An Analysis of Institutional Environments on Corporate Social Responsibility Practices in Nigerian Renewable Energy Firms

Bolanle Deborah Motilewa, E. K. Rowland Worlu,Gbenga Mayowa Agboola, Ayodele Maxwell Olokundun

Abstract—Several studies have proposed a one-size fit all approach to Corporate Social Responsibility (CSR) practices, such that CSR as it applies to developed countries is adapted to developing countries, ignoring the differing institutional environments (such as the regulative, economic, social and political environments), which affects the profitability and practices of businesses operating in them. CSR as it applies to filling institutional gaps in developing countries, was categorized into four themes: environmental protection, product and service innovation, social innovation and local cluster development. Based on the four themes, the study employed a qualitative research approach through the use of interviews and review of available publications to study the influence of institutional environments on CSR practices engaged in by three renewable energy firms operating in Nigeria. Over the course of three 60-minutes sessions with the top management and selected workers of the firms, four propositions were made: regulatory environment influences environmental protection practice of Nigerian renewable energy firms, economic environment influences product and service innovation practice of Nigerian renewable energy firms, the social environment impacts on social innovation in Nigerian renewable energy firms, and political environment affects local cluster development practice of Nigerian renewable energy firms. It was also observed that beyond institutional environments, the international exposure of an organization’s managers reflected in their approach to CSR. This finding on the influence of international exposure on CSR practices creates an area for further study. Insights from this paper are set to help policy makers in developing countries, CSR managers, and future researchers.

Keywords—Corporate social responsibility, institutional environment, renewable energy firms, developing countries, international exposure.

I. INTRODUCTION

The interdependence between business and the society in which they operate in has found clear bearings in CSR [1] where CSR encompasses various components of the relationship between business and society, which goes above detached philanthropic promotions to an integrated business strategy. This strategy is rooted in day-to-day business culture and operations [2], [3], and is allied to core business objectives and competencies. The ultimate aim is to create business value and provide positive financial returns for the company, as well as positive social or environmental impact in the society (which covers the internal and external stakeholders of the firm, e.g. employees, customers, suppliers, local community and the government). However, major studies on CSR has assumed that business organizations are operating in a stable society, where the regulatory, economic, social and political institutions of the society are clearly stated and favourable to business organizations, as observed in developed/western countries [4], which is not the case in most developing countries, such as Nigeria that is majorly faced with institutional deficiencies [5], [6].

The business environment in Nigeria, for instance, although the largest economy in Africa, is characterized by intensified insecurity, economic degradation, political disturbance and poverty, weak infrastructure facilities, poor governance, feeble public sector, incompetent private property protection, corruption, weak enforcement of agreements, and high cost of doing business, thus creating a contaminated relationship between businesses operating in Nigeria and the Nigerian society, where businesses are forced to cut corners [6]-[8]. More so, resulting from these challenging institutional environments, businesses operating in developing countries with little or no infrastructures available to effectively run their businesses are thus faced with performing activities such as building roads, providing health care services for their staff amongst other activities, which ordinarily should be provided by the government [4], [6]. These activities fall into CSR practices [9]. This thus aids the new concept of CSR in the developing nations context, as it aids development and fills institutional gaps, most especially in key sectors of the economy such as transportation, energy, telecommunications and the health sectors that remain hugely underdeveloped and present large concern to the society [10], [11].

The Energy sector in Africa plays a very vital position in Africa’s development, as the industrial growth and advancement necessary for the economic growth of any nation is directly proportional to its ability to its manage energy resources [12]. African countries, such as Ghana, Nigeria, Senegal and Sierra Leone are endowed with ample conventional (fossil fuel) energy resources, such as oil, gas, coal, fuel wood, etc., which are dominantly the fuel sources for electrical energy production, yet, these countries are faced with disequilibria in the demand and supply of electricity, with the demand for electricity doubling the supply of electricity [12]. In Nigeria, for instance, fossil fuel takes the form of gasoline in the transportation sector, coal for heating

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and cooking in traditional homes and natural gas in the power sector that services all industries and activities of the economy. Despite having proven crude oil reserves of over 25 billion barrels, and being the second largest crude oil reserve in Africa, yet fossil fuel alone has not been able to meet Nigeria’s energy needs. The World Bank estimates that only 98 million out of Nigeria’s 178 million population has access to electricity from the national grid, thus an estimated 80 million people rely heavily on firewood and generators for their electricity needs, which in turn slows down industrialization, and increases the cost of living for most households [13].

In a bid to close this gap in energy supply, energy studies have shifted from total dependence on fossil fuels to creating an energy mix, which incorporates the use of renewable energy [12]. Thus, the last decade has seen an emergence of several renewable energy companies in Nigeria, some locally owned, some internationally owned, and various jointly owned companies, located in Nigeria but financed from Western countries.

A. Statement of Research Problem

The environment in which a business operates determines the CSR practices engaged in by the firm. Despite the institutional shortcomings (political, economic, social and regulatory) in developing countries, Nigeria inclusive, various businesses are challenged to create business value, whilst ensuring their operations meet regulative, normative and cognitive standards and at the same time contribute to filling institutional gaps to aid development and as well as creating a sustainable business environment to avoid businesses folding [14]-[16]. While most studies, such as [17], [18], have studied CSR without a direct linkage between the institutional environments and CSR practices; this study intends to view the direct influence institutional environments have on the CSR practices engaged in by Nigerian renewable energy firms.

II. LITERATURE REVIEW

A. CSR in Developing Countries

Developing countries for the scope of this study describes less industrialized nations with relatively low per capita income [19], [20]. Developing countries present the chances of a rapidly expanding economy, which epitomizes the potential for profitable growth markets for businesses [21]. Yet, developing countries suffer social and environmental crunches more than in developed countries [19]; globalization, economic growth, investment, and business activity are likely to affect developing countries more than developed countries [20]. Thus when CSR is viewed from the business organization’s social, ethical, labour, and environmental relationship with the society, it thus becomes imperative to differentiate between CSR in developed countries and that in developing countries, because of the differences stated above.

Previous researchers on CSR in developing countries, such as Baskin [6], [9], [22] concluded that CSR in developing countries is more extensive than commonly believed, less embedded in corporate strategies, less pervasive and less politically rooted than in most developed nations. Reference [6] in a study of CSR by SMEs operating in Nigeria and Tanzania (both developing countries) noted a broader view of CSR, where it serves as a transformative force, while retaining and repositioning its philanthropic characteristics. Such that CSR in Africa, and other developing economies are inherent appearance of institutional works guided by a socio-cultural ethic, thereby addressing institutional gaps in the business’ environment, with more emphasis placed on the economic and philanthropic aspects of CSR rather than the legal and ethical aspect of CSR in Africa [6], [20]. Other studies on CSR in developing nations, such as [23]’s study on China; [24] on India; [25] on Indonesia; [26] on Malaysia; [27] on Pakistan; and, [28] on Thailand, report that in developing Asian countries, the evolution of CSR occurs in three waves: first, community involvement, followed consecutively by responsible production processes and employee relations [4].

In Latin America countries, such as Argentina [29], Brazil [30] and Mexico [31], [32], the CSR agenda has been heavily shaped by socio-economic and political conditions, which have tended to aggravate many environmental and social problems, such as deforestation, unemployment, inequality, and crime, thus creating a hope for positive change in the face of persistent poverty, environmental degradation, corruption, and economic stagnation [33].

B. Challenging Institutional Environments in Developing Countries

Although encompassing the relationship between business and society, CSR meaning, orientations, relevance, intensity and applicability across diverse business environments varies, as institutional differences in various countries affect the context of CSR [4], [9], [34]-[36]. The concept of CSR activities engaged in by business organizations operating in developed countries have been directly replicated in developing countries, ignoring the institutional differences between developed countries and developing countries. Developing countries, Africa in particular, do not share similar economic, cultural, social values, norms and priorities as developed countries, government regulations, rules and accountability differs widely between both groups [9], [37], [38].

An attempt to centralize or apply a one shoe fits all approach to CSR, is argued to bring about values and perspectives that are not in the interests of developing economies, thus marginalizing the poor [37]. Thus an understanding of CSR, as it applies to Africa, will involve an understanding of the institutional environment and determinants that are driving CSR practices in various African countries. A contextually relevant CSR agenda, as it relates to Africa, is important to crucially interrogate the role and capacity of CSR to address sustainable development in Africa [4], [9], [39], [40]. Thus institutional theory provides the basic foundation for viewing an analysis of CSR as it relates to developing countries.
C. Institutional Theory

Institutional theory asserts that the institutional environment can strongly influence the development of formal structures in an organization [41]-[43]. Reference [44] views institutional theory as a theoretical framework for analysing social (particularly organizational) phenomena, by viewing the social world as significantly comprising of institutions – enduring rules, practices, and structures that set conditions on actions.

Institutions are social constructs defined as “formal rules and taken for-granted cultural frameworks, cognitive schema and routine processes of reproduction; and assumes that actors are motivated more by a logic of appropriateness whereby action is constrained and enabled by cultural frames, schema and routines [9], [45] taking into account culture, regulation and social norms institutions. Different societal actors in the various sectors of an economy influence institutional norms, values and regulations, such that institutionalization does not occur until all the actors accept a shared definition of socially responsible behaviour [9], [42]. Institutional determinants such as private and public regulations, NGOs and other independent organizations that monitor social responsible behaviours of organizations determine the uptake and practice of CSR in various countries.

D. Renewable Energy in Nigeria

Renewable energy sources are those resources, which can be used to produce energy again and again. Renewable Energy sources include biomass, hydropower, geothermal, solar, wind and marine energies, are sometimes referred to as alternative sources of energy [46]. The most popular renewable energy sources in Nigeria are biomass, hydropower and solar energies. Resulting from the environmental damage caused by dependence on fossil fuel, as well as epileptic power supply in the country, Nigerian society is slowly moving towards seeking more sustainable production methods, waste minimization, reduced air pollution from vehicles, distributed energy generation, conservation of native forests and reduction of greenhouse gas emissions, hence the rising emergence of the renewable energy sector in Nigeria [47].

III. METHODOLOGY

A. Research Design

The study employed a qualitative research approach, as the researchers set to find out managerial perceptions of CSR practices as regards to the current Nigerian business environment. Data were collected from three renewable energy firms in Nigeria, through interviews with the top management (two of the firms operating in solar power and the third with waste management operations). The top management was chosen because of their in-depth knowledge of business and Nigerian society, and because of their role in policy making as regards to CSR practices in the organization. The framing of the data collection questions and analysis were based on the following specific objectives outlined for this study:

1. Determine the influence of regulatory environment on Environmental protection as a CSR practice in Nigerian renewable firms.

2. Ascertain the link between economic environment on Product Service Innovation as a CSR practice in Nigerian renewable firms.

3. Assess the relationship between social environment and Social Innovation as a CSR practice in Nigerian renewable energy firms.

4. Examine the role the political environment plays on Local Cluster development as a CSR practice in Nigerian renewable energy firms.

B. Population

The population of this study involved all the employees of the three selected renewable energy firms: A total of 50 staff.

C. Sample Frame

The three renewable energy firms operating in Nigeria were selected from Business list, Nigeria’s registered and highly recommended business directory. The credibility of the business list lies in its status as the most frequently updated business directory in Nigeria and its international recognition. The three firms were selected due to their top ranking in the Nigerian renewable energy sector.

D. Sample Size

The top management personnel in the three selected firms were chosen as the sample size. The total number of respondents was 20. The top management was chosen because of their in-depth knowledge of the firms and the Nigerian society, and because of their role in policy making as regards to CSR practices in the organization.

E. Method of Data Collection

In-depth interviews were used to collate the data. Respondents were able to talk extensively for not more than 60 minutes over three sessions on the CSR practices engaged in by the organizations and how the Nigerian institutional setting influences these CSR practices. Following the work of [6], due to the sensitivity of CSR issues, the names of the firms are not disclosed, as such the firms are represented with numbers; Renewable Energy Firm 1 (REF 1), Renewable Energy Firm 2 (REF 2), and Renewable Energy Firm 3 (REF 3).

IV. ANALYSIS

The interviews were transcribed, and the transcripts were analysed with other documents and texts, such as online and press publications about (and from) all three organizations. Given that the focus of the research was on the influence the institutional environment had on the CSR practices engaged in by renewable energy firms, the data were explored through a single-order coding process, which was based on [3] categorisation of creating shared value: reconceiving products...
and markets, redefining productivity in value chain and providing enabling local cluster development.

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<tr>
<th>Firms</th>
<th>Description</th>
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<tr>
<td>REF1</td>
<td>A Nigerian owned, managed and financed renewable energy firm operating in Lagos, which deals mostly with Solar equipment, such as lamps, solar chargers, and panels. REF1’s managers have very little understanding of CSR, and as such carried out CSR to the barest minimum. Such activities like providing their staff with salary advance and loans and ensuring a safe work environment.</td>
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<tr>
<td>REF2</td>
<td>REF2 started as a project work by a Nigerian living in a developed country. On the return of the owner back to Nigeria, REF2 was fully incorporated as a social enterprise limited by guarantees, with several partnerships with international agencies, and government agencies in Nigeria. CSR to REF2 is an important part of their operations, with CSR deemed to be a part of their internal process. REF2’s major operations, just like REF1 involves power generation through solar energy, which was birthed from the energy challenge Nigerian’s suffer. They incorporated CSR into their market, environment and community strategies, by protecting the environment, engaging in product and service innovation and engaging the community in renewable energy initiatives.</td>
</tr>
<tr>
<td>REF3</td>
<td>A waste management firm with operations mostly in Lagos, REF3 is fully engaged in the collection and recycling of waste materials from various households and industrial/commercial settings in Lagos. With a vision to move across the whole of Nigeria, REF3, views CSR as a major aspect of their business, especially because of the nature of their operations. REF3’s major CSR practice is seen in its free waste pickup across primary and secondary schools in Lagos. It believes that by cleaning up the learning environment, children face less health challenges.</td>
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Fig. 1 Description of respondents

A. Model Specification

The following model (Fig. 2) was adopted in analysing the relationship between institutional environments and the CSR practices engaged in by renewable energy firms operating in Nigeria.

V. DISCUSSIONS

Proposition 1: The regulatory environment influences environmental protection as a CSR practice in Nigerian renewable energy firms.

Environmental protection refers to any activity engaged in to maintain or restore the quality of the environment, through preventing the emission of pollutants or reducing the presence of polluting substances in the environment [48]. This is usually achieved by changing the characteristics of goods and services, changing consumption patterns, production techniques, treatment of disposal of residuals in separate environmental protection facilities, recycling and prevention of degradation of the landscape and ecosystem [48]. In countries with environmental regulations (such as many industrialized countries), governments set standard rules on waste disposal, management, and organizational behaviour as it relates to the environment and climate, in order to curb emissions. In developing countries however, while it is true that stringent measures can be placed on companies to avoid environmental waste and pollution, most developing countries lack the infrastructures, monitoring facilities, technological know-how and have inadequate access to environmental-friendly materials, thus environmental regulations can only be made voluntary, as the measures to make these regulations mandatory are not available [49]. Thus institutional gaps arising from deficiency in the regulatory environment, has the potential to drive CSR practices that are in line in environmental protection.

Fig. 2 Schematic Model Specification. Source: The researcher’s schematic model as adapted from [3], [6], [9]

In correspondence with all three renewable energy firms, it was observed that REF1, REF2, REF3 viewed environmental protection as CSR practice influenced by severe environmental pollution caused by the energy industry (oil and gas sector), since the discovery of oil in Oloibiri, Niger Delta in 1956, attention has since been on all aspects of the energy industry, including the emerging renewable energy sector. Although regulative institutions imposed on the sector by the government has been weak, several NGOs, and private organizations have arisen to take up the responsibility of ensuring that firms operating in the energy sector are hands on involved in environmental protection.

REF3, emphasized on its waste to energy initiative, which it drives across several primary and secondary schools and food markets in Lagos Nigeria, the role of institutional setting comes to play here, as a lack of governmental regulations to impose environmental protection rules and regulations on schools and food markets has influenced the CSR activity engaged in by REF3. This will probably not be the case in a developed country, where there are set rules and regulations for waste disposal.

Proposition 2: The economic environment impacts on product service innovation as a CSR practice in Nigerian renewable energy firm.

The economic environment of the business organization encompasses the microeconomics (internal) and macroeconomics (external). Macroeconomics influences are broad economic factors that directly or indirectly affect businesses operating in an entire economy, such factors as interest rates, taxes, inflation, currency exchange rates, and the unemployment rate, amongst others. Because the instability in various developing countries are seen to influence business organizations negatively, it thus becomes impertinent for business organizations to seek ways of
Proposition 3: The social environment influences social innovation as a CSR practice of Nigerian renewable energy firms.

The values of community spirit and social responsibility, as is experienced in many developing countries, shape and define the behaviour that is acceptable from businesses in Nigeria. These values are a critical aspect of the social environment. It was observed that all three firms engaged in the region. These values are a critical aspect of the social environment. Because of this, we have partnered with a German company that collects used solar batteries from us, recycles them, as well as cost sharing amongst maintenance. We also provide the option of payments in instalments, as well as cost sharing amongst neighbours.

Proposition 4: The political environment leads to local cluster development as a CSR practice engaged in by Nigerian renewable energy firms.

Political environment refers to forces and issues emanating from the political decisions of government, which are capable of altering the expected outcome and value of a given economic action [50]. Nigeria’s political economy has in recent times been dominated by currency devaluation, inflation, repatriation, confiscation, a campaign against foreign goods, and terrorism, amongst others [50]. Thus for business organizations to operate successfully, they have to contend with this political environment in such a way that they maximize every opportunity. A cluster is commonly referred to as a geographic concentration of interconnected companies, suppliers, service providers, firms in related industries and associated institutions [51]. It was observed that resulting from the political upheaval in Nigeria, renewable energy firms are finding themselves being pushed into local cluster development as a form of CSR and also as a means to build strong ties to take them through the challenges posed by the political environment. It was observed that REF2, which seemed to be the most empowered and exposed renewable energy firm, had created a niche of local suppliers, distributors and firms in its environment, by encouraging communication, sharing of resources, and thereby also creating exposure for these other companies.

"At the beginning of our company, we had more trust and value for international products, so all our products and every aspect of our production process was done abroad. However, with the economic backlash being experienced in recent times, with the Nigerian naira devaluing, it became more difficult to import all aspects of our business. As such, we decided to incorporate local supplies, and institutions. Even better, government began to give various grants and awards for local initiatives. We started out by involving nearby suppliers, engaging local carpenters, electricians amongst others, and within a short period, we have helped create a mini but effective local renewable energy cluster."

A. The Role of International Exposure in CSR Practices

Amongst the three firms, it was observed that REF 2 was more aware of CSR strategy of its organization, resulting from the exposure of the managers (having lived in developed countries, or worked with multinational organizations). It was also observed that they deemed CSR activities to be more effective when embedded in their operations, rather than narrowing CSR activities to one-off outreaches. The respondents for REF 2 applied CSR in their organization as a pure strategy that must be implemented if they wanted to remain sustainable. It is believed that this thought process arose from their background, where CSR was more mandatory than in the Nigerian business environment. It is thus safe to posit that although institutions in which a business organization operates in goes a long way in determining the CSR activities engaged in by the many business organizations,
however, the depth at which CSR is engaged in, may be influenced by the level of exposure of top management in an organization.

VI. CONCLUSION

The meaning and practice of CSR have been argued to be context specific and socio-culturally embedded [6], [16], [52]. The institutional view recognises that CSR varies from region to region [45], [53], and from developed to developing economies.

Through interviews and review of publications, this study measured the influence of institutional environments (regulatory, economic, social and political) on CSR practices (environmental protection, product service innovation, social innovation and local cluster development) engaged in by renewable energy firms operating in Nigeria. It was observed that while scholars may have viewed CSR in Africa as solely a philanthropic act, CSR in Africa is in actual sense addressing institutional gaps in the environment, whilst at the same time ensuring a win-win situation of maximizing profits. This could be seen in REF2 donating a solar system to National Youth Service Corps (NYSC), sensitizing the environment on renewable energy functions, providing employment for youth corpsers, providing an enabling environment for local suppliers. As well as in REF1 in providing health, loan and other benefits for their staff, to make up for institutional challenges in the society, and REF3 in protecting the environment through the provision of free waste pickup and recycling from primary and secondary schools, as well as food markets.

The renewable energy industry, however, due to its high technology nature takes a few more leaves from Western CSR, as CSR conducted by RE firms are aimed at addressing the socio-economic challenges that are not only relevant and particular in developing countries, but also in developed countries, with practices such as consumer protection, climate change concerns, as well as socially responsible investments.

The study suggests that companies that carefully analyse their business environments are able to create CSR practices that aid business growth and sustainability. Considering that CSR practices engaged in by firms are hugely dependent on that aid business growth and sustainability. Considering that while scholars may have viewed CSR in Africa as solely a philanthropic act, CSR in Africa is in actual sense addressing institutional gaps in the environment, whilst at the same time ensuring a win-win situation of maximizing profits.

Also, further study can be carried out to assess the influence of institutional environments on CSR practices in other technology intensive sectors.

B. Areas for Further Study

The model specification for this study initially outlined the influence institutional environments (regulatory, economic, social and political) had on CSR activities engaged in by renewable energy firms, however, it was observed that REF2, although a Nigerian owned and managed renewable energy firm, was more involved in comprehensive CSR activities arising from the international exposure its members of management had. Thus, the CSR practices engaged in by REF2, seemed to be more technology focused, as is seen in developed countries. This finding can be looked into for further study.

REFERENCE


