CSR Strategies in sub-Saharan Africa: Focusing on the Bottom of the Pyramid

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Abstract

In sub-Saharan Africa, the number of foreign-owned extractive industries in natural-resource-rich continues to increase. As these multi-national corporations (MNCs) expand, there is increasing pressure from western governments and NGOs for these MNCs to give back to these “resource-cursed” communities through Corporate Social Responsibility (CSR) initiatives. This leads to a need to understand the extent to which a MNC in sub-Saharan Africa should pursue a (CSR) strategy. This paper explores the current challenges of CSR in sub-Saharan Africa through the lens of Carroll’s Pyramid of Social Responsibility, which reflects on a corporation’s pursuit of economic, legal, ethical, and philanthropic responsibilities. With a focus on CSR initiatives that have the most economic benefit to both the MNC and the country in which it operates, this paper suggests that in sub-Saharan Africa, the most challenging aspects of the pyramid are the legal and ethical contexts, as MNCs are often operating in countries with autocratic regimes and differing perceptions on the rule of law. Based on the challenges of having effective CSR initiatives in sub-Saharan countries, this paper will conclude with a recommendation that the most economically effective form of CSR may, in fact, be requiring more accountability on the part of MNCs and focusing on these companies upholding the legal and ethical contexts of Carroll’s pyramid to retain capital in the resource-cursed countries of sub-Saharan Africa.

Keywords: Corporate Social Responsibility, extractive industries, sub-Saharan Africa, offshore corporate social responsibility, multinational corporations.
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Corporate Social Responsibility (CSR) has meant everything from “a person’s obligations to consider the effects of his decisions and actions on the whole system” (Carroll, 1999, p. 272) to “good neighborliness” (Carroll, 1999, p. 278) to a concept that embodies the “economic, legal, ethical, and discretionary categories of business performance” (Carroll, 1979, p. 499), to “corporate social or environmental behavior that goes beyond the legal or regulatory requirements of the relevant market(s) and/or economy(s)” (Kitzmueller & Shimshack, 2012, p. 53). It is broadly used as an umbrella term that means something – but not always the same thing – to everybody and encompasses the complex relationships between business and the society in which it operates (Jamali, Lund-Thomsen, & Jeppesen, 2017). Despite its many iterations, CSR is fundamentally balancing the need for profitability with societal concerns (Freeman and Gilbert, 1987) and “manifests itself in some observable and measurable behavior or output” (Kitzmueller & Shimshack, 2012, p. 53).¹

The concept of CSR and what it means for companies is embedded in a larger argument over what exactly the role of a for-profit² corporation is in society. On one end of the spectrum, Milton Friedman, proclaimed that, “the social responsibility of business is to

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¹ Since firms can produce a public good (i.e. a good that is non-rival and non-excludable in consumption) or externality, either positive or negative, in the process of producing a private good, some in the economics literature study CSR through the lens of public goods provision (Bagnoli & Watts, 2003; Besley & Ghatak, 2007). In this framework, whether CSR is a Pareto improvement depends on the public goods provision of the government.

² The distinction between for-profit and non-profit business makes a difference in the analysis because evaluating non-profit businesses is more convoluted than evaluating for-profit businesses. Whereas profit still serves as a widely accessible tool to evaluate for-profit businesses, non-profits are often judged on inputs rather than outputs. For example, how does one evaluate the success of a non-profit distributing mosquito nets to prevent malaria? Is the appropriate metric the number of mosquito nets distributed or the estimated number of malaria cases prevented? The consideration of opportunity costs is also more difficult to measure without monetary measurements like profit.
increase its profits” (1970, p. 32). Others take a more middle-of-the-road approach and believe that the responsibility of business may include something other than the traditional value system, which is focused on profit, economic growth, efficiency, and financial performance (Frederick, 1987), implying that business can do more to be socially responsible. Finally, at the other end of the spectrum, there are those who believe that business may have a responsibility to society that is beyond profit-seeking and maximizing its own financial well-being (Carroll & Shabana, 2010).

A company’s response to societal concerns, however, is complicated by the fact that its primary focus is typically on growing its products while adapting to a constantly-changing economic and competitive environment (Ackerman, 1973). In fact, integrating societal demands into a company’s operations may reduce its ability to produce goods or services, which can ultimately make it less profitable (ibid.). This fundamental tension between focusing on profit and integrating CSR has been increased by the rise of consumer activism in the western world and the fact that consumers are now looking for corporations to act responsibly and benefit the community and environment (Utting, 2005). In short, social responsibility is becoming more fashionable than simply pursuing profit motive (Levitt, 1958).

However, does – and should – CSR play a similar role in sub-Saharan Africa? While CSR in the United States has been increasingly tied to a corporation’s pursuit of the triple bottom

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3 While the latter two approaches may appear to be irrational to different stakeholder groups because CSR represents a cost to the firm, either in lower profits for shareholders, lower wages for workers, or higher prices for consumers, this does not need to be the case. For example, shareholders may desire lower profits for themselves if the alternative is higher compensation for company executives (Kitzmueller & Shimshack, 2012) or if the shareholders receive a non-monetary benefit from CSR spending which outweighs the loss of additional profits. Workers may also accept lower pay if they view the good the firm is producing as socially enhancing (Preston, 1989).
line – profit, planet, people – and has nearly become an expectation of doing business (Morrison, 2012), companies in Europe are still developing their CSR platforms. In fact, Cedillo Torres, Garcia-French, Hordijk, Nguyen & Olup (2012) find that European companies that have been “on thin ice” are the ones who are usually most interested in CSR issues. Unfortunately, studies examining CSR in institutionally constrained environments such as sub-Saharan Africa continue to be rare (Julian & Ofori-Dankwa, 2013).

In sub-Saharan Africa, the extractive industries, those working in mineral and petroleum extraction, are booming (Campbell, 2012). This is due in large part to the fact that sub-Saharan Africa is home to twenty of the most resource-rich nations in the world. However, many countries in sub-Saharan Africa face the resource curse or paradox of plenty in which these countries consistently fail to turn their wealth in natural resources into an increase in even a basic standard of living for its citizens (Nwagbara, 2016), specifically if the quality of their institutions is poor (van der Ploeg, 2011).

Moreover, the concept of a resource curse implies that citizens are ultimately harmed through the extraction of natural resources (Keblusek, 2010). While this industry is making a select few very wealthy, it has not resulted in economic development for the majority of its citizens (Ackah-Baidoo, 2012). The industry itself is constructed of foreign multi-national corporations (MNCs) who set up enclave-type camps that are largely isolated from the community in which they are working (Hilson, 2012). Oil and minerals, resources that are more prone to enclave type extraction, encourage rent seeking (Sala-i-Martin & Subramanian, 2003) and increase civil conflict (van der Ploeg, 2011), preventing development. However, the quality

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of institutions plays a role in how detrimental rent seeking is. With good institutions, rent seeking and production are complementary activities, allowing countries to avoid the resource curse (Mehlum, Moene, & Torvik, 2006a; 2006b).

At the same time, there is an increased focus on good governance of these multinationals, including the Extractive Industries Transparencies Initiative which has been implemented to some degree in twenty countries in Africa (Moberg, 2010). Does this mean, however, that MNCs operating in sub-Saharan Africa are obligated to “do good” through CSR initiatives simply to satisfy external stakeholders? This paper will analyze the challenges that firms operating in sub-Saharan Africa face in developing and implementing CSR through the framework of Carroll’s Pyramid of Social Responsibility. In conclusion, this paper will present a recommendation that addresses the economic interests of the developing country and the MNC and focuses on pursuing the Economic and Legal Responsibilities almost exclusively before moving to stakeholder-driven CSR strategies.

**Literature Review**

**Carroll’s Four Contexts**

Carroll’s concept of corporate social responsibility was established in the 1960s and remains the most widely cited in the literature (Visser, 2006). The presentation of CSR as a multi-layered concept consisted of four interrelated concepts consisting of economic, legal, ethical, and philanthropic was presented in 1991 (Cedillo Torres et al., 2012). This basic
overview is illustrated in Figure 1.

Fig. 1 Carroll’s CSR pyramid. Source: Carroll (1991)

First, the economic context refers to a business’ primary responsibility of producing goods and services that society wants and selling them at a profit. Second, the legal context presumes that the business is operating under the laws and regulations that apply to its industry. Third, the ethical context, admittedly a gray area, refers to how businesses behave according to societal norms, which often go above and beyond the legal and regulatory requirements. Finally, the fourth context, philanthropic or discretionary, relates to a company’s voluntary roles and activities in society (Carroll, 1979). Both for-profit corporations and social enterprises fulfill each of these contexts to differing degrees, and it can be helpful to think of each of these contexts as a continuum, whereby each entity can be graded on a “do nothing” to a “do much scale of implementation (Mbonda, 2016).
Carroll’s pyramid is far from a perfect metaphor for CSR in sub-Saharan Africa. For proponents of philanthropy, the very concept of a pyramid indicates that the foundation of economic responsibility is the most important, while philanthropy can be considered a “hoped for” activity that, if not accomplished, is neither unethical nor illegal (Mbonda, 2016). Furthermore, Carroll’s model suggests that ability for a MNC to implement philanthropy depends on its economic, legal, and ethical successes (Amoaka, 2016).

**Economic**

It should come as no surprise that a business’ focus on economic success forms the foundation of Carroll’s pyramid. After all, if business cannot produce a product or service that is needed by society and make a profit, it will eventually cease to operate. In addition, current measures of a firm’s value and success are based almost solely on financial performance (Harrison, 2011). Everything from the stock market to annual reports measures a corporation’s financial performance, which is one reason why firms typically make maximizing shareholder value a key priority. Additionally, the theoretical grounding of CSR antecedent research, which focuses on why a company would initiate a CSR strategy, is grounded in slack resource theory (Julian & Ofori-Dankwa, 2013). Slack resource theory suggests that when financial resources are in abundance, firms can engage in discretionary activities such as CSR (Salzmann, Ionescu-Somers & Steger, 2005). However, firms operating in sub-Saharan Africa face difficulties that those operating in developed nations do not. These include difficult accessing investment funding and working capital, accessing an operational stock market or even accessing bank loans. As a result, MNCs operating in sub-Saharan Africa often develop a culture of hoarding capital to assure their financial success considering few external options (Julian & Ofori-Dankwa, 2013).
In sub-Saharan Africa, there may be fewer external pressures for a company to implement a CSR strategy. For example, in the west, there is growing pressure and even requirements for reporting from governments that are forcing MNCs to become more sustainable and pursue CSR strategies that benefit the communities in which they operate (Geen, 2012). However, in sub-Saharan Africa, states “show little vigilance concerning the implementations of CSR,” which means that it is up to civil society (Mbonda, 2016, p. 175) and consumers in developed countries (Kitzmueller and Shimshack, 2012) to pressure MNCs to pursue CSR initiatives (Mbonda, 2016, p. 175.). While civil society in western countries may include outraged citizens that influence CSR initiatives, in sub-Saharan Africa and other developing economies, civil society is largely comprised of NGOs and advocacy groups (Hofman, Moon & Wu, 2017), which often lack the power of citizens because they have no voting capacity.

Legal

The Legal aspect of Carroll’s pyramid implies that a business should operate under legal restrictions and governmental guidelines in the countries in which they operate (Visser, 2006). This is perhaps easier said than done in sub-Saharan Africa, where countries dominate the top third of most-corrupt countries according to Transparency International’s Corruption Perceptions Index (2017). The World Bank (2007) estimates that of the $20 to $40 billion of assets hidden by corrupt leaders in developing countries, most of it is from corruption in Africa and the IMF (2016) reports that corruption in sub-Saharan Africa has caused “recent integrity failures” (p. 7).

Additionally, governments in sub-Saharan African often have few resources – physical, financial or human – to enforce any regulations that they may have (Mzembe, Downs, and Meaton, 2016). MNCs themselves often fail to undertake political or corruption risk assessments.
highlight that specifically in West Africa, there are limited laws that dictate a business’ social investment, and what few regulations that do exist are weakly enforced. In addition, there are few norms or expectations that relate to a business’ social investment in West Africa. At the same time, MNCs are quick to address what they view as dysfunctional administrative and political systems within the countries in which they operate, and there is a general belief that these “governance gaps” need to be fixed before MNCs can effectively contribute to local development and poverty alleviation (Campbell, 2012).

### Ethical

The lack of government regulations and the infrastructure to support them suggests that the legal context of Carroll’s pyramid quickly blurs into the ethical context. If there is no repercussion for a MNC to follow a country’s laws, what are the ethical pressures for them to comply? In response to this question, Ferguson (2006) and others have drawn a direct correlation between countries with the weakest or most corrupt states and those that attract significant inflows of capital from mining companies. This is exacerbated by the fact that many MNCs simply negotiate directly with an autocratic regime to gain access to oil or other resources, and these deals lack any sort of accountability (Ackah-Baidoo, 2012). A recent report released by the African Union’s panel on illicit financial flows and the United Nations Economic Commission for Africa (UNECA) indicate that Africa loses over $50 billion each year due to illicit financial flows, the majority of this being through the extractive industry (United Nations, 2015). Ackah-Baidoo (2012) and Hilson (2012) have pointed to leaders in countries such as Cameroon, Equatorial Guinea, and Gabon who have personally benefited and have even been able to stay in power (Ross, 2001) because of the extractive MNCs working in their countries.
However, is this lack of accountability an ethical breach on the part of the MNC or on the part of the government? Cash (2012) suggests that there is a difference between CSR and corporate accountability and that it is not the role of the MNC to enforce accountability. However, Ackah-Baidoo (2012) suggests that the larger issue is that MNCs are over-stating their role in both providing accountability as well as reducing poverty in the countries in which they operate. This sort of “greenwashing” seeks to legitimize the power of MNCs (Banerjee, 2008; Mueller-Hirth, 2016) and may be particularly true of the extractive industries that are ultimately profiting from natural resources that are mined in such a way that causes environmental challenges.

Larger ethical issues can include the extent to which a corporation can pollute the environment as well as the use of child labor and labor practices that are unethical and harmful from a western viewpoint. These ethical issues relate to CSR because they can alter the public's perception of a corporation. Unlike Apple or other MNCs that sell brand-name products across the globe, MNCs operating in the extractive industry rarely generate the same level of awareness from the western world, and they often operate in countries where local citizens have a limited to non-existent voice within an autocratic regime (Sayne, Gillies & Watkins, 2017). From a practical standpoint, while Apple will continue to make amazing technical products, their shiny image has been marred by substantiated allegations that their Chinese subcontractors utilized employment practices that are considered inhumane by western standards (Karlggaard, 2012). The same is simply not true for Royal Dutch Shell, Eni S.p.A., Statoil ASA, and other powerful companies that have little name recognition outside of the extractive industry.

In response to growing concern over ethical issues and alleged abuses by the extractive industry, in 2002 western governments and NGO’s developed the Extractive Industries
Transparency Initiative (EITI), which the World Bank endorsed and funded, to bring accountability to MNCs pursuing contracts through Africa (Hilson and Maconachie, 2008). The primary goal of EITI is to focus on accountability and therefore work to reduce corruption, as defined by Robert Klitgaard’s (2008) equation:

\[ \text{Corruption} = \text{(M) + (D)iscretion} - \text{(A)ccountability} \]

EITI is voluntary, and while some countries, such as Nigeria, have legislated that MNCs follow EITI’s reporting, only 20 African countries are implementing EITI at any level. Research investigating the link between EITI compliance and the level of corruption in the country is less than promising. Research by Keblusek (2010) on the effects of Nigeria’s implementation of EITI indicates that there have been some positive, albeit marginal, improvements in the reduction of corruption by MNCs operating in Nigeria. Corrigan (2014) finds that EITI has little effect on the amount of corruption in a country. Kolstad and Wiig (2009) and Sovacool and Andrews (2015) argue that transparency alone will do little to reduce corruption.

**Discretionary/Philanthropy**

For traditional for-profit corporations, the most tenuous context is the category of discretionary CSR. There is a fundamental tension between maximizing profit and demonstrating social responsibility, and this has resulted in unique CSR initiatives that often do not relate directly to a corporation’s stated mission. In 1984, Freeman expressed concern over the concept of CSR being simply an “add on” to “business as usual” or that “corporate social responsibility is fine, if you can afford it” (40). Throughout the United States and Europe, many CSR initiatives are add-ons to corporate activity and are operationalized as public relations and media, general philanthropic initiatives, or
volunteerism (Waddock, Bodwell, & Graves, 2002; Porter & Kramer, 2006). These “add-on" activities appear to be spreading from the west to sub-Saharan Africa.

Perhaps in response to the EITI, there has been an increase over the past two decades of extractive industries operating in sub-Saharan African investing in CSR activities such as providing funding for roads, health clinics, and wells that provide clean water (Ackah-Baidoo, 2012). As there is more of a push from civil society and western operators for transparency, MNCs are increasingly seeking to invest in CSR to improve their international reputation (Cash, 2012). While this may be perceived as a win for local communities, Ackah-Baidoo (2012) believes that MNCs – particularly those operating in secured enclaves that are isolated from local communities – simply do not understand the real needs of indigenous populations. This implies that the CSR initiative is more about preserving corporate reputation than about intentionally investing in a local community.

To be fair, MNCs operating in the extractive industries in sub-Saharan Africa face a “damned if you do, damned if you don’t” dilemma when incorporating CSR or broader philanthropic strategies. Some researchers (Ackah-Baidoo, 2012) argue that it is the role of the MNC to lead initiatives that will help develop a sustainable society. In large part, this is because funds that are provided to corrupt governments does not generate significant improvement (ibid.). This concept is also supported by the Johannesburg Declaration on Sustainable Development, which suggests that the private sector needs to “contribute to the evolution of equitable and sustainable communities and society” (United Nations, 2010, p. 124). However, researchers such as Campbell (2012) and Cash (2012) suggest that MNCs should not – in fact, cannot – become private operators for functions that should be owned by the state. Instead, these researchers suggest that the only way to achieve sustainability is to have MNCs invest revenues
into agriculture and manufacturing that is part of a government developed and supported broad economic development plan (Cash, 2012).

Discussion

Limitations of CSR

Within the added complexity of sub-Saharan Africa, CSR faces some specific challenges. First, who leads a CSR initiative? Should a MNC attempt to work within the existing government infrastructures, even if they may be corrupt? Or should a MNC implement CSR that it believes is in the best interest of the community, essentially functioning as the state? If the latter is the case, then how does the MNC know what needs the community needs and, moreover, what needs can be sustainably supported (Campbell, 2012). Genasci and Pray (2008) argue that CSR could be detrimental to long-term development if it does not help the government become more effective. Second, as EITI and other initiatives focused on the transparency of MNCs working in developing nations gain prominence, there may be a knee-jerk reaction of MNCs to develop CSR programs – any CSR program – simply to look like a good corporate citizen. This reactionary CSR is usually detrimental to both the MNC and the community, because the CSR initiative is driven by a public relation’s need and is likely not a core part of the corporation’s mission (Egan, 2011). Moreover, Visser (2006) suggests that the west still dominates CSR agendas and pushes MNCs, often through the guise of increased transparency, to complete CSR activities that western countries view as being beneficial to African countries.

This is further complicated by the fact that it is difficult to find any conclusive evidence that CSR initiatives have improved financial performance in corporations (Garcia-Castro, Ariño, & Canela, 2010; Nelling & Webb, 2009; Shazad & Sharfman, 2017; Surroca,
 therefore, there is little financial incentive to invest in either short-term or long-term results. Finally, Waddock et al., (2002) suggests that meaningful CSR initiatives that are truly responsive to the community can take years to develop. Given these tensions, can CSR ever be integrated into a corporation in a way that makes sense from economic and societal standpoints? For sub-Saharan Africa, the conclusion of these authors is that the most effective CSR strategy is for MNCs to focus on the first three sections of Carroll’s CSR pyramid, with an emphasis on legal behavior.

**Recommendations**

At its core, CSR is an economic decision. In the U.S., companies often engage in CSR to demonstrate their social responsibility or reach a new demographic. This decision to invest in CSR is countered by a desired increase in brand value or sales (Rangan, Chase & Karim, 2015). However, as outlined above, MNCs operating in sub-Saharan Africa do not face the same pressures from civil society or even accountability from local governments to pursue significant CSR. Some MNCs even justify their lack of social investment by stating that the economic risks of simply operating in a developing company is, in fact, a form of CSR (Julian & Ofori-Dankwa, 2013).

Building off this concept of the financial and economic risk that is inherent in operating in a developing company, these authors recommend that the CSR strategy that may be the most effective is one that seeks to eliminate corruption by enforcing EITI and other measures that force transparent reporting. The cost of corruption is significant. The IMF (2016) estimates the annual cost of bribery, which is one form of corruption, to be between $1.5 and $2 trillion. Walker (1999) estimates the annual amount of money laundered in the world is $2.8 trillion. For a perspective, world GDP in 2016 was
approximately $75.5 trillion (USD), meaning that at a minimum corruption totals two percent of GDP. Substantially reducing the amount of money firms spend on bribery would increase a firm's profitability and improve government performance. Since CSR is a second-best alternative to efficient public goods provision by government, reducing corruption and improving government institutions represents a Pareto superior move compared to weak institutions paired with corporate CSR.

As the world continues to become wealthier and people have more of their basic needs met, consumers will begin to demand more non-material status goods. One of these non-material status goods is likely to be CSR, making CSR a normal good in the economic sense. Therefore, reducing the cost of business through corruption reduction is an even more pressing matter for firm profitability in the long-run and a more profitable firm can engage in more CSR.

**Conclusion and Future Study**

As an overview piece, this article presents many additional opportunities for research. First, a quantitative research could be completed that assess the extent to which countries that have implemented EITI in some accord have decreased the level of corruption in their country. Since a primary goal of reducing corruption is leaving more profit in the country and decreasing illicit outflows, research could also be completed to analyze the extent to which this occurring in countries that support EITI.

Second, while there has been some initial research on the effectiveness of EITI (Keblusek, 2010), additional qualitative research could be completed to determine if EITI is, in fact, the most effective means of addressing accountability on both the side of MNCs operating within sub-Saharan governments as well as the governments themselves. An off-
Shoot of this research would be looking at differences between countries, such as Nigeria, that have made the reporting component of EITI a legal requirement for MNCs operating in the country versus countries that have voluntary EITI reporting requirements.

Corporate Social Responsibility is a growing part of how firms conduct business, particularly since the cost of gathering information continues to decline, meaning consumers have more information about how firms behave. As consumers become more knowledgeable, they will continue to press companies to enact CSR. Therefore, the pertinent question regarding CSR is not whether firms should or should not engage in CSR, but rather what type of CSR is most beneficial. As illustrated by Carroll’s Pyramid of Social Responsibility, the authors believe that MNCs operating in the extractive industries need to focus first on acting ethically. Corporations acting ethically have the ability to transform the way business is conducted in the extractive industry, and this could ultimately be of greater benefit to stakeholders than isolated CSR initiatives.
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