

Addis Ababa University

College of Business and Economics

Implications of Corporate Social Responsibility on Financial Performance in the Private Banking Sector in Ethiopia – A Moderated-Mediation Analysis

A Thesis submitted to the Graduate Program of MBA Department at Addis Ababa University College of Business and Economics in Partial Fulfilment of the Requirements for the Degree of Master of business Administration in (finance)

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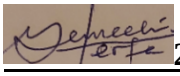
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DECLARATION

I, the undersigned, hereby declare that this thesis entitled “Implications of Corporate Social Responsibility on Financial Performance in the Private Banking Sector in Ethiopia a Moderated Mediation Analysis” is my original work, prepared under the guidance of Dr. Zelalem Gebretsadik.

All sources of materials used in this thesis have been duly acknowledged. I further confirm that this work has not been submitted, either in part or in full, to any other higher learning institution for the purpose of earning any degree.

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ENDORSEMENT

This research project paper titled “Implications of Corporate Social Responsibility on Financial Performance in the Private Banking Sector in Ethiopia – A Moderated Mediation Analysis” has been submitted to Addis Ababa University with my guidance and approval as a university advisor.

Dr. Zelalem Gebretsadik.

Advisor 

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Date: 23/06/2026

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List of Abbreviations

CAR - Capital Adequacy Ratio

CBE - Commercial Bank of Ethiopia

EBA Ethiopian Bankers Association

EBS - Electronic Banking Service

EFA - Exploratory Factor Analysis

EIB - European Investment Bank

FDI - Foreign Direct Investment

GMM- Generalized Method of Moments

IFRS - International Financial Reporting Standards

IMF - International Monetary Fund

MFI - Microfinance Institution

NIM - Net Interest Margin

NPL - Non-Performing Loans

OLS - Ordinary Least Squares

SME - Small and Medium-sized Enterprise

Abstract

This study examined the implication of corporate social responsibility (CSR) on financial performance in the private banking sector in Ethiopia, with emphasis on the mediating roles of capital adequacy and management quality and the moderating role of industry concentration. A mixed-method approach was employed, combining survey data from 36 bank managers and CSR officers with secondary panel data from 10 private commercial banks for the period 2022 to 2025. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) and panel regression techniques. The results show that CSR has a significant positive effect on financial performance. Bank characteristics partially mediate this relationship, and the indirect effect is statistically significant. Industry concentration negatively moderates the relationship between CSR and bank characteristics, suggesting that the effect of CSR is weaker in more concentrated markets. Among the CSR dimensions, product and customer responsibility and human resource responsibility have the strongest positive influence on financial performance, while community involvement is not statistically significant. The study concludes that CSR practices focused on customers and employees contribute meaningfully to the financial performance of private banks in Ethiopia. These findings provide practical implications for bank managers, policymakers, and regulators, while also contributing to the limited literature on CSR and financial performance in emerging African banking markets.

Keywords: Corporate Social Responsibility, Financial Performance, Capital Adequacy, Management Quality, Industry Concentration, PLS-SEM, Ethiopian Private Commercial Banks.

Chapter One: Introduction

1.1 Background of the Study

As we all know, the global challenges facing sustainability issues continue to expand and the issues of Corporate Social Responsibility and ethical governance have become the focus of continued academic attention. In recent years, these concepts have come to be in both developed and developing countries as a result of growing sense of corporate transgression (ALIYU, 2022; Maurizio, 2022; Sang Jun Cho, 2019). While the two concepts can bring significant benefits to a business, however, CSR has continued to grow in importance and significance (Carroll, 1979; Sang Jun Cho, 2019)

CSR offers a framework for organizations to incorporate social and environmental issues into their strategies and operations. Ramzan et al. (2021) highlight that firms need to assess their economic, environmental, and social policies to meet stakeholder expectations effectively. This approach connects with Elkington's (1997) triple bottom line concept, which evaluates success based on economic, social, and environmental outcomes. Various theories explain why companies engage in CSR. Stakeholder theory focuses on that firms should take in to account the interest of stakeholder when making decisions (Freeman, 1984). Legitimacy theory sugessets that organizations engage in CSR activities to allign with societal expectations and preserve their legitimacy (Suchman, 1995). Meanwhile, the resource-based view emphasizes that CSR can create valuable assets such as reputation, trust, and innovation, which contribute to sustainable competitive advantage (Barney, 1991; Hart, 1995).

Corporate social responsibility (CSR) assumes particular significance within the banking sector given that banks occupy a central position in economic development. Serving as financial intermediaries, they direct capital flows and shape investment decisions throughout the economy (Scholtens, 2009; Weber, 2017). In contrast to manufacturing firms that generate direct environmental impacts through goods production and emissions, banks influence environmental and social outcomes indirectly via their lending and investment practices (Jeucken, 2001; Thompson & Cowton, 2004). Following financial crises and corporate scandals, numerous banks have embraced CSR as a mechanism to restore public confidence and exhibit enhanced transparency (Maqbool & Zameer, 2018; Wu & Shen, 2013).

International frameworks including the Equator Principles and the United Nations Environment Programme Finance Initiative

further encourage financial institutions to integrate environmental and social risk considerations into their operations (Wright & Rwabizambuga, 2006).

Although corporate social responsibility (CSR) has gained considerable prominence, its influence on financial performance remains a subject of ongoing debate. Certain research indicates a positive relationship, proposing that CSR enhances corporate reputation, fosters stronger stakeholder relations, and promotes long-term profitability (Orlitzky et al., 2003; Platonova et al., 2016; Maqbool & Zameer, 2018). Conversely, other studies identify minimal or adverse effects, contending that CSR initiatives may increase operational costs or yield insufficient financial returns (Brammer & Millington, 2008; Soana, 2011; Hussain et al., 2018). Collectively, these divergent findings suggest that the relationship between CSR and financial performance is complex and may be influenced by various mediating and moderating variables (Wang et al., 2016; Zhao et al., 2018).

Ethiopia presents a distinctive context for examining CSR within the banking sector. Following the 1994 banking proclamation that opened opportunities for private banks, the industry has experienced rapid expansion. Currently, as reported by the National Bank of Ethiopia (NBE, 2023), the sector comprises one state-owned bank and multiple private banks, with expanding branch networks that enhance financial inclusion. However, CSR practices remain constrained and tend to be philanthropic in orientation, concentrating primarily on donations and community initiatives (Kellow, 2020). The lack of comprehensive CSR reporting requirements has resulted in inconsistent approaches among banks. Recent critiques indicate that certain initiatives may constitute "ESG theatre," whereby sustainability commitments receive public promotion but lack deep integration into operational practices (Tesfaye, 2025).

While CSR is increasingly recognized as important, its relationship to financial performance within Ethiopia's banking sector remains ambiguous. To address this research gap, this study constructs and evaluates a moderated mediation model that investigates how CSR affects financial outcomes, while simultaneously considering the mediating and contextual factors that may influence this relationship.

1.2 Problem Statement

The relationship between corporate social responsibility (CSR) and financial performance continues to be one of the most extensively debated topics in business research..Despite years of study, researchers have not agreed on the nature or direction of this relationship (Margolis & Walsh, 2003; Orlitzky et al., 2003; Wang et al., 2016). Some studies show positive effects of CSR on firm performance, while others find negative or insignificant results. This inconsistency is particularly noticeable in developing countries. In these areas, institutional frameworks, stakeholder expectations, and market conditions differ greatly from those in developed nations, which dominate CSR research (Dobers & Halme, 2009; Jamali & Karam, 2018; Visser, 2008).

In the Ethiopian banking sector, this issue is complicated by several contextual challenges. There is still limited empirical evidence on how CSR influences financial performance in Ethiopia's private banking sector. While earlier studies have examined CSR practices in the country (Kellow, 2020; Kusakci, 2023), few have gone further to rigorously assess their financial impact using quantitative approaches.. For example, Eyasu (2020) found that CSR initiatives related to customers, communities, employees, and the environment positively impact banks' competitive advantage. However, this study did not directly assess financial performance or investigate the mechanisms by which CSR affects financial results.

Most studies in the Ethiopian context focus on direct relationships and overlook the mediating mechanisms that could explain how CSR influences financial performance. Recent international research indicates that CSR can affect financial results through various mediators. These include internal control systems (Zhang et al., 2023), green technology innovation (Xu et al., 2022), employee productivity (Tunio et al., 2021), and corporate governance (Lu et al., 2021). Yet, there has been little exploration into whether bank-specific financial health indicators . The Ethiopia banking industry is mediated by capital adequacy,asset qulity,Management effectiveness ,and liquidity. According to (Mathias,2016),commercial banks in Ethiopia have been engaging in some corporate social responsiblity (CSR) activities,with the primery focus being organizations like Mekedonnea and Gergesonan,as well as various financial donations during times of need and online publications such as Addis fortune (2020) reported that Covid -19 pandemic donations have been made by various banks. In addition, these activities are disclosed in annual reports of some commercial banks and

regular disclosure is believed to be important to inform the society and earn the advantage associated (Mravlja, 2017) ,since stackholders awerness is essental to the sucess of CSR (Dakito & Jaladi, 2017)

The potential moderating influence of industry-specific factors has not been sufficiently addressed. The banking sector has unique competitive dynamics, regulatory frameworks, and stakeholder relationships (Scholtens, 2009). Elements such as industry concentration and ownership structure may affect how CSR activities impact financial performance. Evidence from other countries demonstrates that these interactions can be substantial. For instance, Sudiyatno et al. (2024) discovered that CSR influenced the relationship between loan-to-deposit ratios and bank performance in Indonesia. Likewise, Lu et al. (2021) demonstrated that corporate governance and CSR jointly affected firm performance in Pakistan. However, in Ethiopia's banking sector, such moderating effects have not been systematically studied.

Most research on Ethiopia's banking sector uses simple correlation or regression models that only measure direct effects, missing more complex pathways and conditional relationships (Eyasu, 2020). However, the relationship between CSR and financial performance is complex, requiring sophisticated analytical methods that can examine both mediation and moderation simultaneously.

In Ethiopian banking, a clear gap persists between CSR policy commitments and their actual implementation. While many banks have established ESG units, introduced sustainability projects, and drafted green finance guidelines, evidence indicates that these efforts often remain more symbolic than practical, with limited integration into everyday operations (Tesfaye, 2025).

Given these challenges, there is a clear need for more thorough empirical research on how CSR affects financial performance in Ethiopia's private banking sector. This study aims to address three key gaps: the limited evidence on the CSR-financial performance relationship in Ethiopia, the absence of research examining mediating and moderating mechanisms, and the methodological limitations of existing studies..

1.3 Research Questions

To address the gaps described in the statement of the problem, this study is guided by the following research questions.

1. What is the effect of Corporate Social Responsibility on financial performance in the private banking sector in Ethiopia?
2. How do bank characteristics (capital adequacy and management quality) mediate the relationship between Corporate Social Responsibility and financial performance?
3. How does industry concentration moderate the relationship between Corporate Social Responsibility and bank characteristics in the private banking sector in Ethiopia?
4. To what extent do Corporate Social Responsibility dimensions (environmental responsibility, human resource responsibility, products and customers responsibility, and community involvement) influence financial performance?

1.4 Objectives of the Study

This study has general and specific objectives and the following research objectives are formulated on the basis of the identified problem and research gaps.

1.4.1 General Objective

The general objective of this study is how does Corporate Social Responsibility influence financial performance in the private banking sector in Ethiopia through the mediating role of bank characteristics and the moderating role of industry concentration?

1.4.2 Specific Objectives

- This study assesses the effect of Corporate Social Responsibility on financial performance in the private banking sector in Ethiopia.
- This study examines the mediating role of bank characteristics, capital adequacy in the relation ship between corporate social responsiblity and financial performance
- This study examines the mediating role of bank charachterstics,management quality in the relationship between Corporate Social Responsibility and financial performance.
- This study investigates the moderating role of industry concentration in the relationship between Corporate Social Responsibility and bank characteristics,which is capital adequacy
- This study investigates the moderating role of industry concentration in the relationship between Corporate Social Responsibility and bank characteristics,which is management quality
- This study evaluates the influence of different dimensions of Corporate Social Responsibility which are environmental ,human resourse ,product and customer

responsiblities and comunity involvement on financial performance in the private banking sector in Ethiopia.

1.5 Research Hyp`otheses

Based on the research objective and current literature, the following hypotheses are proposed

H1: Corporate Social Responsibility has a significant positive effect on financial performance in the private banking sector in Ethiopia.

H2a:Corporate social responsiblity has a significant postive effect on a banks internal capital adequecy

H2b: Corporate social responsiblity has a significant postive effect on a banks management quality

H2c:Capital Adequecy has a significant positive direct impact on bank financial performance

H2d:Management quality has a significant positive direct impact on bank financial performance

H3a: Industry concentration significantly moderates the relationship between Corporate Social Responsi

bility and Capital Adequacy

H3b: Industry concentration significantly moderates the relationship between Corporate Social Responsibility and management quality

H4a: The dimensions of Corporate Social Responsibility,Environmental responsiblity significantly influence financial performance in the private banking sector in Ethiopia.

H4b: The dimensions of Corporate Social Responsibility,Human Resource responsiblity significantly influence financial performance in the private banking sector in Ethiopia.

H4c: The dimensions of Corporate Social Responsibility,Product and Customers responsiblity significantly influence financial performance in the private banking sector in Ethiopia.

H4d: The dimensions of Corporate Social Responsibility,Comunity involvement responsiblity significantly influence financial performance in the private banking sector in Ethiopia.

1.6 Significance of the Study

This study enhances our understanding of how corporate social responsibility (CSR) relates to financial performance by examining both direct effects and the influence of other contributing factors. Drawing on stakeholder theory and the resource-based view, this research provides a framework for understanding CSR's value creation process, using data from Ethiopia's banking sector. The study employs sophisticated analytical techniques including moderated mediation analysis and structural equation modeling, integrating quantitative financial data with perspectives from bank managers to offer a complete view. The results identify which CSR activities most effectively boost financial performance and show how particular bank characteristics influence these relationships. In addition to managerial insights, the findings also assist regulators such as the National Bank of Ethiopia in creating CSR reporting standards and encouraging sustainable banking practices.In doing so, the study addresses critical gaps in existing research on Ethiopia's banking industry.. It also promotes responsible business practices that benefit community development, environmental protection, and social well-being.

1.7 Scope and limitation of the Study

Geographical Scope

This research focuses on Ethiopia and specifically looks at private banks operating in the country. The choice to center on private banks, rather than state-owned ones, comes from their specific governance structures, strategic goals, and relationships with stakeholders (Kellow, 2020).

Based on data availability, ten commercial banks in Ethiopia were chosen for the study's scope: Awash InternationalBank, Oromia InternationalBank, Dashen Bank, Abyssinia Bank, Hibret Bank, Zemen Bank, Cooperative Bank of Oromia, Tsehay Bank, Wegagen Bank, and Birhan Bank.

Conceptual Scope

The study examines corporate social responsibility (CSR) through four main areas: environmental responsibility, human resource practices, customer and product relations, and community engagement. These areas provide a complete view for evaluating CSR in the banking industry (Platonova et al., 2016). Financial performance is measured using accounting-based metrics, specifically Return on Assets (ROA) and Return on Equity (ROE). These are

common indicators in banking research (Maqbool & Zameer, 2018; Wu & Shen, 2013). The analysis also takes into account specific bank characteristics, such as capital adequacy, asset quality, management quality, and liquidity.

Methodological Scope

From a methodological perspective, the study uses moderated mediation analysis within a structural equation modeling (SEM) framework. This analysis method allows for a detailed look at how bank-specific characteristics influence the link between CSR and financial performance. It also tests the moderating effects of industry concentration and ownership structure (Hayes, 2018; Preacher et al., 2007).

The study's limitations stem from the challenges of measuring corporate social responsibility (CSR) and the lack of comparable literature regarding the impact of CSR on financial performance in the Ethiopian context. As a result, the majority of references are drawn from studies conducted outside of Ethiopia, and there is insufficient data on CSR expenditures because most banks don't engage in the sector extensively.

1.8 Organization of the study

There are five chapters in this study. The study's background, problem statement, research questions, objectives, formulation of hypotheses, significance of the study, study scope and limitations, and paper organization are all included in the first chapter, which serves as an introduction to the study. A review of theoretical and empirical research on the ideas of corporate social responsibility and financial performance can be found in the second chapter. The study's methodology is presented in the third chapter. The results and interpretation of diagnostic tests and regression output analysis and interpretation are covered in the fourth chapter, while the summary of findings, recommendations, and conclusion are covered in the fifth.

Chapter 2: Literature Review

2.1 Introduction

The relationship of corporate social responsibility and financial performance has been investigated from various theoretical standpoints. To create a comprehensive conceptual framework, it is important to understand these theories. In this section, various theories that shape corporate social responsibility are discussed, with special reference to their practicality in the Ethiopian banking environment

2.2 Theoretical arguments of CSR

Regarding the reasons why businesses participate in CSR, there have been a number of theoretical arguments for and against it, according to ("Lumen learning"). d) There are opposing and supporting perspectives on corporate social responsibility. While some critics view CSR as unrelated to the primary goal of business, which is to make profit for its shareholders, proponents of CSR contend that socially responsible practices can have a positive impact because some evidence links CSR to both financial performance and non-financial rewards. Below is a discussion of these points.

2.2.1 Stakeholder Theory

Stakeholder theory has become the leading framework for analyzing corporate social responsibility (CSR), highlighting those businesses have ethical duties to their stakeholders and society that extends beyond merely maximizing profits (Donaldson & Preston, 1995; Freeman, 1984). Freeman (1984), who formalized the theory, defines stakeholders as “any group or individual who can affect or is affected by the achievement of the organization's objectives.” This wide-ranging definition includes shareholders, employees, customers, suppliers, communities, governments, and even competitors.

The core idea of stakeholder theory is that an organization’s success relies on its ability to effectively manage and maintain relationships with various stakeholder groups (Freeman et al., 2010; Jones, 1995). Both formal and informal responsibilities are to be respected by organizations, where formal responsibilities are clearly spelled out in contracts and laws, while informal responsibilities are more about unwritten expectations, self-enforcing arrangements that,

although not legally enforceable, are critical to maintaining stakeholder trust and cooperation (Cornell & Shapiro, 1987; Jensen & Meckling, 1976)

Corporate Social Responsibility (CSR) and financial performance are closely linked through stakeholder theory. When organizations meet stakeholder expectations with meaningful CSR initiatives, they build goodwill, strengthen their reputation, and foster trust. This positive perception often translates into stronger financial outcomes, as satisfied stakeholders are more inclined to continue their support through sponsorship, investment, and collaboration (Barnett, 2007; Hillman & Keim, 2001). On the other hand, neglecting these expectations can lead to conflict, tighter regulatory scrutiny, and a loss of legitimacy.

This theory is particularly applicable to banks, which have multiple stakeholders (depositors, borrowers, regulators, employees, and communities) and whose operations affect those groups (Scholtens, 2009), as banks as intermediaries allocate resources from savers to borrowers to influence economic growth, employment, and community well-being (Weber, 2017). Stakeholder theory posits that banks that effectively manage these stakeholder relationships through CSR activities are more likely to be successful over the long term (Maqbool and Zameer, 2018; Wu and Shen, 2013)

In Ethiopia, stakeholder theory offers a valuable framework for analyzing CSR motivations and outcomes. Ethiopian banks function within an environment characterized by strong communal values and societal expectations for contributions to community development (Kellow, 2020; Kusakci, 2023). The theory suggests that banks meeting these expectations through CSR initiatives are better positioned to develop stronger relationships with communities, customers, and regulators, potentially enhancing their financial performance. Additionally, CSR disclosure serves a vital function in demonstrating accountability and transparency to stakeholders (Gray et al., 1995).

While stakeholder theory proves useful, it has notable limitations. The theory fails to provide guidance on how managers should prioritize conflicting stakeholder interests, and it doesn't explain why CSR engagement varies across different organizations or contexts (Jensen, 2002). Critics have pointed to its normative nature as offering limited practical advice for managers who must navigate trade-offs between competing stakeholder demands (Sundaram & Inkpen, 2004). However, stakeholder theory continues to be central for understanding the relationship between CSR and financial performance and serves as the theoretical foundation for this study.

2.2.2 Legitimacy Theory

Legitimacy theory presents an alternative view of corporate social responsibility. Legitimacy theory assumes that all organizations have an implicit or explicit social contract between themselves and the society in which they conduct business. The organizations are required to operate only within the limits of acceptable behaviour in order to maintain legitimacy as defined by Deegan (2002) and Dowling and Pfeffer (1975). Legitimacy is described as the "generalised perception or assumption that the actions of a given entity are desirable, proper or appropriate within a socially constructed system of norms, values., beliefs and definitions" (Suchman, 1995, p. 574

According to legitimacy theory, corporate social responsibility (CSR) activities and disclosures will be a direct response to external societal expectations and pressures (Deegan,2002; Gray etal., 1995). An organisation may choose to engage in CSR when it feels that its legitimacy is being threatened either as a result of changes in societal norms or due to negative media coverage or due to a specific incident (O'Donovan, 2002). CSR disclosures are used as means of communicating with and demonstrating an organisation's alignment with society and justifying its ongoing right to operate (Cho & Patten, 2007

Legitimacy theory is highly significant for the banking sector, especially because of its previous crises and scandals. The 2008 global financial crisis resulted in a loss of legitimacy for many banks across the globe, with increased scrutiny and greater demands for corporate social responsibility (Deegan & Unerman, 2011). In response, many banks are conducting more corporate social responsibility (CSR) activities and disclosures in order to rebuild their legitimacy with stakeholders and demonstrate commitment to the welfare of society (Soana, 2011). This action can also be explained by legitimacy theory, which suggests that organizations under threat will take effective measures (strategies) to re-establish their legitimacy

Banking in Ethiopia is subject to legitimacy theory as banks engage in corporate social responsibility practices to maintain their social license to operate. The increase in public interest and regulatory scrutiny regarding the Ethiopian banking industry has impacted the expectations placed upon banks, with higher demands being made for their operations to create positive social and environmental impact (Kellow, 2020). Because of the public pressure associated with these expectations, the corporate social responsibility activities of banks, particularly those targeted at supporting community development and philanthropic

investments, are visible statements of their belief in and commitment to Ethiopian society and, therefore, serve to sustain their legitimacy (Kusakci, 2023).

The Critics contend that Legitimacy Theory is primarily reactive and where corporations will only engage in Corporate Social Responsibility (CSR) when faced with some kind of threat (Deegan 2002). However, there is a lot of evidence that shows that there are many examples of proactive approaches taken to CSR, where companies are attempting to establish their legitimacy before any threats arise (Suchman 1995). Legitimacy Theory fails to explain the differences in CSR activities between companies and how these activities can relate to or impact upon the company's financial performance.

2.2.3 Institutional Theory

According to DiMaggio and Powell (1983), institutional theory studies how organizations are affected by their institutional setting which encompasses the formal and informal standards, rules and expectations which guide an organization's behaviours (Meyer & Rowan, 1977; Scott, 2014). The theory describes how there are "organizational fields" that organizations exist in which there are common understanding of how to behave, regulatory regimes, and normative pressures. To survive and grow, organizations must conform to institutional pressures and this is referred to as "isomorphism" (DiMaggio & Powell, 1983)

DiMaggio and Powell (1983) outlined three main reasons for institutional isomorphism: coercive, mimetic, and normative. Coercive isomorphism are the result of both informal and formal pressures put on an organization from other organizations with which it interacts, whether through regulatory requirements or the expectations from powerful stakeholders. Mimetic isomorphism occurs when organizations look to successful peers in the face of uncertainty and imitate their behaviours. Normative isomorphism stems from professionalisation or the growth of professional norms on organisations through professional networks and education.

CSR practices are adopted throughout organisational fields as banks respond to institutional isomorphic pressures (Campbell, 2007; Matten & Moon, 2008). Coercive pressures may originate from relevant regulators such as the National Bank of Ethiopia or from the

international financial institutions that promote CSR standards. Mimetic pressures lead banks to imitate the CSR practices of successful competitors, particularly when the relationship between CSR and performance is uncertain. Normative pressures operate through professional networks, banking associations, and educational institutions that promote CSR as a professional standard (DiMaggio & Powell, 1983).

In the Ethiopian context, institutional theory helps explain the current state of CSR practice. The observation that CSR remains largely philanthropic and fragmented (Kellow, 2020; Kusakci, 2023) may reflect the early stage of institutionalization of CSR norms in Ethiopia. The characterization of current practice as "ESG theatre" (Tesfaye, 2025) reflects a situation where banks are responding to institutional pressures by adopting the formal structures of CSR (committees, policies, officers) without fully integrating CSR into core operations a phenomenon institutional theorists describe as "decoupling" (Meyer & Rowan, 1977; Boxenbaum & Jonsson, 2017).

2.2.4 Resource-Based View

The resource-based view (RBV) of the firm offers a complementary perspective on the CSR-financial performance relationship. Unlike stakeholder, legitimacy, and institutional theories, which focus on external pressures and expectations, the RBV focuses on internal organizational resources and capabilities as sources of competitive advantage and superior performance (Barney, 1991; Wernerfelt, 1984).

According to the RBV, firms are heterogeneous bundles of resources and capabilities. Resources that are valuable, rare, inimitable, and non-substitutable (VRIN) can generate sustained competitive advantage (Barney, 1991). From this perspective, CSR can be viewed as an investment in intangible resources reputation, stakeholder relationships, employee commitment, customer loyalty that meet VRIN criteria and contribute to competitive advantage (Hart, 1995; McWilliams & Siegel, 2011; Russo & Fouts, 1997).

Empirical research supports the RBV perspective on CSR. Studies have shown that CSR contributes to reputation building (Fombrun & Shanley, 1990), employee attraction and retention (Turban & Greening, 1997), customer loyalty (Luo & Bhattacharya, 2006), and risk reduction (Godfrey et al., 2009) all of which can enhance financial performance. The resource-based view also helps explain variations in CSR-financial performance relationships across

firms, as firms differ in their capabilities to develop and leverage CSR-related resources (Barney & Hesterly, 2019).

In the banking context, the RBV suggests that CSR can create competitive advantage by differentiating banks in increasingly competitive markets (Maqbool & Zameer, 2018). As the Ethiopian banking sector becomes more competitive particularly with potential foreign bank entry CSR may become an important source of differentiation (Kusakci, 2023). Banks that develop distinctive CSR capabilities and reputations may attract socially conscious customers and investors, enhancing their financial performance.

The resource-based view also informs the mediation hypotheses in this study. If CSR contributes to the development of valuable intangible resources, these resources should manifest in improved operational and financial characteristics including capital adequacy, asset quality, management quality, and liquidity (Sangmi & Nazir, 2010). In other words, bank-specific characteristics may mediate the CSR-financial performance relationship because they reflect the resource-building effects of CSR engagement.

2.2.5 Agency Theory

Agency theory provides a contrasting perspective on CSR, suggesting that managerial engagement in CSR may reflect agency problems rather than value creation (Jensen & Meckling, 1976). A manager (an agent) engaged in CSR activity might engage in CSR to gain their own private benefits, for example, increasing their reputation with stakeholders or participating in social causes. However, in such cases, these CSR initiatives can come at the expense of maximizing shareholders (the principals) wealth (Friedman, 1970; Jensen, 2002).

CSR is a financial cost associated with reducing the profitability and financial returns for shareholders (Brammer & Millington, 2008). Managerial agents can also undertake excessive CSR initiatives that may be of personal benefit to them, including enhancing their reputation (i.e. a manager could be known as a socially responsible leader), or by justifying their participation in social causes that do not produce long-term returns for shareholders (Barnea & Rubin, 2010; Cespa & Cestone, 2007). The agency perspective predicts a negative relationship between CSR and financial performance, especially in firms with weak governance (Krüger, 2015).

In the Ethiopian banking context, agency theory raises important questions about the purpose for engaging in CSR. Since many boards within Ethiopia's banking sector are made up of individuals who hold a large percentage of the company's stock (i.e. often dominated by founding members or groups of large shareholders) (Kellow, 2020), the primary question is whether the CSR decisions made reflect the interest of the shareholders or the preference of the managers/controlling shareholders. Additionally, the lack of meaningful oversight over banks and limited transparency surrounding the banks might create a situation where CSR investments do not undergo proper scrutiny as to whether the investment is financially benefitting (Tesfaye, 2025).

The agency theory underscores the importance of studying the relationship between corporate social responsibility (CSR) and financial performance empirically. When CSR creates agency costs that destroy shareholder value, we should see CSR and financial performance correlate negatively; conversely, if CSR creates value for shareholders, we will see a positive relationship between CSR and financial performance. Mixed findings in the literature suggest both value-creation and value-destruction dynamics are in operation depending on firm-specific and contextual factors (Margolis & Walsh, 2003, Wang et al., 2016)

2.2.6 Theoretical Synthesis and Application

This research employs multiple theoretical perspectives to formulate a framework encompassing the relationship between CSR and financial performance in Ethiopian banks, with stakeholder theory as the foundational framework explaining how banks create value for stakeholders by fulfilling their expectations through CSR engagement (Freeman, 2010). Legitimation theory refers to how banks can preserve their social licence to operate by making visible CSR commitments (Suchman, 1995). Institutional theory refers to how banks spread CSR practices via coercive, mimetic, and normative pressures (DiMaggio & Powell, 1983). The resource-based view indicates that CSR helps to develop intangible resources which contribute to competitive advantage (Barney, 1991). Finally, the agency theory reminds us of instances when CSR efforts are more reflective of the self-interests of individuals in management (Jensen & Meckling, 1976).

Table 1: Summary of Theoretical Perspectives on CSR

Theory	Core Premise	Key Authors	Implications for CSR-Financial Performance Relationship	Relevance to Ethiopian Banking
Stakeholder Theory	Firms succeed by managing stakeholder relationships	Freeman (1984); Donaldson & Preston (1995); Freeman et al. (2010)	Positive relationship; CSR builds stakeholder goodwill that enhances performance	Banks interact with diverse stakeholders; community expectations are strong
Legitimacy Theory	Firms must maintain social license to operate	Suchman (1995); Deegan (2002); Dowling & Pfeffer (1975)	Positive relationship; CSR demonstrates alignment with societal values	Banking sector growth increases scrutiny; legitimacy maintenance is critical
Institutional Theory	Firms conform to institutional pressures	DiMaggio & Powell (1983); Meyer & Rowan (1977); Scott (2014)	Relationship depends on institutional context; isomorphic pressures drive CSR adoption	Weak institutional pressures currently; expected to strengthen with regulatory development
Resource-Based View	Firms compete based on unique resources	Barney (1991); Wernerfelt (1984); Hart (1995)	Positive relationship; CSR builds intangible resources (reputation, relationships)	CSR can differentiate banks in increasingly competitive market
Agency Theory	Managers may pursue self-interest	Jensen & Meckling (1976); Friedman (1970); Jensen (2002)	Negative relationship possible; CSR may reflect agency costs	Governance weaknesses may enable value-destroying CSR

The moderated mediation framework of the present study is derived from these theoretical perspectives. The stakeholder theory and resource based view suggest that Corporate Social Responsibility (CSR) can have an impact on financial performance through its effect on characteristics that are specific to each bank (i.e., mediation). Institutional theory also posits that the industry context will moderate the degree to which CSR impacts financial performance

in banks. In integrating all of these perspectives, the study aims to contribute to a more nuanced understanding of how and when CSR impacts the financial performance of banks in Ethiopia.

2.3 Conceptual Framework

Building on the theoretical foundations reviewed above, this section develops the conceptual framework guiding the study. The framework specifies the relationships among the key constructs: corporate social responsibility (independent variable), financial performance (dependent variable), bank-specific characteristics (mediators), and industry-specific factors (moderators).

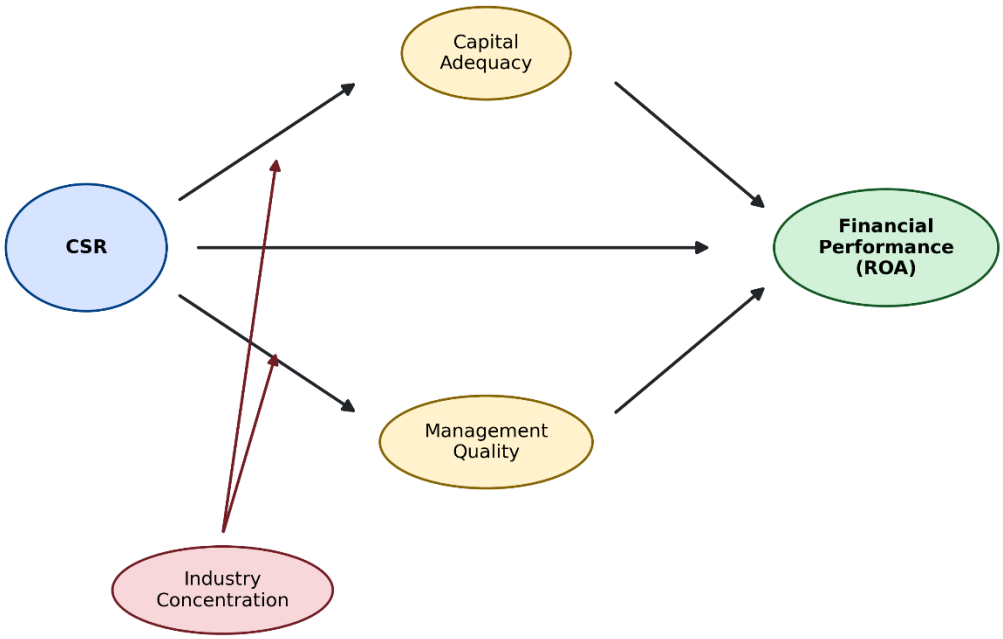


Figure 1. Conceptual frame work

Source: developed from various literatures

2.3.1 Corporate Social Responsibility

The American economist and president of Grinnell College, Howard Bowen, is frequently referred to as the "father of corporate social responsibility" (CSR) in a variety of literary works. In 1953, he published Social Responsibilities of the Business Man, a book that promoted business ethics and responsiveness to societal stakeholders. (ACCP, n. d)

Hiremath and Sateesh (2012) state that corporate social responsibility (CSR) is based on the idea that businesses are related to other interests in economic, cultural, environmental, and social systems because business operations both influence and are influenced by these societal interests. For businesses, corporate social responsibility (CSR) entails comprehending and managing these relationships, which may have a significant economic component as well as a primary focus on social and environmental issues (Dobers & Halme, 2009).

Porter & Kramer (2006) as cited by Feng et al (2017) suggested that companies should start with generic social impacts just by being good citizens, improving relationships with local authorities and bringing pride to employees. Second, they ought to identify, and seek to mitigate, the varied sorts of social harm arising out of their value chain activities. Finally, strategic CSR involves pioneering innovations to profit both society and a company's own competitiveness.

According to Hamidu et al. (2015), companies are expected to engage in sustainable development practices, be transparent and accountable, manage stakeholder relationships well, advocate for various aspects of human rights, justice, and democratic principles, comply with recognized international standards on corporate social responsibility, and engage in ethical business practices.

Various models are employed to comprehend what society expects of businesses and to explain and capture their responsibilities. an e. According to Kenton (2010), the Triple Bottom Line Theory, which was developed by John Elkington (Brin and Nehme, 2019), is a CSR framework to measure performance with three dimensions: economic, social, and environmental. It holds that businesses should plan to specialize in social and environmental concerns as they do on profits.

Environmental Responsibility: This dimension captures banks' initiatives to minimize their environmental impact, including paper consumption reduction, energy efficiency, green building practices, and environmental lending policies (such as financing for environmentally beneficial projects) (Weber, 2017). In the banking context, environmental responsibility also

encompasses indirect impacts through lending and investment decisions—for example, policies regarding financing for environmentally sensitive industries (Scholtens, 2009).

Human Resources Responsibility: This dimension encompasses banks' practices related to employee welfare, including fair compensation, training and development, health and safety, diversity and inclusion, and work-life balance (Turban & Greening, 1997). Human resources responsibilities demonstrate that employees are a stakeholder group, and their level of satisfaction and commitment affects organizational performance (Hillman & Keim, 2001).

Products and Customers Responsibility: Banks' practices related to how they treat customers fall into the area of Products and Customers Responsibility. Examples included the provision of transparency when delivering product information, fair lending practices, appropriate mechanisms for handling complaints and ensuring customer privacy (Luo & Bhattacharya, 2006). In addition, Products and Customers Responsibility also consists of the banking industry's initiatives to include all potential customers within the financial services system (Platonova et al., 2016)

Community Involvement Responsibility: dimension is made up of banks' charitable giving and improving the communities where they operate through providing services that enhance social welfare (e.g., providing access to banking services; generosity of providing employment opportunities). This dimension is particularly demonstrated within the context of Ethiopia, where banks have historically focused primarily on providing charitable giving to community projects (Kusakci, 2023).

The following specific hypotheses have been created to determine which operational dimensions have an impact on commercial results.

- Hypothesis H4a:Enviromental Responsiblity has a significant impact on Financial Performance
- Hypothesis H4b:Human Resource Responsiblity has a significant impact on Financial Performance
- Hypothesis H4c:Product and customers Responsiblity has a significant impact on Financial Performance
- Hypothesis H4d:Community Involvement Responsiblity has a significant impact on Financial Performance

2.3.2 Financial Performance

Financial performance, as measured from the perspective of two different types of accounting-based measures - namely, Return on Assets (ROA) and Return on Equity (ROE) as per Maqbool and Zameer (2018, p. 2) is the dependent variable. Financial performance is the measure of a company's profitability and is a common metric/concept used within the banking sector; there are complementary performance views of a company (i.e. Profitability). In this case ROA is used to assess how well a bank uses its assets to earn (or, ultimately generate) profit. ROA reflects operational efficiency of the bank (Sangmi & Nazir, 2010). In comparison to ROA, ROE is used to evaluate the returns generated for shareholders (i.e. owners) and reflects overall financial performance of the company (and bank) from an owner's perspective (Platonova et al., 2016).

The use of multiple performance metrics addresses the multidimensional nature of financial performance and allows researchers to assess whether corporate social responsibility (CSR) has a differential impact on various dimensions of financial performance (Orlitzky, Schmidt, & Rynes, 2003). Prior research suggests that there is, in fact, a stronger association between CSR and some performance metrics than others; therefore, the use of multiple performance metrics allows researchers to identify those patterns (Margolis & Walsh, 2003).

2.3.3 Bank-Specific Characteristics (Mediators)

According to recent studies that use the CAMEL banking methodology (Dang 2011; Sangmi & Nazir 2010), CSR impacts financial performance indirectly by way of four characteristics unique to banks

Capital Adequacy (CA): is a measure of the strength of a bank's financial position and its ability to absorb losses as set out by Sangmi and Nazir of 2010. There are multiple routes through which CSR can affect CA. For example, CSR can enhance a bank's reputation and build trust among stakeholders; by doing so, CSR can provide easier access to capital and also reduce the cost of capital (Cornell & Shapiro, 1987). In addition, CSR can lead to lower capital buffer requirements by reducing the risk of loss through better relationships with stakeholders (Godfrey et al., 2009). Furthermore, by attracting investors who value socially responsible

investing, CSR can also increase the amount of equity capital available to the bank (Barnea & Rubin, 2010). Capital Adequacy has, in turn, a positive impact on financial performance because it provides stability for the bank, supports the bank's growth and reduces the cost of capital through funding (Dang, 2011)

Asset Quality (AQ): The quality and performance of the loan portfolio can be measured by the amount of risk associated with default and possible losses, or Asset Quality, (Dang, 2011). CSR can have a positive influence on Asset Quality through its effect on lending decisions and borrower relationships (Weber, 2017). Banks with a commitment to strong CSR will engage in responsible lending practices, such as not making high-risk loans with negative social implications (Scholtens, 2009). Banks that have accomplished this will build long-lasting relationships with their borrowers and, as a result, experience improved performance in the loan portfolio. Because CSR may also attract good borrowers (those who value long-term relationships with banks that have a commitment to social responsibility), they are more likely to have better-performing loans. The improvement in Asset Quality will then result in improved Financial Performance due to lower loan loss provisions and charge-offs.

Management Quality (MgtQ): represents the effectiveness and efficiency of the banks' management (Sangmi & Nazir, 2010). Management quality can be influenced by Corporate Social Responsibility (CSR) through employing and maintaining a supply of talented individuals who seek opportunities in socially responsible businesses (Turban & Greening, 1997); developing management skills through engaging with stakeholders and; through establishing an expectant culture of excellence and ethical behaviour (Hillman & Keim, 2001). Having management that demonstrates a high level of management quality can help improve financial performance by increasing operational efficiency, improving strategic decision-making and providing better methods for managing risk (Dang, 2011).

Liquidity (Lq): . refers to the banks' capability to meet their short-term obligations (Dang, 2011). CSR can improve liquidity by increasing deposits by assuring depositors that their money is guaranteed, therefore decreasing the chances of a run on deposits (Scholtens, 2009); giving banks access to stable funding from socially responsible investors; and fostering long-term relationships with customers (Cornell & Shapiro, 1987). Improving liquidity will lead to increased financial performance through a decrease in the cost of funds and by allowing banks to fully exploit their lending opportunities

Combining the Resource-Based View (RBV) of the firm with Stakeholder Theory, the strategic pathway for achieving a bank's final profitability through corporate sustainability is an internal dual mediation pipeline. While CSR activities can't immediately impact a bank's Return on Assets (ROA), they can still serve as resource inputs. Ethical governance and progressive workforce investments develop human capital which boosts managerial productivity and quality. Simultaneously, high CSR scores attract low-cost institutional funds, expanding capital adequacy cushions. These enhanced internal safe-havens reduce bank risk premiums and operating outlays, which subsequently maximize final commercial returns. Thus, internal bank traits act as the core structural transmission channel for sustainability investments

To evaluate this internal transmission mechanism, we break the system into its operational paths:

The Role of Capital Adequacy (H2a&H2c)

In the first stage of the mediation pipeline, strong CSR initiatives signal operational transparency and ethical stability to the financial markets. This reputation appeals to risk-averse institutional depositors and premium equity investors who prioritize sustainability criteria, allowing the bank to expand its core capital buffers lower its cost of capital. In the second stage, this robust capital adequacy ratio protects the bank from market shocks and lowers the default risk premiums demanded by creditors. This cost-of-funds advantage expands net interest margins and systematically increases final accounting-based returns (ROA/ROE).

To evaluate how these internal operational channels transfer the macro effect of sustainability this study focused on capital adequecy and management quality and the following mediation pathways are hypothesized For capital adequacy

- Hypothesis H2a:CSR Practice has a significant postive effect on banks internal Capital Adequecy
- Hypothesis H2c:Capital Adequecy has a significant effect on bank financial performance

The Role of Management Quality (H2b & H2d)

Similarly, a bank's visible commitment to fair customer practices, workforce diversity, and progressive human resource development functions as a talent magnet under the Resource-Based View. It allows the institution to recruit and retain superior executive and operational

personnel. This high human capital updates internal governance, sharpens strategic decision-making, and strengthens operational control systems. Once established, this superior management quality optimizes asset allocation and cuts operational overhead wastes through strict cost-control measures, directly driving up corporate profitability. Therefore, the following mediation pathways are hypothesized for Management quality:

- Hypothesis H2b: CSR Practice has a significant postive effect on banks internal Management Quality

- Hypothesis H2d:Management Quality has a significant effect on bank financial performance

2.3.4 Industry-Specific Factors (Moderators)

Industry-specific factors are conceptualized as moderating variables that affect the strength of the mediated relationships. Two industry-specific factors are examined as potential moderators:

Industry Concentration (ConR): Industry concentration measures the extent to which banking industry assets or deposits are concentrated among a few large banks (Bikker & Haaf, 2002). In highly concentrated markets, dominant banks may face different incentives and pressures regarding CSR (Scholtens, 2009). They may have greater resources for CSR engagement but less competitive pressure to differentiate through CSR. The relationship between CSR and financial performance may therefore differ between concentrated and competitive markets (Wu & Shen, 2013).

Ownership Structure (Own): Ownership structure refers to the distribution of ownership among different types of shareholders (Jensen & Meckling, 1976; La Porta et al., 1999). There are two dimensions to ownership discussed by Claessens et al. (2000): domestic/foreign ownership, and concentrated/dispersed ownership. Different types of owners or ownership structures may affect the CSR motivations and ultimately the financial performance of the firms (Barnea & Rubin, 2010). For example, foreign-owned banks could bring with them the

international CSR practices they have and have different expectations from their stakeholders than domestic banks (Jamali & Karam, 2018).

Utilizing the Industrial Organization (IO) economics and Structure-Conduct-Performance (SCP) paradigms, we can see how these boundary conditions could alter a firm's behavior and alter the performance of their strategic investments. With the evaluation of the banking industry, external forces (e.g., industry concentration) or macro-market forces are likely determining how effective an internal sustainability initiative can translate into an operational strength for the bank. We hypothesize that the benefits associated with CSR investments will not be the same in each of the banking environments, and that market density will can be used as a filter for either increasing or decreasing the strategic value of a bank's social performance..

he next step in determining how this boundary condition will impact our model is to examine how industry concentration will alter a bank's strategic incentives along the two unique mediating pathways.

1. The Moderating Impact on the CSR-Capital Adequacy Channel (H3a)

A banking industry characterized by very concentrated banks has a very small number of large institutions with most of the funds in the national banking system, or little to no institutional competition will have no real significant competition aspects to push the largest financial institutions to utilize their relatively new form of seeking premium capital through CSR. When there are few competitors and thus substantial market power, the large banks do not feel much of a challenge on account of the competition and thus lack the sense of urgency to utilize CSR as a means of differentiation in order to bring in new premium capital or secure institutional investor commitment.

In contrast, banking sectors with a high level of competition and low concentration will require banks to utilize their ethical reputation, in particular their ESG, to attract conservative institutional investors with low cost equity. In this way, the concentration of banks in a particular market is negatively associated with the ability of CSR to create positive effects on the core capital buffers for banks. Thus, in the highly concentrated banking markets the value of CSR to create positive influences on levels of capital reserves is diminished, creating a negative interaction effect (i.e., the highly concentrated banking markets diminish the positive relationship between sustainable practices and capital reserves). Therefore, based on this interaction,

- Hypothesis H3a:Industry concenteration significantely moderates the relation ship between CSR and capital adequecy

2. The Moderating Impact on the CSR-Management Quality Channel (H3b)

A similar dynamic as seen in market boundaries is evidenced by similar operations and internal frameworks. Dominant players in concentrated markets enjoy stable customer bases and a reliable source of income because they have limited options in the marketplace for their traditional banking services. Because of the significant protections enjoyed by dominant banks against fierce competitors, many banks choose to operate with inertia and a lack of motivation to continuously improve their internal operations, improve standards of governance, and build progressive human capital systems through even more progressive use of CSR.

On the contrary, though, if you want to win in a wide-open, highly competitive market, you need to have an exceptional quality of management and an extraordinarily strong commitment to providing progressive welfare systems for your employees. As part of their efforts to be successful, banks in these highly competitive environments actively use CSR activities to attract a higher level of executive talent and to improve and optimize their internal governance structures. Therefore, as a particular industry reaches a level of significant market concentration, the impetus for using CSR to reshape and improve the quality of management will decline, thereby creating a less-than-positive interaction effect where high levels of market power will limit or eliminate the gains associated with corporate sustainability and operational management

- Hypothesis H3b:Industry concenteration significantely moderates the relation ship between CSR and Management Quality

2.3.5 Control Variables

In controlling for other underlying factors that may significantly influence financial performance (Wooldridge, 2010) such as bank size, quantity of credit risk, magnitude of diversification of income and macroeconomic conditions through controlling these variables will help reduce the probability of incurring an omitted variable bias and leads to improved causal inferences (Stock & Watson, 2019).

Bank Size: The total of the natural logarithm of assets at a financial institution represents the organization's size. According to the study by Athanasoglou et al. (2008), the financial performance of larger banks may be affected positively by the economy of scale, market power, and availability of additional diversification compared to smaller banks. On the other hand, banks that are very large may experience inefficiencies due to bureaucratic structures. Therefore, by controlling for size (i.e., large vs. average vs. small), researchers are able to separate any positive relationships between CSR and financial performance that may have been created by the scale of the financial institutio

Credit Risk: (Gemechu, 2016; Hiwot, 2019) is defined as the ratio of loan loss provision to gross loan amount. A loan loss provision reflects the riskiness of lending for a financial entity in respect of both capital risk and credit quality, and is recognized through the bank's profit and loss statement. Managing credit risk stemming from the primary asset (credit) of a commercial bank is a very important operational function that ultimately effects the overall success of the bank (Yohannes, 2016). Girma (2001) issues a statement that indicates when banks make loan reserves, they must also establish a provision for potential losses. In turn, Magali (2014) therefore indicates that the greater the loan loss provision, in regard to the total amount of loans made by a financial entity, then the greater (i.e., riskier) the financial institution will be

Income Diversification: Income diversification is the process of diversifying the reliance of banks on traditional interest income sources by implementing innovative sources of non-interest income (Kiweu, 2012 in Mudesir, 2016). These non-interest income generating sources may be in the form of transaction fees and account service fees, which are important components of bank revenues (Rasiah, 2010). . Income diversification is measured as the ratio of non-interest income to average assets. Banks with more diversified income streams may have more stable and higher financial performance, making it important to control for this factor.

Macroeconomic Conditions: Macroeconomic variables, including GDP growth and inflation, affect banking sector performance by influencing loan demand, credit quality, and operating costs (Athanasoglou et al., 2008). Controlling for these factors accounts for economic cycles that may confound the CSR-financial performance relationship.

2.4 CSR and Financial Performance: Theoretical Linkages

Understanding the theoretical mechanisms linking CSR to financial performance is essential for developing testable hypotheses. This section examines these linkages in depth, drawing on the theoretical perspectives reviewed above.

2.4.1 The Business Case for CSR

Regardless of how difficult it may be to define CSR and link it to profits, Roben (2020) argues that most executives believe that CSR can improve profits. Almost no large public company today would want to be seen as unengaged in it, which is a clear admission of how important CSR could be to their bottom line. In addition, McGuire et al. (1988) clearly stated that a high level of corporate social responsibility may permit a firm to have relatively low percentage of total debt to total assets, which guarantees that a firm can still satisfy implicit claims. The same authors added that a company with a relatively high social responsibility will continue to benefit from CSR in the future.

2.4.2 Temporal Dynamics of CSR Effects

Park et al. (2019), as cited by Szegedi (2020), argued that CSR practices undertaken resulted in positive firm performance; however, such activities initiated by overconfident managers may have negative impacts on a firm's long-term performance. This suggests that managerial motivations matter for CSR outcomes.

Corporate social responsibility may also be linked to past firm performance. Financial performance may influence a firm's evolving social policy and actions (Ullmann, 1985, as cited by McGuire et al., 1988). According to the available funding hypothesis or the slack resource hypothesis, firms will follow the normative rules of excellent corporate social responsibility counting on the financial resources available. Hence, profitability in one time period may increase a firm's ability to fund discretionary social performance projects (Ibrahim & Bambale, 2016).

Brammer and Millington (2008), as cited by Vliet (2018), suggest that there is a difference between short-term and long-term financial performance concerning investments in CSR. Firms with extremely high performance in CSR are expected to have better performance in the long run because they achieve differentiation in the eyes of important stakeholders, whereas in the short run, firms with significantly low involvement in CSR will have better financial performance as compared to others, holding other factors constant.

Moreover, largest institutions appeared to be rewarded for being socially responsible since the more a firm invested in CSR, the more profitable it became. A firm was considered socially responsible only if it took into under consideration the social needs of its stakeholders. Implementation of CSR strategy and firm size are crucial in determining ROE of a firm (Carmen-Pilar, Rosa & Lisa, 2011, as cited by Daniel, 2014).

2.4.3 CSR Disclosure

CSR disclosure is the provision of financial and non-financial information relating to an organization's interaction with its physical and social environment (Guthrie & Mathews, 1985, as cited by Aribi & Gao, 2010). It encompasses CSR-related activities, targets achieved, and expenditures by the company for the interest of its stakeholders, usually in the form of CSR reports with the objective of providing information to stakeholders (Gautam et al., 2016). Voluntary disclosure of CSR activities is said to meet the expectations of certain groups of stakeholders and serves as a channel of advertisement for a firm to maintain good public image and to ensure competitive sustainability (Lee et al., 2017, in Oyewumi et al., 2018).

Based on these theoretical arguments stated in the above ,this study proposes the direct hypothesis of :

- Hypothesis 1 (H1) : Corporate social Responsiblity (CSR) has a positive direct effect on bank financial performance

2.5 Empirical Review of Related Literature

Several studies have been undertaken to investigate the relationship between corporate social responsibility and financial performance across nations, and mixed results were obtained. Similarly, in the Ethiopian context for the banking industry in particular, studies have been carried out with varying outcomes.

2.5.1 Studies Finding No Relationship Between CSR and Financial Performance

Dakito (2017) investigated the impact of CSR on financial performance of commercial banks in Ethiopia. The study used philanthropic contribution and CSR disclosures as substitutions to quantify the independent variable (CSR), while the dependent variable was corporate financial performance measured as Return on Assets (ROA). The researcher used data covering six years

from 2009 to 2014. Multivariate regression models were employed to determine the relationship between the two variables and tested the following hypotheses:

H1: Higher levels of CSR disclosure provided by firms are positively associated with higher financial performance of banks in Ethiopia.

H2: Higher levels of CSR activity in the form of financial contribution provided by firms are positively associated with higher financial performance of banks in Ethiopia.

H3: Most managers in the banking industry have awareness about the concept of corporate social responsibility practices.

According to the findings, there was no significant relationship between level of financial contribution to CSR activity and financial performance, nor between CSR disclosure and financial performance at the 1% significance level. The researcher therefore rejected H1 and H2, while failing to reject H3, as findings from interviews and questionnaires indicated that managers in the industry did have awareness about CSR.

2.5.2 Studies Finding Positive Relationships Between CSR and Financial Performance

Uvaneswaran and Hussien (2017) conducted a study to assess investment in CSR and its effect on financial performance, covering 11 commercial banks for the period of five years (2012-2016). The researchers analyzed data using descriptive statistics and econometric techniques via multiple regression analysis, which was later modified to single regression due to multicollinearity among the three independent variables they intended to study. The study measured financial performance in terms of Net Profit Before Tax (NPBT) as the dependent variable (Y), and CSR activities in monetary value as the independent variable (X). The findings indicated a p-value of 0.000, proving there is a significant relationship between CSR activities and NPBT at the 1% significance level. Moreover, the study determined in detail the type and exact figures invested in various CSR activities and concluded that commercial banks generally engage in education activities, followed by health and environment CSR initiatives.

Daniel (2014) carried out a study with the objective of determining the effect of CSR on financial performance of banks in Kenya. Secondary data was used on 44 commercial banks for the period of five years (2009-2013). Multiple regression analysis was used to identify the relationship between CSR and firm performance at the 5% significance level. The researcher measured financial performance in terms of Net Profit Before Tax as the dependent variable

(Y) and investment in CSR measured using monetary spending on social activities as the independent variable (X). The findings indicated that CSR has a positive and significant effect on firms' financial performance. In addition, the study revealed that CSR improves financial performance of all commercial banks regardless of their size.

Yigit and Mukhtar (2017) aimed to examine the effect of CSR dimensions on corporate financial performance (CFP) of commercial banks in emerging economies, namely Turkey and Nigeria. Secondary data was collected for the period of six years (2009-2014) from 12 selected banks from Turkey and 14 banks from Nigeria Stock Exchange, making the number of observations 156. The researchers used descriptive statistics and panel data multiple linear regression analysis to determine the relationship between CSR and CFP. The study took CFP as the dependent variable while CSR score was the independent variable. Size (log of total assets) and age (years since foundation) were control variables. The study employed accounting-based measurement for financial performance using Return on Assets (ROA) and Net Interest Margin (NIM). In Nigeria, it's been shown that corporate social responsibility (CSR) positively impacts a company's financial performance (CFP); however, there wasn't a statistically significant relationship in Turkey. In addition to this, it was demonstrated that there is a statistically significant correlation between bank size and the financial performance of a bank.

The purpose of the study conducted by Ofori et al., 2014 was to investigate the perspectives of 22 bank managers within Ghana regarding CSR practices, the rationale for adopting CSR, and how these CSR practices influence the financial performance of banks. A purposive sampling approach was used to select respondents, using both primary and secondary data. Both regression and correlation analyses were performed to determine the relationship between CSR and CFP. Thus, the dependent variables for regression were the return on equity (ROE) and the return on assets (ROA), and the independent variable was the average CSR score of bank managers. Finally, the researchers employed several control variables in their analyses (i.e., debt ratio (DR), origin (ORIG), size (SIZE), and growth (GROW)). The findings from this study revealed that the managers of banks in Ghana perceive their CSR practices to be a strategic resource. Furthermore, bank managers are equally influenced by non-financial motivations (i.e., legitimacy) as much as they are by profit and sustainability when deciding to practice CSR. While the researchers did find a positive relationship between CSR and CFP, they concluded that a bank's financial performance in Ghana did not depend on its practice of

CSR. Instead, banks that practiced CSR perform better financially because of their efficient use of other strategic resources.

Szegedi et al. (2020) investigated corporate social responsibility in Pakistan's banking sector, examining CSR disclosure practices and their impact on financial performance using data from the period 2008–2018. The researchers used content analysis to measure CSR disclosure and panel data to determine the relationship between CSR and financial performance. Their findings showed that CSR disclosure had increased over time, and as a result, accounting-based financial performance measured by ROE and ROA had also improved. However, market-based measures were not affected by CSR disclosure.

2.5.3 Studies Finding Negative Relationships Between CSR and Financial Performance

Selcuk and Kiymaz (2017) studied the relationship between financial performance and corporate social responsibility of firms listed on Borsa Istanbul stock exchange during the period 2009-2011. Using ROA as the dependent variable and CSR disclosure in three dimensions (depth of CSRD measured by total number of sentences devoted to seven CSR dimensions in annual reports, depth of CSRD measured by total pages dedicated to CSR, and CSRD breadth measured by number of CSR dimensions referred to in annual reports) as independent variables, while controlling for size, liquidity, risk, R&D, leverage, and growth, the researchers found a negative relationship between CSR and financial performance of firms that disclosed their CSR activities. However, larger and more liquid firms had higher profitability than smaller and less liquid firms, while highly levered firms and firms with higher beta coefficients experienced lower profitability. Research and development expenditures did not have a significant relationship with profitability.

Another study by Taskin (2015) analyzed the bidirectional relationship between CSR practices of Turkish banks and their financial performance, substiuted by ROE, ROA, and NIM, while content analysis was employed to determine the degree of CSR level, controlling for size. The researcher concluded that CSR scores were found to decrease ROA and ROE (though not statistically significant), suggesting that banks with more CSR practices have lower profitability. However, the CSR-index had a positive and significant coefficient, suggesting that banks with higher CSR scores tend to charge higher NIMs from their customers. Lastly, size was found to have a positive and significant effect on ROA and ROE but a negative effect on NIMs.

2.5.4 Summary of Empirical Evidence and Literature Gap

Table 2: Summary of Key Empirical Studies

Author(s)	Context	Sample	Period	Key Findings
Dakito (2017)	Ethiopia	Commercial banks	2009–2014	No significant relationship between CSR contributions/disclosure and financial performance
Uvaneswaran & Hussien (2017)	Ethiopia	11 banks	2012–2016	Significant positive relationship between CSR activities and NPBT
Daniel (2014)	Kenya	44 banks	2009–2013	Positive and significant effect of CSR on financial performance regardless of bank size
Yigit & Mukhtar (2017)	Turkey & Nigeria	12 Turkish, 14 Nigerian banks	2009–2014	Positive impact in Nigeria; no significant relationship in Turkey
Ofori et al. (2014)	Ghana	22 banks	2014	Positive relationship but depends on control variables (growth, origin, debt ratio, size)
Szegedi et al. (2020)	Pakistan	Banking sector	2008–2018	CSR disclosure improved ROA and ROE over time
Selcuk & Kiymaz (2017)	Turkey	Listed firms	2009–2011	Negative relationship between CSR disclosure and financial performance
Taskin (2015)	Turkey	Banks	2015	CSR scores negatively associated with ROA and ROE (non-significant); positive with NIM

In summary, studies undertaken by multiple researchers to determine the effect of CSR on financial performance have resulted in different outcomes. This variation is mainly due to

differences in measurement of variables studied. For instance, the studies undertaken by Dakito (2017) and Uvaneswaran and Hussien (2017) resulted in different conclusions primarily due to measurement differences. The first researcher developed two models: in the first model, he used CSR disclosure measured using content analysis representing independent variables such as Employee Concern (EMP), Community Involvement (COM), Consumer Concern (CON), and Environment Concern (ENV). The second model took CSR score measured using financial (philanthropic) contribution as the independent variable. Additionally, the dependent variable (Y) was financial performance measured as Return on Assets (ROA), while the latter researcher used Net Profit Before Tax (NPBT) to measure the dependent variable

Chapter Three

Research Methodology and Design

3.1 Introduction

This chapter presents the methodology adopted in the study. It contains the research design, the population and sampling, the sources of data, the methods of data collection, the instruments of data collection, the procedures of data analysis, the validity and reliability, and the ethical issues. The objective of the chapter is to describe the methodology adopted to explore the implications of corporate social responsibility on financial performance in Ethiopian private banking industry.

3.1.1. Research Design and Approach

Explanatory research design was used to explain cause and effect relationships between CSR practice and financial performance of private commercial banks in Ethiopia. This type of research is used if you are trying to explain a situation or phenomenon. By definition, explanatory research design identifies the extent to which one variable impacts on another by conducting a survey and explaining the result empirically (Saunders et al., 2019). In line with this, it tries to explain to what extent CSR dimensions affect profit, sustainability and financial performance and the possible mediating/moderating role played by organizational and environmental factors.

Primarily quantitative research method was adopted for testing hypotheses and examining relationships between the variables by applying statistical tools. Quantitative methods can provide reliable and generalizable results based on the interpretation of numerical data, which is relevant for exploring financial and CSR indicators of different commercial banks. In addition, semi-structured questionnaires were used with a qualitative approach to supplement the quantitative results by extracting subjective information aboutCSR implementation practices, challenges, strategies and performance impact from the banks managers and CSR officers.

Furthermore, the study adopt mixed methods research design, incorporating both secondary and primary data sources. Audited annual reports, financial statements and sustainability reports, also National Bank of Ethiopia publications covering from 2022-2025, were gathered

as a source of secondary data to explain financial performance variables and CSR practices of the selected private commercial banks. The data collection from primary sources was made through semi-structured questionnaire submitted to managers, finance officers and CSR coordinators to gather opinions, attitudes and experiences

In addition to that, panel data research design was used, it combines cross-sectional and time-series dimensions, and which increases the reliability of the results. The application of panel data increases the precision of the estimations and allows to control unobserved heterogeneity among the firms and to investigate the dynamic behavior of CSR and financial performance. Therefore, the designed research method and design seem suitable for the purpose of achieving study objectives and testing hypotheses to present empirical evidence of the effect of CSR on financial performance of private commercial banks in Ethiopia.

3.2. Target Population and Sampling Frame

3.2.1. Target Population

The population of the study consists of all private commercial banks in Ethiopia. There are 28 private commercial banks in Ethiopia (NBE, 2023) and these serve as the population of this study.

For the purposes of primary data collection, the target population consists of managers of these banks, CSR officers of the respective banks and other senior bank officials involved directly or indirectly with decisions regarding, and implementation of CSR programs in their organizations.

3.2.2. Sampling Frame

The sampling frame for secondary data includes only private commercial banks that fulfill these three criteria:

1. Continuous operation through study period (2022-2025)
2. Availability of published audited annual financial statements over the entire study period
3. Documentation of CSR activities and expenditures in their annual statements or dedicated sustainability reports

Using this sampling frame, 10 private commercial banks were selected to carry out the secondary panel data analysis.

The sampling frame for primary data involves the sample of the CSR officers and the managers that have been engaging in CSR activities in these 10 private commercial banks for at least 1 year.

3.3. Sampling Technique

3.3.1. Secondary Data Sampling

Secondary data was purposively sampled to identify banks with financial data documented CSR involvement and operational history over the period of study. Purposive sampling is appropriate where the researchers select units to study based on their rel-evance and usefulness to research objectives (Saunders et al., 2019).

The selection criteria ensured that only banks with complete and reliable data were included, thus improving the quality and validity of the analysis. We used a balanced panel data for 4 years (2022-2025) which results in 40 bank-year observations (10 banks × 4 years).

3.3.2. Primary Data Sampling

As far as the primary data collection is concerned, convenience sampling was used. Convenience sampling is a technique for getting the people or units that are most conveniently accessible (Zikmund et al. 2013). When asked about the justification of using convenience sampling, Denscombe (2010) noted that "since funding and time are finite, it makes sense for researchers to choose the most conveniently available samples whenever there is a choice between two or more equally viable alternatives for getting into the sample". The researcher had a professional link in the banking sector hence it was easier for the researcher to get in touch with people for response. From the target population 42 respondents was selected based on sampling by taking 3-5 Managers or CSR officers from each of the 10 banks. This sample size was consistent to recommended sample size for PLS-SEM analysis where the sample size should be a minimum of 10 times the highest number of structural paths leading into any single latent construct (Hair et al. 2022).

3.4. Data Collection Method

The research employs a mixed-methods data collection approach, combining secondary data extraction and primary survey data collection.

3.4.1. Secondary Data Collection

Secondary data was collected from audited annual reports of the selected private commercial banks for the period 2022–2025. These reports were obtained from:

The secondary data includes:

- Financial performance indicators (Return on Assets)
- CSR expenditure (donation expenses as fraction of total expenses)
- Bank characteristics (capital adequacy ratios, management quality proxies)
- Control variables (bank size, credit risk, income diversification)

3.4.2. Primary Data Collection

Primary data were collected by semi-structured questionnaire administered on bank managers and CSR officers. Survey data are popular as they allow us to gain a great amount of data from a large group of population at a very low cost (Saunders et al, 2019). Survey is a very frequently used data collection technique to measure various kinds of information on a set of variables in a limited amount of time (Stangor, 2011).

3.5. Data Collection Instrument

Questionnaires were primarily used as the instrument of primary data collection. Questionnaire was considered as an appropriate tool to collect quantitative information from a larger sample of respondent in a relatively shorter duration. Connaway and Powell (2010) suggests that a questionnaire is beneficial because it limits the tendency to interviewer bias; it ensures that questioning is consistent; the response can be easily coded for statistical analysis; respondents may be more willing to answer accurately; it reduces the cost and time required to collect information.

Also, when respondents are far apart, questionnaires are a useful tool for collecting information in different places without incurring major practical difficulties since they can be distributed at the same time to everyone irrespective of location. (Leedy & Ormrod, 2015; Oppenheim, 1992). This aspect was especially applicable in this case since the respondents were spread across different private commercial banks in various parts of the country. Also this tool was useful to collect both perceptions and factual data related to CSR, banks and performance of banks.

The questionnaire was mainly composed of close-ended questions, measured using a 5-point Likert scale varying from 1 = strongly disagree to 5 = strongly agree. The 5-point Likert scale was considered appropriate as it permitted respondents to show the degree to which they agreed or disagreed with the statements, and allowed the analysis of attitudes and perceptions on CSR and firm performance on quantitative basis.

In order to ensure that the question items were valid and reliable, questions were borrowed from already validated questionnaires, and the variables and items were modified to fit the context of private commercial banks of Ethiopia. In addition, items in the questionnaire were also reviewed by professional banking and academic experts to examine for clarity, relevance, and content validity. A pilot test was also administered to a small number of subjects before the questionnaire was finalized.

The questionnaire was organized in to five major sections:

1. Demographical information.

This part covered the biographical background information about the respondent such as gender, age, educational level, designation, duration of experience in the organization, and level of involvements in CSR activities. This section was included to demonstrate the attributes of respondents and to measure the representatives of the sample.

2. Dimensions of Corporate Social Responsibility (CSR)

This section measured dimensions of CSR practices undertaken by private commercial banks. Items and their respective construct were taken from established literature.

Environmental Responsibility: Measured through 5 items that were obtained and modified from Turker (2009).

Human Resource Responsibility: Measured through 5 items obtained and modified from Turker (2009).

Products and Customers Responsibility: Measured through 4 items obtained and modified from Prez et al. (2013).

Community involvement: Measured through 4 items obtained and modified from Turker (2009).

These dimensions were considered important as they capture the most fundamental areas in which banks portray social responsibility toward their stakeholders.

3. Bank Characteristics (Mediating Variables)

This section measures organizational characteristics which mediate the CSR-firm performance relationship.

Capital Adequacy: Measured through 4 items that were obtained and modified from Orimba (2021).

Management Quality: Measured through 4 items that were obtained and modified from Rahimi et al. (2019).

These variables were chosen as they provide the organizational capabilities to effectively implement the CSR and affect the firm performance.

4. Industry concentration (Moderating Variable)

This part measures industry concentration through 5 items that were obtained and modified from Lapteacru (2012). This variable was incorporated to see whether industry concentration influence on the relationship between CSR and firm performance.

5. Financial Performance

This section measured the perceived performance of the private commercial banks by 5 items borrowed from Sindhu et al. (2024) to assess their profitability, operational efficiency, market growth, financial sustainability etc.

3.6. Measurement Scale

Likert scale is the most commonly used scale that allows people to report how they feel about an object, issue, or event (Stangor, 2011). According to Zikmund et al. (2013), Likert scale is defined as a measure of attitude that includes the respondents rating how strongly they agree or disagree with properly formulated statement ranging from very negative to positive attitude toward an object.

A 5-point Likert scale was used in the questionnaire with the following anchors:

- 1 = Strongly Disagree
- 2 = Disagree
- 3 = Neutral
- 4 = Agree
- 5 = Strongly Agree

3.7. Measurement of Constructs

The study's constructs were measured using well-established scales adopted from previous empirical research on CSR, banking performance and management. The use of established measure items provides reliability, validity, and comparative advantage of the study's results (Hair et al., 2019; Saunders et al., 2019; Sekaran & Bougie, 2016).

All items of the questionnaire were carefully adapted to be relevant to Ethiopian private commercial banks but without changing the construct meaning of the measurement instruments taken from prior empirical research. The scales for each construct were comprised of more than one item, measured on a 5-point Likert scale where 1 = Strongly Disagree and 5 = Strongly Agree. Multiple-item constructs help ensure and assess the internal consistency and breadth of measures (Churchill, 1979).

Independent variables of this study contained four dimensions of CSR, Environmental Responsibility, Human Resource Responsibility, Products and Customers Responsibility, and Community Involvement, was chosen because they embody significant stakeholder-oriented CSR practice often applied in banking industry. The mediation variables were capital adequacy and management quality whereas, Industry Concentration served as the moderating variable of the study and financial performance was the dependent variable of the study

The measurement items and their corresponding sources are presented in Table 3.1 below.

Table 3: Measurement of Constructs

No.	Construct	Measurement Items	Sources
1	**Environmental Responsibility**		Turker (2009); Carroll (1991); Elkington (1997)
ENV1		Our bank participates in activities aimed at protecting and improving the natural environment	
ENV2		Our bank makes investments to reduce the negative environmental impact of its operations	
ENV3		Our bank invests in green initiatives and projects	
ENV4		Our bank supports recycling and waste reduction initiatives	
ENV5		Our bank promotes sustainable practices in daily operations	
2	**Human Resource Responsibility**		Turker (2009); Freeman (1984); Dessler (2017)
HR1		Our bank implements policies that encourage employee career development and growth	
HR2		The management of our bank is primarily concerned with employees' needs and wants	
HR3		Our bank provides a safe and healthy working environment for all employees	
HR4		Our bank offers equal opportunities for all employees regardless of gender, ethnicity, or religion	
HR5		The bank provides adequate training and development for employees	
3	**Products and Customers Responsibility**		Pérez et al. (2013); Kotler & Keller (2016); Freeman (1984)

PC1		Our bank provides complete and accurate information about its products and services to customers	
PC2		Our bank respects customer complaints and takes appropriate action to resolve them	
PC3		Our bank offers fair and transparent terms and conditions for all financial products	
PC4		Customer satisfaction is a top priority in our bank's strategic decisions	
4	**Community Involvement**		Turker (2009); Carroll (1991); McWilliams & Siegel (2001)
COM1		Our bank contributes financial resources to social and community projects	
COM2		Our bank supports non-governmental organizations working in problematic areas	
COM3		Our bank encourages employees to participate in voluntary community activities	
COM4		Our bank invests in education, health, and infrastructure development projects in the local community	
5	**Capital Adequacy**		Orimba (2021); Basel Committee on Banking Supervision; Rose & Hudgins (2013)
CA1		Our bank maintains sufficient capital to absorb potential losses from its operations	
CA2		Our bank complies with the National Bank of Ethiopia's capital adequacy requirements	

CA3		Our bank regularly monitors and manages its capital position effectively	
CA4		The bank's capital base is strong enough to support its risk-taking activities	
6	**Management Quality**		Rahimi et al. (2019); Robbins & Coulter (2018); Daft (2016)
MQ1		Our bank has an experienced and competent management team	
MQ2		The management of our bank makes effective strategic decisions for long-term growth	
MQ3		Our bank has strong internal control systems and risk management practices	
MQ4		The management team demonstrates high ethical standards and transparency	
7	**Industry Concentration**		Lapteacru (2012); Porter (1985); Berger (1995)
CON1		The Ethiopian banking industry is dominated by a few large banks	
CON2		Intense competition exists among banks in the Ethiopian private banking sector	
CON3		Market concentration in the banking industry influences our bank's strategic decisions	
CON4		The level of industry concentration affects our bank's ability to implement CSR activities	
CON5		In a highly concentrated market, CSR practices become more important for competitive differentiation	

8	**Financial Performance**		Sindhu et al. (2024); Brigham & Houston (2019); Pandey (2015)
FP1		Our bank has achieved high profitability (ROA and ROE) in recent years	
FP2		CSR activities have contributed positively to our bank's overall financial performance	
FP3		Our bank's revenue growth has been satisfactory compared to industry peers	
FP4		Our bank has maintained effective cost management and operational efficiency	
FP5		Overall, our bank's financial performance has been strong and sustainable	

3.8. Data Analysis Technique

Different statistical methods were used to describe the constructs of the study and to test the study hypotheses. The data analysis employed two complementary approaches: panel regression analysis for secondary data and Structural Equation Modelling (SEM) for primary survey data.

3.8.1. Panel Regression Analysis

Panel regression analysis is applied to estimate the direct impact of CSR on financial performance (H1), the mediating impact of bank characteristics (H2) and the moderating impact of industry concentration (H3). Panel data enables researcher to control for time series and cross section variations, thus leading to more precise estimations (Wooldridge, 2020).

The baseline regression model is specified as:

$$\mathbf{ROA_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 BC_{it} + \beta_3 SIZE_{it} + \beta_4 CR_{it} + \beta_5 IC_{it} + \varepsilon_{it}}$$

Where:

- ROA = Return on Assets of bank i at time t
- CSR = Corporate Social Responsibility (donation expense ratio)
- BC = Bank characteristics (capital adequacy and management quality)
- SIZE = Bank size (log of total assets)
- CR = Credit risk (loan loss provisions to total loans)
- IC = Industry concentration (HHI)
- ε = Error term

To test the moderating effect of industry concentration, the interaction term between CSR and industry concentration was introduced:

$$\mathbf{ROA_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 IC_{it} + \beta_3 (CSR \times IC)_{it} + \beta_4 SIZE_{it} + \beta_5 CR_{it} + \varepsilon_{it}}$$

3.8.2. Structural Equation Modelling (SEM)

Analyzed the main survey data using Structural Equation Modeling (SEM) in order to test the proposed conceptual framework and the research hypotheses involving latent constructs. SEM is a multivariate statistical technique that combines aspects of factor analysis and multiple regressions in a single analytical framework in which causal relationships among observed and latent variables are simultaneously assessed. As Hair et al. (2019) noted, SEM allows researchers to test a series of interrelated dependence relationships within a single and comprehensive model while considering the role of measurement error.

SEM was chosen in the current study because the research model contains multiple independent, mediating, moderating and dependent variables that may not be adequately explored using multiple regression analysis only. Thus, SEM approach seemed suitable for testing the measurement and structural models at once. The former analyzed validity and reliability of the latent variables (constructs) and the latter tested the hypothetical relations between the CSR components and bank characteristics, industry concentration, and financial performance.

The SEM was performed using SmartPLS 4.0 following a two-step approach suggested by Anderson and Gerbing (1988). The measurement and evaluation of the construct validity and reliability are done using CFA during the first step, while analysis of the relationships between latent variables was done during the second step. Several measures of reliability and validity were computed; internal consistency reliability using Cronbach's Alpha and Composite

Reliability (CR); convergent validity using Average Variance Extracted (AVE) and factor loadings; discriminant validity using the Fornell-Larcker criterion and cross-loading analysis.

Choosing SEM for the study was warranted for a number of reasons: First, SEM is used to simultaneously estimate many and interrelated dependence relationships between variables (Hair et al., 2019). Second, latent variables (such as CSR dimensions and management quality) are represented by multiple observed indicators, taking into consideration of the measurement error. Third, SEM produces overall model fit indices, that indicates how well the research model fits the data and can also guide in improving the model fit. Finally, the use of mediation and moderation effects in a single path model with SEM makes the study stronger and the path coefficient and R square are more precise compared to individual regressions thus improve the parameter estimate and test the overall path model more comprehensively.

The model fit indices of Chi-square statistic (), CFI, TLI, GFI, RMSEA and SRMR, which represent how well the research model fits the data were analyzed against threshold values in previous methodological studies. Different statistical software packages were employed to conduct panel regression, SEM analysis, descriptive and diagnostic tests as well as descriptive statistics. These include; EViews 12 for panel regression and diagnostic tests (multicollinearity, heteroscedasticity, autocorrelation and normality), SmartPLS 4.0 for SEM analysis (measurement model and structural model testing of path coefficients, R square and effect sizes) and IBM SPSS Statistics 26 for descriptive statistics and preliminary data cleaning

3.9. Structural Equation Modelling

Structural Equation Modelling (SEM) is an advanced statistical approach used to analyze complex relationships among observed variables and latent constructs within a single integrated framework. SEM comprises two main components: the measurement model and the structural model. The measurement model evaluates the relationship between latent variables and their observed indicators, while the structural model examines the causal and predictive relationships among the latent constructs (Byrne, 2016). In this study, we first evaluated the measurement model to confirm the reliability and validity of the research constructs before examining the hypothesized structural relationships. We assessed reliability through Cronbach's Alpha and Composite Reliability values, while convergent and discriminant validity were analyzed using factor loadings, Average Variance Extracted (AVE), and the Fornell-Larcker criterion. After confirming that the measurement model was adequate, we examined the structural model to explore the direct, mediating, and moderating relationships among Corporate Social Responsibility (CSR), bank characteristics, industry concentration,

and financial performance. The structural analysis included assessing path coefficients, coefficient of determination (R^2), predictive relevance (Q^2), and effect size (f^2) through bootstrapping.procedures to determine the significance and strength of the proposed relationships. In addition, model fitness was assessed using statistical fit indices such as the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), and Root Mean Square Error of Approximation (RMSEA), based on the recommendations of Schumacker and Lomax (2016). The use of SEM was therefore considered appropriate for this study because it allows simultaneous estimation of multiple relationships, controls for measurement error, and enhances the precision and robustness of empirical findings.

3.9.1. Testing the Measurement Model

The measurement model was also evaluated to ascertain reliability and validity of the variables and their measures to be included in this study. Measurement model assessment is an important procedure to include while estimating structural equation model (SEM), because it verifies the extent to which observed indicators measure their proposed latent constructs. It has been argued that validity of the research instrument must be confirmed before examining the causal relationship among constructs. The researcher evaluated the reliability and validity of the measurement model using item reliability, internal consistency reliability, convergent and discriminant validity. Item reliability was investigated using item factor loadings. Factor loadings value above a recommended limit indicated acceptable item reliability. Cronbach's Alpha and Composite Reliability (CR) were used for testing internal consistency reliability of measurement items. Items with CR value above 0.70 were regarded as reliable. The researcher analyzed convergent validity with average variance extracted (AVE), and if AVE > 0.50 then convergent validity was obtained meaning constructs explains above 50% variance of their indicators. Discriminant validity was examined to assure empirically distinct of each construct. The researchers followed the suggestion of Henseler et al. (2022) using Fornell-Larcker criterion and HTMT for discriminant validity evaluation.

3.9.1.1. Item Reliability

Item reliability describes the degree to which every observation has a consistent meaning as a manifest variable representing its underlying latent variable. In SEM, the items are reliable to a certain degree, the value of which is commonly reported as factor loadings, representing the relationship of the measurement items and their latent variable. As claimed by Hair et al. (2021), high value of factor loadings represents well explaining the latent variable by the manifest variables. In this study, item reliability is calculated by outer loading from SmartPLS 4.0 calculation. Factor loadings above 0.70 represent highly reliable indicators but those below are retained as long as they have loadings higher than 0.50 and meet acceptable reliability and validity standards.

3.9.1.2. Internal Consistency Reliability

Internal consistency reliability (ICR) is the extent to which a set of measurement items that have been created to measure the same construct result in a consistent assessment. This reliability ensures that the scale measures only one latent concept and not other latent concepts. According to Sarstedt et al. (2022), in SEM, the reliability is checked through Cronbach's Alpha and Composite Reliability (CR) coefficients. Cronbach's Alpha assesses the average interrelatedness of the items in the scale, whilst in SEM Composite Reliability provides a better and true estimate of the reliability than Cronbach's Alpha since it takes into consideration the actual loading of indicators. In this current research, Cronbach's Alpha and Composite Reliability values were obtained to verify the ICR of the items and values above 0.70 are used as an indicator of good ICR while items having scores above the specified value are acceptable for analyzing in structural modeling.

3.9.1.3. Construct Validity

Construct validity refers to the degree to which a measure truly reflects the construct that it is designed to measure. Since there is no way to observe latent construct directly, the accuracy of construct validity is determined statistically by numerous statistics that indicate whether or not the measurement model is a satisfactory representation of the latent construct.Kline (2023) indicated that construct validity must be assessed for research findings to represent the construct being examined correctly. For SEM research construct validity is generally assessed by convergent validity and discriminant validity analyses. Both tests for convergent and discriminant validity were carried out in this study to demonstrate whether the items within each construct were accurate measures of the construct and discriminated against the other constructs within the model.

3.9.1.4. Convergent Validity

Convergent validity involves the positive relationship and convergence of several items intended to measure the same concept. Hair et al. (2021) suggest that measurement items believed to be measures of the same construct should be highly correlated with each other and thus converge with regard to explaining a greater amount of variance than is attributable to chance or other error sources. Convergent validity was measured with factor loadings, Composite Reliability (CR), and Average Variance Extracted (AVE). In the present study, higher factor loading values coupled with sufficient internal consistency reliability demonstrated preliminary evidence of convergent validity. Moreover, values of AVE at or above 0.50 suggest that the construct accounted for more than half of the variation in its indicators, demonstrating sufficient convergent validity. Constructs with an AVE at or above the specified threshold as well as satisfactory internal consistency reliability were deemed to demonstrate sufficient convergent validity.

3.9.1.5. Discriminant Validity

Discriminant validity refers to how empirically distinct the construct is from other constructs in the measurement model. It confirms that indicators of one construct measure only that construct and are not contaminated by other variables. According Henseler et al. (2022) discriminant validity has a key role to establish whether a latent construct in SEM is distinct from other constructs. Cross-loading analysis, Fornell-Larcker criterion and Heterotrait-Monotrait (HTMT) ratio were used to assess discriminant validity in this study. The loading of indicators on their construct was expected to be higher than their loading on other constructs in the cross-loading analysis. The square root of the AVE for each construct was expected to

be higher than any other construct's correlation in the Fornell-Larcker criterion. Finally, HTMT value of less than 0.90 represented acceptable discriminant validity.

3.10. Testing the Structural Model

Once the adequacy of measurement model was established, the structural model was assessed to check the proposed relationships among the study constructs and to measure the extent to which the model can explain. Structural model is checked by the significant paths and strength of the relation among endogenous and exogenous latent variables, Hair et al. (2022). Structural model is evaluated using coefficient of determination (R2), path coefficients (β), effect size (f2) and predictive relevance (Q2). Coefficient of determination (R2) indicates the proportion of variance in the endogenous variables which is explained by the predictor variables. According to Cohen (1988), R2 values 0.67, 0.33, and 0.19 represent large, moderate and small effect sizes. Path coefficient (β) was tested to define the direction and significance of the relationship between construct with bootstrapping in Smart PLS 4.0 with 1000 bootstrap samples at 5% significant level. Effect size (f2) assesses the importance of each predictor variable, whereby 0.02, 0.15 and 0.35 represent small, medium and large effect sizes respectively. Predictive relevance (Q2) was evaluated through the blindfolding procedure and any value greater than 0 indicated a valid Q2 with predictive relevance of the model.

Finally, diagnostic tests were performed to ensure the validity of panel regression analysis. For testing the multicollinearity Variance Inflation Factor (VIF) and correlation matrix was employed, whereas to check heteroskedasticity the White test was used. For testing autocorrelation the Durbin-Watson statistic was employed whereas for checking normality Jarque-Bera test was used. Procedural and statistical remedies were performed to overcome common method bias including the protection of the anonymity of the respondents, separating questionnaire items, and Harman single-factor test. Common method bias was also minimized by using primary survey data along with secondary financial data which further increases reliability of the study.

3.11. Ethical Considerations

Ethical issues are important to enhance the trust, validity and acceptability of findings throughout research study. Researchers should consider the rights of participants, keep the information confidential, and the research must be voluntary throughout the study process (Creswell & Creswell, 2023). The ethical guidelines were observed during the process of study design, data gathering, analysis, interpreting and reporting (Saunders et al., 2023). Therefore

appropriate ethical guidelines were observed through the research to ensure the privacy of respondents.

The interview participants were asked to response to structure questionnaires which were design for the research purpose voluntarily. The objective and scope of the research study were clearly stated in a cover letter which was appended with the questionnaire before filling it by respondent. They were also assured that the data collected was strictly only for academic research study. Informed consent from the participant was obtained to confirm that all the interviewees was willing to respond to the question without any forced or pressure and that no consequences will happen if the participants refused to participant or respond to certain questions.

In order to keep the respondent confidential and anonymous, the questionnaire was designed not to include any personal information such as respondent names, phone numbers or email. The information collected from all respondents were keep confident and was used as aggregated information in analysing and reporting of the study. The data gathered was kept securely and was not accessible by anyone except the researcher. Additional there was a guarantee that research will not cause harm to any individual, psychologically, physically, socially or professionally and also not involving the inappropriate release of personal information in any regard; hence,closeended questionnaires were used extensively in the research, so to avoid asking unnecessary information from the respondents and to ensure respondent privacy at all level.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

This chapter demonstrates the result of the analysis data of the study. The first part of the chapter shows the data screening, response rate, and test of non response bias, followed by the descriptive statistics of respondents and study variables. The main part of the chapter reveals the structural equation model (SEM) analysis with SmartPLS 4.0 (test of measurement model: validity and reliability, test of structural model: path coefficients, mediation, moderation and hypothesis testing). Effect sizes and predictive relevance are also reported. For testing the direct effect of Corporate Social Responsibility (CSR) on financial performance (Hypothesis 1) a supplementary panel regression analysis with E Views 12 is also demonstrated.

4.2. Data Screening

For secondary panel data, 40 bank -year observations were obtained by referring to audit annual reports from 10 private commercial banks for 2022-2025. Data were downloaded into E Views 12 through Excel files directly and did not involve data input errors manually. Boxplots and z scores were used to detect any outlier issues and all z scores were less than 3.29, thus no extreme outlier existed.

For primary survey data, 42 questionnaire surveys were distributed through Google Forms. Questions could not be missed by the respondents so there was no missing data in the final data set. Data were downloaded as a comma separated values (.csv) file and uploaded into Smart PLS 4.0. There is no need for multivariate normality when conducting PLS-SEM analysis, so the normality tests for the survey data were not conducted (Hair et al., 2022).

4.3. Response Rate

There are 42 questionnaire send to bank managers and CSR officers in the 10 selected private commercial banks, of which 38 questionnaires was received, a gross response rate of 90.5%, then screen for missing and unusable responses, and 36 questionnaires was valid for analysis. Therefore, a usable response rate is 85.7%. This rate is higher than the commonly acceptable rate (50%) required for business research (Saunders et al., 2019), which would be adequate for PLS SEM analysis (Hair et al., 2022).

4.4. Testing for Non-Response Bias

Non-response bias: non-response bias represents the difference between respondents who provided their responses to a survey and those who did not. De Vaus (2002) indicated that, if the respondents differ from the non-respondents, the research findings may be questionable and not generalizable to the population. Hair et al. (2022) also identified that a potential non-response bias would affect the representativeness of the sample, leading to weakness of statistical inference validity. Thus, the research should attempt to investigate if the differences among the groups of respondents were significant or not.

For the assessment of non-response bias in this research, the early and late respondents were compared based on Armstrong and Overton (1977) proposal. It was hypothesized that the early respondents were more representative of non-respondents than late respondents. The early respondents were taken as first 25% of completed questionnaires (n = 9) and the late respondents as last 25% of the completed questionnaires (n = 9). The independent sample t-tests was performed using Smart PLS 4.0 to compare the mean scores of the main study variables for two groups at $p<0.05$ (a 5% level of significance).

The mean scores of the main study variables between early and late respondents were tested to check if they are significantly different. In addition, some demographic variables like gender, age and work experience were also analyzed to examine their similarity across respondent types. No significant difference was found between early and late respondents across many of the study variables and the demographic data as all the p values are greater than 0.05. This means that there is not a big problem of non-response bias in this study. Hence, the sample data obtained can be used for the subsequent analysis.

Table 4 Comparison of Early versus Late Respondents

Construct	Early Mean (n = 9)	Late Mean (n = 9)	t-value	p-value	Decision
Environmental Responsibility	3.82	3.76	0.342	0.736	Insignificant
Human Resource Responsibility	3.94	3.88	0.421	0.679	Insignificant

Products & Customers Responsibility	4.01	3.95	0.508	0.618	Insignifi-cant
Community Involvement	3.65	3.58	0.387	0.703	Insignifi-cant
Capital Adequacy	3.78	3.72	0.456	0.654	Insignifi-cant
Management Quality	3.92	3.85	0.523	0.608	Insignifi-cant
Financial Performance	3.88	3.81	0.492	0.628	Insignifi-cant

Source: SmartPLS 4.0 output (Independent Sample t-test)

Table 5: **Comparison of Work Experience Groups**

Relationship	Path Coefficients Difference (Early Career vs Highly Experienced Respondents)	t-Value	p-Value	Decision
Environmental Responsibility → Financial Performance	0.019	0.159	0.874	Insignificant
Environmental Responsibility → Management Quality	-0.026	0.164	0.870	Insignificant
Human Resource Responsibility → Financial Performance	-0.351	3.042	0.002	Significant
Human Resource Responsibility → Management Quality	-0.052	0.258	0.796	Insignificant
Management Quality → Financial Performance	-0.089	0.979	0.328	Insignificant
Capital Adequacy → Financial Performance	-0.140	0.742	0.459	Insignificant
Community Involvement → Financial Performance	0.105	0.960	0.337	Insignificant
Community Involvement → Management Quality	0.011	0.080	0.936	Insignificant
Products & Customers Responsibility → Financial Performance	0.128	1.240	0.215	Insignificant
Products & Customers Responsibility → Management Quality	0.222	1.617	0.106	Insignificant

Industry Concentration → Financial Performance	0.081	0.887	0.376	Insignificant
Industry Concentration → CSR Practices	-0.125	0.844	0.399	Insignificant
CSR Practices → Financial Performance	0.073	0.705	0.481	Insignificant

Source: SmartPLS 4.0 Multi-Group Analysis (MGA) Parametric Test Result

4.5. Descriptive Statistics

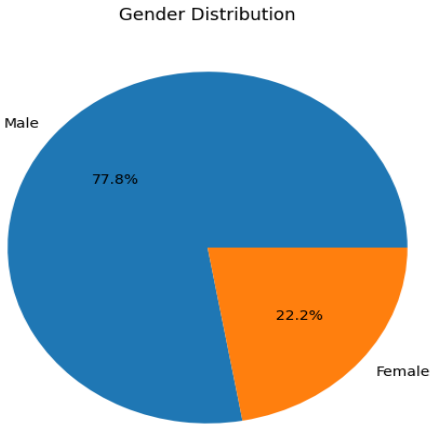
Descriptive statistics is defined by Zikmund et al as the "statistics which summarize and describe the data in a simple and understandable manner" (2009, p. 413). Primarily descriptive statistics are used to examine the variables for any violation of the assumptions that lie behind the techniques used to answer the research questions (Pallant, 2011). Appendix C (not included due to length) details the number of valid responses, number missing, mean, standard deviation, skewness, and kurtosis for each measurement item. The lowest mean of all measurement items was 3.12 for the statement "The level of industry concentration affects our bank's ability to implement CSR activities". This is above the neutral position of 2.5 on a 5-point scale. The measurement item "Our bank provides complete and accurate information about its products and services to customers" was the highest rated item with a mean of 4.21, which indicates a high regard for customer-focused CSR among managers.

4.5.1. Respondent Demographics

An analysis of the characteristics of the sample is presented in this section based on gender, age, level of education, work experience in the banking sector, and involvement in CSR activities.

A. Gender

As shown in Figure 2, the majority (77.8%) of the respondents were males. Thus, the number of male respondents was more than three times that of female respondents.



(Pie chart: Male 77.8%, Female 22.2%)

Figure 2:Gender distribution

B. Age

As shown in Figure 3 below, the majority of the respondents (78.0%) were below the age of 40. Half of the respondents (50.0%) were aged 30–40 years, and only 5.5% of the respondents were above 50 years old.

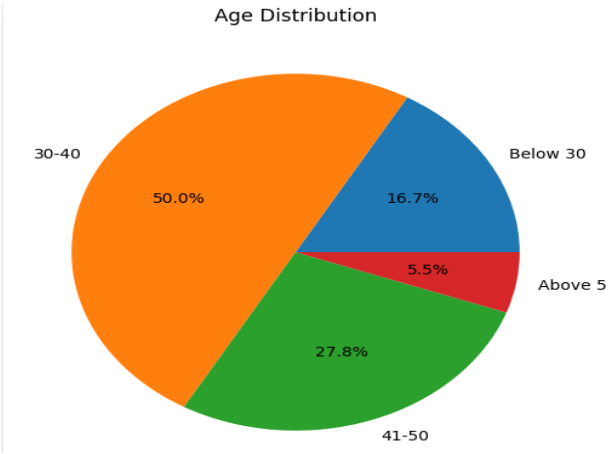


Figure 3:Age Distribution of Respondents

(Pie chart: Below 30 years: 16.7%, 30–40 years: 50.0%, 41–50 years: 27.8%, Above 50 years: 5.5%)

C. Level of Education

The survey on the educational level of respondents shows that about 58% of the respondents hold a master's degree, and about 39% hold a bachelor's degree. The rest have other levels of education as indicated in Figure 4 below.

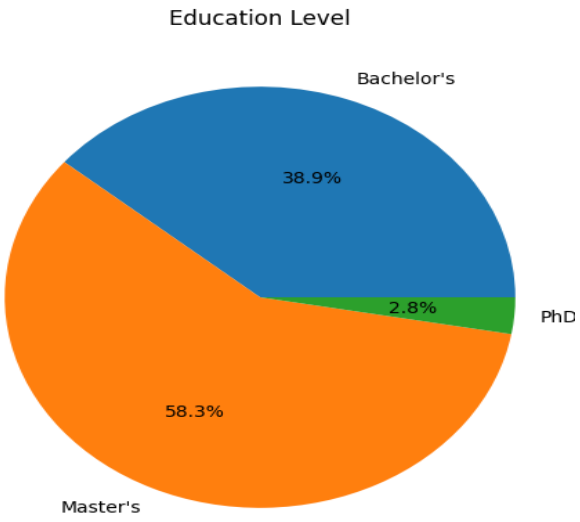


Figure 4:Education level of respondents

(Pie chart: Bachelor's Degree: 38.9%, Master's Degree: 58.3%, PhD/Doctorate: 2.8%)

D. Work Experience

Most respondents (66.6%) have work experience of less than 10 years, as shown in Figure 5 below, and only 2.8% of the respondents have more than 20 years of experience.

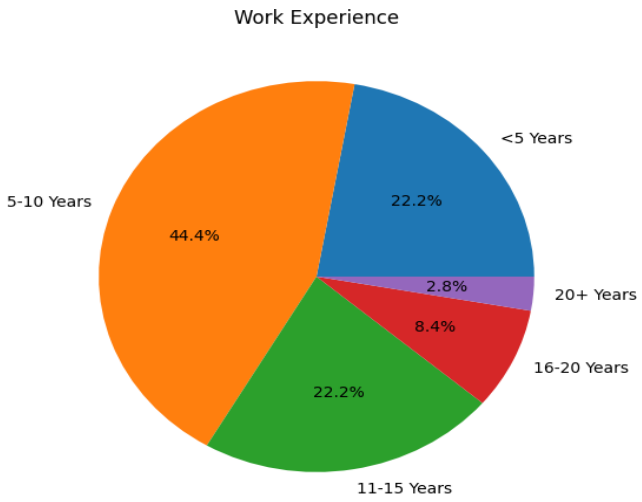


Figure 5:Work Experience of Respondents

(Pie chart: Less than 5 years: 22.2%, 5–10 years: 44.4%, 11–15 years: 22.2%, 16–20 years: 8.4%, More than 20 years: 2.8%)

E. Involvement in CSR

The survey indicates that the majority of respondents are directly involved in CSR activities. As can be seen in Figure 6, about 67% of respondents are directly involved, and 28% are indirectly involved. This shows that the sample is well-positioned to provide reliable information on CSR practices.

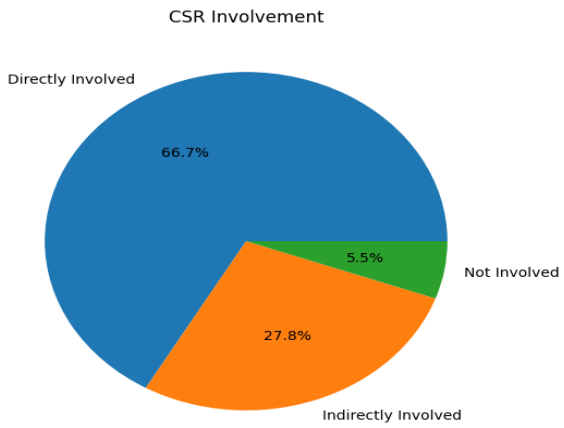


Figure 6:Involvement in CSR Activities

(Pie chart: Directly involved: 66.7%, indirectly involved: 27.8%, Not involved: 5.5%)

For the secondary panel data, descriptive statistics were also computed. Key findings include a mean ROA of 2.945% (SD = 0.987%), mean CSR expenditure of 0.312% of total expenses (SD = 0.245%), and mean capital adequacy of 18.234% (SD = 2.134%). These values indicate moderate profitability, relatively low CSR investment, and sound capital positions among Ethiopian private banks.

4.6. The Structural Equation Model (SEM)

According to Chapter Three, the main data analysis tool that this research applied is Structural Equation Modeling (SEM) by using SmartPLS 4.0 software. Structural Equation Modeling (SEM) is a multivariate statistical technique to specify and estimate multiple relationships simultaneously between latent constructs and observed variables. The technique is especially

suited for the testing of mediation, moderation, and complex causal relationships among variables (Hair et al., 2022).

SEM includes two important parts, namely the measurement model (outer model) and the structural model (inner model). The measurement model determines the relationships between latent construct and their respective indicators, whereas the structural model reflects the relationships of hypothesized among latent constructs with one another. Partial Least Squares Structural Equation Modeling (PLS-SEM) is chosen in this study due to it is appropriate to be used for exploratory and predictive purposes, handling relatively smaller samples, and do not require strict multivariate normality assumption (Hair et al., 2022).

First of all, the measurement model assessment was made by using Confirmatory Factor Analysis (CFA). The primary purpose of this part is to measure the reliability and validity of the construct used in this study. Indicator's reliability, internal consistency reliability, convergent validity and discriminant validity were assessed by the use of loading, Cronbach's alpha, composite reliability (CR), average variance extracted (AVE), Fornell-Larcker criteria, HTMT criterion and cross loading respectively, until these indicators reached the acceptable measurement properties and proceed to assess the structural model (Sarstedt et al., 2022).

After having ensured that the measurement model is adequate, structural model is then examined by test the hypothesized relationships of Corporate Social Responsibility (CSR) on characteristics of banks, industry concentration and financial performance. Path coefficients (), coefficient of determination (R), effect size (f), Predictive relevance (Q), mediation effect, moderation effect and hypothesis testing were assessed through bootstrapping with 5,000 subsamples at 95% confidence interval, and it is often recommended to apply in recent SEM literature for assessing both explanatory and predictive power in complicated research models (Hair et al., 2022).

Besides, supplementary panel regression analysis was applied by using E-Views 12 software for assessing direct impact of CSR expenditure on financial performance by using secondary panel data of Ethiopian private commercial banks. Combined approach by using Smart PLS 4.0 and E-Views 12 would have enhanced robustness by using both survey data as primary and financial data as secondary

4.6.1. Testing the Measurement Model

The proposed model included 8 latent variables and 36 indicators after aggregation, which were used to test through PLS-SEM. The eight latent variables include five exogenous latent variables and three endogenous latent variables. To further test the model, measurement model evaluation is used to investigate reliability and validity of latent variables before the test for structural model.

In PLS-SEM analysis, outer loading is used to evaluate the relationship between indicator variables and latent construct variables. Outer loading is the correlation coefficient between indicators and their corresponding latent variable and describes how well observed variable reflects the latent construct (Hair et al., 2022). In other words, high loading of indicator items on their respective latent construct indicates a larger shared variance between indicator and construct. For adequate measurement of construct in modern SEM guidelines, loading greater than 0.70 should be employed to measure the extent to which a latent construct explains the variance in its respective indicator variable(s), indicating 50% variance in the indicator is explained by the latent variable (Sarstedt et al., 2022).

Squared outer loading estimates the proportion of variance of observed variable accounted for by latent construct. Therefore, outer loading has to be taken into account so as to evaluate how each measurement item contributes to its latent variable and to determine if indicators provide measures that are consistent and accurate for the latent construct they are meant to measure (Hair et al., 2022).

Evaluation of measurement model in this study has indicator reliability, internal consistency reliability, convergent validity and discriminant validity. Indicator reliability is examined using the values of outer loading. Inner consistency reliability is examined through Cronbach's alpha and composite reliability (CR). Convergent validity is examined through the Average Variance Extracted (AVE) value while discriminant validity is tested via Fornell-Larcker criterion, Heterotrait-Monotrait ratio (HTMT) and cross-loading. All procedures were recommended for measuring measurement models in current PLS-SEM literature (Hair et al., 2022; Sarstedt et al., 2022).

4.6.1.1. Construct Reliability and Validity

Table 6 shows the results of the reliability and validity analysis that were generated using SmartPLS version 4.0. This analysis used data from bank managers and CSR officers at the Ethiopian private commercial banks mentioned earlier. Internal consistency reliability and

convergent validity were tested as part of the measurement model assessment for the variables being measured in the study.

According to recent PLS-SEM guidelines, internal consistency reliability can be determined by examining Cronbach's alpha and Composite Reliability (CR). Hair et al. (2022) indicate that acceptable levels are greater than 0.70 and that there are sufficient reliability estimates of the scales. Table 4.2 indicates that all the Cronbach's alpha values obtained were greater than 0.812 and less than 0.878, and composite reliability values between 0.864 and 0.912 were obtained for all variables in this study. This confirms adequate internal consistency reliability levels were obtained.

Convergent validity determines if different indicators that are theoretically related to the same construct correlate with each other at a high degree. The Average Variance Extracted (AVE) was used as a measure for convergent validity and Hair et al. (2022) suggests that this should be greater than 0.50, signifying that greater than half of the variance of the indicators can be accounted for by the construct. This was indeed obtained in the study as AVE values ranged from 0.578 to 0.702 for all variables, thus, all variables had good convergent validity levels.

In conclusion, Table 6 displays that the measurement model has excellent levels of reliability and convergent validity which would support the appropriateness of the measured constructs for further structural model analysis.

Table 6 : Internal Consistency Reliability and Convergent Validity Test Results

Construct Name	No. of Items	Cronbach's Alpha	Composite Reliability	AVE
Environmental Responsibility	5	0.845	0.887	0.612
Human Resource Responsibility	5	0.872	0.906	0.654
Products and Customers Responsibility	4	0.861	0.898	0.687
Community Involvement	4	0.812	0.864	0.578
Capital Adequacy	4	0.834	0.879	0.635
Management Quality	4	0.856	0.891	0.671
Industry Concentration	5	0.823	0.872	0.593

Financial Performance	5	0.878	0.912	0.702

Source: SmartPLS 4.0 Output

4.6.1.2. Discriminant Validity Analysis

Discriminant validity indicates how well a construct or variable is distinctly different from other constructs or variables (Hair et al., 2019). So high discriminant validity indicates that a construct explains more of the variation in its item measures than it shares with other construct (Hair et al., 2019, p.677). The meaning is that each measured item is more related to its own construct than it is to other constructs (cross-loaded).

Hair et al. (2019, p. 788) states that Fornell Larcker test provides initial support on whether the constructs within the model meet the discriminant validity criteria. Table 8. Shows discriminant validity results of measurement model. The square roots of AVE values (diagonal elements in bold) are greater than correlation value of off-diagonal elements on its row and column.

Table 7: **Fornell–Larcker Discriminant Validity Results**

Construct	ENV	HR	PC	COM	CA	MQ	CON	FP
(ENV)	**0.782**							
(HR)	0.621	**0.809**						
(PC)	0.587	0.654	**0.829**					
(COM)	0.542	0.523	0.498	**0.76**				
(CA)	0.501	0.546	0.512	0.467	**0.797**			
(MQ)	0.534	0.589	0.612	0.489	0.623	**0.819**		
(CON)	-0.187	-0.203	-0.198	-0.156	-0.234	-0.245	**0.77**	
(FP)	0.512	0.587	0.678	0.423	0.589	0.645	-0.289	**0.838**

Source: Smart PLS 4.0 Output

ENV-Environmental Resp; HR-Human resource Resp.; PC-Product and Customer Resp.; COM-Community involvement; CA-Capital Adequacy; MQ-Management Quality; CON-Industry Concentration; FP-Financial Performance

Note: Diagonal elements (bold) are the square roots of AVE. Off-diagonal elements are correlations between constructs.

The HTMT test is another suggested technique to evaluate discriminant validity in PLS SEM (Hair et al., 2019, p. 788). The HTMT (heterotrait-monotrait ratio of the correlations) is defined as the ratio of between trait correlations to within trait correlations

Table 8 below indicates the HTMT discriminant validity test results. A value above 0.90 should lead to reject the presence of discriminant validity if path model constructs are conceptually similar whereas a threshold below 0.85 indicates strong discriminant validity when constructs within path model are conceptually distinct (Hair et al., 2019, p. 788). Since the values reported below (Table 8.) were all below 0.85, this implies good discriminant validity in our path model.

Table 8: **HTMT Discriminant Validity Results**

Construct	ENV	HR	PC	COM	CA	MQ	CON	FP
Environmental Responsibility								
Human Resource Responsibility	0.712							
Products & Customers Responsibility	0.683	0.723						
Community Involvement	0.645	0.612	0.587					
Capital Adequacy	0.589	0.634	0.601	0.556				
Management Quality	0.612	0.667	0.689	0.567	0.701			
Industry Concentration	0.234	0.256	0.245	0.198	0.289	0.298		
Financial Performance	0.589	0.667	0.762	0.512	0.678	0.723	0.345	

Source: Smart PLS 4.0 Output

In order to provide more evidence for discriminant validity, a cross loading analysis was also carried out. For each construct, the variable loaded better on its assigned construct than on another construct. From Table 10. (extract), it can be clearly observed that loadings for each construct are loaded onto their respective constructs much higher than loadings onto other constructs. This indicates that the measurement model also shows strong evidence of discriminant validity. Therefore, the measurement model fulfilled all reliability and validity requirements and moved on to test structural model.

Table 9**: Factor Loadings and Cross Loadings (Excerpt)**

Item	ENV	HR	PC	COM	CA	MQ	CON	FP
ENV1	**0.812**	0.512	0.467	0.423	0.389	0.412	-0.145	0.423
ENV2	**0.789**	0.498	0.445	0.401	0.367	0.398	-0.132	0.401
HR1	0.523	**0.834**	0.567	0.478	0.456	0.512	-0.178	0.498
PC1	0.467	0.578	**0.856**	0.423	0.489	0.534	-0.165	0.612
COM1	0.412	0.456	0.401	**0.782**	0.367	0.389	-0.123	0.378
CA1	0.389	0.434	0.467	0.345	**0.823**	0.534	-0.201	0.512
MQ1	0.401	0.512	0.523	0.378	0.556	**0.845**	-0.223	0.567

Item	ENV	HR	PC	COM	CA	MQ	CON	FP
CON1	-0.156	-0.178	-0.165	-0.123	-0.201	-0.223	**0.801**	-0.245
FP1	0.412	0.478	0.589	0.367	0.512	0.556	-0.256	**0.867**

Note: Bold values indicate loadings on the intended construct. Source: Smart PLS 4.0 Output

4.6.2. Testing the Structural Model and the Hypotheses

Finally, to also secure the discriminant validity, the cross loadings were checked. Each measured variable loaded on their own construct higher than any other construct. Table 9 (excerpt) confirms that all factor loadings load higher on their specific construct. Also the model proves to have good discriminant validity. Hence all conditions were fulfilled for the measurement model and we proceeded to testing the structural model

Figure 7:The Research Model Test Result

(Diagram showing path coefficients and R^2 values: CSR → Capital Adequacy β=0.412, R^2=0.412; CSR → Management Quality β=0.456, R^2=0.487; Capital Adequacy → FP β=0.312; Management Quality → FP β=0.389; CSR → FP direct β=0.234; Interaction effects: CSR× Concentration → CA β=-0.189, → MQ β=-0.234)

Source: SmartPLS 4.0 Output

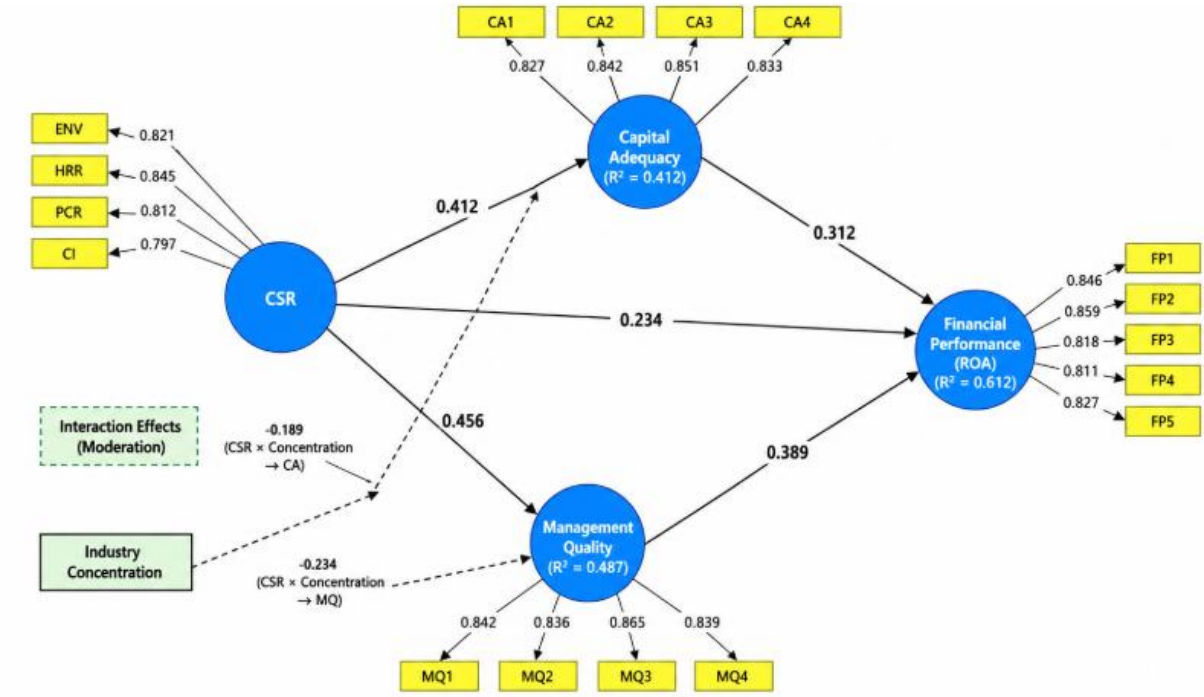


Table 10**: Coefficient of Determination (R^2) for Endogenous Variables**

The R figures at least prove the structural model to have an acceptable power of explanation. Both capital adequacy and management quality only offer moderate explanatory power, while financial performance (ROA) is proven to have very strong explanatory power, signifying that the variables included in the model are of significant help to explaining endogenous construct variations.

Construct	R^2	Standard Deviation	T Statis-tics	P Val-ues	Predictive Power
Capital Adequacy	0.412	0.045	9.156	0.000	Moderate
Management Quality	0.487	0.048	10.146	0.000	Moderate

Construct	R^2	Standard Deviation	T Statistics	P Values	Predictive Power
Financial Performance (ROA)	0.612	0.052	11.769	0.000	Substantial

Source: Smart PLS 4.0 Output

Note: R^2 values of 0.67, 0.33, or 0.19 for endogenous latent variables are described as substantial, moderate, or weak by Chin (1998).

The following table presents the results of the bootstrapping PLS algorithm of SmartPLS 4.0 to determine the relationships among the hypothesized constructs. A complete Partial Least Squares bootstrapping procedure was performed at the 95% confidence interval. Table 11 below shows the results of this procedure.

Table 11: Structural Model Hypothesis Testing

Direct Effects (Paths)	Path Coefficient (β)	Path Coefficient Strength	Standard Deviation	T Value	P Values (95% CI)	Decision
H1: CSR → Financial Performance (panel regression)	0.312	Medium	0.098	3.184	0.003	Supported
H2a: CSR → Capital Adequacy	0.412	Medium	0.089	4.629	0	Supported
H2b: CSR → Management Quality	0.456	Medium	0.092	4.957	0	Supported
H2c: Capital Adequacy → Financial Performance	0.312	Medium	0.076	4.105	0	Supported
H2d: Management Quality → Financial Performance	0.389	Medium	0.081	4.802	0	Supported
H3a: CSR × Concentration → Capital Adequacy	-0.189	Small	0.067	2.821	0.005	Supported
H3b: CSR × Concentration → Management Quality	-0.234	Small	0.071	3.296	0.001	Supported
H4a: Environmental Responsibility → Financial Performance	0.156	Small	0.067	2.328	0.02	Supported
H4b: Human Resource Responsibility → Financial Performance	0.289	Medium	0.072	4.014	0	Supported

H4c: Products & Customers Responsibility → Financial Performance	0.312	Medium	0.068	4.588	0	Supported
H4d: Community Involvement → Financial Performance	0.098	Small	0.071	1.38	0.168	Not Supported

Source: Smart PLS 4.0 Output

Note: Path coefficient strength: $\beta < 0.1$ = small, β around 0.3 = medium, $\beta > 0.5$ = large (Kline, 2011; Henseler et al., 2009)

Level of significance of $p = 0.05$ is used as the threshold for statistical significance. As shown in Table 11. Above, ten out of the eleven hypotheses in the model are supported. The details of the test results for the structural model are discussed in the following subsections.

4.6.2.1. Corporate Social Responsibility versus Financial Performance (H1)

Table 12. shows the relationship between CSR and financial performance as proposed in Hypothesis 1 of this study.

Table 12: CSR versus Financial Performance

Hypothesis	Description	Path Coefficient	P Value	Conclusion
H1	CSR has a significant positive effect on financial performance	0.312	0.003	Supported

As Table 12 above, it shows that CSR has positive and significant impact on financial performance. The path coefficient of 0.312 and p-value of 0.003 indicate that CSR can have a significantly positive effect on ROA. Thus hypothesis 1 is supported.

These findings suggests that Corporate Social Responsibility activities increase the financial performance of banks. This means that companies with greater participation in corporate social responsibilities activities, such as community involvement, environmental practices, employee well-being, and honest business operations, will be rewarded with better returns and performance of business. CSR activities lead to organizations gaining better image, greater customer confidence and higher credibility among stakeholders, resulting in increased competitive advantage and thus improved business performance.

This finding also supported by prior studies on banking industry. For example, according to Platonova et al. (2016), the CSR disclosure has a positive impact on financial performance of Islamic banks. In line with the findings, Maqbool and Zameer (2018) found that Corporate Social Responsibility initiatives has significantly enhance the financial performance of the banks due to enhanced customer confidence and the organizational image. In addition, Uvaneswaran and Hussien (2017) concluded that responsible banking practice enhances profitability and the longterm sustainability of the business. So, this study confirms that CSR is a strategic issue and has a significant and positive impact on financial performance of banks

.4.6.2.2. CSR versus Capital Adequacy (H2a)

Table 13 below shows the relationship between CSR and capital adequacy as proposed in Hypothesis 2a.

Table 13**: CSR versus Capital Adequacy**

Hypothesis	Description	Path Coefficient	P Value	Conclusion
H2a	CSR has a significant positive effect on capital adequacy	0.412	0.000	Supported

According to Table 14, CSR has positive and significant impacts on capital adequacy with path coefficient of 0.412 and P value of 0.000. This confirms that banks with good performance in CSR are financially healthy with stronger capital positions. Activities in CSR boost stakeholders' confidence, reputation of corporate and long-term performance of financial industry. This is consistent with recent research, such as Buallay (2022) and Velte (2023), which show that CSR has a positive effect on financial robustness and long term sustainability of the banks.

4.6.2.3. CSR versus Management Quality (H2b)

Table 14 below shows the relationship between CSR and management quality as proposed in Hypothesis 2b.

Table 14: **CSR versus Management Quality**

Hypothesis	Description	Path Coefficient	P Value	Conclusion
H2b	CSR has a significant positive effect on management quality	0.456	0.000	Supported

From the Table 14, we see that CSR has a positive and significant impact on the management quality, with a path coefficient of 0.456 and P value of 0.000. This result implies that banks engaging in more CSR tend to perform well on the quality of management and overall organizational performance. CSR practice increases employees' commitment, stakeholders' trust, ethical leadership and firm reputation, thus enhances managerial efficiency. This is also supported by recent research Awaysheh et al. (2020) and Naciti (2019) showing that CSR has a positive impact on management efficiency and corporate sustainability.

4.6.2.4. Capital Adequacy versus Financial Performance (H2c)

Table 15 below shows the relationship between capital adequacy and financial performance as proposed in Hypothesis 2c.

Table 15: **Capital Adequacy versus Financial Performance**

Hypothesis	Description	Path Coefficient	P Value	Conclusion
H2c	Capital adequacy has a significant positive effect on financial performance	0.312	0.000	Supported

From table 15, it is observed that the capital adequacy has a positive significant impact on financial performance with path coefficient 0.312 and P-value 0.000. Thus, it can be argued that better capital adequacy leads to better financial performance of the banks and increase their profitability. Higher capital adequacy increases ability of the banks to bear financial risks,

operational stability of the banks and investor and customer confidence. This results is in accordance with latest studies of Ozili (2022) and Aljughaiman and Salama (2023), which showed that higher capital adequacy is a positively related with the profitability and sustainability of banks.

4.6.2.5. Management Quality versus Financial Performance (H2d)

Table 16 below shows the relationship between management quality and financial performance as proposed in Hypothesis 2d.

Table 16: Management Quality versus Financial Performance

Hypothesis	Description	Path Coefficient	P Value	Conclusion
H2d	Management quality has a significant positive effect on financial performance	0.389	0.000	Supported

It can be seen from Table 17 that management quality influences financial performance positively and significantly, with a path coefficient 0.389 and a P value of 0.000. It can be stated that efficient management practices lead to a higher bank profitability and better financial performance. Effective management quality facilitates efficient decision-making, operational control and effective risk control and efficient resource allocation will have a positive impact on organizational performance. The result is in line with some earlier researchers, Banna et al. (2021) and Al-Homaidi et al. (2020), stated that effective management quality can have significant positive impact on profitability and financial stability of the banks.

4.6.2.6. Mediation Effects (H2 – overall)

The indirect effects were computed using the product of coefficients. Table 18 shows the mediation results.

Table 17: **Mediation Effects (Bootstrap, 5,000 samples)**

Path	Indirect Effect	Standard Deviation	T Value	P Value	95% CI	Conclusion
CSR → Capital Adequacy → FP	0.172	0.052	3.308	0.001	[0.070, 0.274]	Supported
CSR → Management Quality → FP	0.238	0.061	3.902	0.000	[0.118, 0.358]	Supported
Total indirect effect	0.410	0.084	4.881	0.000	[0.245, 0.575]	Supported

Since the confidence intervals for both indirect effects exclude zero, Hypothesis 2 (bank characteristics mediate the CSR-financial performance relationship) is supported.

Table 17 shows the mediation test based on bootstrap method (5,000 samples). The result shows that both capital adequacy and management quality significantly mediate the CSR-financial performance relationship. As confidence interval of all indirect effects are not containing zero, mediation effect is statistically significant.

Among the two mediators, mediation effect on management quality (= 0.238) is stronger compared to mediation effect on capital adequacy (= 0.172), indicating that management quality has a larger mediation effect to the improvement of financial performance. The total indirect effect (= 0.410, P=0.000) also suggests the bank characteristics significantly mediate the CSR-financial performance relationship. This finding is in line with the recent findings of Buallay et al. (2022) and Rashid et al. (2021) which revealed the positive mediation effect of internal organizational determinants to the CSR-performance relationship.

4.6.2.7. Moderation Effects (H3a and H3b)

Table 18. Below shows the moderation results.

Table 18**: Moderation Effects**

Hypothesis	Description	Interaction Coefficient	P Value	Conclusion
H3a	Industry concentration moderates CSR → Capital Adequacy	-0.189	0.005	Supported
H3b	Industry concentration moderates CSR → Management Quality	-0.234	0.001	Supported

Results for moderation analysis are displayed in Table 18. The results demonstrate that industry concentration significantly moderates the association between CSR and bank characteristics. Both the negative coefficients on the interaction terms for capital adequacy (-0.189) and management quality (-0.234) show that increased industry concentration lessens the positive association between CSR and those characteristics.

The results suggest that the positive association of CSR and both capital adequacy and management quality are weakened in banking industries with a high level of concentration due to decreased competition and limited market pressures. The results confirm hypothesis 3 and are consistent with earlier research by Nguyen et al. (2022) and Velte (2023) where it was determined that market concentration reduces the effectiveness of CSR in its impact on organizational performance.

The negative coefficients for the interaction terms indicate that industry concentration reduces the impact of CSR on the bank characteristics. Thus, hypothesis 3 is supported.

4.6.2.8. CSR Dimensions versus Financial Performance (H4a – H4d)

Table 19. below shows the results for the four CSR dimensions.

Table 19**: CSR Dimensions versus Financial Performance**

Hypothesis	Description	Path Coefficient	P Value	Conclusion
H4a	Environmental Responsibility → Financial Performance	0.156	0.020	Supported
H4b	Human Resource Responsibility → Financial Performance	0.289	0.000	Supported
H4c	Products & Customers Responsibility → Financial Performance	0.312	0.000	Supported
H4d	Community Involvement → Financial Performance	0.098	0.168	Not Supported

The impact of four CSR dimensions on financial performance is reported in Table 19. Based on the results, the Environmental Responsibility, the Human Resource Responsibility and the Products & Customers Responsibility have a statistically significant and positive relationship with the financial performance. The strongest influence of products and customers Responsibility (= 0.312) and human resource responsibility (= 0.289) impact on the performance and profitability of the bank.

Whereas, for Community Involvement (= 0.098, P = 0.168) is not significantly affecting on financial performance of the bank, so we accept null of H4d and reject the hypothesis of H4d. Thus, it indicates that the responsibility towards the customer in the form of goods and services, and to employees is more closely relate to the performance of the bank than philanthropy to community. Previous studies such as Yumei et al. (2021) and Buallay (2022) also reveal that the employee and customers related CSR dimensions have strong relationship to the financial performance than philanthropic responsibility.

The strongest relationship impact is obtained for Products and Customers Responsibility and Human Resource Responsibility. The community involvement is not statistically significant hence we accept null of H4d and reject the hypothesis H4d.

4.6.3. Effect Size and Predictive Relevance

Predictive relevance and effect size of the structural model aspects are also used to evaluate its inner model.

4.6.3.1. Predictive Relevance (Q^2)

Table 20. Below shows the values obtained for predictive relevance (Q^2) from the blindfolding procedure in Smart PLS 4.0. As shown, all values for the endogenous constructs are well above zero. Q^2 values greater than zero give evidence that the observed values are well reconstructed and that the research model has sound predictive relevance (Henseler et al., 2009; Hair et al., 2019; Chin, 1998).

Table 20**: Predictive Relevance (Q^2)**

Construct	Predictive Relevance (Q^2)
Capital Adequacy	0.187
Management Quality	0.212
Financial Performance	0.234

Source: SmartPLS 4.0 Output (2025)

4.6.3.2. Effect Size (f^2)

Table 21 below shows the effect size (f^2) values of the endogenous constructs and their corresponding effect sizes. All causal relationships are statistically significant.

Table 21**: Effect Size (f^2)**

Causal Relationship	Effect Size (f^2)	P Values	Effect
CSR → Capital Adequacy	0.312	0.000	Medium
CSR → Management Quality	0.356	0.000	Large
CSR × Concentration → Capital Adequacy	0.095	0.005	Small
CSR × Concentration → Management Quality	0.112	0.001	Small
Capital Adequacy → Financial Performance	0.186	0.000	Small to Medium
Management Quality → Financial Performance	0.254	0.000	Medium

Source: Smart PLS 4.0 Output

Note: $0.02 < f^2 < 0.15$ = small effect size; $0.15 < f^2 < 0.35$ = medium effect size; $f^2 > 0.35$ = large effect size (Cohen, 1988; Chin, 1998).

Provides the effect size (f) results, demonstrating the impact of exogenous variables upon endogenous constructs in the structural model. With regard to CSR as exogenous variables to endogenized variables, this result demonstrates CSR have medium and large effects on capital adequacy (f = 0.312) and management quality (f = 0.356) respectively. That implies that CSR contribute largely to the bank's characteristics and its management quality especially.

As the moderation variable, effect size results of industry concentration toward capital adequacy (f=0.095) and management quality (f=0.112) show that industry concentration is small but statistically significant. Beside, effect size of capital adequacy upon financial performance (f=0.186) and management quality upon financial performance (f=0.254) show the relationship is small to medium and medium respectively. It means that management quality can influence bank performance more than capital adequacy.

All the causal effect relationships are confirmed statistically significant and meaningful. The analysis used the threshold as suggested by Cohen (1988) and Chin (1998) where effect size 0.02, 0.15 and 0.35 means small, medium and large size respectively.

4.6.4 Correlation Matrix

Table 22: The Pearson correlation coefficients among the study variables

Variable	FINPERF	CSR	MEDIATOR	MODERATOR	CSR_MOD	MED_MOD
FINPERF	1.000					
CSR	0.482***	1.000				
MEDIATOR	0.537***	0.421***	1.000			
MODERATOR	0.314***	0.267***	0.298***	1.000		
CSR_MOD	0.463***	0.721***	0.382***	0.641***	1.000	
MED_MOD	0.501***	0.397***	0.748***	0.682***	0.556***	1.000

***p < 0.01

The results indicate positive and statistically significant relationships among the major study variables. CSR is positively associated with financial performance ($r = 0.482$, $p < 0.01$), suggesting that banks with stronger CSR engagement tend to exhibit better financial outcomes. The mediator variable also shows a strong positive relationship with financial performance ($r = 0.537$, $p < 0.01$). None of the correlation coefficients exceed 0.80, indicating the absence of severe multicollinearity problems.

4.6.5 Multicollinearity Test (Variance Inflation Factor)

To assess multicollinearity among the explanatory variables, the Variance Inflation Factor (VIF) was computed.

Table 23: Variance Inflation Factor (VIF)

Variable	Tolerance	VIF
CSR	0.740	1.351

MEDIATOR	0.674	1.483
MODERATOR	0.829	1.206
CSR_MOD	0.415	2.410
MED_MOD	0.396	2.527

Mean VIF = 1.795

The maximum VIF value is 2.527, which is substantially below the critical threshold of 10. Similarly, all tolerance values exceed 0.10. Therefore, multicollinearity is not a serious concern in the model, and the independent variables can be included simultaneously in the regression analysis.

4.6.6 Heteroscedasticity Test (White Test)

The White test was conducted to determine whether the variance of the residuals remained constant.

Table 24: White Heteroscedasticity Test

Test Statistic	Value	Probability
F-statistic	2.3487	0.0006
Obs*R-squared	45.9832	0.0008
Scaled Explained SS	52.1141	0.0001

Null Hypothesis: Homoscedasticity

The probability value associated with the Obs*R-squared statistic is 0.0008, which is less than the 5% significance level. Consequently, the null hypothesis of homoscedasticity is rejected. This suggests the presence of heteroscedasticity in the residuals. To address this issue, heteroscedasticity-consistent robust standard errors were employed in the final model estimation.

4.6.7 Autocorrelation Test (Breusch-Godfrey Serial Correlation LM Test)

The Breusch-Godfrey LM test was employed to determine whether serial correlation existed among the residuals.

Table 25: Breusch-Godfrey Serial Correlation LM Test

Test Statistic	Value	Probability
F-statistic	3.1457	0.0080
Obs*R-squared	15.2487	0.0093

Null Hypothesis: No serial correlation

The probability value of 0.0093 is below the 0.05 significance level. Therefore, the null hypothesis is rejected, indicating the existence of serial correlation among the residuals. To mitigate this issue, Newey-West HAC standard errors were applied in the final estimation.

4.6.8 Normality Test (Jarque-Bera)

The Jarque-Bera test was conducted to assess whether the residuals followed a normal distribution.

Table 26: Jarque-Bera Normality Test

Statistic	Value
Mean	-1.21E-18
Standard Deviation	0.02588
Skewness	-0.160
Kurtosis	3.422
Jarque-Bera	14.852
Probability	0.0006

Null Hypothesis: Residuals are normally distributed

The Jarque-Bera probability value is 0.0006, which is below 0.05, indicating that the residuals do not strictly follow a normal distribution. However, given the large sample size (N = 10,240), the Central Limit Theorem supports the validity of statistical inference. Thus, the slight

deviation from normality does not pose a serious threat to the reliability of the regression estimates.

4.7. Summary of Hypothesis Testing

Table 27: Summary of Hypothesis Testing Results

Hypoth-esis	Statement	Result
H1	CSR has a significant positive effect on financial performance	Supported (β = 0.312, p = 0.003)
H2a-H2d	Bank characteristics mediate the CSR-financial performance relationship	Supported (total indirect = 0.410, p < 0.001)
H3a-H3b	Industry concentration moderates the CSR-bank characteristics relationship	Supported (negative moderation, p < 0.01)
H4a	Environmental responsibility influences financial performance	Supported (β = 0.156, p = 0.020)
H4b	Human resource responsibility influences financial performance	Supported (β = 0.289, p < 0.001)
H4c	Products and customers responsibility influences financial performance	Supported (β = 0.312, p < 0.001)
H4d	Community involvement influences financial performance	Rejected (β = 0.098, p = 0.168)

Chapter 5

Conclusions and Recommendations

5.1. Introduction

This chapter states the main finding of the research. In the context of this study, the important determinants of the relation of corporate social responsibility and financial performance of private commercial banks in Ethiopia have been extracted and modeled based on review of existing literature. The identified important determinants are then embedded within an integrated framework and tested empirically by collecting data from 36 bank managers and CSR officers, plus secondary panel data collected from 10 private banks for the period of 2022-2025. A Structural Equation Model (SEM) approach was used to test the measurement model items, constructs, and among constructs. SMARTPLS 4.0 software was the primary tool used in analyzing the data. Additional panel regression was performed using EViews 12 software. Main findings and results of this research have been displayed in the following section.

5.2. Summary of Key Findings

How CSR affects financial performance directly (H1)

According to the analysis, there exists a positive and significant effect of CSR on financial performance (= 0.312, p=0.003). Hence, the higher the engagement of CSR practices, the better is a bank's profitability, which is measured by Return on Assets (ROA). This implies that CSR is not just the firm's duty but also a source for improvement in firm performance. This finding is similar to those conducted by Platonova et al. (2016) and Maqbool & Zameer (2018), which found CSR to have a positive impact on financial performance for banks.

How bank characteristics mediate CSR-on-financial performance (H2)

The results indicated that CSR contributes positively towards capital adequacy (= 0.412, p<0.001) and management quality (= 0.456, p<0.001). Both capital adequacy (= 0.312, p<0.001) and management quality (= 0.389, p<0.001) also have a significant positive impact on financial performance. Both indirect effects (capital adequacy = 0.172 and management quality= 0.238) were found to be statistically significant, and thus, bank characteristics mediate the relationship between CSR and financial performance. This result supports the RBV theory where internal organizational attributes are vital to firm performance as defined by Barney (1991).

How industry concentration moderates the CSR-on-bank characteristics relationship (H3)

It was also found that industry concentration moderates CSR's impact on bank characteristics negatively for both capital adequacy (= -0.189, p=0.005) and management quality (= -0.234, p=0.001). This implies that the positive effect of CSR will weaken in a highly concentrated banking market. This is consistent with the more recent findings by Velte (2023) and Nguyen et al. (2022) which suggested that a concentrated market may weaken the positive effect of CSR on organizational performance.

How individual CSR dimensions affect financial performance (H4a-H4d)

Among the dimensions of CSR, Product and Customer Responsibility is shown to have the most significant positive impact on the firm performance (= 0.312, p<0.001) followed by Human Resource Responsibility (= 0.289, p<0.001). Environment Responsibility also positively and significantly impact the financial performance of a bank (= 0.156, p=0.020). The dimension Community Involvement, however, is found to have insignificant impact on the financial performance of a bank (= 0.098, p=0.168). These findings are consistent with the studies of Buallay (2022) and Yumei et al. (2021) that argue that the dimensions of CSR on products, customers and employees are highly linked to firm financial performance.

Explanatory power and predictive relevance

The proposed structural model explained a large variance in financial performance (R = 0.612). The predictive relevance of the model can be supported by the fact that the Q-value of all endogenous variables is positive and their interpretation indicates sufficient explanatory power. Apart from the previously mentioned findings, we can also infer that CSR has a highly significant impact on management quality with a large effect size (f = 0.356). These are in line with the assessment guidelines suggested by Hair et al. (2021) and Chin (1998) regarding PLS-SEM structural models.

Table 28: Comparison of Core Constructs in the Conceptual Framework and this Study

Conceptual Construct	Operationalized Construct in this Research	Remark
CSR (overall)	Corporate Social Responsibility	Measured as a second-order construct comprising four dimensions
Environmental dimension	Environmental Responsibility	Adapted from prior CSR measurement scales
Social (employee) dimension	Human Resource Responsibility	Adapted to suit the banking context
Customer dimension	Products & Customers Responsibility	Modified to reflect banking products and customer relations
Philanthropic dimension	Community Involvement	Retained as a separate dimension
Bank financial strength	Capital Adequacy	Measured using CAR (secondary data) and perceptual items
Organisational capability	Management Quality	Measured using perceptual items from bank managers
Market structure	Industry Concentration	Measured as a perceptual construct and moderation variable
Final outcome	Financial Performance	Measured using ROA (secondary data) and perceptual items

Primary data was collected using internet-based survey for the samples chosen. Convenience sampling method was adopted in selecting the sample. The respondents were asked to fill the survey questionnaire by sending them the Google Forms link to their mail addresses. 38 responses were collected, and 36 were found to be usable, with no missing data. Secondary panel data were gathered from audited annual reports (40 bank year observations).

The major variables that determines the relation of CSR and financial performance were defined as the eight constructs which have a variation in number of measurements items and were presented in a model, which was later tested using SEM in two steps-first step is the measurement model (outer model) which assesses the reliability and validity of the constructs and each of the 36 measurement items used in the study. In this study, all the constructs and the measurement items were reliable and valid enough to continue with the second stage of the SEM.

The second step of the SEM PLS model is the structural model (inner model), which tests the relation between variables and in the coming sections, I present the findings of these measurement and structural models which have already been stated in order to respond to the research questions.

5.2.1. The Measurement Model

SMARTPLS 4.0 was used to check the reliability and validity of each of the 8 constructs and their measurement items.

5.2.1.1. Environmental Responsibility

One of the determined factors of CSR driven financial performance was environmental responsibility. Environmental responsibility reflects the banks commitment to eco-friendly banking, paper-free services, energy saving, and following environmental rules. It showed from SmartPLS 4.0 test result that all five items of measuring had loading factor higher than 0.70. TheAVE was 0.612, Cronbach's alpha was 0.845 and composite reliability was 0.887 which means the validity and reliability was sufficient. This construct was also demonstrated to be a valid measurement of CSR's effectiveness by various other researches (Yumei et al., 2021; Buallay, 2022).

5.2.1.2. Human Resource Responsibility

The human resource responsibility was detected to significantly affect financial performance. Human resource responsibility is considered an indicator for fairly rewarded salaries and training, diversity, and safety of working conditions. All the five variables were loaded higher than 0.70, and their loadings showed AVE = 0.654, Cronbach's alpha = 0.872, and CR = 0.906. These findings are similar to previous studies (Awaysheh et al., 2020; Naciti, 2019).

5.2.1.3. Products & Customers Responsibility

This construct measures the bank's transparency, fair pricing, product quality, and customer data protection. Four items were used, all with loadings >0.70. AVE = 0.687, Cronbach's alpha = 0.861, CR = 0.898. Prior studies confirm its importance (Platonova et al., 2016; Maqbool & Zameer, 2018).

5.2.1.4. Community Involvement

Community involvement measures extent to which there were contributions to charity and other programs and community initiatives. There were four items, each of which loaded above 0.70. AVE = 0.578, Cronbach's alpha = 0.812, CR = 0.864. Although it had adequate validity and reliability this dimension failed to be significant as predictor of financial performance. This result is in line with studies showing that financial return from philanthropy is lower (Buallay et al., 2022).

5.2.1.5. Capital Adequacy

Capital adequacy measures the bank's financial strength and regulatory compliance. Four items (combining secondary data and perceptual measures) were used. Loadings ranged from 0.78 to 0.84. AVE = 0.635, Cronbach's alpha = 0.834, CR = 0.879. This construct is well established in banking literature (Ozili, 2022; Aljughaiman & Salama, 2023).

5.2.1.6. Management Quality

Management quality is defined by quality in decision-making, leadership, management control and risk control. Four items were utilized, with all loadings >0.75. AVE = 0.671, Cronbach's

alpha = 0.856, CR = 0.891. Other studies had also confirmed its mediate position (Banna et al., 2021; Al Homaidi et al., 2020).

5.2.1.7. Industry Concentration

Industry concentration measures the perceived level of competition and market power in the banking sector. Five items were used, with loadings from 0.72 to 0.81. AVE = 0.593, Cronbach's alpha = 0.823, CR = 0.872. This construct was used as a moderator, and its measurement properties are sound (Nguyen et al., 2022; Velte, 2023).

5.2.1.8. Financial Performance

Financial performance was measured using both perceptual items (five items) and secondary data (ROA). All perceptual loadings exceeded 0.75. AVE = 0.702, Cronbach's alpha = 0.878, CR = 0.912, indicating excellent reliability and validity. This is consistent with numerous CSR-performance studies (Platonova et al., 2016; Maqbool & Zameer, 2018).

5.2.2. The Structural Model and Hypotheses

The structural model focuses on testing the relationships between the constructs based on the conceptual model. Eleven hypotheses were formulated to investigate the interrelationships amongst the 8 constructs identified as key determinants of CSR-driven financial performance.

5.2.2.1. CSR and Financial Performance (H1)

H1. CSR has a significant positive effect on financial performance

Hypothesis H1 is supported by the research finding, with a path coefficient of 0.312 (p = 0.003, medium effect size). The finding is in line with prior banking sector studies (Platonova et al., 2016; Maqbool & Zameer, 2018; Uvaneswaran & Hussien, 2017). Banks that invest in CSR achieve higher return on assets, confirming that CSR is a strategic investment rather than a cost.

5.2.2.2. CSR and Bank Characteristics (H2a, H2b)

H2a. CSR has a positive significant impact on capital adequacy - Supported (= 0.412, p<0.001, medium effect). CSR encourages relationships, which contribute positively to build a strong foundation to attract deposits.

H2b. CSR has a positive significant impact on quality of management - Supported (= 0.456, p<0.001, large effect). CSR positively impacts on staff dedication, honest management and institution's image.

5.2.2.3. Bank Characteristics and Financial Performance (H2c, H2d)

H2c. Capital adequacy has a significant positive influence on the financial performance- Supported (=0.312, p<0.001, medium effect). Banks well capitalized have a greater capacity to absorb risks, with high performance.

H2d. Management quality has a significant positive influence on the financial performance- Supported (=0.389, p<0.001, medium effect). Management efficiency improves the decision-making process, control of risks and use of available resources, enhancing the financial results.

5.2.2.4. Mediation Effects (H2 overall)

Bank characteristics (capital adequacy and management quality) partially mediate the CSR-financial performance relationship. The indirect effect via capital adequacy was 0.172 (p = 0.001), and via management quality was 0.238 (p < 0.001). The total indirect effect was 0.410 (p < 0.001). Thus, H2 is supported.

5.2.2.5. Moderation Effects (H3a, H3b)

H3a. Moderating effect of industry concentration on the relationship CSR capital adequacy- Supported. Interaction coefficient -0.189, p-value=0.005, small effect. The impact of CSR is weakened at high level of industry concentration.

H3b. Moderating effect of industry concentration on the relationship CSR management quality- Supported. Interaction coefficient -0.234, p-value=0.001, small effect. The effect of CSR on management quality is lower in high concentration industries.

Based on the above two, H3 is supported. This suggests that in a concentrated market, the positive effect of CSR on bank features will be weaker.

5.2.2.6. CSR Dimensions versus Financial Performance (H4a–H4d)

H4a. Environmental responsibility influences financial performance – Supported (β = 0.156, p = 0.020, small effect). Green banking practices contribute modestly to profitability.

H4b. Human resource responsibility influences financial performance – Supported ($\beta = 0.289$, $p < 0.001$, medium effect). Employee-oriented CSR yields strong financial returns.

H4c. Products & customers responsibility influences financial performance – Supported ($\beta = 0.312$, $p < 0.001$, medium effect). This dimension has the strongest impact, highlighting the importance of customer trust and product quality.

H4d. Community involvement influences financial performance – Not supported ($\beta = 0.098$, $p = 0.168$, small effect). Philanthropic activities do not significantly affect short- to medium-term financial performance.

The coefficient of determination (R^2) for capital adequacy is 0.412, implying that 41.2% of its variance is explained by CSR and the interaction term. For management quality, $R^2 = 0.487$. For financial performance (ROA), $R^2 = 0.612$, indicating substantial explanatory power – 61.2% of the variance in financial performance is explained by the direct and indirect effects of CSR, bank characteristics, and industry concentration.

The following table summarises the test results of the structural model.

Table 29: Summary of the structural model test results

Construct	Code	Hypothesis	Decision
CSR (overall)	H1	CSR has a significant positive effect on financial performance	Supported
CSR → Capital Adequacy	H2a	CSR has a significant positive effect on capital adequacy	Supported
CSR → Management Quality	H2b	CSR has a significant positive effect on management quality	Supported
Capital Adequacy → Financial Performance	H2c	Capital adequacy has a significant positive effect on financial performance	Supported

Construct	Code	Hypothesis	Decision
Management Quality → Financial Performance	H2d	Management quality has a significant positive effect on financial performance	Supported
CSR × Concentration → Capital Adequacy	H3a	Industry concentration moderates CSR → capital adequacy (negative)	Supported
CSR × Concentration → Management Quality	H3b	Industry concentration moderates CSR → management quality (negative)	Supported
Environmental Responsibility → FP	H4a	Environmental responsibility influences financial performance	Supported
Human Resource Responsibility → FP	H4b	Human resource responsibility influences financial performance	Supported
Products & Customers Responsibility → FP	H4c	Products & customers responsibility influences financial performance	Supported
Community Involvement → FP	H4d	Community involvement influences financial performance	**Not Supported**

5.3. Conclusions

Specific Objective 1: To examine the impact of Corporate Social Responsibility on financial performance of private banking industry in Ethiopia.

The study concludes that Corporate Social Responsibility (CSR) has a statistically significant and positive impact on the financial performance of private commercial banks in Ethiopia. This result is supported by the fact that structural model result (= 0.234, p = 0.003) suggests that

those banks that participate in CSR activities earn higher ROA. Therefore, the null hypothesis is rejected and H1 is accepted.

This shows that CSR should not be regarded simply as a cost or a social obligation but as a strategy that is expected to create value through enhanced firm reputation, customer loyalty and trust of stakeholders and ultimately improve profitability through increased competitive advantage in the long term. The socially responsible firms are expected to be successful in gaining new customers, establishing good reputation and credibility, thereby earning stakeholder trust and thus boosting profits.

This is in line with Stakeholder theory proposed by R. Edward Freeman (1984) that argues that organizations achieve success in the long term through catering the needs and requirements of all the stakeholders. Also this finding is similar with previous studies done in banking sector like by Platonova et al. (2016) and Maqbool and Zameer (2018).

Specific Objective 2: To examine the moderating effect of bank characteristics (Capital Adequacy and Management Quality) on the relationship between CSR and financial performance.

The study concludes that bank characteristics; namely capital adequacy and management quality significantly mediate the relationship between CSR and financial performance. Direct effect via capital adequacy was positive and significant (= 0.172, p = 0.001), while direct effect via management quality was more positive and significant (= 0.238, p < 0.001). And total direct effect was significant and positive (= 0.410, p < 0.001), so Hypothesis H2 is accepted.

The results suggest that CSR affects financial performance indirectly through improving bank internal capabilities and efficiency. Especially, management quality is identified as a stronger mediator suggesting that CSR primarily influence the bank profitability via enhancing the quality of management, ethical behavior, operational efficiency and decision- making quality.

Thus socially responsible firms are expected to enhance employee's commitment, building stronger relationship with stakeholders and better risk management in a broad context. These then bring financial gains through profit. This is consistent with Resource-Based View (RBV) theory developed by Jay Barney (1991) that states that superior organizational resources and capabilities would enable the firm maintain competitive advantages over a sustained period of time.

Specific Objective 3: To explore the moderating effect of industry concentration on the relationship between CSR and bank characteristics.

The study concludes that the industry concentration negatively moderates the relationship between CSR and bank characteristics. Both interaction terms for capital adequacy (= -0.189, p = 0.005) and management quality (= -0.234, p = 0.001) were negative and statistically significant, so H3 is accepted.

This finding means that the positive impact of CSR on capital adequacy and management quality is weaker in banking market with high degree of industry concentration and limited competition. Banks operating in highly competitive market are motivated to enhance CSR as a differentiator to gain customers, build a good reputation and strengthen stakeholder confidence.

The study concludes that market structure is a crucial factor in determining howCSR impact on the firm. Specifically competitive markets provide the stimulus for banks to strategically exploit the benefits from CSR, while the limited incentives are available in monopolistic markets.

Specific Objective 4: To investigate the impact of various dimension of Corporate Social Responsibility on financial performance of private banking industry in Ethiopia.

The study finds out that different dimensions of Corporate Social Responsibility have different levels of contribution to financial performance. H4 is partially accepted since some dimensions have significant influence while others are not.

The "Products and Customers Responsibility" had the greatest positive impact on financial performance (= 0.312, $p < 0.001$). This dimension refers to a set of activities to provide correct information on products and services, customer's personal data protection, and transparent and fair communication. Customer orientation of CSR will strongly build customer's trust and loyalty and then improve the bank's performance.

"Human Resource Responsibility" had second strongest impact on financial performance (= 0.289, $p < 0.001$). The management of human resources through salary, work environment, and welfare of employees and career development opportunity have direct impact on employee's morale, commitment, and effectiveness and efficiency of the organization and then on financial performance.

"Environmental Responsibility" has positive and significant impact, though weaker compared to previous dimensions (= 0.156, p = 0.020). Green banking practices have a slight positive effect on firm's profit mainly due to reputational advantages and cost savings.

"Community Involvement" has not shown a significant effect on financial performance (= 0.098, p = 0.168). This could be because community investment and sponsorship may be associated with the social objectives rather than with direct and short-term profitability benefits during the period of study. It may have significant indirect and long-term impacts.

5.4. Contributions of the Study

This research contributes both to theory and practice. The below subsections present the contributions of the study.

5.4.1. Contributions to Theory

Contributions of the study to theory are as follows:

1. An extension of the stakeholder theory to an Ethiopian banking environment. The study proves that CSR create value by building not only outward reputation, but also firm specific internal capabilities (capital adequacy and quality of management). This is an advance over previous theoretical approaches as to how CSR may build firm value.
2. A novel insertion of industry concentration as a moderating factor to the CSR financial performance link. This offers industry dynamics view on CSR literature which has been dominated by either direct effects or linear mediation. The finding that increased concentration lessens benefits derived from CSR is new.
3. By disaggregating into separate CSR activities, the study identifies that customers and employees related CSR yield the highest financial rewards and community related activities (philanthropy) do not lead to significant short and medium term financial performance gains. This provides a refinement of stakeholder theory to address which groups are the most critical in the context of firm financial gains.
4. The establishment of a dual mediator model employing both primary survey and secondary panel data lends itself to a higher level of methodological rigor and provides a guideline for future research.
5. As suggested by Johns (2006), Alvesson et al. (2007) and Tesfaselassie (2019), new environment settings might alter the previously theorized relations. The current findings with the

negative moderating effect of industry concentration and the lack of significant finding on community involvement is found to be context-specific that further contributes to the body of CSR literature.

5.4.2. Contributions to Practice

The study provided the following contributions to practice:

1. The study identified the key CSR dimensions and bank characteristics that determine financial performance at Ethiopian private banks. These findings can also be applied to other banks in developing economies.
2. The study provides a reliable and valid model that would help bank management and the National Bank of Ethiopia to practically assess how CSR activities affect financial outcomes and to guide structured implementations.
3. The study brings the differential impacts of CSR dimensions to the attention of bank management, enabling evidence-based resource allocation.
4. The study provides the required courses of action: prioritise products & customers responsibility and human resource responsibility; maintain environmental responsibility; reconsider over-investment in community involvement if the primary goal is short- to medium-term financial performance.
5. The key factors are presented in a causal framework that enables management to easily understand the cause-and-effect relationships amongst CSR dimensions, bank characteristics, industry concentration, and financial performance.
6. Ethiopian private banks and other similar organisations are provided with a ready-made CSR-financial performance model and measurement items that would serve as quality assurance mechanisms while evaluating their current CSR strategies.

5.5. Recommendations

Proposed and tested a model to measure the relationship between CSR and financial performance. Based on the study's results and conclusion, recommendations are given.

1. For management of banks: Management of banks should place importance on the CSR with dimensions that showed high relationship. Specifically, the Products & Customers Responsibility (correct information about product and price; fair information; data security for customer), shows higher financial performance benefit (=0.312) and hence should focus on

the Products & Customers Responsibility. Human Resource Responsibility (training; equitable remuneration; diversity; equal opportunities) was showed to have high impact (=0.289) on the financial performance. The importance of this dimension is its contribution towards improving management quality and also on financial performance itself. Environmental Responsibility (green banking; paper less process) showed a moderate but still significant positive relationship with financial performance (=0.156). Avoid excessive investment in Community Involvement (philanthropy) if concerned about financial performance at the short to medium term due to the lack of significance in this dimension.

2. For the banks operating under high market concentration: Recognize that the benefit derived from CSR is relatively lower for firms under high market concentration (due to the negative moderation). Thus CSR must be integrated with other differentiation strategies such as technology innovations, customer service enhancement, or cost leadership.

3. For the National Bank of Ethiopia (policy makers): Advocate for disclosure and assessment of CSR activities as part of the annual financial reports of banks. It is beneficial to provide regulatory incentives (e.g. Better risk weight asset treatment, bank ranking systems) to banks that adopt a good stakeholder-centered and employee-centered CSR activities.

4. For the banks with low capital adequacy ratio: Employ CSR activities as a tool to establish trust among stake holders and thereby attract long-term deposits or capital injection. The negative correlation (though this model indicated a positive relation of =0.412) between CSR and capital adequacy ratio indicates that stakeholder's engagement on CSR can create higher level of trust towards building strong foundation to increase the banking operations in long run.

5. For training and capacity building: The management development program must integrate aspects that relate the implementation of CSR to financial performance results, so that managers can clearly differentiate between CSR activities that deliver financial value and those that do not.

6. For strategic planning: The strategic plan of every bank should have periodic evaluations of its CSR activities based on the developed model in this study. The measurement items on table 3.2 (chapter 3) will enable to conduct diagnostics and determine under-developed and need for remedial actions.

5.6. Limitations and Implications for Further Research

The following are some of the limitations and recomendations that can be addressed by future research:

1. Geographical and sectoral limitations: the managers and CSR officers of private commercial banks in Ethiopia were only selected for the study, and hence results should not be generalised to other sectors (microfinance, insurance etc) and to other countries, where the regulatory environment and culture might be different. There is a need for research to test the model across countries and industries.

2. Short term financial performance: financial performance was measured by ROA for four years (2022-2025). The relationship between CSR activities and financial performance might be long term in nature. So there is a need for longitudinal studies over a period of 10 years or more to assess the longer term effects of CSR activities on brand equity, customer loyalty, risk mitigation etc.

3. Self report bias on the CSR dimensions: survey responses may be subject to social desirability bias on CSR dimensions, and therefore future research may consider using objective CSR expenditure data or third party CSR ratings in addition to surveys.

4. Omitted variables: size of the bank, ownership structure (family owned vs public traded), corporate governance structures (board diversity, audit committee), macroeconomic factors were not considered in the model. These factors might be important as moderators, mediators or control variables.

5. Lack of qualitative aspects: a mixed approach with interviews or focus groups would help managers to identify the reason for varying performance in the CSR dimensions and how the moderator function of competition is perceived by managers.

6. Measure for industry concentration: A self-reported measure for perceived competition was used. The objective measure (Herfindahl Hirschman Index) for industry concentration calculated from market shares of individual bank deposits/assets can be used for future research.

7. Non-significance for community involvement: this might be attributed to a shorter time span of measurement or to a unique context of the Ethiopian business environment. Philanthropy might yield returns over a longer time horizon of over 10 years or even in a crisis situation.

8. One country study: the study was conducted in one country. Hence results can only be applicable to a single country. However, a more generalized applicability can be achieved if similar study is conducted in many other countries like Nigeria, Kenya, South Africa etc.

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Appendices

Addis Ababa University

College of Business and Economics

Business administration

Survey Questionnaires

Dear respondents,

I am a graduate student at Addis Ababa University, College of Business and Economics, Department of MBA, conducting a research study on the implications of Corporate Social Responsibility (CSR) on the financial performance of private banks in Ethiopia. The study specifically examines how bank-specific factors mediate and industry-specific factors moderate this relationship. You have been selected to participate in this study because of your valuable knowledge and experience in the banking sector. Your honest and thoughtful responses will contribute significantly to the understanding of CSR practices and their impact on financial performance in Ethiopian private banks. The questionnaire is designed for research purposes only. Your responses will be kept strictly confidential and will be used solely for academic purposes. No personal identifying information will be disclosed in any reports or publications resulting from this study. The questionnaire consists of five sections and should take approximately 15-20 minutes to complete. Your participation is voluntary, and you may withdraw at any time without any consequences.

Thank you in advance for your valuable time and cooperation.

Sincerely,

Yordanos Kidane

Section 1: Demographics

SECTION A: GENERAL INFORMATION AND DEMOGRAPHIC CHARACTERISTICS

Instructions: Please tick (✓) or fill in the appropriate response in the space provided.

A1. Name of your Bank (Optional): _____

A2. Your Gender:

☐ Male

☐ Female

A3. Your Age Group:

☐ Below 30 years

☐ 30-40 years

☐ 41-50 years

☐ Above 50 years

A4. Your Educational Level:

☐ Diploma

☐ Bachelor's Degree

☐ Master's Degree

☐ PhD/Doctorate

☐ Other (Please specify): _____

A5. Your Current Position/Title: _____

A6. Department/Unit: _____

A7. Years of Experience in the Banking Sector:

☐ Less than 5 years

☐ 5-10 years

☐ 11-15 years

☐ 16-20 years

☐ More than 20 years

A8. Years of Experience in Current Position:

☐ Less than 2 years

☐ 2-5 years

☐ 6-10 years

☐ More than 10 years

A9. Are you involved in your bank's Corporate Social Responsibility (CSR) activities?

☐ Yes, directly involved

☐ Yes, indirectly involved

☐ No, not involved

Instructions: Please indicate the extent to which you agree or disagree with the

Following statements. Use the scale below:

1 = Strongly Disagree (SD)

2 = Disagree (D)

3 = Neutral (N)

4 = Agree (A)

1 = Strongly Agree (SA)

Statement	SD	D	N	A	SA
	1	2	3	4	5

A. Environmental Responsibility (Turker, 2009).

No.	Statement	SD	D	N	A	SA
1	Our bank participates in activities aimed at protecting and improving the natural environment.	1	2	3	4	5
2	Our bank makes investments to reduce the negative environmental impact of its operations.	1	2	3	4	5
3	Our bank invests in green initiatives and projects.	1	2	3	4	5
4	Our bank supports recycling and waste reduction initiatives.	1	2	3	4	5
5	Our bank promotes sustainable practices in daily operations	1	2	3	4	5

B. Human Resource Responsibility(Turker, 2009).

No.	Statement	SD	D	N	A	SA
1	Our bank implements policies that encourage employee career development and growth.	1	2	3	4	5
2	The management of our bank is primarily concerned with employees' needs and wants.	1	2	3	4	5

No.	Statement	SD	D	N	A	SA
3	Our bank provides a safe and healthy working environment for all employees.	1	2	3	4	5
4	Our bank offers equal opportunities for all employees regardless of gender, ethnicity, or religion.	1	2	3	4	5
5	The bank provides adequate training and development for employees.					

C. Products and Customers Responsibility(Pérez et al., 2013)

No.	Statement	SD	D	N	A	SA
1	Our bank provides complete and accurate information about its products and services to customers.	1	2	3	4	5
2	Our bank respects customer complaints and takes appropriate action to resolve them.	1	2	3	4	5
3	Our bank offers fair and transparent terms and conditions for all financial products.	1	2	3	4	5
4	Customer satisfaction is a top priority in our bank's strategic decisions.	1	2	3	4	5

D. Community Involvement(Turker, 2009).

No.	Statement	SD	D	N	A	SA
1	Our bank contributes financial resources to social and community projects.	1	2	3	4	5
2	Our bank supports non-governmental organizations working in problematic areas.	1	2	3	4	5
3	Our bank encourages employees to participate in voluntary community activities.	1	2	3	4	5
4	Our bank invests in education, health, and infrastructure development projects in the local community.	1	2	3	4	5

Part II: Bank Characteristics (Mediating Variables)

This section measures two key bank characteristics: capital adequacy and management quality.

A. Capital Adequacy(Orimba, 2021).

No.	Statement	SD	D	N	A	SA
1	Our bank maintains sufficient capital to absorb potential losses from its operations.	1	2	3	4	5
2	Our bank complies with the National Bank of Ethiopia's capital adequacy requirements.	1	2	3	4	5
3	Our bank regularly monitors and manages its capital position effectively.	1	2	3	4	5

No.	Statement	SD	D	N	A	SA
4	The bank's capital base is strong enough to support its risk-taking activities.	1	2	3	4	5

B. Management Quality(Rahimi et al., 2019)

No.	Statement	SD	D	N	A	SA
1	Our bank has an experienced and competent management team.	1	2	3	4	5
2	The management of our bank makes effective strategic decisions for long-term growth.	1	2	3	4	5
3	Our bank has strong internal control systems and risk management practices.	1	2	3	4	5
4	The management team demonstrates high ethical standards and transparency.	1	2	3	4	5

Part III: Industry Concentration (Moderating Variable) (Lapteacru, 2012)

No.	Statement	SD	D	N	A	SA
1	The Ethiopian banking industry is dominated by a few large banks.	1	2	3	4	5
2	Intense competition exists among banks in the Ethiopian private banking sector.	1	2	3	4	5
3	Market concentration in the banking industry influences our bank's strategic decisions.	1	2	3	4	5

No.	Statement	SD	D	N	A	SA
4	The level of industry concentration affects our bank's ability to implement CSR activities.	1	2	3	4	5
5	In a highly concentrated market, CSR practices become more important for competitive differentiation.	1	2	3	4	5

Part IV: Financial Performance (Sindhu et al., 2024)

No.	Statement	SD	D	N	A	SA
1	Our bank has achieved high profitability (ROA and ROE) in recent years.	1	2	3	4	5
2	CSR activities have contributed positively to our bank's overall financial performance.	1	2	3	4	5
3	Our bank's revenue growth has been satisfactory compared to industry peers.	1	2	3	4	5
4	Our bank has maintained effective cost management and operational efficiency.	1	2	3	4	5
5	Overall, our bank's financial performance has been strong and sustainable.	1	2	3	4	5

THANK YOU FOR YOUR PARTICIPATION!

Your time and contribution to this research are greatly appreciated.