidance and support of the project advisor. This study has not been submitted to any degree/diploma in this or any other institution. It is done in partial requirement of the Msc Degree in Accounting and Finance.

Emebet Melese: \_\_\_\_\_

Date: \_\_\_\_\_

## STATEMENT OF CERTIFICATION

This is to certify that Emebet Melese has carried out her research work on the topic entitled “Non financial Reporting: Corporate Social Responsibility and Environmental Reporting (an Ethiopian case)” This work is original in nature and is suitable for submission for the award of Msc. in Accounting and Finance.

Dr. Laxmikantham: \_\_\_\_\_

Date: \_\_\_\_\_

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## LIST OF ACRONYMS

ACCA	Association of Chartered Certified Accountants
ASB	Accounting Standards Board
CBE	Commercial Bank of Ethiopia
CEO	Chief Executive Officer
CO <sub>2</sub>	Carbon dioxide
CRDA	Christian Relief and Development Association
CSRED	Corporate Social Responsibility and environmental Disclosure
CSREDI	Corporate Social Responsibility and environmental Disclosure Index
CSR	Corporate Social Responsibility
CSR	Corporate Social Responsibility Reporting
EBIT	Earnings before interest and tax
EMS	Environmental Management Systems
G3	Third generation
G2	Second generation
GRI	Global Reporting Initiative
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
ISO	International Standards Organization
NGOs	Non Governmental Organizations
PC	Private Company
PEs	Public Enterprises
PLC	Private Limited Company
PPESA	Privatization and public Enterprises Supervising Agency
ROI	Return on Investment
SMEs	Small and Medium Sized enterprises
UK	United Kingdom
WG4	Working Group 4

## ***ABSTRACT***

The operational policies of business enterprise are continuously influenced by the interaction between various groups of society viz. owners, creditors, customers, employees, community government etc. These different groups exercise their social, political and economic influence to change the corporate policies in their favor. In the old age economic system, the size of the business enterprise was very small and that too was entirely controlled by the owner managers. Other contracting groups were not influential due to lack of education and awareness. Therefore in the corporate influence system, the owners were framed to suit their interests. But with the change in social, political and economic environment, the size of the business enterprise grew and it began to play a pivotal role in the society. It started affecting the interest of other social groups substantially. In this respect the impact of considering corporate social responsibility in the business performance has to be traced.

Hence the project has interest to understand the state of non financial reporting: CSR and environmental reporting practices in Ethiopian corporate firms and NGOs.

Data for the study was from secondary sources and primary sources. The annual reports of sixty organizations have been reviewed. And the higher officials of the Ethiopian Environment Protection Agency have been interviewed.

The project has revealed that there is the practice of reporting CSR and environmental issues in Ethiopian NGOS in full. In addition many public enterprises used to report their CSR and environmental issues with in their corporate annual reports since they are forced by the Privatization and Public Enterprises Supervising Agency (PPESA). With regard to the privately owed corporate firms the company characteristics has influence on non financial reporting: CSR and environmental reporting.

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## **Non Financial Reporting: Corporate Social Responsibility and Environmental Reporting**

### CHAPTER ONE

#### *i. INTRODUCTION*

Evidence suggests that consumers and other stakeholders prefer companies that embrace social responsibility (Jones, 1997; Maignan, Ferrell, & Hunt, 1999; Smith, 1996); thus, reporting social and environmental impacts along with financial results has become routine practice (Pearce & Doh, 2005). Unlike highly regulated financial reporting, corporate social responsibility reporting (CSRR) is generally left to the companies' discretion. As a result, companies have adopted varying forms of reporting such as "triple bottom line" or conformed to the standards of nongovernmental organizations (NGOs) such as the Global Reporting Initiative or Social Accountability International. There is an emerging stream of research examining how companies use CSRR to highlight their commitment to corporate social responsibility (e.g., Brammer & Pavlin, 2004; Hooghiemstra, 2000).

“Companies are increasingly going to be held accountable not only for the quality and price of their products and services, but also for the corporate citizenship and

environmental stewardship of their business as a whole, as these are key components of a company's reputation," (Richard Jenkins)

Companies generally are considered to be the main drivers of the progress that most industrialized nations have experienced since the 18th century Enlightenment, due to their innovating power. Provided that progress, next to prosperity, has resulted in a number of major environmental, social and economic challenges, most managers and academia nowadays hold the opinion that companies consequently have a role in bringing about a more sustainable world. Corresponding to this belief is the idea that a company's financial performance is no longer the one and only company focus. Companies increasingly acknowledge the importance of social and environmental aspects of corporate conduct, captured by terms such as Corporate Sustainability or Corporate Social Responsibility (CSR).

In the light of these developments socio-political theories (such as stakeholder and legitimacy theory) have grown in popularity, both in business practice and in academia. These theories recognize the fact that companies are embedded in a pluralistic society in which many different interests are represented.

CSR will do best under good leadership and with a commitment to quality. Stated allegiance to it will not be enough to ensure the business survives poor leadership or a bad business model.

Corporate social responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are **environmental protection and the wellbeing of employees, the community and civil society** in general, both now and in the future.

Reporting the social responsibility of businesses is one of the newly emerging dimensions in the corporate reporting system.

In recent years, there has been significant focus from an entity's stake holders on its social and environmental performance. Such activities have now become an important strategic focus for management. Entities that focus on the CSR and environmental reporting are likely to be forwarded with better performance as consumers are actually seek to trade with such entities.

Voluntary disclosure of environmental and social policies and performance allow stake holders to asses an entity's performance.

There is a current view that those entities who reduce environmental risks and promote social disclosure could be considered to be potentially more sustainable, profitable, valuable and competitive.

### ***1.1 Background of the study***

As many researches reveal the corporate disclosure practice in Ethiopia is not well standardized this makes many organizations not to follow a stated standard while reporting their annual reports. Nowadays many public Enterprises used to report their non financial activities as they are forced to report by Privatization and Public Enterprises Supervising Agency -PPESA (information collected from PPESA).With regard to the private organization some used to report while others will not report their non financial activities. However, almost all NGOs report these activities since their primary objective is not for maximizing their profit. The activities of NGOs are philanthropic in nature.

### ***1.2 Statement of the problem***

Many Literatures on non financial reporting, specifically Corporate Social Responsibility (CSR) and environmental reporting revealed that it pave the way to stake holders to asses an entity's performance.

CSR disclosure is generally seen as an important tool for companies to manage their relationship with society at large, and its subsequent stakeholders in particular (Roberts 1992; Gray, Javad et al. 2001).

Corporate social responsibility has become an important aspect of managing a business in the 21st century. It is about effectively managing the relationships that can affect the business, and taking responsibility for the consequences that running the business has on society.

*Not everyone committed to CSR uses the language of CSR. Not everyone that uses the language of CSR is committed to the principle of it.*

The question that the study tries to answer by large is “Does non financial reporting has a significant impact on business performance?”

To answer this broad question, the following specific ones have been addressed:

- What is the extent of Non financial reporting: Environmental & Corporate social responsibility disclosure in Ethiopian corporate sector?
- What is the extent of Non financial reporting: Environmental & Corporate social responsibility disclosure in Ethiopian NGOs?
- Is there any difference in non financial reporting: Environmental & Corporate social responsibility reporting practices between private sector companies and public sector companies?

- Do company characteristics have any influence on non financial reporting: environmental and corporate social responsibility disclosure practices in private sector companies and public enterprises?

### ***1.3 Objective of the study***

The primary objective of the study is to evaluate the state of non financial reporting: environmental and corporate social responsibility reporting practices in Ethiopian corporate firms and NGOs. In achieving this, the following specific objectives have been met:

- Analyze the extent of Non financial reporting: Environmental & Corporate social responsibility disclosure in Ethiopian corporate Firms.
- Analyze the extent of Non financial reporting: Environmental & Corporate social responsibility disclosure in Ethiopian NGOs.
- Examine difference in non financial reporting: Environmental & Corporate social responsibility reporting practices of private sector companies and public enterprises.
- Examine the influence of company characteristics on non financial reporting: environmental and corporate social responsibility disclosure practices in private sector companies and public enterprises.
- Suggest a suitable structure of non financial reporting: Environmental & Corporate social responsibility reporting.

### ***1.4. Research Methodology***

#### ***1.4.1 Sources of the data***

The data for the study is obtained from primary and secondary sources. The primary sources of data for the study will be secured from different organizations operating in the country. Both for profit and not for profit organizations are included in the study.

As secondary sources, relevant literatures are consulted to acquire information and insights in the area of the study. In addition various available documents and publications are thoroughly reviewed and analyzed to acquire background information about the issue. Finally, the annual reports of the organizations under study are analyzed to reach on valuable conclusions.

#### ***1.4.2. Population and Sampling Techniques***

The study tend to focus on non governmental not for profit organizations which are the members of Christian Relief and Development Association (CRDA) and profit making organizations. According to CRDA(July 2008) there are about 91 international NGOs and 230 local NGOs under the domain of CRDA. Among these proportionately 4 (5%) international NGOs and 16(7%) local NGOs are included in the study.

Besides 10 (10%) public Enterprises and privately owned organizations and 30 private companies will be purposively selected and included in the study. Moreover; some personnel from Environmental Agency are randomly selected for structured interview.

#### ***1.4.3. Sample Units and Sample Profile***

The names of sixty sample companies in the private sector, public enterprises and NGOs are as stated on annex I.

#### **1.4.4. Research Framework**

The following aspects were taken in to account in the research framework of the study:

***1.4.4.1. Items of environmental and CSRE disclosures.***

The prime objective of the study is to examine the extent of non financial reporting: environmental and CSR disclosure in Ethiopian corporate firms and NGOs. After reviewing the corporate annual reports and the responded questionnaires of ten PEs, 30 private sector companies and 20 NGOs, the standard set by the Ethiopian Environment Protection Agency, the GRI guidelines and statements and standards of national and international professional accounting bodies, an attempt was made to identify 25 items regarding environmental and social responsibility disclosures as follows:

***A. Towards Community***

- 1) Energy conservation
- 2) Water conservation
- 3) Conservation campaign / the benefits to the environment of the entity's products and services/.
- 4) Air Pollution protection
- 5) CO2 emission
- 6) Waste products recycling
- 7) Purchase of dust absorption machine
- 8) Establishment of Educational Institutions and support for education
- 9) Recreation and public clubs
- 10) Road construction
- 11) Rural Development
- 12) Donations

- 13) Research and development
- 14) Industrial Relations
- 15) Foreign exchange
- 16) Export Statistics

***B. Towards Employees***

- 17) Transportation
- 18) Gender equality/ diversity
- 19) Residential Complexities
- 20) Training
- 21) Medical Facilities
- 22) Occupational Safety
- 23) Canteen
- 24) Training and placing displaced workers
- 25) Others.

From the above 25 items, the first seven items, are required to disclosed by the GRI guide line pertaining environmental issues. The other aspects are selected from different annual reports and literatures. The twenty five items are also grouped in to two: towards the community and towards the employees.

***1.4.4.2. Corporate Social Responsibility and environmental Disclosure Index***

After identifying a comprehensive list of corporate social responsibility and environmental disclosures, the annual reports of the sample companies are examined. Scoring of the item of information was done on the following basis:

Disclosure of the item = 1

Non-disclosure of the item = 0

The score of each company was then totaled to find the net score of the company. A CSREDI was then prepared with the help of the following formula.

$$\text{CSREDI} = \frac{\text{Total score of individual company}}{\text{Max. Possible Score obtained by company}} \times 100$$

#### ***1.4.4.3. Company Characteristics***

The study has made an attempt to establish relationship between the CSREDI and the company characteristics. For the study, the following characteristics of the company would be considered as variables:

- i. *Age*: It has been selected as one of the company characteristics as it is generally believed that as the company grows older, it establishes itself and thus the company attains the status of viable and a stable company. Having itself established well enough, the company shall definitely lay more emphasis on social aspects of its activities and thus the age as a company characteristics must exercise significant influence on corporate social responsibility and environmental disclosures.
- ii. *Sales*: It has been selected as one of the company characteristics influencing the CSRED. It is generally believed that as the sales of the company gains momentum, the whole of the corporate activities set in to motion. Non financial activities like socially responsible activities being

one of them, naturally gets attention of the corporate entities and thus has been selected as one of the company characteristics influencing CSRED.

- iii. *ROI*: It measures the earnings of the company on its investment. Earnings would definitely enable the corporate entity to spend a portion of it on socially responsible activities. In case of adequate earnings the company would not be motivated to part with their hard earned income on socially responsible activities and thus ROI should play a significant impact on CSRED.
- iv. *Size of the company*: as it is measured by the total assets and the capital employed, it is naturally recognized as a true company characteristics influencing CSRED. It is generally believed that with the assets at the disposal of the company or capital at disposal, the company shall be able to profitably utilize it not only for their own benefit but can also apply the assets or the capital for fulfillment of their social obligations. Assets and capital are the key instruments of activating the activities of an enterprise. Thus the usage of the assets shall definitely boost the social performance of the companies and hence has been selected as company characteristics influencing CSRED practices.

#### ***1.4.4.4. Operational Definitions***

The following are few of the selected words or phrases used in the study and can be defined as follows:

- i. *Capital employed*: It refers to the sum of total of shareholder's fund as well as loan funds. (shareholder's fund refers to the sum total of capital reserves and surplus, while loan funds shall include debentures and bonds, public deposits, secured and unsecured loans)

- ii. *Externalities*: refers to the social effects which do not reflect in the market mechanism, hence are not compensated or priced.
- iii. *Enterprise*: is an organization whose objectives are commercial in nature.
- iv. *EBIT or earnings before interest and tax*: represents the profit before taxation plus interest debited in profit and loss account.
- v. *Public enterprise*: is an organization owned and controlled by public authorities, and is listed by the PPESA in its annual reports.
- vi. *Sales*: sales or turnover refers to the net sales as shown on the income side of the profit and loss account, and does not include any other items like dividend and interest. In case of service industries it refers to the gross amount of service charges realized.
- vii. *ROI (Return on Investment)*: It is the quotient obtained by dividing the earnings before interest and tax by capital employed and multiplying the result by 100.
- viii. *Total assets*: refers to the sum total of fixed assets, investments and current assets.

#### ***1.4.5. Instrument of data collection***

##### **Questionnaire**

One of the instruments of the study was questionnaire. The questionnaire is prepared and employed to corporate firms which include both the public enterprises and private organizations.

##### **Interview**

The researcher also used interview for the collection of data. Representatives from the Environmental Protection Agency and PPESAs' higher officials were interviewed for the role of the agency in environmental reporting and the reason why environmental reporting is required by those organizations.

### ***1.5. Data Analysis***

The study mainly employs qualitative technique to analyze, interpret and present the collected data. Besides quantitative techniques like mean, standard deviation and indices are used to summarize and present the information.

Thus, data collected from primary and secondary sources are analyzed using tables, graphs, and indices.

#### ***1.5.1. Statistical Analysis***

While going for the in-depth quantitative analysis, the statistical tools of mean and are used. For the computation, the following formula will be used in the study.

$$1. \text{ Mean or } x = \frac{\sum X_i}{N} = \frac{X_1 + X_2 + \dots + X_n}{N}$$

Where: x = the mean

$\sum X_i$  = the summation of value of ith item, (i= 1,2,...,n)

N = the number of sample items.

$$2. \text{ CSREDI} = \frac{\text{Total score of individual company}}{\text{Max. Possible Score obtained by company}} \times 100$$

### ***1.6. Scope of the Study***

The study is confined to examine the state of the CSRED practices in Ethiopian NGOs and corporate firms in general terms. It does not intend to deal with the detail of CSRED practices of the organizations. Further the study does not make an attempt to evaluate various models of CSRED. The study has covered NGOs, PEs and private sector companies.

### ***1.7. Significance of the study***

World wide researchers concerning to non financial reporting: CSR and environmental reporting are very limited.

Thus this study is directly relevant to identify the impact of non financial reporting, CSR and environmental reporting on the business performance and help the business to be potentially more sustainable, valuable, and competitive world wide. Therefore; this study thought to have the following importance:

1. The out put of this study would have some contribution to the professionals who are not aware of the impact of non financial reporting;
2. This is also assumed that the thesis may serve as a reference for those public or private sectors and those who are standing for the interests of the corporate;
3. The study also throw some idea for academicians, researchers, students and even to others a stepping stone for further study and most importantly, will encourage local researcher to examine the problem in a wider scope.

### ***1.8. Limitations of the study***

The study is aimed to examine the CSRED practices of Ethiopian NGOs and corporate firms at a particular point of time, i.e.as at Sene 30, 2000 E.C. No attempt has been made to compare the current practices with the past. Besides the study do not see the trend of

CSRED practices in Ethiopia in the past since there is no research work done in the related topic so far in the country. Other limitations are as follows:

- i. Since it is a half semester project work there was time constraint to broaden the sample size, which may affect the quality of the results of the investigation.
- ii. As the quality of CSRED cannot be measured statistically, the researcher has calculated the CSREDI by assigning 0 or 1 as weight to the items. The assignment of the weights is not based on the quality of the disclosures.
- iii. Further the study has not made any attempt to identify the relevance of CSRED items for any sector. The researcher selected 25 items simply by looking in to different literatures, standards and guidelines of different bodies and the corporate annual reports of NGOs and corporate firms. There may be other items which could not be mentioned in this study. That aspect has been ignored.

### ***1.9. Organization of the paper***

The paper attempts to examine the state of non financial reporting: corporate social responsibility and environmental reporting in Ethiopian organizations and has been classified in to four chapters. The first chapter starts with an introduction followed by background of the study and continues with statement of the problem, objective of the study, the research methodology, data analysis, and scope of the study, significance of the study, and limitation of the study. The second chapter look into some previously conducted related researches and literatures on the subject. The third chapter dwells on analysis and interpretation of the data collected. At last the fourth chapter includes the conclusions reached and the recommendations forwarded.

## ***CHAPTER TWO***

### **LITERATURE REVIEW**

This part of the paper discusses about the concept of the topic: non financial reporting: environmental and corporate social reporting as it is defined in different literatures. Besides some findings on the research work done by world wide researchers on the related topics are included in this chapter.

#### ***2.1. Non financial reporting***

Accounting exists to communicate in summary from those events affecting the reporting unit. It provides relevant information for internal and external users. The annual report of a certain business entity incorporates both the financial and non financial reports. Before defining the non financial reporting, it needs to understand what financial reporting really means.

Financial reporting means the disclosure of financial statements produced by enterprises for the owners and other external users which are derived from the accounting equation. Accounting Standards Board (ASB) has identified the purpose of financial reporting as producing information about the financial position, performance and financial adaptability of the enterprise. These reports are Balance sheet statement, Profit and loss statement and Statement of cash flow. (Pauline Weetman)

Non financial information, in the form of additional information provided alongside the financial information in the annual report, has become more important in recent years.

## ***2.2. Corporate reporting***

Corporate reports aim to provide information about the resources and performance of the reporting entity to users of such reports.

### ***Reporting Corporate performance***

Traditional corporate reports include historical financial information regarding the operating and financial performance of the entity. In recent years, non-financial information has become more prevalent. More and more users of financial information require information on an entity's policies towards the environment, employees and society. IFRSs do not require these non financial reports, but many companies produce them voluntarily.

### ***Usefulness of corporate reporting***

Financial reports will always need to be produced to satisfy statutory requirements such as filing accounts or for the preparation of tax returns. As the harmonization of accounting standards takes place on a global scale, corporate reports become more comparable. This is particularly useful for investors who should be able to compare financial information from different entities that are located in different countries.

Entities should disclose the nature of the business as well as its objectives, strategies results, prospects and performance measures.

It is the interest of an entity to make its information as accessible to users as possible and many corporate reports include a great deal of information on strategy and activities of entities. Increased disclosure of non financial information such as environmental and social reports is also a positive move for users of financial statements, who can see the progress the entity is making in certain areas.

As any savvy business professional will tell you, corporations large and small now find themselves having to disclose information that goes far beyond traditional financial reporting. And we're not just talking about reporting on environmental, health and safety issues; nowadays corporate reporting has to address such concerns as human resources, intellectual capital, brand valuation & management, and other intangibles. In fact, many shareholders are regarding such non-financial reporting as "must have" information, and investors often consider transparency a deal-breaker when building their portfolios. In short, the quality and credibility of a company's internal management information and external disclosures, particularly non-financial indicators are a strategic necessity.

In this respect, stakeholders are interested in the aspects of an entity's performance other than financial performance. For example:

- How the business is managed;
- Its future prospects;
- The entity's policy in the environment;
- Its attitude towards social responsibility, and so on.

All of this information is reported in a number of ways.

- An operating and financial review will assess the results of the period and discuss the future prospects of the business.
- A report on corporate governance will report on how the entity is directed.
- An environmental and social report will discuss responsibilities towards the environment and society, or both of these issues could be combined in a report on sustainability.

### ***2.3. Corporate Social Reporting***

It is the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large.

It involves extending the accountability of organizations (particularly companies) beyond the traditional role of providing a financial account to the owners of capital. Social and ethical reporting would seem to be at variance with the prevailing business. However, there are a number of reasons why entities publish social reports.

- a. They may have deliberately built their reputation on social responsibility in order to attract a particular customer base.
- b. They may perceive themselves as being under particular pressure to prove that their activities do not exploit society as a whole or certain section of it.
- c. They may be genuinely convinced that it is in their long-term interests to balance the needs of the various stakeholder groups.
- d. They may fear that the government will eventually require them to publish socially oriented information if they do not do so voluntarily.

### ***Social Responsibility***

By “social responsibility” we mean the intelligent and objective concern for the welfare of society that restrains individuals and corporate behavior from ultimately destructive activities, no matter how immediately profitable, and lead in the direction of positive contributions to human betterment, variously as the latter may be defined. (Jayanta Bhattacharya)

Social responsibility reporting is a rational assessment and reporting on some meaningful definable domain of enterprise’s activities that have social impact.

A business interacts with society in several different ways as follows.

- It employs human resources in the form of management and other employees.
- Its activities affect society as a whole, for example, it may:
  - Be the reason for a particular community’s existence
  - Produce goods that are helpful or harmful to particular numbers of the society
  - Damage the environment in ways that harm society as a whole
  - Undertake charitable works in the community or promote particular values.

If a business interacts with society in a responsible manner, the needs of other stakeholders should be taken in to account and performance may encompass:

- Providing fair remuneration and an acceptable working environment
- Paying suppliers promptly
- Minimizing the damage to the environment caused by the entity’s activities

- Contributing to the community by providing employment or by other means<sup>1</sup>

### ***Corporate Social Responsibility/CSR/***

Corporate social responsibility is not one thing. It is about how the company decides to do the right thing by society, its customers and other direct stakeholders when faced with dilemmas and choices.

Corporate social responsibility (CSR) promotes a vision of business accountability to a wide range of stakeholders, besides shareholders and investors. Key areas of concern are environmental protection and the wellbeing of employees, the community and civil society in general, both now and in the future.

CSR, also called corporate responsibility, corporate citizenship, responsible business and corporate social opportunity is a concept whereby organizations consider the interests of society by taking responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. This obligation is seen to extend beyond the statutory obligation to comply with legislation and sees organizations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large.<sup>2</sup>

### ***2.4. Social Reporting in Practice***

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<sup>1</sup> Corporate reporting: ACCA paper P2 int

<sup>2</sup> ACCA professional accountant Paper 1 int

### *Social reporting in the financial statements*

Disclosures of social reporting matters in financial statements tend to be required by national legislation and by the stock exchange on which an entity is quoted. There is little mention of social matters in international accounting standards.

IAS 1 requires disclosure of the total cost of employee benefits for the period. If the 'nature of expenses' method is chosen for the income statement /statement of comprehensive income/, then the total charge for employee costs will be shown on the face of the income statement /statement of comprehensive income/. If 'the function of expense' method is chosen, then IAS 1 requires disclosure of the total employee costs in a note to the financial statements.

IAS 24 related party disclosure requires the benefits paid to key management personnel to be disclosed in total and analyzed in to the categories of benefits. Other possible disclosures (e.g. details of directors and corporate governance matters, employee policies, supplier payment policies, charitable contributions, etc) are normally dealt with by local legislation and would only be required by IFRSs when such disclosure is necessary to present fairly the entity's financial performance.

Stand alone social and ethical reports do not have to be audited and there are no international regulations prescribing their content. Some organizations have the data in their reports independently verified and include the auditor's report in their published document. The social report may or may not be combined with the environmental report.

It has been suggested that there should be three main types of information in the social report. Namely:

1. *Information about relationships with stakeholders*, e.g. employee numbers, wages and salaries, provision of facilities for customers and information about involvement with local charities.
2. *Information about the accountability of the entity*, e.g. sickness leave, accident rates, noise levels, number of disabled employees, compliance with current legal, ethical and industry standards.
3. *Information about dialogue with stakeholders*, e.g. the way in which the entity consults with all stakeholders and provides public feedback on the stakeholders' perceptions of the entity's responsibilities to the community and its performance in meeting shareholder needs.<sup>3</sup>

## ***2.5. Definition of Sustainability***

Oxford advanced learner's Dictionary defines the word sustainable (adj) as:

- i) 'involving the use of natural products and energy in a way that does not harm the environment: Sustainable forest management an environmentally sustainable society,
- i) that can continue or be continued for a long time. Thus we can say that sustainable development is a regularly maintained development. In consuming the natural resources sustainable development provides for using the resources in such a way that it does not get exhausted completely but lingers to get renewed for coming generation.<sup>4</sup>

Sustainability is the process of conducting business in such a way that it enables an entity to meet its present needs without compromising the ability of future generations to meet

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<sup>3</sup> ACCA paper p2 INT Corporate reporting 2008/09

<sup>4</sup> Fundamentals of Environmental studies : A publication of Uttar Pradesh Technical University Lucknow in arrangement with Galgotia Publications Pvt.Ltd New Delhi

their needs. In a corporate context, sustainability means that a business entity must attempt to reduce its environmental impact through more efficient use of natural resources and improving environmental practices.

More and more business entities are reporting their approach to sustainability in addition to the financial information reported in the annual report. There are increased public expectations for business entities and industries to take responsibility for the impact their activities have on the environment and society.<sup>5</sup>

Its concept has become important with growing awareness of the impact of organizations on the environment. It is linked to the concept of globalization and large companies seeking to show that they wish to limit environmental damage.

### ***2.5.1. Nature of Sustainable Development***

- i. Sustainable development is a comprehensive way of thinking. It is beyond the limit of time and climate. It focuses the future and centers the world peace.
- ii. Sustainable developments ban the depletion of renewable resources as faster speed than their generation.
- iii. Sustainable development is closely linked to the carrying of an ecosystem.

### ***2.5.2. Reporting Sustainability***

Currently, sustainability reporting is voluntary, although its use is increasing. Reports include highlights of non-financial performance such as environmental, social and

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<sup>5</sup> Corporate reporting: ACCA paper P2 int 2008/09

economic reports during the accounting period. The report may be included in the annual report or published as a stand alone document, possibly on the entity's website. Reporting sustainability is sometimes called reporting the 'triple bottom line' covering environment, social and economic reporting.

### ***2.5.3. Framework for Sustainability Reporting***

There is no framework for sustainability reporting in IFRS, so this reporting is voluntary. This lack of regulation leads to several potential problems:

- A. Because disclosure is largely voluntary, not all businesses disclose information. Those that do tend to do so either because they are under particular pressure to prove their 'green' credentials (for example, large public utility companies whose operations directly affect the environment) or because they have deliberately built their reputation on environmental friendliness or social responsibility.
- B. The information disclosed may not be complete or reliable. Many businesses see environmental reporting largely as public relations exercised and therefore only provide information that shows them in a positive light.
- C. The information may not be disclosed consistently from year to year.
- D. Some businesses, particularly small and medium sized entities, may believe that the costs of preparing and circulating additional information outweigh the benefits of doing so.

The most accepted framework for reporting sustainability is the Global Reporting Initiative's Sustainability Reporting Guidelines, The latest of which 'G3'-the third version of the guideline-was issued in October 2006.G3 Guidelines provide universal guidance for reporting on sustainability performance. They are applicable to all entities including Small scale enterprises and not-for-profit entities worldwide. The G3 consist

of principles and disclosure items. The principles help to define report content, quality of the report, and give guidance on how to set the report boundary. Disclosure items include disclosures on management of issues, as well as performance indicators themselves.

## ***2.6. Global Reporting Initiative Guideline***

The Global Reporting Initiative (GRI) produces the world's de facto standard in sustainability reporting guidelines. Sustainability reporting is the action where an organization publicly communicates their economic, environmental, and social performance. The GRI's mission is to make sustainability reporting by all organizations as routine and comparable as financial reporting. The GRI Guidelines are the most common framework used in the world for reporting. As of January 2009, more than 1,500 organizations from 60 countries use the Guidelines to produce their sustainability reports. (View the world's reporters at the GRI Reports database). All sorts of organizations report using the GRI Guidelines, such as corporate businesses, public agencies, smaller enterprises, NGOs, industry groups and others.<sup>6</sup>

### **2.6.1. G3 and the Reporting Framework**

The G3 are the so-called "Third Generation" of the GRI's Sustainability Reporting Guidelines. They were launched in October 2006 at a large international conference that attracted thousands.

There is a "third generation" because the GRI seeks to continually improve the Guidelines. The G3 build on the G2 (released in 2002), which in turn are an evolution of the initial Guidelines, which were released in 2000. The G3 Guidelines provide universal

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<sup>6</sup> [www.acca.global.com](http://www.acca.global.com)

guidance for reporting on sustainability performance. This means they are applicable to small companies, large multinationals, public sector, NGOs and other types of organizations from all around the world. It is the way that the Guidelines are created (through the multi-stakeholder, consensus seeking approach) that enables them to be so broadly applicable.

The G3 consist of principles and disclosure items (the latter includes performance indicators). The principles help reporters define the report content, the quality of the report, and give guidance on how to set the report boundary. Principles include those such as materiality, stakeholder inclusiveness, comparability and timeliness. Disclosure items include disclosures on management of issues, as well as performance indicators themselves (e.g. “total water withdrawals by source”).

The G3 are the base of the Reporting Framework. There are other elements such as Sector Supplements and National Annexes that respond to the needs of specific sectors, or national reporting requirements. The Reporting Framework (including the G3) is a free and public good.

## **2.7. Principles and guidelines**

Guidance for **defining report content**, by applying the principles of materiality, stakeholder inclusiveness, sustainability context and completeness:

### **➤ Materiality**

The information in the report should cover topics which reflect the entity’s significant economic, environmental and social impacts.

### **➤ Stakeholder inclusiveness**

The reporting entity should identify its stakeholders and explain in the report how it has responded to their expectations and interests.

➤ **Completeness**

Coverage of the material topics and indicators and definition of the report boundary should be enough to reflect significant impacts and allow stakeholders to assess the reporting entity's performance.

Principles for **ensuring report quality**, these being balance, comparability, accuracy, timeliness, reliability and clarity.

➤ **Balance**

The report should reflect both positive and negative aspects of an entity's performance **to enable a reasoned overall assessment**.

➤ **Comparability**

Issues and information should be reported consistently. Reported information should be presented in a way which allows stakeholders to assess trends over time and compare the entity to other organizations.

➤ **Accuracy**

The reported information should be substantially accurate.

➤ **Timeliness**

Reporting should occur regularly and in time for stakeholders to make informed decisions.

➤ **Clarity**

Information should be understandable and accessible.

➤ **Reliability**

Information and process used to prepare a report should be compiled and disclosed in a way which establishes the quality of the information.

Guidance for **report boundary setting**, in terms of determining the range of entities to be included in the report.

➤ **Standard disclosures**

There are three different types of measures that can be used to express strategic approach, management goals, and performance results:

- Profile disclosures set the overall context for understanding performance.  
This section of the report should include consideration of:

**Strategy and Analysis**

- Statement from CEO explaining the relevance of sustainability to organizational strategy in the short, medium and long terms.

- Description of organization's key impacts on sustainability and impact on sustainability trends, risks and opportunities on the organization

### **Organizational Profile**

- Overview of the reporting entity in terms of products, organizational structure, location of operations and markets etc.

### **Report parameters**

- Boundary of report
- Specific exclusions
- Basis for reporting on subsidiaries etc
- Location of standard disclosures in the report

### **Governance**

- Committees and responsibilities
- Mechanisms for stakeholders to provide recommendations to governance bodies
- Internal codes of conduct and their application

### **Commitments to external initiatives**

- External initiatives to which the entity subscribes
- Strategic memberships, funding and participation in industry

## **Stakeholder engagement**

- List of stakeholder groups engaged by entity
  - Approach to stakeholder engagement
  - Key topics and concerns of stakeholders
- Management Approach disclosures are intended to address the entity's approach to managing the sustainability topics associated with risks and opportunities.

### **Disclosures may include:**

- Goals and performance
- Policy
- Organizational responsibility
- Training and awareness
- Monitoring and follow up

### **Performance indicators**

Draw out comparable information on a number of areas, including:

- Environmental, for example, level of materials, energy and water used, biodiversity, level of emissions and waste, impact of products and services and transport.
- Human rights, for example number of suppliers who have undergone human rights screening, number of discrimination actions, measures taken to contribute to the elimination of child and forced and compulsory labour.

- Labor practices, for example employment turnover, percentage of employees covered by collective bargaining agreements, rates of injury and occupational diseases, average hours training per employee per year, indicators of diversity.
- Society, for example impact of operations on communities, number of corruption investigations, number of legal actions for anti-competitive behavior, level of fines for non-compliance with legal requirements.
- Product responsibility, for example results of customer satisfaction surveys, number of breaches of customer confidentiality and losses of personal data.
- Economic, for example level of spending on local suppliers, number of senior management hired from local community.

## ***2.8. Theories of corporate social reporting***

Academics have developed theories to explain corporate social reporting practices.

### ***1. Stakeholder theory***

It views social reporting as a means by which organizations attempt to manage and negotiate their relationships with their stakeholders. The nature of the reporting reflects the importance that an organization attaches to the various stakeholder groups.

### ***2. Legitimacy theory***

It views social reporting as a means by which organizations attempt to demonstrate that they reflect the same social value system as the society in which they operate.

Legitimacy theory is a development of stakeholder theory. It argues that organizations can not continue to exist unless the society in which they are based perceives them as operating to the same values as that society. If an organization feels that it is under threat ( e.g. because there has been a financial scandal or a serious accident causing major pollution) it may adopt one or more legitimation strategies by attempting to:

- a. 'Educate' stakeholders about its intentions to improve its performance.
- b. Change stakeholders' perceptions of the event(without changing its actual performance)
- c. Distract attention away from the issue (by concentrating on positive actions not necessarily related to the event)
- d. Manage expectations about its performance (e.g. by explaining that certain events are beyond its control)

Legitimacy theory can explain several aspects of social and environmental reporting as it exists in practice. For example, entities tend to report positive aspects of their behavior and not to report negative ones.<sup>7</sup>

### ***2.9. Environmental Reporting***

Environmental reporting is the disclosure of information in the published annual report or elsewhere, of the effect that the operations of the business have on the natural environment. Environmental reports were the first step in reporting an entity's impact on its environment.

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<sup>7</sup> ACCA professional accountant Paper 2 int corporate reporting

As detailed above, the sustainability report combines environmental, social and economic reporting in one report. Environmental reports were the first step in reporting an entity's impacts on its environment.

### ***2.9.1. Environmental Reporting practice***

There are two main vehicles that companies use to publish information about the ways in which they interact with the natural environment.

1. The published annual report(which includes the financial statements)
2. A separate environmental report (either as a paper document or simply posted on the company website.)

The IASB encourages the presentation of environmental reports if management believe that they will assist users in making economic decisions, but they are not mandatory.

IAS 1 points out that any statement or report presented outside financial statements is outside the scope of IFRS, so there are no mandatory IFRS requirements on separate environmental reports.

Most environmental reports take the form of combined statement of policy and review of activity. They cover issues such as:

- Waste management
- Pollution
- Intrusion in to landscape
- The effect of an entity's activities up on wildlife
- Use of energy
- The benefits to the environment of the entity's products and services.

Generally, the reports disclose the entity's targets and/or achievements, with direct comparison between the two in some cases. They may also disclose financial information, such as the amount invested in preserving the environment.

Public and media interests have intended to focus on the environmental report rather than on the disclosures in the published annual report and financial statements. This separation reflects the fact that the two reports are aimed at different audiences.

Shareholders are the main users of the annual report, while the environmental report is designed to be read by the general public. Many companies publish their environmental and social reports on their websites, which encourages access to a wide audience.

### ***2.9.2. The Content of Environmental Reports***

The content of an environmental report may cover the following areas

**I. Environmental issues pertinent to the entity and industry. This also include the following areas:**

- The entity's policy towards the environment and any improvements made since first adopting the policy.
- Whether the entity has formal system for managing environmental risks.
- The identity of the director(s) responsible for environmental issues.
- The entity's perception of the risks to the environment from its operations.

- The extent to which the entity would be capable of responding to a major environmental disaster and an estimate of the full economic consequences of such a future major disaster.
- The effects of, and the entity's response, to any government legislation on environmental matters.
- Details of any significant violation of environmental legislation or regulations.
- Material environmental legal issues in which the entity is involved.
- Details of any significant initiatives take, if possible linked to amounts in financial statements.
- Details of key indicators (if any) used by the entity to measure environmental performance. Actual performance should be compared with targets and with performance in prior periods.

## **II. Financial Information**

- The entity's accounting policies relating to environmental costs, provisions and contingencies.
- The amount charged to the income statement or statement of comprehensive income during the accounting period in respect of expenditure to prevent or rectify damage to the environment caused by an entity's operations. This could be analyzed between expenditure that the entity was legally obliged to incur and other expenditure.
- The amount charged to the income statement or statement of comprehensive income during the accounting period in respect of expenditure to protect employees and society in

general from the consequences of damage to the environment caused by the entity's operation. Again, this could be analyzed between compulsory and voluntary expenditure.

- Details (including amounts) of any provisions or contingent liabilities relating to environmental matters.
- The amount of environmental expenditure capitalized during the year.
- Details of fines, penalties and compensation paid during the accounting period in respect of non-compliance with environmental regulations.

### ***2.9.3. Accounting for environmental costs***

*Environmental costs* include environmental measures and environmental losses.

*Environmental measures* are the costs of preventing, reducing or repairing damage to the environment and the costs of protecting resources.

*Environmental losses* are costs that bring no benefit to the business.

Environmental measures can include capital expenditure, closure or decommissioning costs, clean-up costs, development expenditure and costs of recycling or conserving energy.

Environmental losses include fines, penalties and compensation, impairment or disposal losses relating to assets that have to be scrapped or abandoned because they damage the environment.

### ***Provisions for environmental liabilities***

IAS 37 provisions, contingent liabilities and contingent assets states that three conditions must be met before a provision may be recognized:

- i. The entity has a present obligation as a result of a past event
- ii. It is probable that a transfer of economic benefits will be required to settle the obligation.
- iii. A reliable estimate can be made of the amount of the obligation.

#### ***2.9.4. Environmental Ethics: Issues and Possible Solutions***

“The most important human endeavor is striving for morality in our Actions. Our inner balance and our very existence depend on it. Only morality in our Actions can give beauty and dignity to life.”- **Albert Einstein**

Due to ever increasing pollution world is facing adverse consequences of the gradual degradation of its natural resources in the form of drought, floods, heavy rains or no rains. Our civilization is being seriously damaged by air, water and noise pollution associated with mismanagement of solid waste, changes in mortality, fertility loss of competitiveness, reduced output in resource based sectors ecological imbalance, biodiversity, acid rain and other disasters. The world today is, indeed, not so much menaced by war, disease and social upheavals as by environmental imbalance. To combat this great demon of environmental pollution and imbalance we are in utter need of framing and following environmental ethics. The attitude of people in ancient times towards environment, almost in all the cultures and civilization was governed by religious beliefs, practices and cultural traditions.

Assigning responsibilities to separate organizations for environmental development and management activities on the one hand, and environmental protection, regulations and monitoring on the other is instrumental for the sustainable use of environmental resource,

thereby avoiding possible conflicts of interests and duplication of efforts; WHERE AS, it has become necessary to establish a system that fosters coordinated but differentiated responsibilities among environmental protection agencies at federal and regional levels; Environmental Protection Authority has been established as per proclamation no. No.295n002

### ***2.10. Objective of Ethiopian Environmental Protection Authority***

The objective of the Authority is to formulate policies, strategies, laws and standards, which foster social and economic development in a manner that enhance the welfare of humans and the safety of the environment sustainable, and to spearhead in ensuring the effectiveness of the process of their implementation.

#### **Powers and Duties of the Authority**

The Authority shall have the powers and duties to:

- 1) Coordinate measures to ensure that the environmental objectives provided under the Constitution and the basic principles set out in the environmental Policy of Ethiopia are realized;
- 2) Prepare, review and update, or as necessary, cause the preparation of environmental policies strategies and laws in consultation with the competent agencies, other concerned organs and the public at large and upon approval, monitor and enforce their implementation;
- 3) Liaise with competent agencies in the field of environmental protection and rehabilitation and support them in capacity development;
- 4) Establish a system for environmental impact assessment of public and private projects, as well as social and economic development policies, strategies, laws, and programmes;
- 5) Where projects are subject to federal licensing, ex-ecution or supervision or where they are likely to entail inter- regional impacts, review environmental impact study

reports of such projects and notify its decision to the concerned licensing agency and, as may be appropriate, audit and regulate their implementation in accordance with the conditions set out during authorization;

6) in cooperation with competent agencies, carry out studies to combat desertification and/or mitigate the effects of drought and prepare corrective measures and create favorable conditions for their implementation

7) in consultation with the competent agencies, set environmental standards and ensure compliance with those standards;

8) in consultation with competent agencies, take part in the negotiations of international environmental agreements and, as appropriate, initiate or cause the initiation of a process of their ratification;

9) in consultation with the competent agencies, formulate, or initiate and coordinate the formulation of policies, strategies, laws and programs to implement international environmental agreements to which Ethiopia is a party; and upon approval, ensure their implementation;

10) in consultation with competent agencies, formulate environmental safety policies and laws on the production, importation, management and utilization of hazardous substances or wastes; as well as on the development of genetically modified organisms and the importation, handling and utilization of genetically modified and alien species, and upon approval, ensure their implementation;

11) in cooperation with the competent agencies, prepare or cause the preparation of environmental cost benefit analysis formulate and an accounting system to be used in development plans and investment programs and, as the case may be, monitor their application;

12) in consultation with the competent agencies, propose incentives or disincentives to discourage practices that may hamper the sustainable use of natural resources or the prevention of environmental degradation or pollution;

- 13) In consultation with the competent agencies, establish an environmental information system that promotes efficiency in environmental data collection, management and use;
- 14) Coordinate, promote and, as may be appropriate, carry out research on environmental protection;
- 15) in accordance with the provisions of the relevant laws, enter any land, premise or any other place that falls under the federal jurisdiction, inspect anything and take samples as deemed necessary with a view to discharging its duty and ascertaining compliance with environmental protection requirements;
- 16) Prepare and avail to the government as well as the public a periodic report on the state of the environment of the country;
- 17) Promote and provide non-formal environmental education programs, and cooperate with the competent agencies with a view to integrating environmental concerns in the regular educational curricula;
- 18) Promote or assist in the formulation of environmental protection action plans and projects and solicit support for such action plans and projects;
- 19) prepare directives to implement environmental protection laws and, upon approval, ensure their implementation;
- 20) advise and, as feasible and subject to the consent of the Environmental Council, provide financial as well as technical support to any organization or individual having as its objective the management and protection of the environment;
- 21) provide advice and support to regions regarding the management and protection of the environment;
- 22) provide advice to competent agencies regarding the discharge of their obligations under this Proclamation or under other laws pertaining to environmental protection and, as appropriate, give recommendations to the government regarding measures necessary to ensure compliance;

- 23) advise the Government on measures necessary to cope with environmental emergency situations;
- 24) Delegate some of its powers and duties, as it may be deemed appropriate, to other agencies;
- 25) Own property, enter into contracts and sue and be sued; and
- 26) Carry out such other activities as are necessary for the fulfillment of its objectives<sup>8</sup>

### ***2.11. Ethical Issues***

The measure of a successful company is no longer simply what is found at the bottom line of the annual report. A truly successful company achieves financial success while operating in a socially responsible manner.

Business Ethics = Good Corporate Citizenship = Social Responsibility

- How a company integrates core values into its policies, practices and decision-making throughout all levels of the company
- Compliance with legal standards
- Adherence to internal rules and regulations
- Responsible behavior towards other stakeholders

### **Corporate Ethics**

It relates to the application of ethical values to business behavior.

- It encompasses many areas from board strategies to how companies negotiate with their suppliers.
- It goes beyond legal requirements and is to some extent therefore discretionary.

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<sup>8</sup> Proclamation No. 295n002

- Many companies provide details of their ethical approach in a corporate and social responsibility (CSR) report.

#### Key areas for corporate ethics

- The purpose and values of the business
- Employees
- Customer relations and advertising
- Shareholder or other provider of funds
- Supplier and supply chain issue
- Community and charitable involvement
- Implementation-implementing a code of ethics does not mean it will be followed or that ethical conflict resolution will be easier.

#### ***Business ethics :-***

- It is one of forms of the art of applied ethics that examines ethical principles and moral or ethical problems that can arise in a business environment.
- In the increasingly conscience-focused marketplaces of the 21st century, the demand for more ethical business processes and actions (known as ethicism) is increasing. Simultaneously, pressure is applied on industry to improve business ethics through new public initiatives and laws (e.g. higher UK road tax for higher-emission vehicles).
- Business ethics can be both a normative and a descriptive discipline. As a corporate practice and a career specialization, the field is primarily normative. In academia, descriptive approaches are also taken. The range and quantity of business ethical issues reflects the degree to which business is perceived to be at odds with non-economic social values. Historically, interest in business ethics accelerated dramatically during the 1980s and 1990s, both within major

corporations and within academia. For example, today most major corporate websites lay emphasis on commitment to promoting non-economic social values under a variety of headings (e.g. ethics codes, social responsibility charters). In some cases, corporations have re-branded their core values in the light of business ethical considerations (e.g. BP's "beyond petroleum" environmental tilt)

### ***What should we practice as Environmental Ethics?***

- Ethics is a wide concept. We cannot bind the paradigms of Ethics into certain field. Everything that could lead to a better world for us and for our issues should be done by us. We should note that we are not the owners but the trustees of this environment and earth and therefore, we should use stay on earth softly and culturally.
- To make environmental ethics a living force and to bring it to clear consciousness is the foremost task of education. Therefore the formal education should keep pace with environment at every level<sup>9</sup>.

### ***2.12. Challenges to Businesses assuming Social responsibilities***

According to the Traditional view; the major responsibility of business in a society is to produce goods and services and to sell them for a profit. An economist Milton Friedman states that “the social responsibility of business is to increase its profits”. According to him:

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<sup>9</sup> Fundamentals of Environmental studies : A publication of Uttar Pradesh Technical University Lucknow in arrangement with Galgotia Publications Pvt.Ltd New Delhi

- Managers who assume “social responsibility” are in effect “taxing” stockholders;
- Social responsibility is government’s job;
- Social responsibility is a choice made by individuals
- Only people can have social responsibilities ;
- Corporate social responsibility = socialism
- Corporate social responsibility “subverts” a free market system
- Corporations are only responsible to stockholders & must maximize profits
- Managers are “fiduciaries” of stockholders

The core of the strongest arguments against business’ assumption of any responsibilities other than producing goods and services efficiently and making as much money as possible for shareholders is, that business is an economic institution and economic values should be the sole determinant of performance. The manager of a business is the employee of the shareholders and responsible only to the shareholder. Legal opposition to social responsibilities rests also on this central concept. This is known as the classical view.<sup>10</sup>

### ***2.13. Arguments for assuming corporate social responsibility***

There are a few more views about why business should assume social responsibilities. It is possible that some managers will accept the arguments that some managers will accept the arguments that to assume social responsibilities will assure a legitimacy that often becomes tenuous and fuzzy. It is some times argued that businessmen have great social

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<sup>10</sup> Corporate social responsibility: Ethical and strategic choice, Jayanta Bhattacharya

power and should step out to assuming an equal amount of social responsibility. Another argument is that government has tried to solve an assortment of social problems and has not done very well. Thus, why not let business try its hand? Business is innovative and creative, another argument says, so why not take advantage of this capability in the social as well as the economic area? Also if business undertakes social responsibilities, it will find ways to make its actions profitable. If business can not profit by existing market forces and legal constraints, the government should provide the proper incentives for business. In either event business will profit as well as the general public. Since neither the law nor custom obligates managers to pursue maximum profit, why not endorse pursuit of social activities (Hetherington, 1969)? Finally, as Andrew pointed out : “...corporate executives of the caliber, intelligence, and humanity required to run substantial companies cannot be expected to confine themselves to their narrow economic activity and to ignore its social consequences”(1971:133).

*As a statement of purpose, “maximizing of profits” is not only unsatisfying: it is not even accurate ...A more realistic statement has to be more complicated...in general Electric:”the corporation is the cre4ation of society whose purpose is the production and distribution of needed goods and services, to the profit of society and itself”. Each element of that statement is needed, if the whole is to be accurate; you cannot drop one element without doing violence to the facts.*

The corporation is the creation of society. It is created by a charter which can be revoked either literally by legal action or figuratively by the action of the market place.

In considering this position it is important to understand the meaning of profit maximization. To the economist, this is a precise concept that can be measured quantitatively. It means that a firm will attempt to increase its output so long as the marginal revenue from the last item produced is greater that the marginal cost of that

item. At that point where marginal cost equals marginal revenue, the firm will receive its maximum profit. It means literally that a firm which seeks to prevent it from getting the highest possible profit for its stockholders. The economist's strict concept of profit maximization is not an acceptable operational goal for today's larger corporations- assuming they could achieve such a goal, as they rarely can (Steiner, 1969:168-73). Much more appropriate is a concept of "required and raising profits," "or those level necessary to meet the self-satisfactions of managers from participating in the resolution of social problems, improving the quality of life of employees and making this a better society". The level of required and rising profits may be achieved despite the assumption of expenditures for social responsibilities which may have little direct bearing on long range profits. A company that can reach the level of profits required to balance properly the interests focused on its operations is in a position t take social actions. A company not in so favored position may be unable to assume them.

Corporate business decision- making today is a mixture of altruism, self-interest, and good citizenship. Managers do take actions, which are in the social interest even though there is a cost involved and long-range profit is quite remote. These actions traditionally were considered to be in the category of "good deeds". The issue is that some people expect, and some managers wonder whether they should respond to, business' assuming a central role in resolving major social problems of the day in the name of social responsibilities. This is the view that business is responsible for achieving the quality of life which is considered to be possible in this evolving society. Society also expects its business leaders to be concerned. The issue is not whether business has social responsibilities. The fundamental issue is to identify them for business in general and for the individuals, company. .<sup>11</sup>

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<sup>11</sup> ACCA professional accountant Paper 2 int corporate reporting

#### ***2.14. The impact of reporting environmental and social issues on performance measures***

The developments outlined above in the reporting of the environmental and social consequences of an entity's activities have identified a wide array of areas, over and above financial performance, in which management performance should be evaluated, such as: environmental, social, management of customers, management of employees and ethics.

The detail is listed as follows:

##### ***1. Environmental***

- Use of energy, including proportion from renewable sources,
- Efficiency of energy creation(for power generators)
- CO2 emissions
- Waste management
- Accidents affecting environment
- Transport

##### ***2. Social***

- Investment in local community initiatives
  - Time off for employees involved in charitable work
  - Matching money raised by employees for charitable work
  - Employment opportunities for the disadvantaged
  - Ethnic balance for workforce
-

- Equality, e.g. women in senior management positions
- Accidents affecting the community.

### ***3. Customers***

- Failure to supply on time and in good condition
- Customer complaints, e.g. about direct selling techniques
- Fair pricing
- Help for disadvantaged through special pricing schemes.

### ***4. Employees***

- Absenteeism rates
- Sickness leave
- Diversity
- Equal opportunities
- Investment in training
- Number of industrial relations tribunals of the entity.

### ***5. Ethics***

- Number and cost of incidents leading to fines and /or penalties
- Number and cost of incidents leading to compensation to customers, employees and others.
- Non-penalization of whistle blowers.

The IASB Framework's characteristics for useful financial information are that it should be relevant, reliable and comparable. These characteristics can be applied to environmental, social and ethical areas as follows:

- ***Relevance***

How much weight do/will investors, employees and customers give to these factors, compared with that given to financial factors (So return on investment, employee benefits and price respectively)?

- ***Reliability***

How much can the performance measured in these areas be relied on? How sure can users of this information be that it is a faithful representation of what has occurred, as opposed to a selective view, focusing on the successes? Are there external assurance processes that can validate the information, perhaps using the GRI guidelines?

- ***Comparability***

Is the information produced by different entities pulled together on a comparable basis, using similar measurement policies, so that the users can make informed choices between entities? If not, all that can be measured is an entity's performance compared with its own performance in previous periods.

Even if the information is reliable and comparable, is it useful, i.e. will it change the behavior of investors, employees and customers?

The answer to these questions will determine whether entities take such reporting seriously or merely treat it as part of their promotional activities.<sup>12</sup>

## ***2.15. Research finding on the related topics***<sup>13</sup>

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<sup>12</sup> ACCA professional accountant Paper 2 int corporate reporting

## ISO backs environmental reporting

A new initiative from the International Standards Organization (ISO) aims to broaden the appeal of environmental reporting beyond large companies in the industrialized world – but it risks stepping on the toes of more established reporting guidelines.

### **Why the need for a new initiative?**

There is already a plethora of guidelines, recommendations and models for environmental reporting. Many companies feel confused by the many checklists, examples and exhortations to report, and may be surprised to learn of yet other development. However, the reasoning of the ISO committee members is: despite the developments of the past decade, non-reporters still vastly outnumber reporting companies, and the committee members feel that there is a pressing need to break the log-jam; reporting is still a developed world phenomenon. For reporting to make real progress, yet another initiative is under way to encourage environmental reporting by companies. But this ambitious project which aims to close the gap in environmental communications between North and South is born of a particularly influential parent: the International Standards Organization (ISO). At a meeting in July in Kuala Lumpur, an ISO environmental management technical committee began work on guidelines for environmental communications standards. The development has broad-based support from countries all over the world, both North and South. If they can steer a course which avoids overlap and confrontation with existing initiatives, the new guidelines planned for publication in 2004 – should encourage developing countries and small and medium-sized enterprises (SMEs), as well

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<sup>13</sup> World Business Council for Sustainable Development (2001), [\*The Business Case for Sustainable Development: Making a difference toward the Johannesburg Summit 2002 and beyond\*](#)

as multinationals and developed world companies, to report and communicate their environmental performance.

ISO has done much to encourage improvements in environmental management systems (EMS), with its ISO 14000 series of 18 EMS standards for technical guidance and content.

While there is some overlap between EMS and environmental reporting (both require identification of environmental impacts, set objectives and targets, and involve a commitment to continuous improvement), ISO has, as yet, made no foray into the field of environmental communications.

However, at an ISO meeting in June 2000, Sweden first mooted a ‘new work item proposal’ on environmental communications.

Following discussions and counter-proposals, an agreed proposal was put to the vote of technical committee members from over 30 countries in early 2001. The results of the vote on this proposal were published in May 2001.

Technical committee members, voting by country, were clearly in favor of the proposal, with 25 votes for, three against and five abstentions.

A new working group, WG4, was formed to produce ISO 14063 on Environmental Communications by September 2004. The proposed standard, ‘Environmental management – developing countries need to enter the field;

Most companies communicating environmental issues are large, and efforts by SMEs are still almost invisible. SMEs need simple, straightforward guidance that does not make disproportionate demands on resources from a small team; an \_ the models with most

influence – particularly that of the Global Reporting Initiative (GRI) – tend to appeal to multinationals, particularly those based in developed countries. Although more flexible than previous efforts, many companies still feel these models are too prescriptive. A simplified approach to environmental communications is needed, the committee members decided, which has broad appeal and is capable of being adopted by any company anywhere in the world. The current status of environmental reporting may be evidenced by the reporting

Records of the ISO technical committee voting members .While some countries have a strong record, others have achieved little or nothing. Unless non-reporters can be encouraged to participate, environmental reporting is in danger of becoming an activity exclusively for developed countries, seen as an irrelevance by the developing world. It must be preferable for more companies from more countries to communicate on environmental issues, albeit at an initially less sophisticated level, than for current leaders to increase the divide yet further.

### **How will ISO 14063 fit with the GRI?**

The GRI aims to set a flexible framework for reporting and to set the scene for various degrees of sophistication according to the extent a company wishes to adopt the guide lines. To quote from the GRI guidelines: “The [GRI] is long-term, multi-stakeholder, international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organizations reporting on the economic, environmental and social dimensions of their activities, products and services.”ISO 14063 will be a different beast altogether.

It will address environmental communications in general both internal and external communications rather than focusing solely on written environmental reports. It will look

at environmental issues only, rather than incorporating social and sustainability aspects: this is because the committee's scope is restricted to environmental matters under ISO regulations. At first sight this may appear to be a weakness, given that the ultimate aim of company reporting is to push towards wider issues of sustainability. However, it would be a major breakthrough for more companies in developing countries to engage in environmental communications. Few companies make a leap straight into sustainability reporting, and encouragement to take a first step, initially on environmental issues only, will make it easier for companies to begin to move in the right direction. As Figure 2 demonstrates, the overwhelming majority of reports from ISO technical committee member countries are environmental. It will offer guidance only, showing how to communicate rather than setting out the content of the communication. It will be in no way prescriptive or lead to certification (and in this respect ISO 14063 will not emulate the ISO 14001 series).

In theory, development of ISO 14063 should not lead to confrontation with GRI. Companies that so wish should be able to adopt the GRI guidelines while at the same time making use of ISO 14063. In practice, it might be expected that GRI, as the biggest kid on the block, will be wary of any perceived encroachment on what it sees as its territory. However; as Joe Casio, chairman of the US technical advisory group to the ISO technical committee stated in May 2001. "There's no question it will be difficult. People should revisit the language of the proposal before we begin this process. It specifically states that this standard will be how to report, not what to report. If battle lines are to be drawn, that's where the tension will be."<sup>14</sup>

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<sup>14</sup> Source: [www.CorporateRegister.com](http://www.CorporateRegister.com), based on 2,102 records (1988–Oct 2001);

In China Corporate environmental reporting and disclosure is still at an initial stage and is in need of further development in parallel with the improvement of corporate governance and the increasing of public awareness on sustainable development.

Some features of corporate environmental reporting and disclosure can be drawn as following:

- Corporate environmental reporting and disclosure has not been a widely accepted concept in the Chinese market so far. Many companies treat it as an additional burden and try to release as little information as possible. Foreign-ventured companies have better understanding of environmental issues and are therefore more likely to disclose information.
- Most information released by companies is mandated by government and environmental agencies for the purpose of pollutant prevention and control. Hence information is not designed for public disclosure and is often very sector-specific. The government uses the information by itself and does not tend to share this with the public (although there are signs that this is changing), thus constraining the utilization of the information. Heavy polluting industries are more active in response to the government.
- There is inadequate research, training and guidance on corporate environmental reporting and disclosure. Guidelines and rules are needed to provide help to companies in disclosing information in annual reports or other documents. Environmental information that is disclosed is not in a uniform format yet.
- There is evidence to show that environmental reporting and disclosure will become more and more important in the near future in China. Demands for corporate environmental information are coming from various sectors promoting the development of voluntary disclosure. Meanwhile, laws,

regulations and guidelines on corporate environmental reporting and disclosure will be developed in response to this trend.

- The media is increasingly being used to “Black List” some companies and to reward others. Public shame is being used as one method of getting companies to improve their performance.

The recent development of ISO 14000 and SA8000 in China indicates that many Chinese companies, particularly from manufacturing, want to apply for such certificates to promote their sales overseas. This creates a big market for third party certification. On the other hand, when corporate environmental reporting and disclosure become widely accepted in the stock market, detailed information included in financial indicators would become very important for investors.<sup>15</sup>

In Ethiopia the issue of these certificates is also available. Most public enterprises are obliged to have these certificated by mandatory disclosures of environmental and social reports.

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<sup>15</sup> Source: [www.google.com](http://www.google.com) Corporate social responsibility & environmental reporting

***Format for the disclosure of CSRE reporting***

The suggested format as it is stated by Deepk Gupta is disclosed below.

**A. Corporate Social Responsibility and environmental Disclosure Statement**

<b>Particulars</b>	<b>Amount</b>	<b>Number of beneficiaries</b>
<b><i>A. Towards Employees</i></b>		
<b>Occupational and safety Hazards</b>	XX	XX
<b>Rehabilitation Programme</b>	XX	XX
<b>Canteen</b>	XX	XX
<b>Job enrichment programme</b>	XX	XX
<b>Training programme</b>	XX	XX
<b>Transportation</b>	XX	XX
<b><i>B. Towards Community</i></b>		
<b>Donations and charity</b>	XX	XX

<b>Recreation Clubs</b>	XX	XX
<b>Medical Establishments</b>	XX	XX
<b>Sports Stadium/Parks and Gardens</b>	XX	XX
<b>Public Halls/Auditoriums</b>	XX	XX
<b>Projects for using wast products</b>	XX	XX
<b>Purchase of dust absorption machine</b>	XX	XX
<b>Installation of Effluent Treatment</b>	XX	XX
<b>Waste products recycling</b>	XX	XX
<b>Air pollution protection</b>	XX	XX
<b>Total</b>	<b>XXX</b>	<b>XXX</b>

#### B. Social Income Statement

<b>Social Costs</b>	<b>Amount</b>	<b>Social Benefits</b>	<b>Amount</b>
<i>I. Social costs to staff</i>		<i>I. Social benefits</i>	
<b>Medical and hospital facilities</b>	XX	Income from medical facilities	XX
<b>Township and housing</b>	XX	Income fro letting house	XX
<b>Recreation and Canteen facilities</b>	XX	Income from clubs and canteens	XX
<b>Concessional transport</b>	XX	Income from transport	XX
<b>Training and development</b>	XX	Income from educational institution	XX
<b>Promotion of occupational safety</b>	XX		

<b>Retraining and placing displaced workers</b>	XX		
<b><i>II. Social costs to Community</i></b>			
<b>Pollution control and environment</b>	XX	Income from libraries/halls	XX
<b>Cost of employing physical handicap</b>	XX	Income from medical facilities	XX
<b>Donations and charities</b>	XX	Income fro recreation	XX
<b>Arrangement of Adult education programme</b>	XX	Energy saved	XX
<b>Sports /stadiums/parks/gardens</b>	XX	Welfare activities	XX
<b>Residential complexes/public halls</b>	XX		
<b><i>Excess of income over expenditure</i></b>	<b><i>XXX</i></b>	<b><i>Excess of expenditure over income(balancing Figure)</i></b>	<b><i>XXX</i></b>
<b><i>Total</i></b>	<b><i>XX</i></b>	<b><i>Total</i></b>	<b><i>XX</i></b>

## CHAPTER THREE

### *DATA ANALYSIS AND INTERPRETATION*

#### **3.1. General Information**

In this part of the study, analysis and presentation of the data collected will be availed by using the CSREDI and some statistical techniques stated in the research methodology section of the study. The analysis conducted in this section will try to surface the facts concerning the state of CSRED practices of NGOs and corporate firms in Ethiopia.

This section of the study is classified by two sections .Section one is about the general information of the respondent's profile. Section two:-contains the full analysis of the paper.

##### ***3.1.1. General information on the Respondents***

The questionnaire is designed to be filled by the finance manager of the corporate firm. Accordingly the researcher has distributed fifty questionnaires for fifty corporate firms each to be filed by their finance managers. From the fifty questionnaires, forty i.e.80% have been responded.

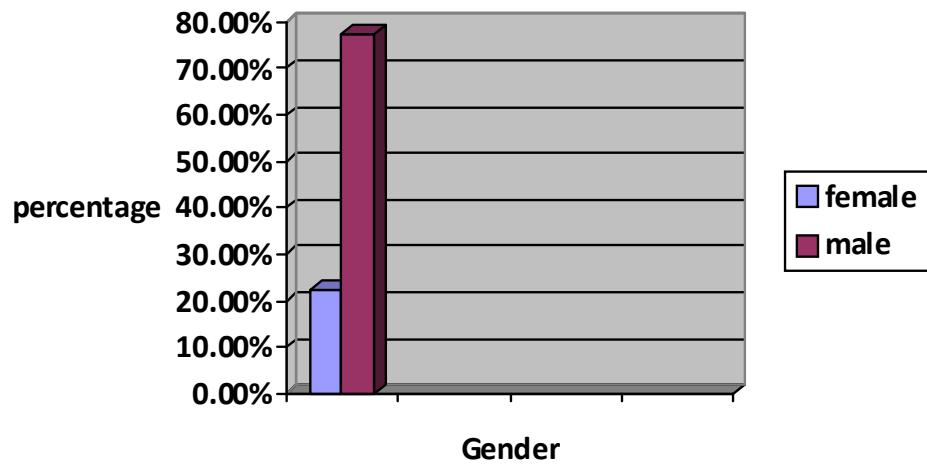
Table 3.1

Profile of respondents by Gender

Gender	Nos	%age
Female	9	22.50

Male	31	77.50
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### Respondent's profile by gender



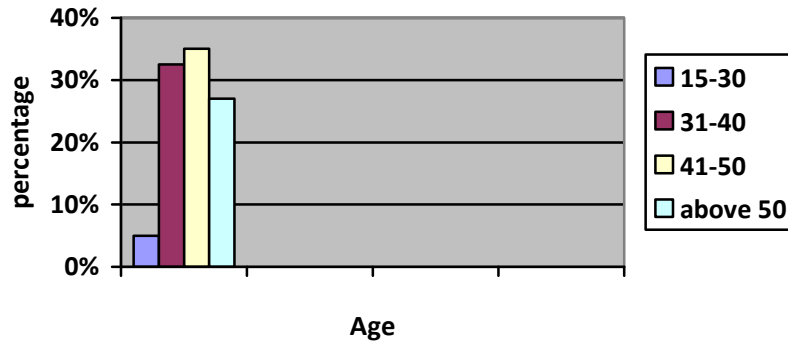
From the respondents 22.50 % were female and the 77.5% share was populated by males.

Table 3.2

Profile of respondents by age

Age	No.s	%age
15-30	2	5
31-40	13	32.5
41-50	14	35
Above 50	11	27.50

respondant's profile by age



62.5 % of the respondents were in the age range of above 40. This implies that age wise, the questionnaires were filled by matured individuals which might have impact on the quality of the study.

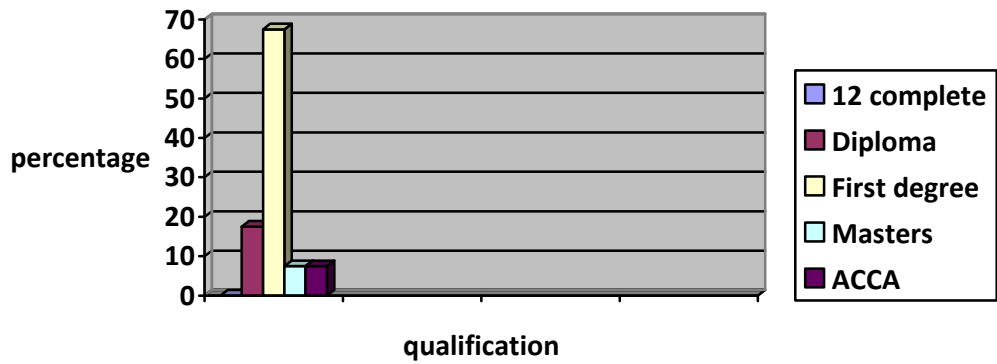
Table 3.3

Profile of respondents by qualification

Qualification	Nos	% age
12 complete	-	0
Diploma	7	17.5
First degree	27	67.5
Masters	3	7.5

ACCA	3	7.5
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**respondant's profile by qualification**



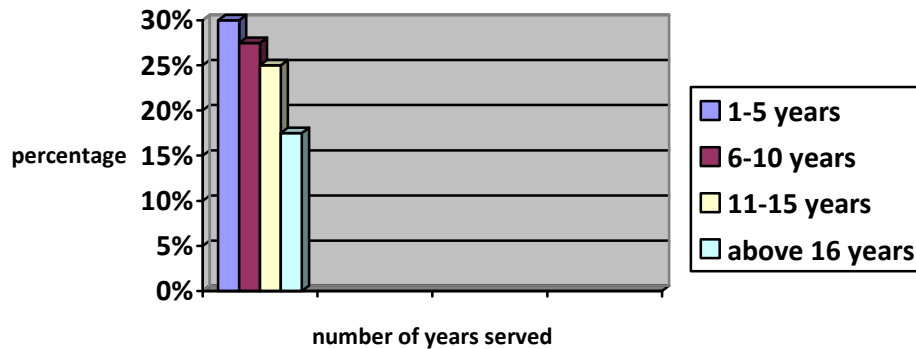
From the above table we can consider that 82.5 % of the respondents were qualified on first degree, masters and ACCA in which they may have adequate and dependable information about the topic under the study.

Table 3.4

Profile of respondents by number of years served in the company

Number years served	Nos	%age
1-5	12	30
6-10	11	27.5
11-15	10	25
More than 16 years	7	17.5

**respondent's profile by number of years served**



As to the related work experience of the respondents in the concerned organization, 42.50 % of them have more than 11 years experience. 27.5 % have been working for the year's range of 6-10 years and 30 % have 1-5 years work experience in the organization.

Source: - Survey data (for all tables)

### ***3.2. Extent of CSRED practices in Ethiopian corporate firms***

To measure of CSRED practices in Ethiopian corporate firms the researcher used the CSREDI. The detail can be seen independently both for the PEs and private sector companies.

#### ***3.2.1. Extent of CSRED in public enterprises***

In addition to their commercial nature the PEs are formed for the social benefit of the public. Hence they have been disclosing CSRED in their corporate annual reports either by way of disclosure in corporate annual report or as a stand alone report. The statistics for the objectives of CSRED in PEs is summarized as follows:

Table 3.5

Objectives of CSRED in PEs

S.No	Objectives of CSRED in PEs	No.	% age
1	To identify and measure the periodic net social contribution of an individual	7	70
2	To improve the business performance and sustainable growth..	6	60
3	To determine whether the firm's strategies and practices that directly affect the relative resources are consistent with social principles	5	50
4	To improve processes and reduce costs	2	20
5	To comply with regulatory requirements and stakeholder expectations,	7	70
6	To take advantages of new market opportunities	2	20

Source: from questionnaires collected.

From the above table we can consider that one PE has more than one objective for its CSRED.

***1. CSRED index of PEs***

The score obtained by PES and their respective CSREDI are disclosed in table 3.6 as follows.

Table 3.6

CSREDI of sample PEs in Ethiopia

S.No	Name of the Enterprise	Score	Total CSRED score	CSREDI %
1	Ethiopian Air Lines	17	25	68
2	Commercial Bank of Ethiopia	9	25	36
3	National Bank of Ethiopia	11	25	44
4	Ethiopian Insurance Corporation	0	25	0
5	Muger Cement Enterprise	21	25	84
6	Ethiopian Hotels Enterprise	15	25	60
7	Addis Ababa Bottles and Glass Sh. Co.	20	25	80
8	Ethiopian Marble Processing Enterprise	14	25	56
9	Misrak Flour Industry	11	25	44
10	Fafa food factory	11	25	44
		129	250	
	CSREDI in %age			51.6

Source: compiled and computed from the annual reports and the questionnaires of the concerned PE

The average CSREDI is 51.6 %.The highest CSREDI in the PEs was obtained by \_Muger Cement Enterprise i.e.84% in terms of CSREDI. It was followed by the score of 80%\_\_ namely , Addis Ababa Bottles and Glass share company. The lowest CSREDI was 0 % obtained by Ethiopian Insurance Corporation.

### ***Summary of CSREDI in PEs***

The summary of CSREDI obtained by the PEs is depicted below in table 3.7

Table 3.7

#### ***Summary of the CSREDI of PEs***

CSREDI	No. of Cos	%age
Below 25	1	10
25-50	4	40
50-75	3	30
75-100	2	20

Source: Summarized from the figures in table 3.6

As it is shown in table 3.7, two enterprises from the sample have the CSREDI range of 75-100 which is the highest. From this we can analyze that there is CSRED practice in Ethiopian PEs even at the highest range of accounts. Besides, 70 % of the PEs has CSREDI range of 25-75. Only ten percent of the sample fall on the range of CSREDI 0-25. As can be seen from the average CSREDI of PES there is the practice of CSRED in Ethiopian PEs up to 51.6 % coverage.

### ***3.2.2. Extent of CSREDI and company characteristics in Ethiopian PEs***

In this sub section, the CSREDI of PE is analyzed with reference to co. characteristics.

#### ***3.2.2.1. The influence of age for the CSRED in PEs***

The social performance of the PEs classified on the basis of age showed the following results.

Table 3.8

CSRED performance of the PE (enterprises classified in terms of age)

Age of the Enterprise	Nos.	Total CSRED	Av. CSREDI
1-10			
11-20			
21-30			
Above 30	10	129	51.6%

Source: compiled from the figures obtained in table 3.6 and data collected through questionnaire.

- The whole PEs fall in the age range of above 30 years. As it is known the Ethiopian PEs has longer age, hence all PEs fall in the same age range. Hence age as a company has no impact on the performance of CSRED in Ethiopian PES.

### ***3.2.2.2. The influence of sales for the CSRED in the PEs characteristics***

Social performance of the PEs classified on the basis of the enterprises showed the following results as it is depicted in table 3.9 below:

Table 3.9:

CSRED performance of the PEs (based on sales)

Yearly sales of the PE(br.)	No.s	Total CSRED	Av. CSREDI
1-10,000			
10,001-100,000			
100,001-500,000			
More than 500,000	10	129	51.6 %

Source: compiled from the figures obtained in table 3.6 and data collected through questionnaire.

- All PEs also fall in the sales range of above 500,000 birr .Ethiopian PEs are even large in their size as it is measured inters of sales which brought all PEs in the

same sales range of more than 500,000 birr. From this we can conclude that sales as a company characteristics have no impact on the performance of CSRED in Ethiopian PES.

### **3.2.2.3. The influence of capital employed for the CSRED in the PES.**

The social performance of the PEs, classified on the basis of the capital employed by the enterprises revealed the following results:

Table 3.10

CSRED performance of the PEs (based on capital employed)

Capital employed of the PE(br.)	No.s	Total CSREDI	Av. CSREDI
1-100,000			
100,001-550,000			
500,001-1,500,000			
More than 1,500,000	10	129	51.6 %

Source: compiled from the figures obtained in table 3.6 and data collected through questionnaire.

- All PEs also fall in the capital employed range of above 1,500,000 birr. Therefore capital employed as a company characteristics do not have impact on the performance of CSRED in Ethiopian PES.

### **3.2.2.4. The influence of ROI for the CSRED in the PES.**

The social performance of the PEs classified on the basis of the ROI of the enterprises are depicted on table 3.11

Table 3.11 CSRED performance of the PEs (based on ROI)

ROI of the PE(%age)	No.s	Total CSRED	Av. CSREDI in %
0-10	3	37	49.33
11-20			
21-30	2	41	82
above 30	5	51	40.8

Source: compiled from the figures obtained in table 3.6 and data collected through questionnaire.

- The social performance of the PEs classified on the basis of ROI clearly shows that the enterprises yielding higher ROI have scored maximum in terms of average CSREDI. However, there is also another PE who scored the highest ROI with the lowest CSREDI. CBE can be the best example here. So that this will direct our conclusion to: ROI as a company characteristic has no impact on the performance of CSRED in Ethiopian PEs.

### ***3.2.2.5. The Influence of total assets for the CSRED in the PEs.***

The social performance of the PEs classified on the basis of total assets of the enterprises is depicted on table 3.12 below.

Table 3.12

CSRED performance of PEs (based on Total Assets)

Total assets of the PE(br.)	No.s	Total CSREDI	Av. CSREDI
1-100,000			
100,001-500,000			
500,001-1,000,000			
More than 1,000,000	10	129	51.6 %

Source: compiled from the figures obtained in table 3.6 and data collected through questionnaire.

- All PES fall in the sale total asset range, implying that total asset as a company characteristic has no impact on the performance of CSRED Ethiopian PEs.

***Summary:*** *company characteristics namely: age of the company, company size as measured by sales and total assets and capital employed and sales and ROI have no influence on the performance of CSRED in Ethiopian PEs.*

### ***3.3. Extent of CSRED in private sector companies***

The number of private sector companies in Ethiopia is tremendously increasing from year to year. Hence its role to play in shaping the economy of the country also increases. The basic objective of forming any private company being maximizing shareholder's profit many private sector companies do not worry about the social activities. For private sector company giving due attention for social activities considered as sharing the business's profit for non relevant issues. (As it is discussed in the 'challenges for the business assuming CSR' part of this paper.)

Taking this as a general concept, the actual practice of CSRED private sector companies is analyzed in the following part of the study.

#### ***3.3.1. CSREDI of private sector companies in Ethiopia.***

The scores obtained by sample private sector companies and their respective CSREDI are depicted below in table 3.13.

Table 3.13

## CSREDI of private sector companies in Ethiopia

S.No.	Name of the company	Score	CSREDI in %
1	Moha soft drinks factory sh.co.	0	0
2	Addis modjo edible oil sh.co.	5	44
3	United bank share company	0	0
4	United insurance share company	0	0
5	Abysinia Bank of Ethiopia	0	0
6	Guna Trading house PLC	18	72
7	Total Ethiopia Share Company	17	68
8	Ghion Industrial and commercial PLC	14	56
9	Web get PLC	0	0
10	Crown sea PLC	0	0
11	NAS foods PLC	12	48
12	Midroc Ethiopia Sh. Co	13	52
13	Dashen Bank Share company	0	0
14	Yetebaberut oil Share company	12	48
15	PU PVC Sole and Shoe factory PLC	11	44
16	MALCO PLC	0	0
17	Awash International Bank	8	32
16	Ambassa Enterprise PLC	10	40
19	Tezena General Hospital	0	0
20	Tibeb Printers Enterprise	0	0
21	Ziquala Steel processing PLC	12	48
22	Ayat Share Company	0	0
23	Cabay PLC	0	0
24	Ethiopian Electronic PLC	0	0
25	G-7 Trading and Industry PLC	13	52
26	Gasco Trading PLC	10	40
27	Global Development PLC	0	0
28	Coka Cola Industry	15	60
29	Betazatha Hospital	0	0
30	Sun shine Construction PLC	15	60
	<b>Average CSREDI</b>	<b>186</b>	<b>24.8</b>

Source: compiled and computed from the annual reports and the questionnaires of the concerned Private cos.

The average CSREDI is 23.33%. The highest CSREDI in the private companies was obtained by Guna trading house PLC i.e. 76 % in terms of CSREDI. It was followed by the score of 68 % namely, Total Ethiopia share company. The lowest CSREDI was 0% obtained by 56.66 % of the private companies i.e. seventeen of the 30 sample companies do not have any kind of non financial reporting.

***Summary of CSREDI in private companies***

The summary of CSREDI obtained by the private companies is depicted in as follows:

Table 3.14

*Summary of the CSREDI of private companies*

CSREDI	No. of Cos	%age
Below 25	15	50
25-50	8	26.67
50-75	7	23.33
75-100	0	0

Source: Summarized from the figures in table 3.13

Only 23.33 % of the private sector companies score the CSREDI range of 50-75 i.e. the implication of lower level practice of CSRED in Ethiopian private companies. Besides, there is no single company in the CSREDI range of 75-100.

***3.3.2. Extent of CSREDI and company characteristics.***

In this sub section, the CSREDI of private company is analyzed with reference to company characteristics.

***3.3.2.1. The influence of age for the CSRED in private companies.***

The social performance of the private companies classified on the basis of age showed the following results.

Table 3.15

CSRED performance of the private compares (companies classified in terms of age)

Age of the company	Nos.	Total CSRED	Av. CSREDI in %
1-10	11	21	7.63
11-20	13	84	25.85
21-30	5	64	51.20
Above 30	1	17	68

Source: compiled from the figures obtained in table 3.13 and data collected through questionnaire.

The above table reveals that the companies have improved their social performance gradually as their age increases. This is also supported by the fact that as the company attains more and more age, it becomes more mature and stable in its activities. As it can be seen in the above table, the company with an age range of 1-10 scored average CSREDI of 7.63 % which is the least score from all. The next score was 25.85 % which is attained by an age range of 11-20 years. Thirdly all companies under an age range of 21-30 have scored the better score of 51.20%. Finally the best score i.e. 68 % was scored by a single company found in an age group of above thirty.

- From this result we can conclude that age as company characteristics has an impact on the performance of corporate social responsibility and environmental disclosure.

### ***3.3.2.2. The influence of sales for the CSRED in the Private Company***

Social performance of the private company classified on the basis of the enterprises showed the following results as it is depicted in table 3.16 below:

Table 3.16:

CSRED performance of the private company (based on sales)

Yearly sales of the PC(br.)	No.s	Total CSRED	Av. CSREDI in %
1-10,000			
10,001-100,000			
100,001-500,000	5	0	0
More than 500,000	25	186	29.76

Source: compiled from the figures obtained in table 3.13 and data collected through questionnaire.

Table 3-16 reveals that companies having large sales volume tend to have highest average CSREDI of 29.76 %. However companies falling in the sales range of 100,001-500,000 birr have nil CSREDI i.e 0 %. Thus the study clearly reveals that the companies in the larger sales range have performed much better than the companies in the lower range of sales.

- Hence sales as the company characteristics have influence on the performance of CSRED of private companies in Ethiopia.

### ***3.3.2.3. The influence of capital employed for the CSRED in the Private Company.***

The social performance of the private company, classified on the basis of the capital employed by the enterprises revealed the following results:

Table 3.17

CSRED performance of the private company s (based on capital employed)

Capital employed of the PC(br.)	No.s	Total CSRED	Av. CSREDI in %
1-100,000			
100,001-550,000			
500,001-1,500,000	5	0	0
More than 1,500,000	25	186	29.76

Source: compiled from the figures obtained in table 3.13 and data collected through questionnaire.

The above result reveals that companies more capital have highest average CSREDI of 29.76 %. However companies employing lower capital i.e.500, 001-1,500,000 birr have nil CSREDI i.e. 0 %. Thus the study clearly reveals that the companies in the larger sales range have performed much better than the companies in the lower range of sales.

- Hence capital employed as the company characteristics have influence on the performance of CSRED of private companies in Ethiopia.

#### ***3.3.2.4. The influence of ROI for the CSRED in the Private Company..***

The social performance of the private companies classified on the basis of the ROI of the enterprises are depicted on table 3.18

Table 3.18 CSRED performance of the private companies (based on ROI)

ROI of the PC(%age)	No.s	Total CSRED	Av. CSREDI in %
0-10	7	37	21.14
11-20	5	30	24
21-30	8	51	25.5
above 30	10	68	26.67

Source: compiled from the figures obtained in table 3.13 and data collected through questionnaire.

The corporate social performance of the private companies classified on the basis of ROI clearly shows that the companies in the highest ROI group i.e. above 30 have scored the maximum average CSREDI of 26.67 %, followed by the next lower group of 21-30 i.e. 25.5 %.

- Therefore; as the company achieves higher and higher returns on investment, it shall have higher disposal income to channelize it for the social activities and the study has revealed the same reality.

### ***3.3.2.5. The Influence of total assets for the CSRED in the Private companies.***

The social performance of the private companies classified on the basis of total assets of the enterprises is depicted on table 3.19 below.

Table 3.19 CSRED performance of private companies (based on Total Assets)

Total assets of the PC(br.)	No.s	Total CSREDI	Av. CSREDI in %
1-100,000			
100,001-500,000			
500,001-1,000,000	5	0	0
More than 1,000,000	25	186	29.76

Source: compiled from the figures obtained in table 3.2 and data collected through questionnaire.

Table 3-19 reveals that companies having large asset volume tend to have highest average CSREDI of 29.76%. However companies falling in the total asset range of 500,001-1,000,000 birr have the nil CSREDI i.e 0 %. Thus the study clearly reveals that the companies in the larger total asset group have performed much better than the companies in the lower group of total assets.

- Hence total assets as the company characteristics have influence on the CSRED of private companies in Ethiopia.

***Summary*** In case of private companies, company characteristics namely: age, sales, ROI, total assets and capital employed have influence on the performance of CSRED.

### ***3.4. Corporate Social Responsibility environmental Disclosure performance of Public enterprises Vs private sector companies***

From the above analysis we can obtain the following results.

#### ***Results of Analysis***

- ☞ The CSREDI in %age terms of 30 private companies was 24.8% while the CSREDI in the 10 public sector enterprises was 51.6 %.This clearly shows the poor state of non financial reporting in private companies as compared to the PEs.
- ☞ Only one company i.e. 10 % in the PE scored below the CSREDI of 25 i.e. 0-25, while 15 companies or 50 % of the private companies scored the range of 0-25 CSREDI, Showing that half of the private enterprises did not start non financial reporting.
- ☞ There was no single private company in the range of 75-100, while 20% or two PEs were in the same range of CSREDI. This implies that PEs were able to reach even the highest range of CSREDI.
- ☞ CSRED practices may differ from company to company bound to be some companies in which social disclosures are greater as compared to the other companies.
- ☞ As it is analyzed and stated in the above part of study; company characteristics namely: age, sales, capital employed, total assets and ROI do not have impact on the performance of CSRED in Ethiopian Public Enterprises. However it does have impact on CSRED performance of Ethiopian private companies.

### ***3.5. The state of CSRED practices in Ethiopian NGOs***

Non government organizations (NGOs) have a long history of services in Ethiopia. There involvement in the economic and social life of the country began in early 20<sup>th</sup> century.

In this part of the paper the state of CSRED practices of NGOs in Ethiopia would be analyzed. Since NGOs are distinctive from corporate firms i.e by:- i) the service being their main objective, ii) the absence of profit motives, iii) their basic motive of supporting the public, the state of social activities in NGO's is vital.

In order to test the state of CSRED in Ethiopian NGOs the researcher picks 20 sample NGOs proportionately both from the local and international are selected on a convenient basis. Hence the annual reports of these 20 NGOs were reviewed in order to reach on the viable conclusion. Accordingly the following data was summarized from their annual reports.

***Corporate Social Responsibility and environmental disclosure index of NGOs in Ethiopia.***

Table 3-20:

Corporate Social Responsibility and Environmental Disclosure Index in Ethiopian NGOs

S.No	Name of NGOs	Score	CSREDI in %
1	Christian Relief and Development Association(CRDA)	22	88
2	Action Aid Ethiopia	22	88
3	Jesuit Refugee Service	22	88
4	Doctors with Africa, CUHAMM Ethiopia	15	60
5	Adult and Non formal Education in Ethiopia	18	72
6	Pastoralist Forum Ethiopia	14	56
7	Emmanuel Home	16	64
8	Ethiopian Evangelical Church Mekane yesus	21	84
9	Facilitator for change	19	76
10	Children Aid Ethiopia	17	68
11	Tear fund Horn Of Africa Regional Office	16	64
12	Pestalozzi Children's Foundation Ethiopia	17	68
13	Save the Children Finland	16	64
14	AMAREF Better health for Africa	13	52
15	Forum on Street Children in Ethiopia	16	64
16	Save the Children (Denmark)	16	64
17	African Humanitarian Action	22	88
18	Agri Service Ethiopia	21	84
19	DSW-German Foundation for world population	21	84
20	International Medical Corps	19	76
	Total CSRED	363	72.6

Source: from the profile and annual report of the concerned NGOs.

Table 3.21

*Summary of the CSREDI of NGOs*

CSREDI	No. of NGOs	%age
Below 25	0	0
25-50	0	0
50-75	11	55
75-100	9	45

Source: Summarized and computed from the figures in table 3.20

Table 3.21 reveals that there is fair level of CSRED practices in Ethiopian NGO's by scoring an average CSREDI of 72.6%. the following facts are extracted from the table:

- ☞ there was no single non governmental organization whose corporate social responsibility and environmental disclosure is in CSREDI range of 0-25% and 25-50%.
- ☞ 55 % of the non governmental organizations scored the higher range of Corporate Social Responsibility and Environmental Disclosure Index i.e.50-75.
- ☞ finally 45 % of the non governmental organizations scored the highest range of Corporate Social Responsibility and Environmental Disclosure Index i.e.75-100.

Therefore, we can say that the practice of Corporate Social Responsibility and Environmental Disclosure in Ethiopian Non government organizations reached its maximum point. So that it can be said that almost all NGOs used to disclose their social performances since their major objective is for the welfare of the society and there is no direct profit motive in their agenda.

### ***3.6. Summary of the analysis***

This paper is done for attaining four objectives. Objective wise the analysis can be summarized as follows:

1. Analyzing the extent of nonfinancial reporting: Environmental and corporate social responsibility disclosure practices in Ethiopian corporate firms.

### **Public Enterprises**

\*The average CSREDI of Ethiopian PEs 51.6 implying good sated of CSRED practices in Ethiopian PEs. Besides, it is proved that there is a CSRED practice in Ethiopian PEs even at the highest range of accounts i.e. 75-100.

### **Private Companies**

\* The average CSREDI of Ethiopian private companies is 24.8 % .This clearly shows the poor state of non financial reporting in private companies as compared to the PEs.

2. Analyzing the extent of Non financial reporting: Environmental and corporate social responsibility disclosure in Ethiopian NGOs.

- The average CSREDI of Ethiopian NGOs is 72.6 % .This clearly shows the good state of non financial reporting in NGOs as compared to the corporate firms. This is due to their business objective. NGOs are formed basically for the society.

3. Examine differences in non financial reporting: environmental and corporate social responsibility disclosure practices in private sector companies and public enterprises.

- There is no big difference between their reporting practices. However in their scope of disclosure there is big difference between them. As it is seen from the average CSREDI of both firms, the CSRED practices of Ethiopian private companied is dismal as compared to that of PEs.

- With regard to the reporting mechanism corporate firms used to report their corporate social responsibility and environmental issues both as a stand alone report and with in their corporate annual reports.

4. Examine the influence of company characteristics on non financial reporting: environmental and corporate social responsibility disclosure practices in private sector companies and public enterprises.

**I.** Company characteristics namely: age of the company, company size as measured by sales and total assets and capital employed and sales and ROI have no influence on the performance of CSRED in Ethiopian PEs.

**II.** In case of private companies, company characteristics namely: age, sales, ROI, total assets and capital employed have influence on the performance of

The state of CSRED in Ethiopian corporate firms and NGOS is summarized in the following table and graph.

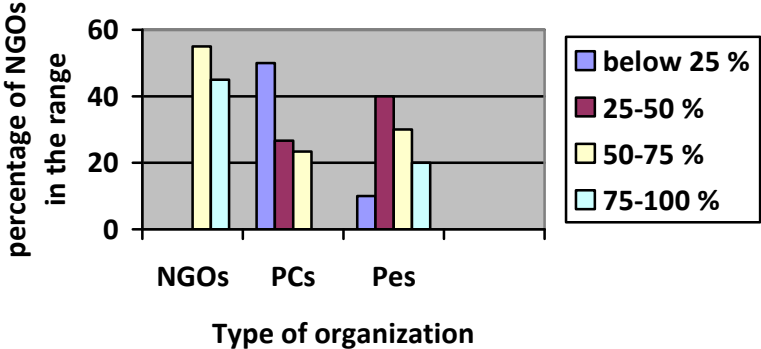
Table 3-22

Summary of CSRED practices in Ethiopian corporate firms and NGOs

CSREDI %	NGOs	PCs	PEs
Below 25 %	0	50	10
25-50 %	0	26.67	40
50-75 %	55	23.33	30
75-100 %	45	0	20

Source: compiled from tables 3.7,3.14,3.21

### State of CSRED in Ethiopian corporate firms and NGO



## **CHAPTER FOUR**

### **CONCLUSION AND RECOMMENDATION**

In this part of the paper the findings of the study in detail would be discussed. All the conclusions in the form of findings of the study are supplemented by suggestions. Finally, the study would be finalized by the recommendation of a suitable structure of a corporate social responsibility and environmental disclosure for the corporate firms.

#### ***4.1. Conclusions and Suggestion***

Corporate social responsibility and environmental reporting and disclosure is at an initial stage in Ethiopia and is in need of further development in parallel with the improvement of corporate governance and the increasing of public awareness on sustainable development. After thorough analysis has been made the following results has been attained from the study.

- I. The state of CSRED of NGOs was very good as compared with that of corporate firms. Since their purpose of establishment is for the society, almost all NGOs used to report their social activities in their annual reports.
  
- II. As we go to the state of CSRED practices of public enterprises in Ethiopia, it is much better than that of private companies, as the average CSREDI obtained by PEs was 51.6% and that of the private sector companies was 24.8 %. One of the possible results for such performance could be the social objective of PEs. As it is mentioned in the definition of PEs, besides their commercial activities; PEs are established to fulfill the social objective for masses of the country and hence it is reasonable to expect a good social performance from them. Besides there are some regulations which force the public enterprises to report their social performance in their corporate reports as it is obtained by the interviews done with the higher officials of the

Ethiopian environmental protection Authority and Privatization and Public Enterprises Supervising Agency.

- III. With respect to the state of CSRED practices of private companies, it was extremely dismal as compared to that of PES. The average CSREDI obtained by private companies was 24.8 % against 51.6% which is obtained by PES.

This clearly reveals that as the core objective of private companies is maximizing shareholder's wealth, giving much thought on the social aspect of their responsibilities is against their profit motive; which in turn adds costs and reduces profits. However for the sustainable growth of the company, it is recommended that focusing on the social activities will increase the propensity of future growth at the expense of today's profit.

- IV. The study also reveals that the company characteristics have no impact on the performance of corporate social responsibility and environmental disclosure of public enterprises. However it has an impact on the performance of corporate social responsibility and environmental disclosure of private sector companies.

## ***4.2. Recommendation***

### **4.2.1. Recommendations for companies**

Considering the growing importance of sustainable development in Ethiopia companies need to pay more attention to both their environmental performance and their corporate social responsibility. The environmental protection authority in Ethiopia is established for the objective of formulating policies, strategies, laws and standards, which foster social and economic development in a manner that enhance the welfare of humans and the safety of the environment sustainable, and to spearhead in ensuring the effectiveness of the process of their implementation. The use of systematic measures and economic measures, in collaboration of other concerned government agencies, are being used to regulate corporate environmental behavior.

The active role of mass media and increasing public environmental awareness shall create more opportunities for good environmental reporting and disclosure linked to the management of company reputation. In an age of globalization, investors, analysts and customers all over the world transfer pressures to companies in Ethiopia through economic interaction.

Ethiopia is following the global trend in many aspects and will definitely keep up with the development of corporate environmental reporting and disclosure shortly. Therefore, it is important for companies to learn how to respond to this trend.

Different kinds of companies should have different strategies:

- For heavy polluting companies, the best way to deal with environmental problems is to upgrade their technology to an environmental friendly one, which will influence future competitiveness. Before that, they should at least meet with government-

required standards and report all required details to the government. There is also now an opportunity to begin to prepare for voluntary corporate social responsibility environmental disclosure.

- For light polluting companies, corporate social responsibility and environmental disclosure enhance their competitiveness in the marketplace. It is not difficult for them to use leading international reporting guidelines or standards.
- For companies involved in foreign investment or trade affairs (including companies listed on overseas stock exchanges), corporate social responsibility and environmental disclosure is increasingly required to communicate to foreign partners and investors.
- For companies based abroad and entering the Ethiopian market, they should be concerned about the environmental performance of the business partners located in Ethiopia. Recognizing the future development of laws and regulations in Ethiopia as well as public pressures at home and abroad, they had better partner with those with better environmental and social performance and those applying corporate social responsibility and environmental disclosure.

#### ***4.2.2. Suitable Structure of Social Reporting***

The study revealed that the various aspects of corporate social responsibility and environmental disclosure are scattered in the annual report at various places. It is suggested that condensed form of corporate social responsibility and environmental disclosure statement could be prepared whereby all the details of corporate social responsibility and environmental disclosure could be incorporated at one place precisely,

A social report could be provided for studying the social responsibility statement and the statement of social income and expenditure.

The statement social responsibility would enable the user to understand the investment and capital expenditure incurred on social items and the statement of social income and expenditure would enable the user to know the revenue expenses and revenue income from rendering the social services.

If the company engages in any social activity, the cost of providing it, identifiable income accruing thereon and the number of beneficiaries are disclosed. But, on the other hand, if the company does not engage in the social activities, the column may be left blank and an explanation of the issue be given. There are many expenses which will not directly affect income, but intangible benefits may be obtained. In those cases, a supplementary narrative report may be given.

The researcher suggests following format for CSRED by compiling the format from the literature review and annual reports of different organizations.

A. Corporate Social Responsibility and environmental Disclosure Statement

<b>Particulars.</b>	<b>Amount</b>	<b>Number of beneficiaries</b>
<b><i>A. Towards Employees</i></b>		
Transportation	XX	XX
Gender equality/ diversity	XX	XX
Residential Complexities	XX	XX
Training	XX	XX
Medical Facilities	XX	XX
Occupational Safety	XX	XX
Canteen	XX	XX
Training and placing displaced workers	XX	XX
Others	XX	XX
<b><i>B. Towards Community</i></b>		
Energy conservation	XX	XX
Water conservation	XX	XX
Conservation campaign / the benefits to the environment of the entity's products and services/.	XX	XX
Air Pollution protection	XX	XX
CO2 emission	XX	XX
Waste products recycling	XX	XX
Purchase of dust absorption machine	XX	XX
Establishment of Educational Institutions and support for education	XX	XX
Recreation and public clubs	XX	XX
Road construction	XX	XX
Rural Development	XX	XX
Donations	XX	XX
Research and development	XX	XX
Industrial Relations	XX	XX
Foreign exchange	XX	XX
Export Statistics	XX	XX
<b><i>Total</i></b>	<b><i>XXX</i></b>	<b><i>XXX</i></b>

## B. Social Income Statement

<b>Social Costs</b>	<b>Amount</b>	<b>Social Benefits</b>	<b>Amount</b>
<b><i>I. Social costs to staff</i></b>		<b><i>I. Social benefits</i></b>	
Medical and hospital facilities	XX	Income from medical facilities	XX
Residential facilities	XX	Income fro letting house	XX
Recreation and Canteen facilities	XX	Income from clubs and canteens	XX
Transport	XX	Income from transport	XX
Training and development	XX	Income from educational institution	XX
Cost of Training and placing displaced workers	XX		
Promotion of occupational safety	XX		
<b><i>II. Social costs to Community</i></b>			
Pollution control and environment protection	XX	Income from libraries/halls	XX
Cost of CO2 emission	XX	Income from medical facilities	XX
Donations and charities	XX	Income fro recreation	XX
Cost of waste products recycling	XX	Energy saved	XX
Cost of dust absorption machine	XX	Welfare activities	XX
Promoting educational institutions & support for education	XX		
<i>Excess of income over expenditure</i>	<b>XX</b>	<b><i>Excess of expenditure over income(balancing Figure)</i></b>	<b>XX</b>
<b><i>Total</i></b>	<b>XXX</b>	<b><i>Total</i></b>	<b>XXX</b>

## ANNEX -I

### List of sample companies

S.No	Public Enterprises	S.No.	Private Companies
1	Ethiopian Air Lines	1	Moha soft drinks factory sh.co.
2	Commercial Bank of Ethiopia	2	Addis modjo edible oil sh.co.
3	National Bank of Ethiopia	3	United bank share company
4	Ethiopian Insurance Corporation	4	United insurance share company
5	Muger Cement Enterprise	5	Abysinia Bank of Ethiopia
6	Ethiopian Hotels Enterprise	6	Guna Trading house PLC
7	Addis Ababa Bottles and Glass Sh. Co.	7	Total Ethiopia Share Company
8	Ethiopian Marble Processing Enterprise	8	Ghion Industrial
9	Misrak Flour Industry	9	Web get PLC
10	Fafa food factory	10	Crown sea PLC
	NGOs	11	NAS foods PLC
1	Christian Relief and Development Association(CRDA)	12	Midroc Ethiopia Sh. Co
2	Action Aid Ethiopia	13	Dashen Bank Share company
3	Jesuit Refugee Service	14	Yetebaberut oil Share company
4	Doctors with Africa, CUHAMM Ethiopia	15	PU PVC Sole and Shoe factory PLC
5	Adult and Non formal Education in Ethiopia	16	MALCO PLC
6	Pastoralist Forum Ethiopia	17	Awash International Bank
7	Emmanuel Home	18	Ambassa Enterprise PLC
8	Ethiopian Evangelical Church Mekane yesus	19	Tezena General Hospital
9	Facilitator for change	20	Tibeb Printers Enterprise
10	Children Aid Ethiopia	21	Ziquala Steel processing PLC
11	Tear fund Horn Of Africa Regional Office	22	Ayat Share Company
12	Pestalozzi Children's Foundation Ethiopia	23	Cabay PLC
13	Save the Children Finland	24	Ethiopian Electronic PLC
14	AMAREF Better health for Africa	25	G-7 Trading and Industry PLC
15	Forum on Street Children in Ethiopia	26	Gasco Trading PLC
16	Save the Children (Denmark)	27	Global Development PLC
17	African Humanitarian Action	28	Coka Cola Industry
18	Agri Service Ethiopia	29	Betzatha Hospital
19	DSW-German Foundation for world population	30	Sun shine Construction PLC
20	International Medical Corps		

## ANNEX II.

The profile of the sample companies based on selected company characteristics were as follows:

	Private sector companies		Public Enterprises	
a)	Age in years	No. of Cos	Age in years	No. of Cos
	1 – 10	11	1 – 10	
	11 – 20	13	11 – 20	
	21- 30	5	21- 30	
	More than 30	1	More than 30	10
b)	Sales in br.	No. of Cos	Sales in Ethiopian birr	No. of Cos
	1-10,000	0	1-10,000	
	10,001-100,000	0	10,001-100,000	
	100,001-500,000	5	100,001-500,000	
	More than 500,000	25	More than 500,000	10
c)	Total Assets in br	No. of Cos	Total Assets in Eth. Birr	No. of Cos
	1-100,000		1-100,000	
	100,001-500,000		100,001-500,000	
	500,001-1000,000	5	500,001-1000,000	
	More than 1,000,000	25	More than 1,000,000	10
d)	Capital Employed(br)	No. of Cos	Capital Employed	No. of Cos
	1-100,000		1-100,000	
	100,001-550,000		100,001-550,000	
	550,001-1,500,000	5	550,001-1,500,000	
	More than 1,500,000	25	More than 1,500,000	10
e)	EBIT(br)	No. of Cos	EBIT(br)	No. of Cos
	1-50,000		1-50,000	
	50,001-150,000		50,001-150,000	
	150,001-250,00	3	150,001-250,00	
	More than 250,000	27	More than 250,000	10
f)	ROI (percentage)	No. of Cos	ROI (percentage)	No. of Cos
	0-10	6	0-10	3
	11-20	6	11-20	
	21-30	10	21-30	2
	above 30	8	above 30	5

Source: Compiled from the annual reports and questionnaire collected.

ANNEX III

**ADDIS ABABA UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
FACULTY OF BUSINESS AND ECONOMICS  
DEPARTEMENT OF ACCOUNTING AND FINANCE**

**Questionnaire on the Research:**

*Non financial reporting: Corporate Social Responsibility and Environmental Reporting –  
An Ethiopian case (to be filled by Corporate Firms)*

Introduction:-

I am a final year Accounting and *Finance* (MSC) student at Addis Ababa University School of Graduate Studies: Faculty of Business and Economics. As a partial fulfillment of the program, I am conducting a study on Non Financial Reporting: Corporate Social Responsibility and Environmental Reporting–An Ethiopian case. The purpose of this questionnaire is to better understand the extent of Non Financial Reporting: Environmental & Corporate social responsibility disclosure in Ethiopian Corporate firms and to examine the influence of company **characteristics** on non financial reporting: CSR and environmental reporting. The questions are designed in a manner that can be dealt with easily and the corresponding answers will be kept strictly confidential.

Finally, I would like to express my gratitude in advance for your cooperation and time spent for answering this questionnaire.

**Part I. Profile of respondents'**

1.1. Gender / please tick/

- a) Female  b) Male

1.2. Age / please tick/

- a) 15 to 30   
b) 31 to 40   
c) 41 to 50   
d) above fifty

1.3. Qualification/ please tick/

- a) 12 complete   
b) Diploma   
c) First Degree   
d) Masters   
e) ACCA   
f) If other please specify\_\_\_\_\_

1.4. For how many years have you been working in the company? / please tick/

- a) 1 to 5 years   
b) 6 to 10 years   
c) 11 to 15 years   
d) More than 16 years   
e) If other please specify\_\_\_\_\_

**Part II. Company Characteristics**

**Age**

2.1. Number of years your company has been in operation? (Please tick)

- a) 1 to 10 years
- b) 11 to 20 years
- c) 21 to 30 years
- d) More than thirty years
- e) If other please specify\_\_\_\_\_

**Sales**

2.2. Current period's sales per year in birr. / please tick/

- a) 1 to 10,000 birr
- b) 10,001 to 100,000 birr
- c) 100,001 to 500,000birr
- d) More than 500,000 birr
- e) If other please specify\_\_\_\_\_

**Size of the company**

2.3. Current period total assets in birr. / please tick/

- a) 1 to 100,000 birr
- b) 100,001 to 500,000 birr
- c) 500,001 to1,000,000birr
- d) More than 1,000,000 birr
- e) If other please specify\_\_\_\_\_

2.4. Capital employed as of current period in birr/ please tick/

- a) 1 to 100,000 birr
- b) 100,001 to 550,000 birr
- c) 550,001 to 1,500,000 birr
- d) More than 1,500,000 birr
- e) If other please specify \_\_\_\_\_

***Return on Investment/ROI/***

2.5. Your earnings before interest and tax for the current period in birr. /please tick/

- a) 1 to 50,000 birr
- b) 50,001 to 150,000 birr
- c) 150,001 to 250,000 birr
- d) More than 250,000 birr
- e) If other please specify \_\_\_\_\_

***Type of ownership***

2.6. Ownership /please tick/

- a) Private
- b) Public
- c) If other please specify \_\_\_\_\_

**Part III. Company Information on the disclosure of CSR and environmental issues**

3.1. Do you disclose corporate social responsibility & environmental issues? /please tick/

- a) Yes
- b) No
- c) Planning to disclose

3.2. If your answer for the above question is yes, how do you disclose it? /please tick/

- a. \*As a stand alone report
- b. With in the corporate annual report
- c. If other please specify \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\* Stand alone report means reporting the corporate social responsibility and environmental issues in a format different from the corporate annual report.

3.3. Which one of the following is included in the disclosure of your corporate social responsibility & Environmental Issues? /Please tick /

Yes      No

**A. Towards Community**

- |  |                          |                          |
|--|--------------------------|--------------------------|
| a. Energy conservation   | <input type="checkbox"/> | <input type="checkbox"/> |
| b. Water conservation  | <input type="checkbox"/> | <input type="checkbox"/> |
| c. Conservation campaign / the benefits to the environment of the entity's products and services/. | <input type="checkbox"/> | <input type="checkbox"/> |
| d. Air Pollution protection  | <input type="checkbox"/> | <input type="checkbox"/> |
| e. CO2 emission  | <input type="checkbox"/> | <input type="checkbox"/> |
| f. Waste products recycling  | <input type="checkbox"/> | <input type="checkbox"/> |

- g. Purchase of dust absorption machine
- h. Establishment of Educational Institutions    
and support for education
- i. Recreation and public clubs
- j. Road construction
- k. Rural Development
- l. Donations
- m. Research and development
- n. Industrial Relations
- o. Foreign exchange
- p. Export Statistics

***B. Towards Employees***

- q. Transportation
- r. Gender equality/ diversity
- s. Residential Complexities
- t. Training
- u. Medical Facilities
- v. Occupational Safety
- w. Canteen
- x. Training and placing displaced workers
- y. If other please specify \_\_\_\_\_  
\_\_\_\_\_

3.4. What is/are your objective(s) for disclosing Corporate Social Responsibility and environmental issues? (You can choose more than one choices)

- a) To identify and measure the periodic net social contribution of an individual
- b) To determine whether the firm's strategies and practices that directly affect the relative resources are consistent with social principles.
- c) To improve the business performance and sustainable growth.
- d) To improve processes and reduce costs,
- e) To comply with regulatory requirements and stakeholder expectations,
- f) To take advantages of new market opportunities
- g) If other please specify \_\_\_\_\_

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3.5. What is your frame work for Corporate Social Responsibility and Environmental Reporting?  
/please tick/

- a) IAS/International Accounting Standards/
- b) Generally accepted accounting principle/GAAP/
- c) Commercial Code
- d) As per the standard stated by environment al protection agency
- e) If other please specify \_\_\_\_\_

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3.6. Who are the major users of your corporate annual reports? (You can choose more choices)

- a) Banks and other lenders
- b) Share holders
- c) Employees

d) The public at large

e) If other please specify \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Thank you!!

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