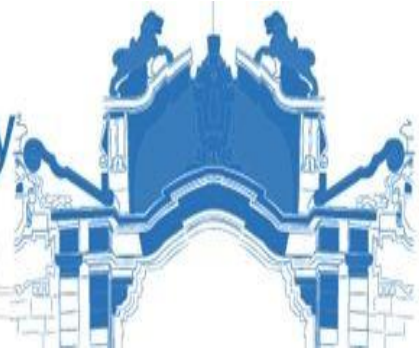




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**Effect of Corporate Social Responsibility Practices on Profitability in the Banking Sectors. The Case of Selected Private Banks in Ethiopia**

A thesis submitted to Addis Ababa University College of Business and Economic in partial fulfilment of the requirements for master's program in MBA Management.

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**Advisor: Yohannes Workaferahu (Ph.D)**

**June, 2021**

**Addis Ababa, Ethiopia**

## **Declaration**

I, the undersigned, declare that this thesis entitled **“Effect of Corporate Social Responsibility practice on Profitability in the banking sectors. The case of selected private banks in Ethiopia”** is my own original work and that all sources have been accurately reported and acknowledged, and that this document has not been submitted for a degree in any other universities.

Dagemawi Solomon

Name of Author

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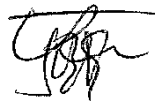
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## Statement of Certificate

This is to certify that **DagemawiSolomon** has completed his thesis entitled **“Effect of Corporate Social Responsibility practice on Profitability in the banking sectors. The case of selected private banks in Ethiopia”** is his original work and is submitted for examination with my approval as a thesis.

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Date

**Addis Ababa University**

**School of Graduate Studies**

This is to certify that the thesis entitled, “**Effect of Corporate Social Responsibility practice on Profitability in the banking sectors. The case of selected private banks in Ethiopia**” was carried out by Dagemawi Solomon under the supervision of Yohannes Workaferahu (Ph.D) submitted in partial fulfilment of the requirements for the degree of Master of Business Administration complies with the regulations of the University.

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## ***Abstract***

*Corporate social responsibility (CSR) nowadays become an element that addresses sustainable development issues and it turn out to be more vital in the daily operations of financial institution especially in the banking sector. The aim of this study is to assess the relationship between CSR practice and profitability in selected private banks in Ethiopia, specifically Dashen and United banks. The study used convenience sampling method to sample out the two banks among the sixteen private banks operated in the country. The target population comprised 1532 head office employees of the selected banks and 317 samples were selected using random sampling technique. The study used questionnaires as an instrument for data collection. In order to test the reliability of the instrument, the Cronbach alpha test is used. Pearson correlation and multiple linear regression analysis were employed to estimate the relationships between CSR and Profitability. The responses of the respondents were analysed using descriptive Statistics, correlation, and regression analysis with the aid of SPSS version 20. The findings of the study revealed that ethical, philanthropic, legal and economic responsibilities of CSR dimension have a positive and significant impact on profitability of the banks. The overall finding of this study suggests that CSR practice of banks has a significant impact on the level of their profitability. The study recommends that banks should improve their efforts exerted towards their CSR practice in order to enhance their profitability.*

**Key Word:** *Banks, CSR, Philanthropic responsibility, Ethical responsibility, Legal responsibility, Economic responsibility, profitability.*

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## **Acronyms**

CBE	Commercial Bank of Ethiopia
CFP	Corporate Financial Performance
CSR	Corporate Social Responsibility
DB	Dashen Bank
FFP	Firms Financial Performance
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
SR	Social Responsibility
UB	United Bank
UNIDO	United Nations Industrial Development Organization

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background

Corporate social responsibility nowadays become an interesting concept in every business. In fact there is no universally established definition for it (CSR hereafter), Hopkins (1998, 2003, and 2010) described CSR as a process that is concerned with treating the stakeholders of a company or institution ethically or in a responsible manner. Here the term 'ethically or responsible' interpreted as handling stakeholders in a manner deemed acceptable according to international norms.

Whereas, Mc Williams and Siegel (2001) defined CSR as efforts of an organization towards achieving commercial success while adopting ways that appreciates and facilitates communities, societies, people and environment at large. Recently CSR is developing as a significant feature of business philosophy which emphasized on responsibility towards all stakeholders (shareholders, employees, creditors, suppliers, government, and community) rather than only on maximization of profit for shareholders. Islam (2012) stated that the concept of business has changed from profit making activities to social welfare activities where businesses are not only responsible to its shareholders but also to all of its stakeholders.

Another definition of CSR is given by Carroll's model that refers to four kinds of social obligations that constitute CSR: economic responsibility of profit, the legal responsibility of the firm to comply with laws, ethical obligation to act on social classes and finally the philanthropic responsibility to promote actions that promote social welfare (Carroll, 1991). Likewise, Rahman (2014) stated that CSR covered various dimensions like economic development, ethical behaviours, environmental protections, stakeholders' participation, transparency, accountability, responsible practice, moral obligation, and corporate responsiveness. Hence, CSR is generally seen as the business contribution to sustainable development, which has been defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs, and is understood as focussing on how to achieve the integration of economic, environmental and social imperatives (Strategies, 2003) as cited in Alexander Dahlsrud (2006).

Businesses that engage in CSR usually focus on the environment, employees, communities, regulations and emergency supports (Hopkins, 2003). Organizations that focused on the environment look at the environmental impacts of their products & services and when they focus on employees, they take care all the employees effectively focusing on workplace conditions, benefits, wages and trainings. Organizations takes voluntary steps to improve the quality of life for employees and their families as well as for the local community and society to show their care to the community and sometimes organizations plans to manage business crises and ensure safety for employees and surrounding communities and also take initiatives to provide support in times of emergencies such as disaster and epidemics (Hopkins 2003).

Financial institutions including bank's contribution to sustainable development is very significant, since they play a crucial role in financing the economic and developmental activities of the world. Studies conducted by Belás et al. (2014; 2015) and Chochol'áková et al.(2015) prevailed that implementation of CSR in banks have economic, social and environmental features. When seeing the economic aspect of CSR, the main focus is on the financial or economic performance of banks which is the main objectives of their establishment. Workplace rules and regulations, philanthropic activities and protection of human rights are included in the social aspect of CSR. The environmental aspect of CSR includes bank's policy towards the protection of the environment and the degree of financing socially responsible projects.

Long-run profitability and growth is the key to ensure the continued existence of organizations in a competitive market environment. In this regard, banks are investing in CSR strategies in order to gain competitive advantages over their competitor, to build image and to create sustainable value. Sustainable values are values which an organization can create and maintain over a long period of time without affecting the ability of the organization to meet and address organizations future needs. In any case, Banks involvement in activities that benefit the society in one way or another is mostly associated with the Philanthropic aspect of CSR.

In Ethiopia banking businesses started with the establishment of the bank of Abyssinia in 1905. Bank of Abyssinia was owned by the Ethiopian government in partnership with the National Bank of Egypt. However, in 1931 Bank of Abyssinia was legally replaced by Bank of Ethiopia. Bank of Ethiopia was a purely Ethiopian institution and established by an official decree on August 29, 1931 with capital of £750,000 (NBE, 2009).

After the liberation of Italian invasion in 1942 the State Bank of Ethiopia, which is a government owned bank was established. The state bank of Ethiopia acted as the central Bank of Ethiopia and had a power to issue bank notes and coins as the agent of the Ministry of Finance. In 1945 and 1949 the Bank was granted the sole right of issuing currency and deal in foreign currency. The Bank also functioned as the principal commercial bank in the country and engaged in all commercial banking activities. However, in 1963 the Ethiopian monetary and banking law separate the functions of commercial and central banking there by creating national bank of Ethiopia and commercial bank of Ethiopia (NBE, 2009).

Following government change in 1991, subsequent measures were taken to liberalize and reorient the economy towards a system of market economy. The financial market was deregulated by proclamation number 84/94 issued to liberalize the financial sector, and a number of private banks and insurance companies were established following the proclamation.

The National Bank of Ethiopia (NBE) plays a regulatory role on the financial performance of commercial banks as pertain to the rules and regulations set by the country so as to protect the public and develop confidence on the services provided by banks.

To these end, NBE issued banks corporate governance directives (Directives No. SBB/62/2015, SBB/68/2018 1<sup>st</sup> amendment) in order to ensure whether banks are soundly and prudently managed and directed. However, to issue annual reports by all banks registered by NBE once a year to show their status could be considered as discharging CSR of banks. But this is limited to the extent of reporting of only financial matters. However, CSR requires more from the banks to pay special attention towards integration of social and environmental concerns in their business operations to achieve sustainable development.

Currently, there are 18 banks operating in the country, of which 16 are private banks while the remaining two are state owned banks. The total number of bank branches in the sector reached 5,564 of which 34.6 % were located in Addis Ababa. Ethiopia is still one of the most under banked countries in the world with one bank branch serving about 17 thousand people. (NBE, 2018/19 annual report)

This paper aims to examine the effect of CSR practice on profitability in selected private banks in Ethiopia.

## 1.2 Statement of the Problem

In recent years, CSR has become a well-established concept in the financial service industry due to its huge impact on society (Scholtens, 2009). Actually, CSR is a business approach that considers how firm activities impact on society and that companies have a broader range of obligations besides economic and financial ones, taking into account also legal, ethical and philanthropic responsibility (Carroll, 1979, 1991, 1999; Van Marrewijk, 2003). Since banks are important economic entities in the society, they are obligated to satisfy a diverse range of stakeholders, expected to maximize profits for shareholders who contributed funds toward their establishment and it has to maintain adequate liquidity to meet the demands of depositors as well as satisfying the legitimate requests for credit, and of course, banks also need to comply with regulatory requirements to do business. (Nkwankwo, 1991).

Firms use CSR as a channel to distinguish themselves from other firms, the price and quality of a product are no longer the main competitive advantages; it is the ethical view and social practices that are considered the key factors which can stimulate customer response (Bussey, 2006 as cited in Chang, 2017). Studies show that customers are willing to reject a firm with no social responsibility by switching to another firm that practice CSR (Webb, Mohr, & Harris, 2008). This switching behaviour might affect the firm's revenue and reputation negatively (Brunk, 2010). Moreover, CSR impacts the financial performance of firms (Lins et al., 2017), their market value (Ding et al., 2016; Ferrell et al., 2016), and their financial risk (Kim et al., 2014).

Existing literature shows that there is a number of argument about the relationship between firms CSR practice and their financial performance. One of the argument is that there is a positive relationship between firms CSR and their financial performance since explicit costs of corporate social responsibility are minimal and that firms may actually benefit from socially responsible activities in terms of employee morale and productivity (Moskowitz, 1972; Parket & Eibert, 1975; Soloman& Hansen, 1985). For instance, highly perceived firms in social responsibility may have relatively fewer employee problems and customers may favourably willing to use their products. On the other hand, firms incur costs from socially responsible activities that will result in an economic disadvantage compared to less responsible firms (Aupperle, Carroll, & Hatfield, 1985; Ullmann, 1985; Vance, 1975). These additional costs may result from activities such as making extensive charitable contributions,

promoting community development plans and establishing environmental protection procedures.

In addition, some authors have tried to empirically assess the relationship between CSR and banks' profitability. They tend to show a positive link between CSR practice and bank profitability, Keffas and Olulu-Briggs (2011) examined the financial performance of CSR and non-CSR banks in Japan, USA and UK by using financial ratios and frontier efficiency analysis. The result showed that there is positive relationship between CSR and financial performance (FP). Similarly, the relationship between CSR and profitability of banks in Nigeria was examined and the result shows there is a positive and significant relationship between them (Olayinka and Temitope 2011, Amole, Adebisi and Awolaja 2012).

Considering Ethiopia the banking sector is believed to be growing in recent times as the number of banks escalates and branch outreach also diversified but there is no evidence about the relationship between CSR practice and profitability in the sector. In spite of the existing studies conduct about the role of private commercial banks on CSR in Ethiopia (Yeneneh, 2015) and effect of CSR practice on building brand equity in the case of CBE (Dagemawit, 2017), there is a significance gap about the relationship between CSR practice of banks and their profitability in Ethiopia. Therefore, this study aims to address this gap by examining the relationship between CSR practice and profitability of selected private banks in Ethiopia.

### **1.3 Research Questions**

Since limitation existed on the relationship between CSR practice and profitability in the selected banks. There was an effort in this study to provide answers to the following research questions:

1. What is the dominant practice of CSR dimension in selected private banks?
2. What is the relationship between Philanthropic responsibility and profitability in selected private banks?
3. What is the relationship between Ethical responsibility and profitability in selected private banks?
4. What is the relationship between Legal responsibility and profitability in selected private banks?
5. What is the relationship between Economic responsibility and profitability in selected private banks?

6. Which CSR dimension has more impact on profitability?

## **1.4 Objectives of the study**

### **1.4.1 General objectives**

The major objective of this study is to examine the effect of CSR practice on profitability in selected private banks.

### **1.4.2 Specific Objective**

- To investigate the dominant practice of CSR dimension in selected private banks.
- To investigate the relationship between Philanthropic responsibility and profitability in selected private banks.
- To investigate the relationship between Ethical responsibility and profitability in selected private banks.
- To investigate the relationship between Legal responsibility and profitability in selected private banks.
- To investigate the relationship between Economic responsibility and profitability in selected private banks.
- To investigate which CSR dimension has more impact on profitability.

## **1.5 Significance of the study**

Since there is no adequate research regarding the relations of bank's CSR practice and their financial performance in our country, the study contributes to improve awareness on the concept of CSR and its impact on bank's profitability. It also assist the Banks to identify in which area of CSR activities need to invest to build a positive image and reputations. Besides, based on the results of the study other peer banks could evaluate their current CSR practice or might use it as a base for further study.

Furthermore, the study also serve as a basis for other researchers who want to make in depth study about the issue at hand.

## **1.6 Scope of the study**

It is obvious that profitability's of a service delivery firm is affected by various factors including service excellence, customer satisfaction, customer expectation, perceived value and performance. Hence, the scope of the study is limited itself on assessing only the effect of CSR practice on profitability of selected private bank in Ethiopia; namely, DB and UB.

## **1.7 Limitations of the study**

Out of the sixteen private banks in Ethiopia, the study is limited to two banks, Dashen, and United banks. If the study were covered more banks, the result of the study will have more accuracy. However, limitation of time and current situations of COVID -19 imposes restriction in mobility to gather pertinent information. Therefore, the above two banks were selected by the researcher to assess the bank's CSR practice and its impact on profitability.

## **1.8 Organization of the paper**

This research paper consists five chapters. The first chapter includes background of the study, statement of the problem, research questions, objectives of the study, significant of the study, scope of the study, limitations of the study and organization of the paper. The second chapter covers the review of related literatures. The third chapter is all about research design and methodology of the study. Results and discussion are discussed under chapter four. The last chapter is about conclusions and recommendations.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

#### **2.1 Theoretical Literature Review**

##### **2.1.1 Concept and Definitions of CSR**

The concept of CSR has a diverse history, in the early period CSR was more often referred as social responsibility (SR), in 1953 Bowen defined social responsibility as the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of our society (as cited in Carroll, 1999, p.270).

Although the fact that CSR is a noticeable concept in the literature, there is uncertainty about how CSR should be defined in the corporate as well as academic domain (Dahlsrud, 2008). Dahlsrud concluded that since CSR is a social construction it cannot be universally defined; rather it is something best understood in its specific context. According to Van Marrewijk (2003) there is abundance of definition for CSR but these definitions are biased towards specific interests. Dahlsrud (2008) strength this argument by analysing 37 definitions of CSR, these definitions were defined from the perspectives of environmental, social, economic, stakeholder and voluntariness.

The commission of European communities (2001) defined CSR as a concept where by companies integrates social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis.

The other definitions of CSR which is associated with sustainable development is given by World business council for sustainable development (1999) as the commitment of business to contribute to sustainable development, working with employees, their families, the local community and society at large to improve their quality of life.

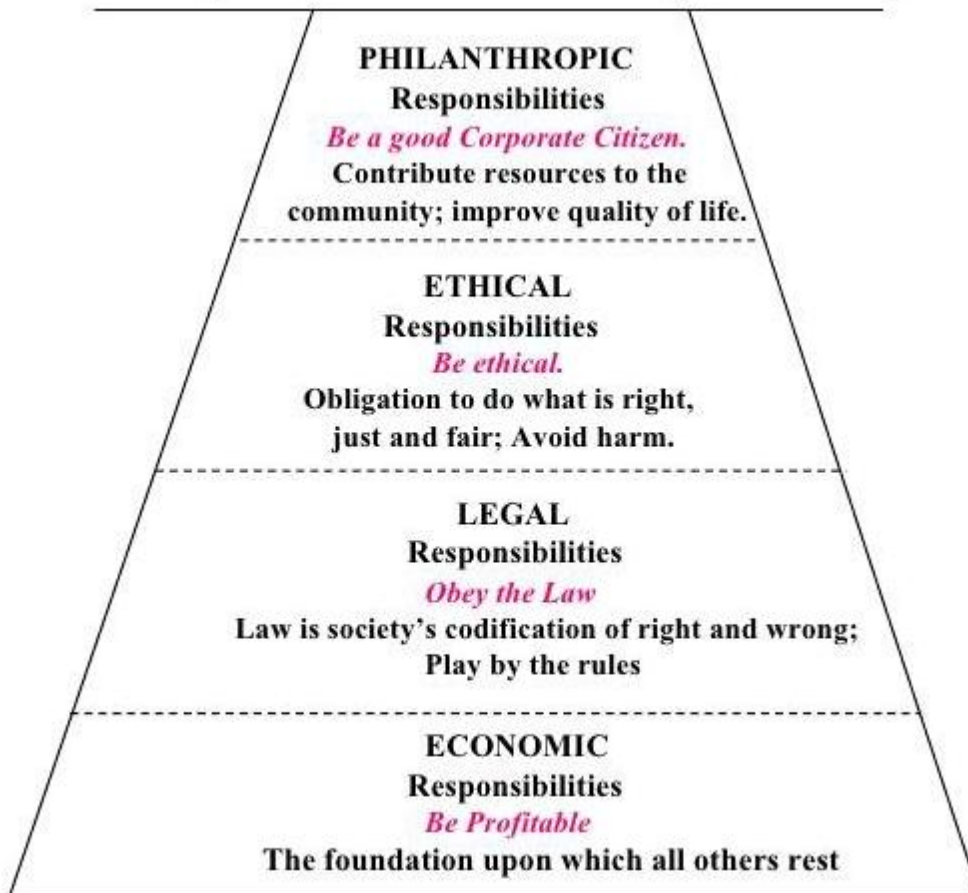
Kytle and Ruggie argued that CSR is not only about what companies do with their profit, but also how they earned their profit. Accordingly companies should embed ethical values of conducting business in their strategy. As the circle of influence of a business extends beyond the work place and market place to the supply chain, community and macroeconomic

policies, business should critically assess not only the way they manage their economic and social impacts but also their stakeholder relations (Kytle and Ruggie, 2005).

Furthermore, literature on CSR point out three main approaches which have been followed by researchers to conceptualise CSR (Beracs & Moisescu, 2015; Moisescu, 2015). The first approach of CSR has been emerged from the work of Carroll (1979, 1991). Carroll developed the CSR pyramid which is built on four main dimensions; these are economic, legal, ethical, and discretionary or (philanthropic) responsibilities (Carroll, 1979, 1991).

Economic responsibility is the foundation of the pyramid on which all other responsibilities stand, and concerns with firm's performance in a manner consistent with maximizing earning per share as well as maintaining strong competitive position (Carroll, 1991). The economic responsibility is followed by legal responsibility, which requires a firm to operate with compliance to the laws and regulations of a country and also meets its legal obligations in the process (Carroll, 1991). The third dimension is ethical responsibility which relates with performance of a firm in a manner consistent with expectations of societal mores and ethical norms as well as preventing ethical norms from being compromised in order to achieve corporate goals (Carroll, 1991). The fourth dimension is philanthropic responsibility, which refers to performing in a manner consistent with philanthropic and charitable expectations of society and also assists voluntarily those projects that enhance a community's quality of life (Carroll, 1991). In over all, firms with CSR should strive to make profit, obey the law, be ethical, and be a good corporate citizen (Carroll, 1991).

# The Pyramid of Social Responsibility



Source: Carroll (1991)

**Figure 1:** Pyramid of Social Responsibility

The second approach is a three-dimensional structure of CSR which includes economic, social and environmental responsibilities (Beracs & Moisescu, 2015; Elkington, 1998; Moisescu, 2015; Slaper & Hall, 2011). Since environment is one of organization's stakeholders, firms focused on the environment in addition to creating economic and social values (Elkington, 1998; Slaper & Hall, 2011). In this regard, firms are responsible for protecting the environment from damage and the negative sides of business operations and managing the physical resources (Elkington, 1998; Slaper & Hall, 2011).

The third approach is related to the Stakeholder Theory. This theory claims that organizations have a relation with the stakeholders that affect and are affected by the performance and activities of organizations. It argues that the business can be understood as a system of relationships among the groups who have a stake in the tasks which make up the business

(Freeman et al., 2010; Walsh, 2005). Accordingly, CSR consists of activities towards shareholders, customers, employees, environment, society, and other stakeholders (Freeman et al., 2010).

Regarding the practice of CSR, it may possibly be classified as internal and external. The concept of internal CSR is vague among researches because most researches focused on external CSR aspect like environmental protections and community involvement. However, Turker (2009) described internal CSR practices as directly related with the physical and psychological working environment of employees, such as the health and well-being of employees, their training and participation in the business, equality of opportunities and work-life balance. ISO 26000 also provides a useful guideline for companies to respect and recognize human rights, employment and employment relationships, conditions of work and social protection, social dialogue, health and safety at work as well as human development (ISO 26000 (2006), Guidance on Social Responsibility).

European commission (2001) associated external CSR practice with responsibility for local community, business partners, suppliers, customers and the environment. These responsibilities are reflected by activities, such as philanthropy, volunteerism and environmental protection.

Corporate philanthropy is one of the external practices of CSR, is associated with the financial and non-financial contributions, such as sponsorship of community and donation of material or services in kind. Carroll, (1991) described philanthropic responsibilities as those actions incorporated for the response to society's expectation that makes businesses to be good corporate citizens. Actually, companies involve in corporate philanthropy for their own reasons; philanthropy can benefit top managers themselves by enhancing their reputations within their social circle or furthering their political and career agendas (Friedman,1970), (Werbel& Carter,2002), improve brand-name recognition, moderate regulatory scrutiny, and ensure community cooperation (Smith,1994). Furthermore, corporate involvement with philanthropic engagement results in a positive image and an improved reputation which enhanced employee morale and increased customer loyalty (Haley, 1991).

The contribution of human resources, time and skills to benefit the community and non-profit organizations is associated with corporate volunteerism. It may involve the company directly volunteering to participate in community initiatives or employees themselves volunteer on their own accord. Hence, the ultimate goal of corporate volunteerism is to create goodwill in

the community (Stukas, et al, 1999). In addition, companies encourage employee volunteerism because it increased employee's morale, which in turn leads to higher productivity (Walker, 2007).

The other external practice of CSR is environmental protection, these days environment turn out to be one of the main areas of concerns for all. Environmental protection becomes one of the core elements of CSR within the pyramid of corporate social performance (Carroll, 1991). It is a practice of protecting the environment on an organizational level for the benefit of natural environment and humans (Wikipedia, 2009). Earlier studies conducted by Schiebel and Pochtrager (2003) shows that improved organisational reputation, reduced costs, managed risks associated with environmental problems, and enhanced financial performance are the results of environmental protection.

### **2.1.2 Drivers of CSR**

United Nations Industrial Development Organization (UNIDO) in its 2002 report identifies the basic drivers of CSR as values, strategy and public pressure.

The report elucidates value as profit maximization no longer become the main purpose for organizations to exist in the business; organizations now a day's aware of the need to address the negative impact of their operations on their stakeholder and sustainable development.

The report also address that since an organization strategy is a function of various factors which are internal and external to the organization, CSR activities facilitate strategic development, deployment and control.

Furthermore, the report stated that, Public opinion is not making it easy for corporations to operate business as usual. Any act of failure on organization CSR; may led to the public opinions calling for stiffer laws and organized movement against the organization. In any case, one or the combinations of these drivers influence organization CSR activities.

### **2.1.3 CSR Practice in Banks**

Banks have complex relationship with different stakeholders. They are expected to maximize profits for shareholders, have to maintain sufficient liquidity to meet the demands of depositors, satisfy legitimate request of credit and also need to comply with regulatory requirements to do business. In general, banks need to be seen as good corporate citizens who contribute to the maximum development of the economy and society (Nkwankwo, 1991).

Banks also need to be socially responsible to be able to build their reputation, which helps them to attract high quality employees, negotiate better contracts, expand their customer base, attract investors and win public trust and confidence (Achua, 2012). It is clear that the relationship between banks and their stakeholders is based on trust, which requires an ethical behaviour from banks. Thus, banks are obligated to show responsibility in terms of integrity, responsibility and affinity. According to San-Jose, Retoloza and Gutierrez-Goiria, (2011), integrity of banks are revealed by not operating on selectively excluding individuals or groups because of poverty, ethnicity or affiliations. Whereas responsibility of banks are associated with accountability for the social and economic consequence of their actions. In terms of affinity, banks should contribute to building a society that matches shareholders' interests through the responsible investment of their funds, while trying to optimize the interests of the majority of stakeholders. Of course, these require transparency from banks, so that stakeholders can monitor their ethical considerations and consolidate their trust in banks (San-Jose et al. 2011).

Mostly, the common issues relating to corporate social responsibility (CSR) of banks consist of responsible behaviour, environmental issues, sustainable development and social conduct. In pricing and valuing financial assets, monitoring borrowers, managing financial risks and organizing various means of payment, banks have an impact on society.

Responsible behaviour from banks requires social reporting. Several regulatory institutions like the World Bank and Equator Principles have strongly supported the development and adoption of CSR reporting standards. Though, reporting on CSR activities is an important aspect of monitoring, the study of Hu and Scholtens (2012) indicated that banks in developing countries reporting about CSR and signing up to international standards are a rare practice. In developing economies, especially where there are high levels of corruption, transformation has to move toward more ethical considerations within the banking sector in an endeavour to drive efficient risk management affecting all stakeholders. Furthermore, well informed stakeholders are increasingly demanding clear and hard facts about the social and environmental performance of banks, since banking is regarded as too important and sensitive to be left to bankers alone (Achua 2012).

Banks commitment to CSR can be asserted by adopting codes, publishing sustainability reports and implementing an environmental management system. Comparing with other

sectors such as agriculture and manufacturing, banks have a lower direct environmental impact. However, banks are facilitators of primary and secondary activities which cause environmental damage; they need to consider environmentally sensitive issues in their policies and practices (Branco & Rodrigues, 2006). Hence, banks should be obliged to ensure that their lending and investment policies should not assist activities which harm the environment. Scholtens (2008) explains that the supply and development of green or socially responsible financial products is another way in which banks can show their commitment to sustainable development. These can include financial products that aim at reducing greenhouse gases.

The impact of global trade makes economic responsibility of banks to become a significant challenge in various types of competitive markets. Carroll (2000) stated that one of the responsibilities that comprise CSR is the economic responsibility of businesses to be profit-making enterprises. Hence, it is an important motivation to reward stakeholders who takes commercial risk. However, banks need to embrace a practice that doesn't adversely impact on society by recognizing the needs of all stakeholders in a fair and right way. In addition to the economic, legal and ethical responsibilities of banks, society expects them to engage in social activities that are not required by law.

Eventually, banks affect sustainable development, since they need to meet the needs of the present without threatening future generations from fulfilling their own needs (Scholtens, 2008).

## **2.2 Empirical Literature Review**

### **2.2.1 CSR Practice vs Financial Performance**

A number of arguments has been made regarding the relationship between firms' social responsibility and their financial performance. One of the arguments is that there is a trade-off between social responsibility and financial performance. Firms incur costs from socially responsible activities that will result in an economic disadvantage compared to less responsible firms (Aupperle, Carroll, & Hatfield, 1985; Ullmann, 1985; Vance, 1975). These additional costs may result from activities such as making extensive charitable contributions, promoting community development plans and establishing environmental protection procedures.

The other argument is that the explicit costs of corporate social responsibility are minimal and that firms may actually benefit from socially responsible activities in terms of employee morale and productivity (Moskowitz, 1972; Paret&Eibert, 1975; Solomon& Hansen, 1985). For instance, highly perceived firms in social responsibility may have relatively fewer employee problems and customers may favourably willing to use their products. According to Bowman and Haire (1975) some shareholders regard CSR as a management skill, and the firm's reputation will be improved by actions to support the community, resulting in positive influence on sales. Hence, when a company increases its costs by improving CSR, its reputation would be enhanced.

There is also another argument made by Cornell and Shapiro in Modern corporate stakeholder theory (1987), which stated that the value of a firm depends on the cost not only of explicit rights but also of implicit rights. From this perspective, the set of claimants on a firm's resources includes not only the shareholders, but it also includes stakeholders who have explicit rights on the firm such as wage contracts and others with whom the firm has made implicit contracts like quality service and social responsibility. If a firm does not perform in a socially responsible manner, parties having implicit contracts concerning the social responsibility of the firm may attempt to transform those implicit agreements into explicit agreements and that will be more costly to it (Jean, Sundgren&Schneeweis, 1988). For instance, suppose a firm fails to meet promises to government officials in regard to activities that affect the environment, and then government agencies may find it necessary to pass more stringent regulations, constituting explicit contracts, to force the firm to act in a socially responsible manner (Jean et.al, 1988). Furthermore, firms with an image of high corporate social responsibility may find that they have more low-cost implicit claims than other firms and thus have higher financial performance (Cornell & Shapiro, 1987).

Basically, the relationship between CSR and corporate financial performance (here after, CFP) has produced mixed results with some studies concluding for a positive others negative and even others for the inexistence of such a relationship (McWilliams Siegel, 2001; Margolis, Elfenbein and Walsh, 2007; Tsoutsoura 2004).

The empirical studies conducted in developed markets on the relationship between CSR and CFP are basically of two distinct categories (Margolis and Walsh, 2007). The first category considers the short-run financial impact whether; the company is involved in socially

responsible or irresponsible manner. The results are mixed. For instance, Wright and Ferris (1997) found negative relationships, while Hall and Rieck (1998), Posnikoff (1997), Wright and Ferris (1997) found positive relationships and also neutral relationship was evidenced in the study conducted by Teoh et al. (1999).

The second category, examines the relationship of CSR and CFP in the long-run, using accounting and market based measurements. The findings are also mixed. Various studies report a negative relationship between CSR and CFP (Moore, 2001; Vance, 1975), while other studies reveal a neutral or no relationship (Mahoney and Roberts, 2007; McWilliams and Seigel, 2000; Patten, 1990; Alexander and Buchholz, 1978). However, most of the prior studies found a positive relationship between CSR and CFP (Simpson and Kohers, 2002; Graves and Waddock, 1994; Roberts, 1992; McGuire et al., 1988).

Some of the empirical support for the positive impact of CSR on FP was described by Keffas and Olulu-Briggs (2011), who examined the financial performance of CSR and non-CSR banks in Japan, USA and UK by using financial ratios and frontier efficiency analysis. The result showed that there is positive relationship between CSR and financial performance (FP). Banks that incorporate CSR have better asset quality; capital adequacy; and are more efficient in managing their asset portfolios and capital. In addition, they also found that geographic location regulates the relationship between CSR and FP during economic contraction, such that the relationship differs across relationship and transactional banking models.

The other study is conducted by Olayinka and Temitope (2011) to examine the relationship between CSR and FP in Nigeria using qualitative research method. The study obtained data on variables which were believed to have relationship with CSR and FP. These variables included Return on Earnings (ROE), Return on Asset (ROA), Community Performance, Employee Relation and Environment Management System. The result shows that CSR has a positive and significant relationship with the financial performance measures.

Another study carried out by Amole, Adebisi and Awolaja (2012) on the impact of CSR on the profitability of Nigerian banks, which made use of ordinary least square (OLS) model of regression in testing the relationship between dependent and independent variables. The study used data on corporate social responsibility expenditure and profit after tax for the period of 2001-2010. It adopts model on the causal relationship between CSR and firms financial performance (FFP). The results of the regression analysis revealed that for every unit change

increment in the CSR expenditure, there will be 95% increase in the profit after tax of the bank. The R-Square value of 0.893 obtained shows that CSR accounted for 89% of the variation in the profit after tax of the bank. The study finds that there is positive relationship between banks CSR activities and profitability, stating the need for banks to demonstrate high level of commitment to corporate social responsibility based on stakeholders theory in order to enhance their profitability in the long run.

### **2.2.2 CSR Practice in Ethiopia**

When we come to our country, Yeneneh in 2015 conducted a study which focused on the role of private commercial banks on CSR in Ethiopia. The study had employed both descriptive and qualitative research strategies. Primary data was collected via questionnaire from seven private commercial banks out of sixteen. The data was analysed using Likert 5 scales, interpreted by using mean and standard deviation. Findings of the study had shown that private commercial banks of Ethiopian had looser attitude to support greener industries, lower lending options to low income individuals & small business, less engage in community development and less understanding on poor financial management in banking organizations which results to adverse effect to the environment and society.

The other study conducted by Selam in 2017 explores how CSR factors influence customer satisfaction in Ethio- telecom. Quantitative research design was applied to research the casual relationship of the CSR dimensions to that of customer satisfaction and a stratified random sampling technique was conducted to select the respondents. 325 structured questionnaires were distributed. The analysis was performed using descriptive and inferential statistics by using SPSS version 20 software. The finding shows that CSR model can be applied in a monopolist company as well. Ethical Responsibility, Philanthropic Responsibility and Consumer Protection were found to be positively and significantly affecting customer satisfaction. The study concludes that there was a strong positive relationship between all the CSR dimensions and customer satisfaction.

Dagmawit (2017) carried out a study to explore the effect of CSR practice on building brand equity in the case of CBE (Commercial bank of Ethiopia). The study used both quantitative and qualitative research approaches and explanatory and descriptive types of research design were employed. The questionnaire was administered by conveniently select 371 samples of respondents and the data were analysed using descriptive statistics, correlation and linear regressions models. The findings of the study showed that most of respondents were aware of

the CSR practice of the bank and it makes a significant contribution to the company's brand equity. The study further revealed that the bank's CSR practice was not well structured, it didn't disclose on Medias and it is not meant to attract customers.

Diana C. Robertson (2009) studied the nature of CSR in Ethiopia in titled, "Corporate Social Responsibility and Different Stages of Economic Development: Singapore, Turkey, and Ethiopia. She used snowball sampling method and conducted interview with academicians, businessmen, Government leaders and NGOs in the three countries. Diana illustrated in her study that CSR practice in Ethiopia is in an infant stage. According to her finding the private sector let alone playing a leading role in the advancement of CSR practices, is not strong enough to consider CSR.

Melese (2014) studied CSR practices of commercial banks in his Master thesis titled Corporate Social Responsibility and Commercial Banks the case of Nib International Bank S.C. He selected 90 managers and employees as his sampling by employing purposive sampling and then analysed the collected data through questioners using descriptive analysis technique. Melese's finding portrays that there exists a very low engagement of banks in social activities and decision making process of the Bank considers abiding to laws and regulations set by the government, not social responsibility.

Hailu and Rao (2016) studied CSR practices of Brewery firms in Ethiopia. They selected 429 samples from the five major brewery firms by employing convenience sampling technique. The study focused on the perception of employees towards the environmental CSR initiatives of the companies. The data analysis part employed descriptive technique and inferential statistics. The study finds out that there exists a positive perception of employees towards the environmental CSR initiative of their respective firms. In addition, the study affirmed that, the firms gave little attention to disclose regular information about environmental management in general and their initiative in particular to external stakeholders (Hailu&Rao (2016).

Deyassa (2016) investigated and analysed CSR from an Ethiopian perspective in his article titled CSR from Ethiopian perspective. Deyassa collected data through interviews and dialogues with managers. The number of samples in the study is not mentioned in the article. Another limitation of the article is that the interview was confined to companies in two cities. Deyassa find out in his study that CSR is a new trend in Ethiopia, which is a result of the increasing inflow of multinational companies to Ethiopia and the pressure from NGOs

regarding the environmental impacts the firms are causing. According to Deyassa, the CSR practice in Ethiopia is oriented to philanthropic activities. In addition, most companies did not develop not only a peculiar model but also a concept of CSR too.

Tedla (2013) studied the nature and practice of CSR in Floriculture industry in his master's thesis titled "Corporate Social Responsibility Program in Ethiopian Floriculture Industry". His study is based on a qualitative approach by observing 53 flower exporting firms. He used inductive inference to relate empirical evidence with theoretical literatures. According to Tedla's finding companies in the floriculture industry have a better understanding and practice of CSR. The firms in the industry work responsibly, concerned with not only shareholders value but also the overall benefit of stakeholders. The finding depicts that the firms managed to incorporate social, economic and environmental friendly practices to their business strategy. Quite apart from this there exist complaints from environmental protection groups and communities about the environmental sensitivity of the industry. The inorganic fertilizers, chemicals and pesticides utilized in the farmlands are causing serious problem to the environment. One thing that should be noted here is that, these horticulture companies are export companies where their products destination is the global market. Hence there is high probability that the CSR practice of this industry is highly influenced by the CSR trends in the global market than the CSR culture and driving forces of the country.

Potluri and Temesgen (2008) studied the attitude of Ethiopian firms towards CSR. They selected 50 companies and used structured questioner and interview to collect data. In addition, they included the views of employees; customers and general public to cross validate the data obtained from the companies. The finding of the study shows that there exists a positive attitude for implementing CSR. However, this attitude doesn't reflect the CSR practices of the companies. According to the study only 40% of the companies are positive in disclosure of information. 69% of the employees are under satisfied by the CSR practices in their respective company while a significant 75% of the general public is unpleased with the CSR practices of Ethiopian companies. In addition, 69% of customers believe that they are manipulated by the companies which reflect the dominant unethical business practices.

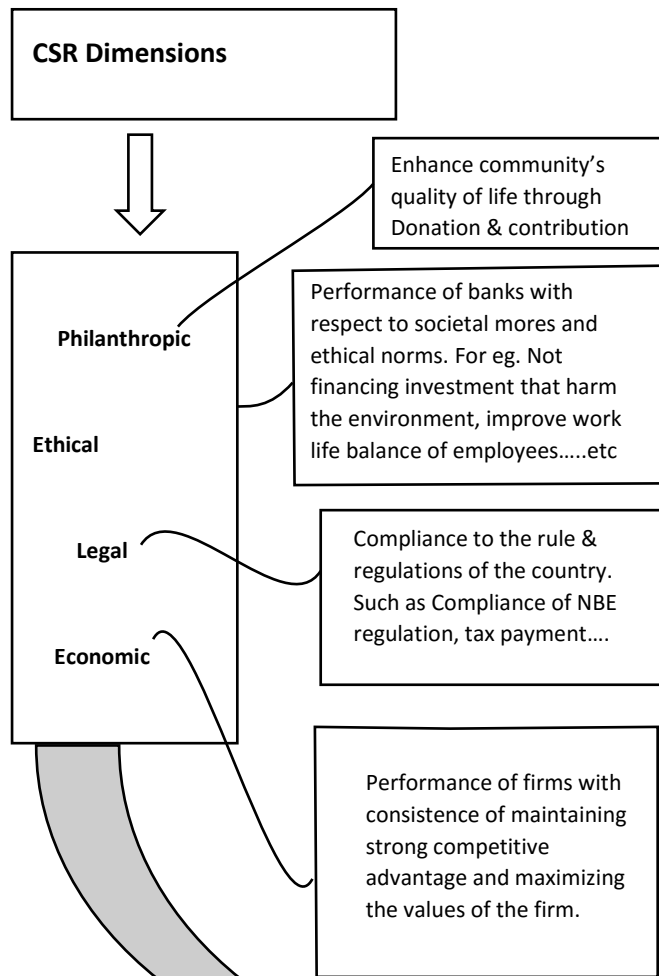
Moreover, it can be observed from the literatures that CSR practice is yet to develop in Ethiopia. The existing limited CSR practice is oriented towards philanthropy than sustainable development.

### **2.3 Conceptual framework of the study**

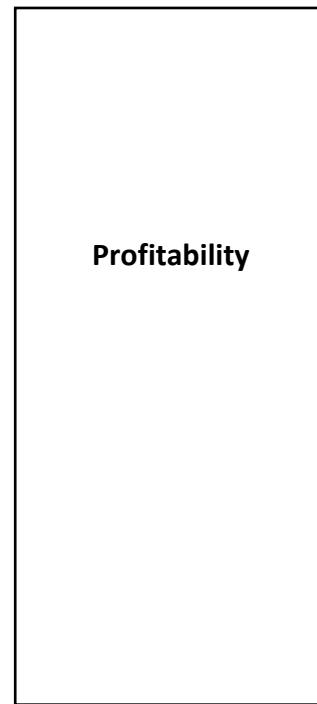
This conceptual framework is adopted from the carol's CSR pyramid specifically the economic, legal, ethical and philanthropic responsibility CSR which consists of activities towards shareholders, customers, employees, environment, society, and other stakeholders (Freeman et al., 2010).

In this study, relevant components from the established models have been selected to fit the research objectives. Primary data will be used to gather information regarding the practice of CSR with respect to Carol's CSR pyramid and its impact on profitability of selected banks and regression analysis will be used to assess the relationship between CSR and profitability's of the respective banks.

**Independent variables**



**Dependent variables**



*Source: Adopted from carol's (1991) and stakeholder theory of CSR*

**Figure 2:** Conceptual frame work

## **CHAPTER THREE**

### **METHODOLOGY**

This chapter deals with the method that will be used in this study. The chapter is organized under the following sub headings: research design, population and sampling, data collection technique, method of data collection and data analysis.

The role of methodology is to carry on the research work in a scientific, and valid manner. Methodology comprises the approach, strategy, methods and procedures adopted to conduct research (Chaston and Mangles, 2003).

#### **3.1 Research Design**

The research design refers to the overall strategy that is chosen to integrate the different components of the study in a coherent and logical way, thereby, ensuring it will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data.

The type of research design undertaken in this study was a descriptive cross-sectional survey that adopt quantitative approach. The nature of this study leads towards correlation research, focuses on the relationship among independent variable and the dependent variable. The independent variable was CSR, measured by four sub-variables (philanthropic, ethical, legal and economic) and the dependent variable was profitability of banks.

#### **3.2 Target Population and Sampling Technique**

According to NBE (2020) annual report there are sixteen private commercial banks operated in the country. Since, complete coverage of the population is not possible, a subset of the population is selected based on their age. Existed literature revealed that mature firms invest more on CSR and become more responsible (Withisuphakorn and Jiraporn, 2015). In this regard, the study identified six banks as a sub set of population, who are existed in the sector for more than 20 years.

Then to conduct this study, convenience sampling method was used. There was two main reason for using convenience sampling. First, there were a constraint of budget, time and mobility restriction (due to current situations of COVID- 19) makes it impossible to cover all of the private commercial banks. Second, convenience sampling allowed the researcher to

identify in advance the willingness of the banks whom to allow the research to conduct the study. In this regard, Dashen and United banks were selected for this study.

No.	Name	Year Established
1	Awash Bank	1994
2	Dashen Bank	1995
3	Abyssinia Bank	1996
4	Wegagen Bank	1997
5	United Bank	1998
6	Nib Bank	1999
7	Cooperative Bank of Oromia	2005
8	Lion International Bank	2006
9	Oromia International Bank	2008
10	Bunna International Bank	2009
11	Zemen Bank	2009
12	Berhan Bank	2010
13	Abay Bank	2010
14	Addis International Bank	2011
15	Debub Global Bank	2012
16	Enat Bank	2013

Source: NBE, 2020 report

**Table 3.1:** List of Private Banks

The target population of this research was Head office employees of DB and UB selected using probability sampling particularly stratified random sampling technique. The target population of the bank's employees for this study were classified in two strata based on the banks they are employed. Then the samples were selected from each stratum according to their proportion to the target population.

The current staff strength of DB at head office is 1006 employees and UB 526 employees. Therefore, the total population for the study was 1532 employees.

The justification behind using stratified random sampling is that it is more efficient than simple random sampling because each important segment of the population is better

represented, and more valuable and differentiated information is obtained with respect to each group (Sekaran, 2003).

### 3.2.1 Sample Size Determination

Due to time and financial limitations and the nature of target population, sample determination method developed by Yemane (1967) is preferred to be used by researcher as a method to determine a sample size. Confidence level is 95 % and precision level is 0.05.

The formula is:

$$n = \frac{N}{1+N(e^2)}$$

Where, N= is the population size

e = is the level of precision or sampling error

$$n = \frac{N}{1+N(0.05^2)}$$

$$= \frac{1532}{1 + 1532(0.05)^2}$$

Sample Size = **317**

No.	Stratum	Sample Size	
		Total no. of population	Proportion of sample
1	DB	1006	[(1006/1532)*317]= <b>208</b>
2	UB	526	[(526/1532)*317] = <b>109</b>

Source: own computation

**Table 3.2:** Sample frame

### **3.3 Data Sources and Collection Technique**

The study used primary data to get reliable and relevant information. A structured questionnaire, with a five-point Likert scale, was used to gather the data. Respondents were provided with a self-administered questionnaire to complete. The constructs in the questionnaire were developed from the literature review. An English survey form was used since English is the language of transaction in the banks. The questionnaire is adopted from different journals and modified to address the specific research objective of this study.

The questionnaire consisted of two sections. The first section was data on demographic data of the respondents and their banks. Section two was used for each of the four predetermined independent variables and the dependent variable. These sections used a five point Likert-type scale ranging from 'strongly disagree' (1) to 'strongly agree' (5).

The data obtained from the questionnaires were coded, captured and edited. The Statistical Package for Social Sciences (SPSS version 20) was used to analyse the results.

### **3.4 Measurement of Variables**

Regarding measurement of variables, independent variable of the study was dimensions of CSR such as philanthropic, ethical, legal and economic responsibilities and the dependent variable was profitability of banks. Five point Likert scale, mean and standard deviations was used to measure the independent and dependent variables of the study.

### **3.5 Data Analysis Technique**

Information collected from the questionnaire is analysed by descriptive statistical methods, correlation analysis and regression analysis using the Statistical Package for Social Sciences (SPSS version 20) to assess the effect as well as to answer the research questions; if there is relationship and the extent of the relationship if any between the independent variable (CSR) and the dependent variable (profitability).

### **3.6 Reliability**

Reliability is fundamentally concerned about consistency (Bryman & Bell 2015). It refers to which the data collection and analysis procedures have yielded consistent findings. (Bryman & Bell 2015).

Cronbach Alpha measures the internal consistency of the items in a scale. It indicates that the extent to which the items in a questionnaire are related to each other (Hair et al., 2003). It also indicates that whether a scale is one-dimensional or multidimensional. The normal range of Cronbach's coefficient alpha value ranges between 0-1 and the higher values reflects a higher degree of internal consistency. Different authors accept different values of this test in order to achieve internal reliability. According to Pallant (2010), a Cronbach alpha value of at least 0.7 can be regarded as an acceptable level of reliability.

For the purpose of this study, 10 % of the total sample, 32 instruments were distributed and the Cronbach's coefficient alpha was calculated for each items of the questionnaire and to over all items.

**Table 3.3: Reliability result**

	<b>Cronbach's Alpha</b>	<b>N of Items</b>
Philanthropic	0.785	5
Ethical	0.894	7
Legal	0.897	4
Economic	0.810	4
Profitability	0.833	4
Over all items	0.940	24

Source: survey results and own computations

The reliability statistics for this study are reflected in the above table, which indicates that for each construct values of Cronbach's Alpha ranged from 0.785 to 0.897. This range is considered acceptable as the result ensures the reliability of each field of the questionnaire.

### **3.6 Ethical Consideration**

There are certain ethical protocols that have been followed while conducting this research. The first is soliciting explicit consent from respondents. This ensures that their participation to the study is not out of their own volition.

On the questionnaires, it is clearly asserted that the respondents were anonymous, that the answers treated confidentially and will be used for academic purpose only. A brief description of the purpose of the study will also be briefed, respondents hence filled out the

questionnaire with informed consent, and the researcher is appear in person where the questionnaires handedout and recollected. So, that the respondents would be comfortable and will more likely to give honest response to the questionnaire. To ensure the integrity of the data, the researcher checked out the accuracy of encoding of the survey responses.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter includes the data presentation, analysis and interpretation of the findings. The discussion attempts to accomplish the objectives of the study, and answer the research questions. The survey was conducted with 317 respondents representing 100 percent of the sample size.

#### 4.1 Descriptive Analysis

Demographic data questions are set in part I of the questionnaire. Personal and demographic information such as gender, age group, years of work experience and educational qualification are presented as follows.

**Table 4.1 Demography of the respondents**

No.	Variables	Description	Frequency	Percent (%)
1	Gender	Male	212	66.9
		Female	105	33.1
		<b>Total</b>	<b>317</b>	<b>100.0</b>
2	Age of Respondent	23-30	143	45.1
		32-35	101	31.9
		36-40	45	14.2
		41-45	18	5.7
		46-50	4	1.3
		Above 50	6	1.9
		<b>Total</b>	<b>317</b>	<b>100.0</b>
3	Educational Qualification	Diploma	5	1.6
		Degree	197	62.1
		Masters &above	115	36.3
		<b>Total</b>	<b>317</b>	<b>100.0</b>
4	Work Experience	1-5	137	43.2
		6-10	107	33.8
		11-15	55	17.4
		Above15	18	5.7
		<b>Total</b>	<b>317</b>	<b>100.0</b>

Source: survey results and own computations

As indicated in the above table, it is evident that of the 317 respondents, who participated in the study, 67% of respondents were males and 33% of respondents were females. Regarding

the age group, majority of respondents fell between the age group 23-30 years is 45%, followed by the age groups of 31-35years 32%, 36-40 years 14%, 41-45 years 6%, above 50 years 2% and 46-50 years 1%. Furthermore, the age groups 23-30 years and 32-35 years together represent the majority of respondents who participated in the study. Hence, the majority of the respondents who completed the survey are younger than 35 years of age.

Observing the educational qualifications of the respondents who participated in the study, 62% of the respondents were a degree holders followed by holders of masters & above with 36% and the remaining 2% were diploma holders. Hence, based on the educational qualifications, majority of the respondents believed to have sufficient knowledge regarding corporate social responsibilities.

The last demographic factor was work experience respondents in their respective banks and 43% of respondents have worked between 1-5 years, 34% have worked between 6-10 years, 17% have worked between 11-15 years and 6% have worked between 15 years and above.

## 4.2 Dimensions of CSR and Profitability

**Table 4.2 Mean of CSR Dimension**

	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>
Philanthropic Responsibility	317	3.6221	.38272
Ethical Responsibility	317	3.6863	.53837
Legal Responsibility	317	3.8478	.47723
Economic Responsibility	317	3.6703	.69481
Valid N (list wise)	317		

Source: survey results and own computations

The above table shows that the corresponding mean and standard deviation of all construct totals (total of every individual categorical construct). Accordingly, the legal responsibility scores a mean of 3.84 and SD of 0.47 which makes it the highest score from the other CSR dimensions. Hence, the above result implies that the bank operates its business with compliance to the directives and regulation set by national bank of Ethiopia (NBE), disclose its financial report to the public with respect to international reporting standard and comply

the laws and regulation set by the country with respect to conducting business such as commercial laws, tax laws .etc.

Ethical responsibility widely practiced by the respective banks next to the legal responsibility with a mean score of 3.68 and SD of 0.53. These implies that banks perform its business with respect to societal mores and ethical norms such as improving working conditions to its employees, gives due care for the health and safety of its employees, develop good ethical principles and make employees to follow it, motivate employees by providing financial and non-financial benefits (like reward, paying competitive salary, recognition, provision of credit, covering medical expenses, providing capacity building training) and of course having good corporate governance.

The third CSR activities practiced by respective banks were economic responsibility with a mean scores of 3.67and SD of 0.69 which implies the banks performance were consistence with maintain strong competitive advantage and maximizing the value of the firms through reducing operating cost, managing risk, developing new product, redefining the existing ones and also creating new channels.

Philanthropic responsibility is the last CSR activities among the four dimensions practiced by the respective banks with a mean score of 3.62 and SD of 0.38. The banks philanthropic responsibilities were associated with enhancing the community welfare through donation and contributions, like supporting national pride and government campaigns (Hedase dam building, the beautifying sheger project), responding to natural and human made disasters (Covid -19, rescue Lake Tana from Water Hyacinth (Emboch) and make donation to charitable communities (National disaster and risk management commission, children's heart fund of Ethiopia, Ethiopian cancer association).

### **4.3Tests of Assumptions of Classical Linear Regression Model**

The model used by the researcher for this study is tested for classical linear regression model assumptions (homoscedasticity, autocorrelations, multicollinearity, normality and linearity)and the model fulfil the assumptions. Analysis results of each assumptions were attached in Appendix B.

#### **4.3.1 Linearity Test**

Multiple linear regression model assumptions assume there is a linear relationship between the independent variables and the dependent variables.

The linearity assumption of multiple linear regressions is that the relationship between the independent variable and the dependent variable can be characterized by a straight line. The linearity assumption already linear from the equation of multiple linear regression models of the independent variables and dependent variable (Gujarat, 2004).

Linearity assumption was not serious threat to the study since we can draw one straight line to approximate the observations for all independent variables against the dependent variable, profitability, and also the variance between the upper and lower cases of the observations were reasonably similar.

#### **4.3.2 Homoscedasticity Test**

This assumption assumed that the variance of the errors is constant. Assumptions can be checked by scatter plot diagram.

The result plots the values the model would predict, against the residuals obtained. As the predicted values increase, the variation in the residuals should be roughly similar. The graph looks like a random array of dots. So, the model is homoscedasticity.

#### **4.3.3 Autocorrelations Test**

Multiple linear regression models assume the residuals are independent of one another. The Durbin-Watson statistic is used to test for the presence of serial correlation among the residuals. If the Durbin-Watson statistic is within the range of 1.50 - 2.50, it is an acceptable range. From the result Durbin-Watson was 1.795 and it was within the range of 1.50-2.50, as a result the assumption of independence of residuals was satisfied.

#### **4.3.4 Multicollinearity Test**

The VIF is a measure of the reciprocal of the complement of the inter-correlation among the predictors. The decision rule is a variable whose VIF value is greater than 10 indicates the possible existence of multicollinearity problem. Tolerance (TOL) defined as  $1/VIF$ , it also used by many researchers to check on the degree of Collinearity. The decision rule for tolerance is a variable whose TOL value is less than 0.1 shows the possible existence of multicollinearity problem (Gujarati, 2004).

From the assumption test the VIF values for all variables became less than 10 and tolerance value of all variables also became above 0.1 which indicates that this model is free from multicollinearity.

#### 4.3.5 Normality Test

This assumption tests whether the data is well modelled by normal distribution or not. This test of normal distribution could be checked by graphical (histogram and dot plot) method of tests. The normality assumption assumes a critical role when a study is dealing with a small sample size; data less than 100 observation (Gujarati, 2004). The assumption was tested by using normal probability plot (NPP). The decision rule is, if the fitted line in the NPP is approximately a straight line, one can conclude that the variables of interest are normally distributed (Gujarati, 2004). From the result residuals of the model were approximately normally distributed, because the fitted line on the NPP approximately straight line.

Since all the five assumptions were not violated, the researcher examined the data collected by the questionnaires using correlation and multiple linear regression models.

#### 4.4 Correlation Analysis

Pearson (r) correlation coefficient was carried out so that the nature of strength and direction of the relationship between the philanthropic, ethical, legal and economic responsibilities with profitability are identified.

**Table 4.3 Correlation Matrix**

	Profitability	Philanthropy	Ethical	Legal	Economic
Profitability	1				
Philanthropy	.468**	1			
Ethical	.542**	.492**	1		
Legal	.468**	.498**	.519**	1	
Economic	.494**	.443**	.635**	.519**	1

\*\*Correlation is significant at the 0.01 level (2-tailed).  
N=317

Source: survey results and own computations

Table 4.3 above shown the correlation between CSR dimensions (philanthropy, ethical, legal and economic responsibilities) and profitability in selected private commercial banks in Ethiopia.

The strongest relationship is between bank's profitability and ethical responsibilities of the banks ( $r=0.542^{**}$ ,  $p<0.01$ ). This means that banks with well-developed ethical principle, operates in a manner consistent with expectations of societal & ethical norms and good corporate governance will results an increase in the profitability of the bank.

The relationship between bank's profitability and economic activities of the banks is positive and significant ( $r=.494^{**}$ ,  $p<0.010$ ), which means that bank's with clearly designed strategies to reduce operating cost, well developed risk management policy & strategy, continuously develop new product and new channels will increase the profitability of the banks.

The bank's philanthropy activities and its profitability has also positive relationship with  $r = 0.468^{**}$ ,  $p<0.01$ . This reflects that an increase in philanthropic activities in society such as donation to charities, provide support for the victims of natural and human made disasters and some other similar activities will results an increase in bank's profitability. Similarly, the bank's legal responsibilities and its profitability has also positive relationship with  $r = 0.468^{**}$ ,  $p<0.01$ . Therefore, all dimensions of CSR were positively correlated with the bank's profitability.

#### **4.5 Regression Analysis**

Regression analysis is used to determine the degree in which the dependent variable can be predicated or explained from the independent variables. It is also used to understand by how much each independent variable (Philanthropic, Ethical, Legal and Economic) explains the dependent variable that is profitability.

The model summary below shows the statistical relationship of the dependent variable (profitability) and independent variables (CSR).

**Table 4.4 Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.620 <sup>a</sup>	.384	.377	.49419
a. Predictors: (Constant), Economic, Philanthropic, Legal, Ethical				

Source: survey results and own computations

The R value represents the correlation strength between independent variables and dependent variables. The value is 0.620 which shows strong correlation between CSR practice and profitability of banks. The R Square shows how much of dependent variable can be explained or accounted for by the independent variables. For this case 38.4% of variance in the dependent variables (profitability) can be accounted in the independent variable (CSR) or CSR practice of banks explain 38.4% of the variations on their profitability of the dependent variable with unexplained factors of 61.6%.

**Table 4.5 ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	0.47591	4	11.898	48.717	.000 <sup>b</sup>
	Residual	76.197	312	0.244		
	Total	123.789	316			
a. Dependent Variable: profitability						
b. Predictors: (Constant), Ethical, Philanthropic, Legal, Economic						

Source: survey results and own computations

The F ratio in the ANOVA table tests whether the overall regression model is good fit for the data tested. The independent variables (CSR) statistically significant predictor of the dependent variable (Profitability) at  $F(4, 312) = 48.717, p = .000$ . Hence, the regression model is good fit of the data. Furthermore, CSR dimensions of philanthropic, ethical, legal and economic activities has statistically significant impact on the profitability of selected private banks in Ethiopia.

**Table 4.6 Effect of CSR on Profitability**

Model		Unstandardized Coefficients		Standardized Coefficient's	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.191	.289		.661	.509
	Philanthropic	.310	.089	.190	3.496	.001
	Ethical	.313	.072	.269	4.363	.000
	Legal	.198	.074	.151	2.662	.008
	Economic	.144	0.54	.160	2.653	.008
a. Dependent Variable: profitability						

Source: survey results and own computations

The Unstandardized coefficient (B) indicates how much the dependent variable varies with the independent variable when all other independent variables are held constant. The above table shows that, all of the independent variables (Philanthropic, Ethical, Legal and Economic) have statistically significant relationship with the dependent variable (profitability) since their p-value is below the alpha level which is 0.05. Hence, the unstandardized coefficient B1 of philanthropic responsibility is equal to 0.310 which indicates that an increase in one unit of philanthropic activities results to an increase of 0.310 units in profitability of the bank. Likewise, the unstandardized coefficient B2 of ethical responsibility is equal to 0.313; this indicates that an increase in one unit of ethical activities results to an increase of 0.313 unit in profitability of the bank. Furthermore, an increase in one unit of legal responsibility (B3) results to an increase of 0.198 unit in banks profit and also an increase in one unit of economic responsibility (B4) results to an increase of 0.144 in banks profit.

Regarding the standardized beta coefficients, the predictors of the dependent variable were ethical responsibility with a beta value of 0.269, philanthropic responsibility with a beta value of 0.190 and economic responsibilities with a beta value of 0.160, legal responsibility with a beta value of 0.151. Therefore, all the four independent variables has a positive impact on the dependent variable.

## 4.6 Results Discussion

The study is associated with the dimensions of CSR towards profitability in banking industry. The objective of this study is to examine the relationship between CSR practice and

profitability in the banking industry, specifically in Dashen and United banks, by analysing the relationship of every construct in the theoretical framework.

The theoretical framework of the study is adopted from Carroll (1991) model of social responsibilities, particularly philanthropic, ethical, legal and economic responsibilities. The first research questions of this study was to investigate which CSR dimension dominantly practiced in selected private banks. In this regards the finding of the study revealed that all the four dimensions of CSR are commonly practiced in selected private banks in Ethiopia. However, the most performed CSR practice in selected private banks in Ethiopia is legal responsibilities (mean = 3.84), followed by ethical responsibilities (mean =3.68), economic responsibilities (mean =3.67) and philanthropic responsibilities (mean = 3.62).

Furthermore, the legal responsibilities of CSR practice mostly associated with compliance to NBE's directives & regulations, rules and regulations of the country, preparing its financial statement according to international reporting standard and also communicating the same to the public.

Similarly, the common CSR practice with respect to the ethical responsibilities in selected private banks comprise; operating in a manner consistent with expectations of societal and ethical norms, having well developed ethical principles, having good corporate governance, motivating its employees through recognition, appreciation & reward, facilitating various capacity building training for its employees and also gives due care for the health, safety & working conditions of its employees.

CSR practice of banks related with economic responsibilities includes, having clearly designed strategies to reduce operating costs, having good risk management policy & strategies, react to customer demand by developing new product, redefining the existing ones and also creating new channels.

The last CSR practice with respect to the philanthropic responsibilities in selected private bank includes supporting national pride and government campaigns, supporting societies by providing support for the art, culture, science & sport, making donation to charitable bodies and communities and also responds to natural and human made disasters.

The second research questions of this study were to examine the relationship between philanthropic responsibility and profitability in selected banks. In this regard, the result of the correlation analysis  $r = 0.468^{**}$ ,  $p < 0.01$  exhibits that philanthropic responsibility has a

positive and strong relationship with bank's profitability. This reflects that an increase in philanthropic activities in society such as donation to charities, provide support for the victims of natural and human made disasters and some other similar activities will results an increase in bank's profitability. The results of regression analysis also shows that philanthropic responsibility has a positive and significant relationship with profitability of the banks with  $p < 0.05\%$  of significance level. The standardized beta coefficient of philanthropic responsibility has a beta value of 0.190, which implies a unit change in philanthropic activities changes profitability of banks by 0.190 units.

The third research questions of this study were to examine the relationship between ethical responsibility and profitability in selected banks. The result of the correlation analysis  $r = 0.542^{**}$ ,  $p < 0.01$  exhibits that ethical responsibility has a positive and strong relationship with bank's profitability. This reflects that an increase in ethical responsibility in society such as improving work life balance of employees will results an increase in bank's profitability. The results of regression analysis also shows that ethical responsibility has a positive and significant relationship with profitability of the banks with  $p < 0.05\%$  of significance level. The standardized beta coefficient of ethical responsibility has a beta value of 0.269, which implies a unit change in ethical responsibility changes profitability of banks by 0.269 units.

The fourth research questions of this study were to examine the relationship between legal responsibility and profitability in selected banks. The result of the correlation analysis  $r = 0.468^{**}$ ,  $p < 0.01$  exhibits that ethical responsibility has a positive and strong relationship with bank's profitability. This reflects that an increase in legal responsibility will results an increase in bank's profitability. The results of regression analysis also shows that legal responsibility has a positive and significant relationship with profitability of the banks with  $p < 0.05\%$  of significance level. The standardized beta coefficient of ethical responsibility has a beta value of 0.151, which implies a unit change in legal responsibility changes profitability of banks by 0.151 units.

The fifth research questions of this study were to examine the relationship between economic responsibility and profitability in selected banks. The result of the correlation analysis  $r = 0.494^{**}$ ,  $p < 0.01$  exhibits that economic responsibility has a positive and strong relationship with bank's profitability. This reflects that an increase in economic responsibility will results an increase in bank's profitability. The results of regression analysis also shows that economic responsibility has a positive and significant relationship with profitability of the

banks with  $p < 0.05\%$  of significance level. The standardized beta coefficient of economic responsibility has a beta value of 0.160, which implies a unit change in economic responsibility changes profitability of banks by 0.160 units.

The last research question of this study was to investigate which CSR dimension has more impact on the profitability of selected banks. Based on the regression results, ethical responsibility had a higher beta value of 0.269 followed by philanthropic responsibility of beta value 0.190, economic responsibility with beta value of 0.160 and legal responsibility of beta value of 0.151.

## CHAPTER FIVE

### SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Summary of Finding

The study was conducted to examine the relationship between CSR and profitability in selected private banks in Ethiopia. Hence, the major findings of the study were summarized as follows.

Based on the results of the descriptive analysis all the four dimensions of CSR are commonly practiced in selected private banks in Ethiopia and the legal responsibilities of CSR dimensions is the most dominant practice in selected private banks in Ethiopia.

There is a strong positive correlation between banks CSR practices and their profitability, 38.4% of the variation on profitability in selected banks are explained by their CSR practice.

Specifically, all the four dimensions of CSR has a positive relationship with bank's profitability. Ethical responsibilities of the bank has the strongest relationship with bank's profitability with  $r = 0.542$ ,  $p < 0.01$ , followed by the economic activities of the banks with  $r = .494^{**}$ ,  $p < 0.010$ . The bank's philanthropy activities and legal responsibilities has the same relationship with bank's profitability with  $r = 0.468^{**}$ ,  $p < 0.01$ .

Based on the standardized beta coefficients all the four dimensions of CSR activities has a positive impact on profitability of banks. Ethical responsibility with a beta value of 0.269 is the highest predictors of profitability of private banks in Ethiopia. Followed by philanthropic responsibility with a beta value of 0.190, economic responsibility with a beta value of 0.169 and legal responsibility with a beta value of 0.151.

#### 5.2 Conclusion

The study aims to examine the effect of CSR practice on profitability in selected private banks in Ethiopia. The study further examines the relationship of each dimensions of CSR with profitability of selected banks and based on the finding of the study the following conclusions were drawn.

- ❖ Legal responsibility is the most dominant practice in selected private banks.
- ❖ CSR has statistically significant impact on the profitability of selected banks. 38.4 % of the variation on profitability of the banks was explained by CSR.

- ❖ Philanthropic responsibility has a positive relationship with profitability of selected banks.
- ❖ Ethical responsibility has a positive relationship with profitability of selected banks.
- ❖ Legal responsibility has a positive relationship with profitability of selected banks.
- ❖ Economic responsibility has a positive relationship with profitability of selected banks.
- ❖ Ethical responsibility has the highest impact on profitability of selected banks among the other dimensions.

### **5.3 Recommendation**

Competition in the banking industry now a day's become stiff and banks needs to enhance their CSR activities which is good for them to maintain corporate reputation, gaining customer trust, maintaining their corporate images and consequently increasing their market share in the industry. Therefore, in line with the findings and conclusions made above, the following possible recommendations are suggested as being valuable to Dashen bank and United bank for improving their CSR practice and for the banking sector in general.

- ❖ Having qualified and motivated staff is one of the important pillars for the firms to be competitive and profitable in the industry. Hence, banks should attract and retain qualified staff in overcome the harsh competition in the industry. For these reasons, banks have to show their determination on making the working environment more conducive, motivating its employees through recognitions, reward & appreciations and also providing various capacity building training, gives priority for the health and safety of its employees.
- ❖ Banks should consider investing much on ethical activities since it will lead to improve profitability.
- ❖ Banks should consider establishing a separate department for CSR, which is responsible for formulating policy and strategy of CSR and its integration with the daily operations of the bank.

## **5.4 Recommendation for further studies**

- ❖ The effect of CSR practice on profitability is evaluated only from the perception of banks employees. Leaving out the perception of customers and other stakeholders. Hence, further study should use holistic approach to investigate the relations between the variables.
- ❖ The effect of CSR practice on profitability did not include empirical data to evaluate the relationship between the variables due to the absence of complete information regarding CSR expenditure (only donation expense reported) of banks in their financial report. This study used questioner method of data collection, in the future other studies should assess the relation between the two variable empirically using financial performance indicators such as return on asset, return on equity and expenditure on CSR activities.
- ❖ The effect of CSR practice on profitability is conducted in Dashen bank and united banks. The finding of the study is limited to generalization and therefore is not a complete representation of all private banks in Ethiopia. Further studies should assess the relations between the variables by incorporating the entire private banks.

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## Appendix A: Questionnaire

**ADDIS ABABA UNIVERSITY**  
**COLLEGE OF BUSINESS AND ECONOMICS**  
**DEPARTMENT OF BUSINESS ADMINISTRATION**

The purpose of this questionnaire is to gather relevant data that will be used in undertaking MBA thesis on the topic "Assessment of Corporate Social Responsibility and Profitability in the banking sectors, The case of selected private banks in Ethiopia." As part of its main objective the research aims at investigating the relationship between Corporate Social Responsibility (CSR practice and its impact on financial performance of the banks.

Accordingly, this questionnaire is designed to collect data on some basic CSR attributes and issues. Therefore, your cooperation in filling out the questionnaire carefully and genuinely, apart from contributing towards the successful completion of the study is a priceless input towards the creation of a level headed knowledge regarding the aforesaid issue.

Finally, I would like to kindly assure you that the items included in this questionnaire are not designed to test your ability and that all the information you provide will be confidential & will exclusively be used for research purpose.

I thank you in advance for your willingness to participate in filling the questionnaire.

### Section One – Background Information

1. Gender  
Male [ ]      Female [ ]
2. Age  
23 – 30 [ ]      31 – 35 [ ]      36 – 40 [ ]  
41 – 45 [ ]      46 – 50 [ ]      51 and above [ ]
3. Level of education  
Diploma [ ]      B.A. Degree [ ]      Masters and above [ ]
4. Work experience in the bank  
1 – 5 years [ ]      6 – 10 years [ ]      11 – 15 years [ ]      above 15 years [ ]

### Section Two –Attribute related to corporate social responsibility and profitability

The following statement relate to your opinion about basic facts related to corporate social responsibility attributes and profitability. For each item indicate the extent to which you agree or disagree with feature described by the statement.

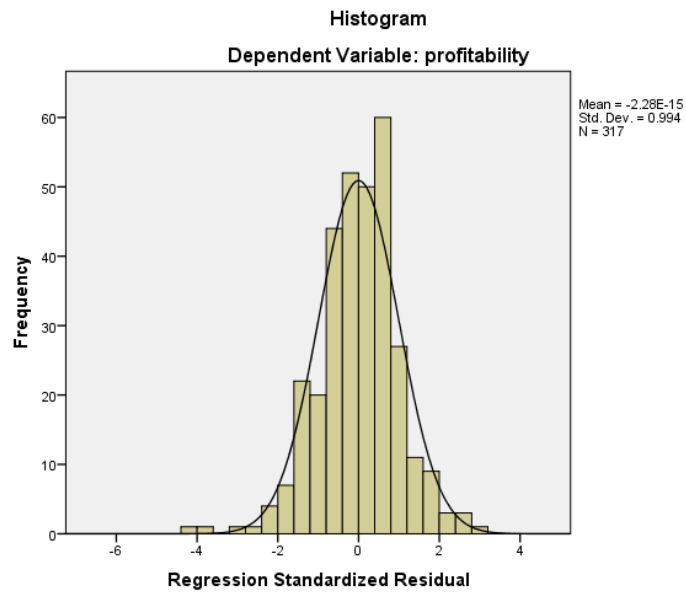
- 1= strongly disagree      2= Disagree      3 = Neutral  
4= Agree      5= strongly agree

Put a check mark (✓) in the column corresponding to one of the five points following the particular items to show the degree to which it relates to the bank.

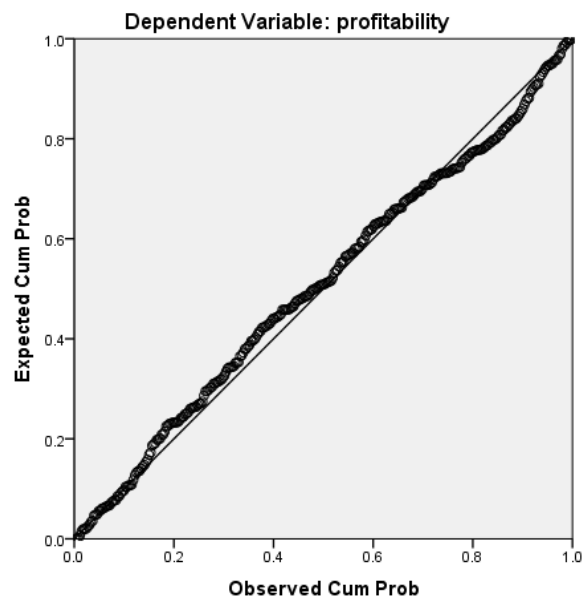
<b>Part one: Attributes of CSR</b>						
<b>Factors/Variables</b>						
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Philanthropic Responsibility</b>						
1	The bank provides support for national pride and government campaigns.					
2	The bank provides support for the arts, culture, science and sports.					
3	The bank makes contributions and donations to charitable bodies and community activities.					
4	Managers and employees of the bank participate in charitable activities of their local communities.					
5	The bank responds to natural and human made disasters (E.g. providing food and shelter for victims of drought)					
<b>Ethical Responsibility</b>						
1	The bank has well developed ethical principle and communicated to its employees.					
2	The bank operates in a manner consistent with expectations of societal and ethical norms.					
3	The bank has good corporate governance.					
4	The bank motivates its employees through recognition, appreciation, and reward.					
5	The bank works towards improving working conditions to its employees					
6	The bank facilitates various training for its employees to improve their capacity.					
7	The bank gives due care for the health and safety of its employees.					
<b>Legal Responsibility</b>						
1	The bank operates in compliance with NBE's directives & regulation					
2	The bank discharge its activities in compliance to the rules and regulations of the country					
3	The bank report its financial statement in accordance with international reporting standard					
4	The bank communicates its financial statement to the public.					
<b>Economic Responsibility</b>						
1	The bank has clearly designed strategies to reduce operating cost.					
2	The bank continuously strives to achieve service excellence.					
3	The bank develop new product redefining the existing ones and creating new channels based on customer demand.					
4	The bank has good risk management policy and strategy.					
<b>Part two: Attribute of Profitability</b>						
<b>Factors/Variables</b>						
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
1	Banks CSR practice guarantees the customers confidence level & corporate loyalty.					
2	Banks image/brand improved by its CSR practice.					
3	CSR increased the market share of the bank.					
4	CSR practice gives a positive reputation advantage to the bank.					

## Appendix B: CLRM Assumption Test

### Normality Test



Normal P-P Plot of Regression Standardized Residual



### Durbin Watson Test

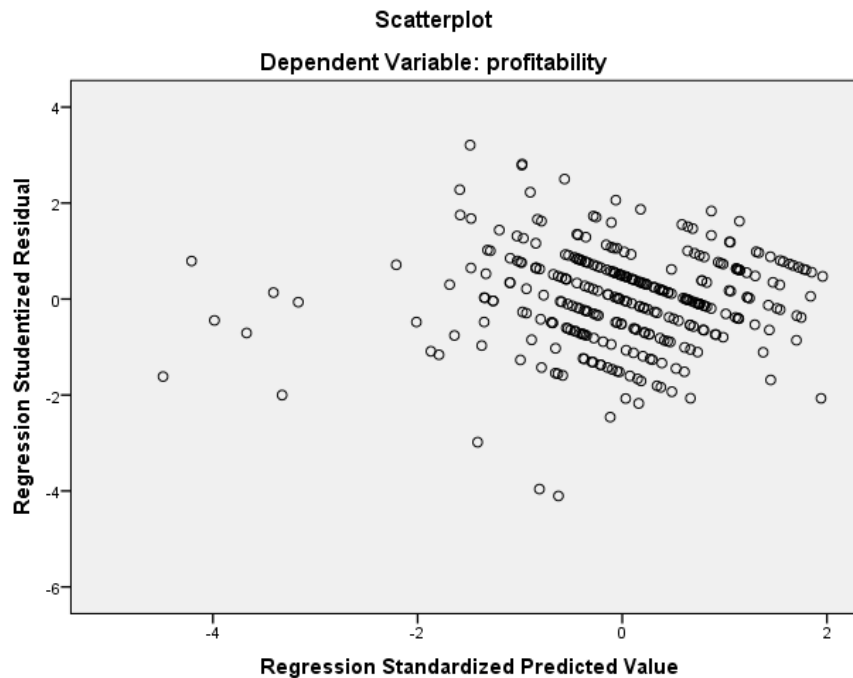
**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.620 <sup>a</sup>	.384	.377	.49419	1.795

a. Predictors: (Constant), Economic, Philanthropic, Legal, Ethical

b. Dependent Variable: profitability

### Homoscedasticity Test

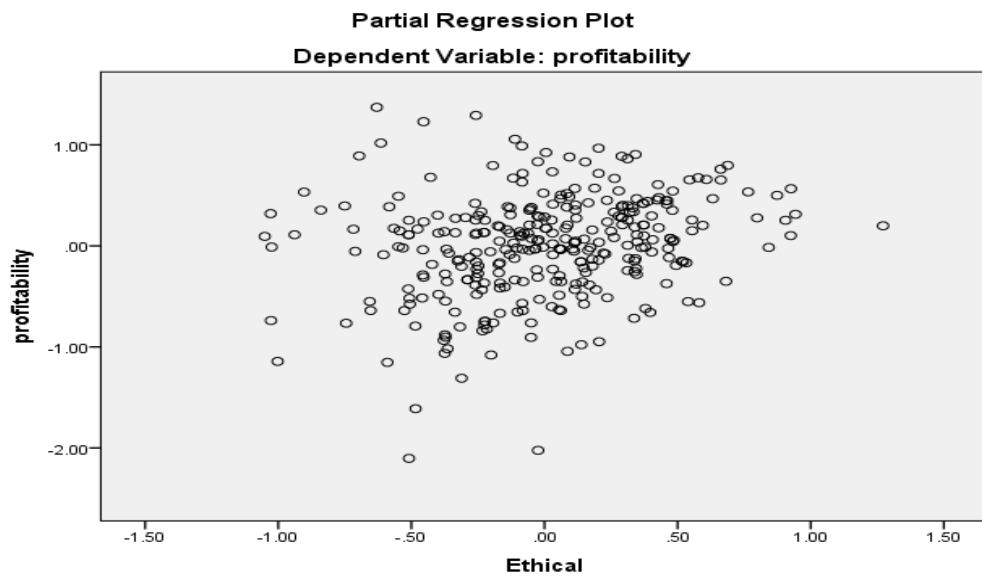
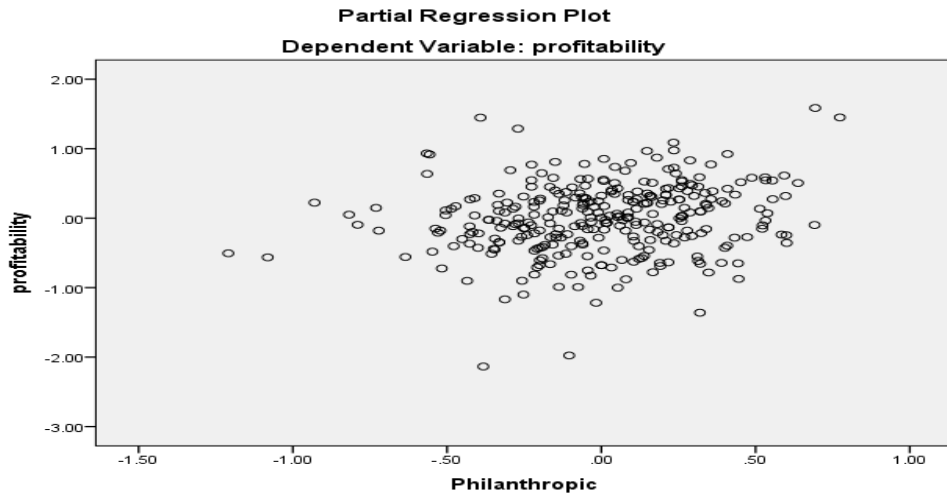


### Multicollinearity Test

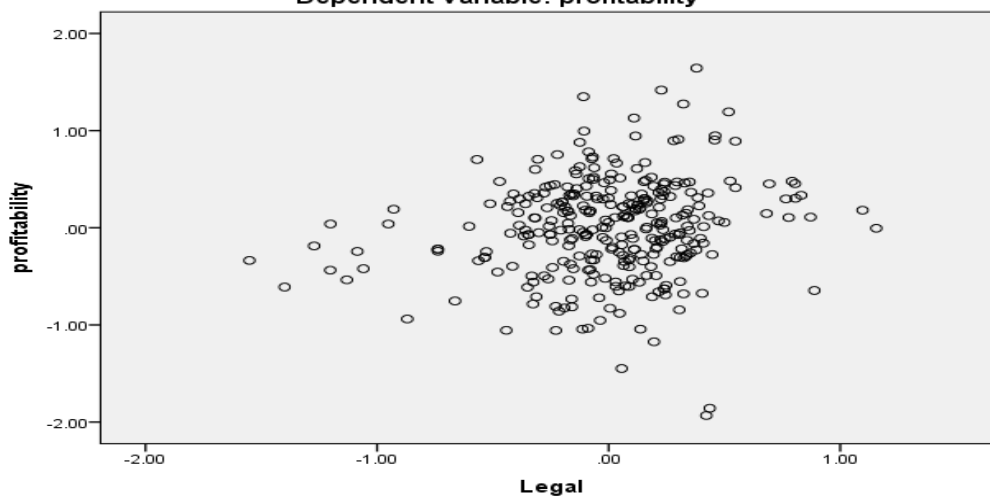
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Philanthropic	0.669	1.494
	Ethical	0.519	1.926
	Legal	0.615	1.625
	Economic	0.540	1.851

a. Dependent Variable: Profitability

## Linearity Test



**Partial Regression Plot**  
**Dependent Variable: profitability**



**Partial Regression Plot**  
**Dependent Variable: profitability**

