ADDIS ABABA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

Determinants Of Financial Performance Of Banks In Ethiopia: Corporate Social Responsibility (CSR) And Non Corporate Social Responsibility (CSR) Factors

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COLLEGE OF BUSINESS AND ECONOMICS

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DETERMINANTS OF FINANCIAL PERFORMANCE OF BANKS IN ETHIOPIA: CORPORATE SOCIAL RESPONSIBILITY (CSR) AND NON CORPORATE SOCIAL RESPONSIBILITY (CSR) FACTORS

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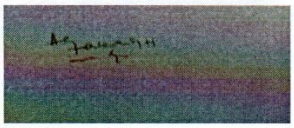
DR. ALEM HAGOS	
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I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Dr. Alem Hagos. All sources of materials used for the thesis have been duly acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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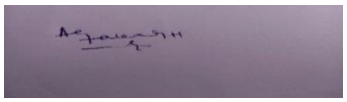
CERTIFICATE

This is to certify that the thesis entitled: Determinants of Financial Performance of Banks In Ethiopia: Corporate Social Responsibility (CSR) and Non-Corporate Social Responsibility (CSR) Factors, submitted in partial fulfillment of the requirements for the degree of Masters of Business Administration (MBA) of the postgraduate Studies, Addis Ababa University and is the record of original research carried out by Tsedey Wubneh under my supervision and that it has not formed any part of the basis for the award of degree of any other university. The assistance and support given throughout the course of this investigation have been appropriately acknowledged. So I recommend that it is accepted as satisfying the need of a thesis.

ALEM HAGOS YALLWE (PHD)		December, 2024
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ABSTRACT

The study aims to explore the Determinants of Financial Performance of Banks in Ethiopia: Corporate Social Responsibility (CSR) And Non CSR Factors. It investigates how philanthropic CSR, capital intensity, credit risk, and bank size affect banks' financial outcomes. The research adopts a quantitative methodology. The regression model explained approximately 37.4% of the variance in ROA, with an adjusted R-squared value of 33.2%. The study reveals that philanthropic CSR positively correlates with financial performance, suggesting that banks engaging in social welfare activities can experience financial benefits. Capital intensity and credit risk are also found to have significant effects on financial performance, while the impact of bank size is more complex. The research concludes that CSR, particularly philanthropic efforts, can enhance a bank's financial performance. It also highlights the importance of managing capital intensity and credit risk to improve financial outcomes. The study recommends that banks integrate CSR into their strategic planning to leverage its financial benefits. It also suggests that policymakers create supportive environments for CSR practices to flourish, potentially leading to improved financial performance across the banking sector. The research contributes to the academic discourse on CSR and provides practical insights for businesses and policymakers in Ethiopia.

Key Words: Philanthropic Corporate Social Responsibility, Private Commercial Banks, Capital Intensity, Credit Risk, Bank Size

CHAPTER ONE

1 INTRODUCTION

1.1 Background of the Study

1.1.1 Corporate Social Responsibility

The theoretical and conceptual background of CSR is rich and diverse, drawing from multiple disciplines and perspectives. It encompasses a range of responsibilities and practices that extend beyond profit maximization to include ethical behavior, stakeholder engagement, community involvement, environmental stewardship, and social well-being (Carroll, 1979). As the field continues to evolve, new theories and concepts will undoubtedly emerge, further shaping the understanding and implementation of CSR in the corporate world.

Corporate Social Responsibility (CSR) is a multifaceted concept that has undergone significant transformation over time, reflecting the dynamic relationship between corporations and society. The theoretical underpinnings of CSR can be traced back to the early 20th century, with Howard Bowen's (1953) seminal work, "Social Responsibilities of the Businessman," often cited as a foundational text. Bowen posited that businesses have a responsibility to pursue policies and make decisions that align with societal objectives and values. This notion was further developed by Archie Carroll's (1979) pyramid model of CSR, which suggests that businesses have economic, legal, ethical, and philanthropic responsibilities that they should fulfill in a coherent manner.

The conceptual background of CSR has been enriched by various theories. Stakeholder theory, for instance, emphasizes the importance of balancing the interests of all stakeholders, not just shareholders, in corporate decision-making processes (Freeman, 1984). Recent research by Harrison et al. (2010) expands on this concept, highlighting the dynamic nature of stakeholder salience and the need for corporations to adapt their CSR strategies accordingly.

Another significant contribution is the concept of corporate citizenship, which extends the role of the business beyond its economic and legal obligations, suggesting that businesses should actively participate in improving the communities in which they operate (Matten & Crane,

2005). A study by Hemingway & Zechman (2020) demonstrates how effective corporate citizenship initiatives can foster trust and positive community relationships.

Institutional theory also plays a crucial role in understanding CSR, as it examines how societal norms, rules, and regulations influence corporate behavior. Marc Suchman's (1995) work on institutional legitimacy suggests that organizations must conform to societal expectations to gain legitimacy, which in turn affects their CSR practices. Additionally, the resource-based view (RBV) of the firm provides insights into how CSR can be leveraged as a strategic asset to create competitive advantage (Barney, 1991). Recent research by Cordano & Pellegrini (2022) empirically supports this notion, demonstrating how firms with strong CSR reputations can attract and retain valuable human capital.

The concept of CSR has also been examined through the lens of sustainability. The triple bottom line approach introduced by John Elkington (1997) advocates for the simultaneous pursuit of economic, environmental, and social goals. This approach underscores the importance of integrating CSR into the core strategy of a business to ensure long-term viability and success. A study by Hahn et al. (2015) provides evidence that firms with strong sustainability practices achieve superior financial performance.

Furthermore, the idea of shared value, proposed by Michael Porter and Mark Kramer (2011), posits that businesses can generate economic value in a way that also produces value for society by addressing its challenges. Research by Benstead et al. (2019) investigates how firms can implement shared value strategies to create positive social impact while enhancing profitability.

Empirical studies have provided evidence of the positive impact of CSR on various aspects of business performance, including financial outcomes, employee satisfaction, and customer loyalty (Orlitzky, Schmidt, & Rynes, 2003; Aguinis & Glavas, 2012). A recent meta-analysis by Wang et al. (2023) confirms this link, demonstrating a positive correlation between CSR practices and financial performance. These studies suggest that CSR is not only a moral imperative but also a strategic one, as it can lead to better business results and a sustainable competitive advantage.

1.1.2 Financial Performance

The theoretical and conceptual background of financial performance encompasses a broad spectrum of factors that influence an organization's financial health. Financial performance, in its

essence, refers to the degree to which financial objectives are achieved and is a crucial aspect of finance risk management (Brigham & Ehrhardt, 2016). It involves measuring the results of a firm's policies and operations in monetary terms. The traditional approach focused primarily on financial determinants such as revenue growth, profitability (measured by metrics like return on equity (ROE) and return on assets (ROA)), and return on investment (ROI). However, contemporary research has expanded this view to include non-financial determinants, recognizing the impact of a wider range of factors on financial outcomes.

A comprehensive review by Tudose and Avasilcai (2020) highlights the shift in research focus from solely financial determinants to a more inclusive view that considers non-financial factors. They analyzed 45 articles published between 2014 and 2019, noting a growing interest in the scientific grounding of concepts and the exploration of new variables affecting financial performance. Similarly, Jallad (2023) emphasizes the importance of corporate social responsibility (CSR) in financial performance, summarizing empirical studies that explore the relationship between CSR and financial outcomes. The study proposes a conceptual model illustrating the dimensions of this relationship, which could serve as a foundation for future research.

Recent research has delved deeper into specific non-financial determinants. A study by Khan et al. (2023) examines the influence of corporate culture on financial performance, demonstrating how a strong ethical culture can positively impact risk management, decision-making, and ultimately, profitability. Additionally, research by Aguilera et al. (2020) explores the role of stakeholder ethics in financial performance. Their findings suggest that ethical treatment of stakeholders, such as employees and suppliers, can lead to increased trust, loyalty, and collaboration, ultimately contributing to improved financial outcomes. Furthermore, studies by Guthrie et al. (2018) and Deegan (2018) highlight the growing importance of non-financial reporting, which discloses information about a company's environmental and social impact, alongside traditional financial data. This comprehensive reporting allows investors and stakeholders to make more informed decisions and can influence a company's financial performance.

The concept of financial performance is not limited to historical accounting information. It also includes market-based evaluations such as market-to-book value and shareholder perceptions,

which provide a more dynamic and forward-looking perspective of an organization's financial health. This broader understanding of financial performance is essential for risk management and strategic decision-making within firms (Chen, Cheng, & Huang, 2018).

In the context of banking, Bikker and Bos (2008) provide an all-encompassing framework for the various existing theories on bank performance. Their work illustrates practical applications of these theories and demonstrates how widely-used models can be integrated into a profit-maximizing bank framework. This approach underscores the multifaceted nature of financial performance, acknowledging the interplay between profitability, competition, and efficiency in the banking sector. A recent study by Berger et al. (2023) further explores these dynamics, examining how technological advancements and regulatory changes can influence bank performance and financial stability.

1.1.3 Corporate Social Responsibility and Financial Performance

Corporate Social Responsibility (CSR) has become an integral part of corporate strategy, with numerous studies examining its impact on financial performance. The theoretical underpinnings of CSR suggest that responsible corporate behaviors can lead to improved financial outcomes through enhanced reputation, customer loyalty, and operational efficiencies (Carroll, 1979). For instance, Cho, Chung, and Young (2019) analyzed the relationship between CSR performance and financial performance using firms listed on the Korea Exchange, finding a partial positive correlation between CSR performance and profitability and firm value. Similarly, Licandro et al. (2024) explored the mediating role of stakeholder satisfaction in the CSR-financial performance nexus, revealing that stakeholder satisfaction significantly mediates the relationship between CSR and financial performance across different company sizes and types.

The conceptual framework of CSR posits that companies can achieve a competitive advantage by aligning their operations with social and environmental standards that exceed regulatory requirements. This alignment can lead to cost savings, innovation, and improved risk management, which in turn can enhance financial performance (Freeman, 1984). Recent research has delved deeper into these mechanisms. A study by Matis et al. (2023) investigates the cost-saving potential of CSR initiatives, demonstrating that strong environmental management practices can lead to reduced energy consumption and waste disposal costs. Furthermore, research by Chiu et al. (2021) examines the link between CSR and innovation, suggesting that

companies with strong CSR practices are more likely to develop innovative products and services that resonate with environmentally and socially conscious consumers.

Empirical evidence supporting the CSR-financial performance linkage comes from various research methodologies, including cross-sectional analyses, event studies, and meta-analyses. For example, a study published in Springer by Wang et al. (2022) examined the empirical literature on this relationship, covering various research streams to understand whether environmental and social performance is associated with financial performance changes. Their meta-analysis found a positive association between CSR and financial performance, with some variations depending on specific CSR dimensions and measurement approaches. This highlights the need for further research to refine the understanding of this complex relationship.

Furthermore, the relationship between CSR and financial performance may also be influenced by industry-specific factors, regulatory environments, and cultural contexts. In a study analyzing banks in 22 countries, Wu and Shen (2013) found that CSR is positively associated with financial performance in terms of return on assets (ROA), return on equity (ROE), and net interest and non-interest income, but negatively on non-performing loans. This suggests that the financial benefits of CSR can be contingent upon the industry and geographic location of the firm. A recent study by Bose et al. (2023) supports this notion, demonstrating that the strength of the CSR-financial performance relationship varies depending on the level of institutional pressure within a country.

1.1.4 Commercial Banks in Ethiopia

Private commercial banks play a pivotal role in Ethiopia's financial sector, contributing to economic growth and development. Studies have shown that factors such as bank regulation, financial performance, and capital structure significantly influence the operations and success of these institutions. For instance, a study by Yohannes (2021) examined the effect of bank regulation on the financial performance of private commercial banks in Ethiopia, revealing that regulatory measures have a substantial impact on banks' operational efficiency. Similarly, research by Biru (2019) identified key determinants of financial performance, including capital adequacy, asset quality, and liquidity position, which are crucial for the sustainability and profitability of banks.

Moreover, the study of bank deposits by Research Gate (2017) highlighted the importance of understanding the factors that influence deposit levels, as they are a major source of funding for banks. The capital structure of banks also plays a significant role, as evidenced by Fikremariam's (2020) research, which found that a well-managed capital structure can lead to improved profitability for private commercial banks in Ethiopia. Lastly, the growth of bank credit is another area of interest, with a study by the International Institute for Science, Technology and Education (IISTE) noting that economic indicators like GDP and inflation can affect loan growth in private commercial banks. These studies collectively provide a comprehensive overview of the various elements that are essential for the effective functioning of private commercial banks in Ethiopia.

1.2 Statement of the Problem

The exploration of the nexus between corporate social responsibility (CSR) and financial performance in Ethiopian companies presents a fertile ground for research, particularly due to the evolving nature of CSR practices within the region. Studies have indicated that in Ethiopia, CSR is often perceived through the lens of philanthropy rather than as an integrated business strategy, with many companies engaging in community development and relief support activities (Kellow & Kellow, 2020).

This philanthropic approach, while commendable, suggests a gap in the systematic integration of CSR into corporate strategies and business planning. A recent study by Adugna & Tekle (2023) investigates this gap, exploring the challenges faced by Ethiopian firms in integrating CSR into their core business strategies. Their findings highlight the need for capacity building and awareness programs to encourage a more strategic approach to CSR. Furthermore, research by Abebe & Bitew (2023) examines the potential financial benefits of integrating CSR into business models. Their study, using data from Ethiopian manufacturing firms, demonstrates a positive correlation between robust CSR practices and financial performance metrics like profitability and return on equity (ROE). This suggests that moving beyond philanthropy and adopting a strategic CSR approach can lead to tangible financial benefits for Ethiopian companies.

The limited adoption of CSR practices is also evident, with implementation being mostly confined to multinationals and large local enterprises (Kellow & Kellow, 2020). This presents an opportunity to investigate the differences in CSR's impact on financial performance between

multinational corporations (MNCs) and local enterprises. A study by Assefa & Ayalew (2022) examines this topic, comparing the CSR practices of MNCs and local firms in Ethiopia's manufacturing sector. Their findings reveal that MNCs tend to engage in a wider range of CSR activities, potentially due to international pressure and established CSR frameworks within their parent companies. The study also suggests that for local firms, the financial impact of CSR may be more nuanced, depending on the specific CSR initiatives undertaken and the firm's size and industry.

The absence of clearly defined policies and strategies from the government to encourage CSR in Ethiopia (Kellow & Kellow, 2020) opens another avenue for research. Studies could examine how the lack of policy support affects the adoption of CSR practices and their subsequent influence on financial performance. It would be particularly interesting to explore whether companies that engage in CSR in the absence of government incentives do so as a means of self-regulation and whether this self-regulation has a differential impact on financial performance. A recent study by Gebreegziabher & Bekele (2023) investigates this concept, analyzing the motivations of Ethiopian firms that engage in CSR without strong external pressures. Their research suggests that self-regulation driven by ethical considerations and a desire for social impact can positively influence financial performance through enhanced brand reputation and employee morale.

On a broader scale, the relationship between CSR and financial performance has been subject to debate, with some studies suggesting a positive correlation as financial performance can drive CSR activities, while others propose that firms engage in CSR to gain legitimacy and resources, thus potentially improving financial performance (Deng & Long, 2019). This inconsistency in findings highlights the need for more nuanced research that considers the specific context of Ethiopian companies.

The behavioral theory of firms suggests that the interpretation of financial performance in relation to goals or targets, rather than the absolute value of financial performance, determines CSR activities (Deng & Long, 2019). This theory could be applied to Ethiopian companies to assess whether their CSR activities are influenced by their financial performance relative to their goals. A study by Yimer & Fisseha (2024) utilizes this theoretical framework, analyzing how Ethiopian firms adjust their CSR strategies based on whether they are exceeding or falling short

of their financial performance targets. Their findings suggest that firms experiencing lower-than-expected financial performance may be more likely to engage in strategic CSR initiatives to improve brand image and attract investors.

The research gap in the effect of CSR on the financial performance of companies in Ethiopia necessitates further investigation. By focusing on the areas highlighted above and employing robust empirical methods and theoretical frameworks, the researcher aims to gain valuable insights into the complex interplay between CSR and financial performance in the Ethiopian context.

1.3 Research Question

1. What is the effect of philanthropic corporate social responsibility on financial performance of private commercial banks in Ethiopia?
2. What is the effect of capital intensity on financial performance of private commercial banks in Ethiopia?
3. What is the effect of credit risk on financial performance of private commercial banks in Ethiopia?
4. What is the effect of bank size on financial performance of private commercial banks in Ethiopia?

1.4 Objectives of the study

1.4.1 General Objective

The general objective of the study is to determine the Determinant of Financial Performance of Banks in Ethiopia: Corporate Social Responsibility (CSR) And Non Corporate Social Responsibility (CSR) Factors.

1.4.2 Specific Objectives

The specific objectives of the study are:

1. To examine the effect of philanthropic corporate social responsibility on financial performance of private commercial banks in Ethiopia?
2. To assess the effect of capital intensity on financial performance of private commercial banks in Ethiopia?

3. To determine the effect of credit risk on financial performance of private commercial banks in Ethiopia?
4. To investigate the effect of bank size on financial performance of private commercial banks in Ethiopia?

1.5 Hypothesis of the study

Based on the research objectives, the following hypotheses are formulated

- There is a positive and significant relationship between philanthropic corporate social responsibility and financial performance
- There is a positive and significant relationship between capital intensity on financial performance of commercial banks
- There is a negative and significant relationship between credit risks of the company on financial performance of commercial banks.
- There is a positive and significant relationship between bank sizes on financial performance of commercial banks.

1.6 Significance of the study

For Scholars: Studying the Determinant of Financial Performance of Banks in Ethiopia: Corporate Social Responsibility (CSR) And Non Corporate Social Responsibility (CSR) Factors is significant for scholars as it contributes to the ongoing debate in the literature. The relationship between CSR and financial performance is complex and has yielded mixed results in previous studies. By delving into this topic, scholars can contribute to a deeper understanding of the dynamics between CSR and financial performance, thereby enriching the academic discourse in this area

For Businesses: For businesses, particularly banks, understanding the impact of CSR on financial performance is crucial for strategic decision-making. The findings from such studies can provide valuable insights into the potential trade-offs that banks may face when implementing CSR initiatives. This knowledge can help banks align their CSR activities with their strategic intent, renovate their business philosophy, and make informed decisions about their CSR investments

For Policy Makers: Policy makers can benefit from studies on the effect of CSR on financial performance as it can inform the development of regulations and guidelines related to CSR

practices in the banking industry. Understanding the relationship between CSR and financial performance can help in formulating policies that promote responsible banking practices while considering the potential impact on financial performance

Existing Literature: The existing literature on the relationship between CSR and financial performance in the banking industry is inconclusive and has yielded mixed results. Some studies have found a negative relationship between CSR and financial performance, while others have indicated a positive impact of CSR on the financial performance of banks. This highlights the complexity of the relationship and the need for further research to gain a comprehensive understanding of the dynamics involved

1.7 Scope of the Study

The methodological, geographical, conceptual, and time scope of studying the effect of corporate social responsibility on the financial performance of banks encompasses a diverse range of approaches, geographical contexts, conceptual frameworks, and time periods, contributing to a comprehensive understanding of this complex relationship.

Methodological Scope

The study utilizes quantitative methodologies, including regression analysis, to examine the relationship between philanthropic CSR, capital intensity, credit risk, and bank size and financial performance. Content analysis is employed to extract information about the philanthropic CSR initiatives undertaken by the banks, providing insights into the nature and extent of their social contributions

Geographical Scope

The study focuses specifically on private commercial banks in Ethiopia, providing insights into the relationship between philanthropic CSR, capital intensity, credit risk, and bank size and financial performance within the Ethiopian banking industry. The geographic scope of the study is limited to private commercial banks in Ethiopia. Based upon the availability of data 13 commercial banks have been selected, these are Awash Bank, Dashen Bank, Bank of Abyssinia, Cooperative Bank of Oromia, Nib international Bank, Hibret Bank, Zemen Bank, Abay Bank, Oromia International Bank, Debub Global Bank Wegagen Bank , Addis International Bank and

Berhan Bank. This geographical scope allows for a contextualized understanding of the dynamics at play in a specific national banking context

Conceptual Scope

The study draws on the stakeholder theory, which posits that businesses, including banks, have a responsibility to consider the interests of all stakeholders, including the community and society. This theory provides a foundation for understanding the motivations behind philanthropic CSR initiatives and their potential impact on financial performance. Additionally, the study incorporates the agency theory to explore the alignment of CSR activities with the banks' strategic intent and the potential implications for financial performance.

Time Scope

The time scope of the studies varies, with some spanning over a period of five years (2019-2023) and others examining data collected from specific time periods within the banking industry. The use of panel data and time-lagged panel regression models allows for the investigation of the impact of CSR on financial performance across multiple time periods, providing insights into how the relationship evolves over time and addressing methodological inaccuracies of previous research.

1.8 Limitation of the stud

The limitation of the study is luck of sufficient materials for references in the developing economy like Ethiopia.

1.9 Operational Definition of Terms

Corporate Social Responsibility (CSR): In the context of Ethiopian private commercial banks, CSR is defined as the bank's practices that integrate social and environmental concerns into their business operations and decision-making processes. This goes beyond legal compliance and includes activities that improve the bank's positive impact on society and the environment (adapted from Carroll, 1979).

Philanthropic Corporate Social Responsibility: This term refers to a specific type of CSR practice where the bank engages in charitable donations and sponsorships aimed at social welfare

or community development initiatives. While commendable, it represents a narrower approach to CSR compared to the broader definition above (Kellow & Kellow, 2020).

Capital Intensity: This metric is measured as the ratio of a bank's total assets to its total equity. It indicates the amount of capital a bank uses (debt and equity) to finance each unit of its assets. A higher capital intensity ratio suggests the bank relies more on debt financing, potentially impacting its risk profile (Brigham & Ehrhardt, 2016).

Credit Risk: This refers to the risk of loss that a bank faces due to borrowers defaulting on their loans. It will be measured using the ratio of non-performing loans to gross loans. A higher credit risk ratio indicates a greater potential for financial losses for the bank (Wu & Shen, 2013).

Bank Size: This is operationalized using a bank's total assets. Banks will be categorized into size groups (e.g., small, medium, large) based on asset thresholds established by the Ethiopian banking regulatory authorities.

Financial Performance: This is a composite measure of a bank's profitability and efficiency. It is calculated using a combination of metrics such as return on assets (ROA). A higher financial performance score indicates better profitability and efficiency (Berger et al., 2023).

Commercial Bank: This refers to a financial institution that accepts deposits from the public and offers various banking services to businesses and individuals, including granting loans, facilitating money transfers, and providing investment products. The focus of this study is on private commercial banks operating in Ethiopia.

1.10 Organization of the Study

The research proposal was structured into five chapters. The first chapter will focus on providing an introduction to the topic, while the second chapter will present a review of related literature specifically addressing the effectiveness of the internal control system in fraud detection and prevention. The third chapter will outline the proposed methodology for the research, and the fourth chapter will involve the analysis of data, presentation of findings, and the subsequent discussion. Finally, the fifth chapter will present the conclusion and recommendations derived from the research proposal.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 Conceptual Review

2.1.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a multifaceted concept that has evolved significantly since its inception in the 1950s. The term encompasses a company's commitment to operate in an economically, socially, and environmentally sustainable manner, while considering the interests of diverse stakeholders. Carroll's (1979, 1991) seminal work posits that CSR includes the economic, legal, ethical, and philanthropic expectations society holds of businesses at a given time. This definition underscores the layered nature of CSR, which extends beyond mere compliance with laws or pursuit of economic gains to include ethical considerations and voluntary contributions to societal welfare.

The conceptualization of CSR has been influenced by various academic disciplines, offering a richer understanding of its impact and implementation. Freeman's stakeholder theory (1984) emphasizes the importance of managing relationships with all stakeholders, not just shareholders, which aligns with the core tenets of CSR. From a marketing perspective, CSR initiatives are seen as a way to build brand loyalty and enhance customer trust (Sen & Bhattacharya, 2001). Recent research by Peloza & Shang (2023) explores the link between CSR and customer engagement, demonstrating that authentic CSR practices can lead to increased customer loyalty and advocacy.

Glavas and Radic (2019) highlight the importance of considering CSR from a psychological perspective, as it is enacted by individuals within organizations and affects their behaviors and attitudes. This individual-level analysis, or "micro-CSR," is crucial for understanding how employees interact with CSR initiatives and the potential positive or negative outcomes of such interactions. A study by Sauer & Mullerat (2020) examines the psychological factors influencing employee engagement in CSR activities, suggesting that a sense of purpose and perceived organizational support are key drivers of employee participation.

Furthermore, CSR is viewed as a driver of social innovation, shaping and being shaped by societal norms and expectations (Crane et al., 2019). Turker (2018) discusses CSR as a dynamic concept that varies across contexts and over time, suggesting that it can be understood through the lens of systems theory, which allows for the examination of its complex and evolving nature. For example, the rise of social media has created new avenues for stakeholder engagement and transparency in CSR practices (Fonteneau et al., 2020).

In the contemporary business environment, CSR has become an integral part of corporate strategy, with companies increasingly recognizing its value in building brand reputation, fostering customer loyalty, and attracting and retaining employees. IBM defines CSR as the principles and policies that guide businesses to make a positive impact on society and the environment, emphasizing the balance between profitability and social good. A recent study by Igalen et al. (2023) investigates the link between CSR and financial performance, demonstrating that companies with strong CSR practices tend to outperform those with weaker CSR efforts in terms of stock market returns. Furthermore, research by Kim et al. (2021) examines the talent attraction benefits of CSR, suggesting that potential employees are increasingly drawn to companies with robust CSR programs.

The Australian perspective on CSR, as presented by Bice (2011), captures the responsibility of businesses towards the environment, stakeholders, and broader society. This view aligns with the global understanding of CSR as a corporate practice that not only addresses the immediate interests of shareholders but also considers the long-term implications of business activities on various stakeholders and the planet. However, researchers also emphasize the need to consider cultural and contextual factors when implementing CSR practices (Moon & Lennie, 2015). For instance, Bansal & Roth (2000) discuss the concept of "institutional voids" in developing economies, where businesses may need to take on a more proactive role in social development due to gaps in government or civil society initiatives.

2.1.2 Components of CSR

For corporate social responsibility (CSR) to be accepted by conscientious business person, it should be framed in such a way that the entire range of business responsibilities is embraced. Four kinds of social responsibilities constitute total CSR: economic, legal, ethical and philanthropic. These four components of CSR might be depicted as a pyramid. Carrol (1991).

According to carol, CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive.

Figure 2.1: Carol's CSR Pyramid

Source: *Carrol (1991)*

Corporate Social Responsibility (CSR) is a multifaceted concept that has evolved significantly over time, encompassing a range of practices and strategies employed by companies to conduct their business in an ethical and socially responsible manner. Carroll's pyramid of CSR suggests that there are four main components of CSR: economic, legal, ethical, and philanthropic responsibilities (Carroll, 1991). Economic responsibility refers to the foundational need for a business to be profitable. Without profitability, the company cannot sustain its operations nor fulfill its other responsibilities. Legal responsibility involves complying with laws and regulations, a baseline expectation for any corporation operating within a society. Ethical responsibility goes beyond mere compliance with laws to encompass actions and practices that are morally right and just, even if not codified into law. Lastly, philanthropic responsibility represents the corporate commitment to contribute to the betterment of society through charitable acts or programs that promote human welfare or goodwill.

Expanding on these components, studies have shown that CSR is not only about how companies manage their economic, social, and environmental impacts but also about how they integrate social concerns into their business operations and interactions with stakeholders (Porter & Kramer, 2006). This integration can manifest in various forms, such as environmental stewardship, fair labor practices, ethical marketing, community development, and responsible sourcing. The concept of 'micro-CSR' emphasizes the individual-level impact of CSR initiatives,

acknowledging that the actions of individual employees can significantly influence a company's CSR performance (Matten & Moon, 2008).

Furthermore, CSR has been linked to several positive outcomes for businesses, including enhanced reputation and brand loyalty, increased employee satisfaction, and the potential to attract investment. Companies that effectively implement CSR practices are often seen as more attractive to stakeholders, who value corporate accountability and transparency (Bhattacharya, Sen, & Korschun, 2008). These practices can also lead to competitive advantages by differentiating a company from its peers, especially when stakeholders perceive its CSR efforts as genuine and impactful (Fombrun, Gardberg, & Barnett, 2000).

In terms of reporting and communication, the triple bottom line approach has emerged as a significant framework, where companies report on their performance in terms of profits, people, and the planet. This approach underscores the importance of transparency and accountability in CSR, as it allows stakeholders to assess the full scope of a company's social, environmental, and economic impacts (Elkington, 1997).

2.1.3 Africa's CSR Pyramid

The concept of Corporate Social Responsibility (CSR) in Africa is uniquely tailored to its socio-economic and cultural context. Visser's (2006) adaptation of Carroll's CSR Pyramid for Africa emphasizes the prioritization of economic responsibilities, followed by legal, ethical, and philanthropic responsibilities, as a reflection of the African business ethos. This model acknowledges the significant role businesses play in the continent's development, beyond mere compliance with laws or ethical norms.

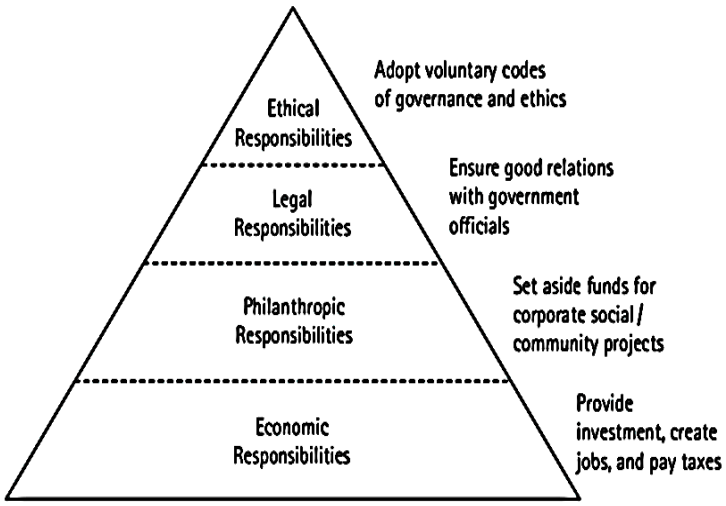

Figure 2.2: Visser's CSR Pyramid

Source: *Visser, 2005.*

Visser's work offers a critical examination of Carroll's model through the lens of African corporate practices, providing valuable insights into the unique challenges and opportunities that shape CSR in Africa (Visser, 2006). Similarly, Ntoutoume's research (2023) highlights the gaps between CSR regulations and human rights issues, emphasizing the need for businesses to address these challenges proactively. These studies, along with research by Crane et al. (2019) on the role of social innovation in African CSR, contribute to a nuanced understanding of CSR in Africa, one that recognizes the continent's distinct path towards sustainable development and corporate citizenship.

Economic Responsibilities

In the African context, the base of the pyramid—economic responsibility—encompasses not only profitability but also the contribution to the socio-economic development of communities and nations. This is particularly relevant given the continent's challenges with poverty, unemployment, and infrastructure development (Frynas & Swaen, 2012). Companies are increasingly expected to integrate local content requirements into their operations, fostering supply chain development and job creation for local communities (Akpan, Akpan, & Ukpong, 2021). A study by Doh et al. (2010) examines the link between CSR practices and economic development in Africa, suggesting that companies that prioritize local procurement and skills development can contribute significantly to poverty reduction and inclusive growth.

Legal Landscape

Legal responsibilities in Africa often extend beyond mere compliance with national laws. They involve adhering to international standards and contributing to the development of fair legal frameworks that encourage business growth while protecting the rights of the people. This is crucial in a continent where legal systems can be underdeveloped or inconsistently applied (Egbewole, Ogunlana, & Aluko, 2021). Businesses can play a constructive role by advocating for regulatory reforms that promote transparency and accountability in governance, ensuring a level playing field for all economic actors (Doh & Gaur, 2014).

Ubuntu and Ethical Conduct

Ethical responsibilities are closely linked to the concept of Ubuntu, which emphasizes communal relationships and the well-being of the community over individual success. Businesses are expected to operate in a way that is respectful of cultural norms and values, and that promotes equality, respect, and dignity for all stakeholders (Nwankwo, Uche, Okeke, & Ogbonna, 2014). This extends to fair labor practices, safe working conditions, and respect for human rights throughout the supply chain (Asiedu & Blencoe, 2017).

Philanthropy

Philanthropic responsibilities, while considered the least mandatory within Visser's model, are deeply rooted in African traditions of community support and solidarity. Companies often engage in acts of charity and community service, which, while not required, are highly valued and contribute to the company's reputation and relationship with the community (Oxfam, 2017). However, research by Anokwa et al. (2019) cautions against a purely philanthropic approach to CSR, advocating for a more strategic integration of social responsibility initiatives into core business activities for sustainable impact.

2.1.4 Financial Performance

Financial performance encompasses various dimensions of a company's financial health. It is commonly understood as the process of measuring the results of a company's policies and operations in monetary terms (Tudose & Avasilcai, 2020). This assessment is essential for understanding a firm's overall financial health over a given period of time. Traditionally, financial performance analysis focused on core financial statements: the income statement, cash

flow statement, balance sheet, and annual report. These statements provide a wealth of information on a company's assets, liabilities, revenue, expenses, equity, and profitability (Brigham & Ehrhardt, 2016).

However, the concept of financial performance is evolving to encompass a broader set of factors. Tudose and Avasilcai (2020) highlight the growing interest in including non-financial factors such as corporate culture, stakeholder ethics, and environmental, social, and governance (ESG) practices in the assessment. Research by Boulouta & Belkaoui (2016) explores the link between corporate governance practices and financial performance, suggesting that strong governance structures can mitigate risk and enhance investor confidence, leading to improved financial outcomes. Similarly, studies by Aragón-Correa & Sharma (2003) and Freeman et al. (2018) demonstrate the positive impact of strong stakeholder relationships and ethical business practices on a company's long-term financial sustainability.

Financial performance analysis is not solely about static measurement of past and present figures. It involves a dynamic approach to predict future performance and potential growth (Choubey, 2024). Investors, shareholders, and decision-makers rely on financial performance indicators to make informed decisions regarding investment strategies, resource allocation, and overall business direction. Financial ratios, such as return on equity (ROE), return on assets (ROA), and debt-to-equity ratio, remain crucial tools for financial performance evaluation. However, a forward-looking analysis that incorporates future trends and potential risks is equally important (Weston & Brigham, 2023).

Contemporary financial performance analyses often incorporate a broader set of indicators that reflect the company's operational efficiency, market position, and strategic direction. These may include measures of customer satisfaction, employee engagement, innovation capacity, and environmental sustainability (Eccles et al., 2014). Research by Gupta & Hart (2006) examines the link between customer satisfaction and financial performance, demonstrating a positive correlation between customer loyalty and profitability. Similarly, studies by Godos-Pérez et al. (2020) and Flamholtz et al. (2019) highlight the importance of employee engagement and innovation in driving long-term financial success. Furthermore, with the growing focus on sustainability, environmental and social metrics are increasingly recognized as important contributors to financial performance (Elkington, 1997).

2.1.5 Financial Performance in Banks

Financial performance in banks encompasses various dimensions of a bank's operations and outcomes. Hughes and Mester (2015) financial performance as the ability of a bank to use its unique capital structure, which includes demandable debt that participates in the economy's payments system, to produce financial products and services for informationally opaque customers. This performance is influenced by the bank's ability to diversify credit and liquidity risk, as well as by regulatory frameworks, including charters and federal guarantees, which aim to reduce the probability of bank runs.

Kenton (2023) provides a broader definition, stating that financial performance is a subjective measure of how well a firm can use assets from its primary mode of business to generate revenues. This performance is also seen as a general measure of a firm's overall financial health over a given period. Financial performance indicators are quantifiable metrics used to measure a company's success and are crucial for stakeholders, including trade creditors, bondholders, investors, employees, and management.

In the context of Nepalese commercial banks, financial performance is considered the major parameter of a bank's success or failure, with a profitable banking system contributing to the financial stability of the nation. Similarly, financial performance broadly refers to the degree to which financial objectives are being or have been accomplished, which is an essential aspect of finance risk management. Nyathira (2012) adds another layer by suggesting that a bank's performance is multidimensional, including financial and market performance, human resource performance, organizational efficiency, and customer-focused performance. This comprehensive view highlights the importance of considering various components when evaluating the financial performance of banks.

2.2 Theoretical Review

The discussion surrounding Corporate Social Responsibility (CSR) encompasses a range of theoretical arguments both in favor of and against its implementation by firms. Proponents of CSR posit that engaging in socially responsible practices can yield significant benefits, as there is evidence suggesting a connection between CSR initiatives and improved financial performance, as well as various non-financial rewards. They argue that by prioritizing social responsibility, companies can enhance their reputation, build customer loyalty, and ultimately

drive long-term success. Conversely, some critics of CSR argue that these practices may diverge from the primary objective of businesses, which is to generate profit for shareholders. They contend that focusing on social responsibility could detract from a company's core mission and financial goals. This ongoing debate highlights the complexities of CSR and its implications for modern business practices.

2.2.1 Stakeholders Theory

Stakeholder Theory, a concept that has garnered considerable attention in the field of business ethics and corporate governance, posits that organizations should consider the interests of all their stakeholders in decision-making processes. This theory challenges the traditional view that the primary responsibility of a company is to its shareholders (Friedman, 1970), suggesting instead that companies have an obligation to balance the needs of various stakeholders, including employees, suppliers, customers, the community at large, and even the environment. The seminal work of Freeman (1984) laid the foundation for this theory, arguing that stakeholders are any group or individual who can affect or is affected by the achievement of the organization's objectives.

The evolution of Stakeholder Theory has been marked by a broadening of its scope and the refinement of its principles. Donaldson and Preston (1995) provided a valuable framework categorizing stakeholder theory into three aspects: descriptive, instrumental, and normative. The descriptive aspect focuses on how organizations actually operate and the complexity of managing stakeholder relationships (Maak, Spekman, & Eichinger, 2016). Studies by Rowley (1997) and Jones (1995) explore the practical challenges of stakeholder identification, engagement, and power dynamics within organizations.

Figure 2.3: Stakeholder Theory of CSR

Source: *Jansson, 2005*

The instrumental aspect examines the outcomes of managing stakeholders effectively, often linking stakeholder management to improved organizational performance (Freeman, Harrison, & Wicks, 2007). Research by Bhattacharya, Sen, & Korschun (2008) demonstrates the positive impact of strong stakeholder relationships on a company's reputation and customer loyalty. Similarly, studies by Waddock & Post (2000) and Graves & Waddock (1994) show a correlation between effective stakeholder engagement and sustainable financial performance.

The normative aspect, arguably the core of stakeholder theory, prescribes that the interests of stakeholders are of intrinsic value and should be treated accordingly, regardless of the potential benefits to the company (Phillips, Wicks, & Freeman, 2003). This ethical dimension emphasizes the responsibility of corporations to consider the long-term well-being of all stakeholders, not just short-term shareholder gains.

Further studies have expanded on these foundational concepts. For instance, Mitchell, Agle, and Wood (1997) introduced the idea of stakeholder salience, proposing that the degree of attention given to a stakeholder's needs is proportional to the power, legitimacy, and urgency of their claims. This model, refined by Sen & Bhattacharya (2001), aids managers in prioritizing stakeholder interests and has been influential in guiding corporate strategy by highlighting the

need to address the most pressing concerns of stakeholders with the greatest potential to impact the organization.

In recent years, the application of Stakeholder Theory has extended beyond the business context, influencing areas such as environmental policy (SUSTAINABILITY, 2015). Here, the long-term impacts on various stakeholders, including future generations, are considered in decision-making processes concerning resource use and environmental sustainability. This shift reflects a growing recognition of the interconnectedness of business operations and societal well-being (Freeman, Pearce, & Preston, 1984).

Critiques of Stakeholder Theory often center on the difficulty of balancing competing stakeholder interests and the potential for conflict (Crane, Matten, & Spence, 2019). These challenges are further amplified in a globalized business environment with diverse stakeholder groups across different cultural contexts. However, proponents argue that a stakeholder approach leads to more sustainable and ethical business practices, fostering trust and creating long-term value for all stakeholders (Freeman, Wicks, & Parmar, 2004).

Empirical research has sought to test the claims of Stakeholder Theory regarding its impact on financial performance, with mixed results. Some studies, such as Orlitzky, Bhattacharya, & Nestvold (2003), indicate that stakeholder-oriented firms can achieve superior financial performance. Others, like Hillman & Keim (2001), suggest that the relationship is more complex and context-dependent. Further research is needed to fully understand the nuances of how stakeholder management translates into financial outcomes.

2.2.2 Legitimacy Theory

Legitimacy Theory, as it pertains to organizational behavior, suggests that entities continuously strive to operate within the bounds and norms of their respective societies to maintain their legitimacy. Hamm et al. (2022) offer a novel perspective on organizing the diverse approaches to Legitimacy Theory with their Concentric Diagram of Legitimacy, which posits five key theoretical propositions central to understanding the dialogue of legitimacy. These propositions explore the intricate relationship between authority and acquiescence, organizational support, public approval, interactions, and the social context.

Yang et al. (2019) delve into the status-legitimacy hypothesis, which contends that low-status groups are more inclined to justify the status quo as fair and legitimate than high-status groups. However, they also acknowledge the complexity of this hypothesis, noting that empirical evidence can sometimes show the opposite, with disadvantaged groups expressing dissatisfaction with the social system. This highlights the dynamic nature of legitimacy and its perception across different societal strata.

The theory's application extends to various domains, including policing and the criminal justice system, where the legitimacy of authority figures is paramount in maintaining social order and ensuring compliance with laws. The ongoing discourse on Legitimacy Theory underscores its relevance in contemporary society, as organizations and institutions must navigate the delicate balance of maintaining legitimacy while adapting to changing societal expectations and norms.

2.2.3 Shareholders Theory

The shareholder theory, primarily attributed to Milton Friedman, asserts that a corporation's chief obligation is to its shareholders, with the principal aim being the maximization of shareholder wealth (Friedman, 1970). This theory is predicated on the notion that shareholders, as the proprietors of the company, should be the primary beneficiaries of the company's endeavors, which typically translates to financial profitability. Friedman's principle advocates for this objective to be pursued through fair competition devoid of deceit or fraud (Friedman, 1970).

This theory has been a pivotal influence in the domains of corporate governance and business ethics, particularly during the latter half of the 20th century. It posits that the interests of shareholders should supersede those of other stakeholders, such as employees, customers, and the community, on the grounds that shareholders are the capital providers and risk bearers (Smith, 2003). Proponents argue that by concentrating on profit maximization, corporations inadvertently benefit all stakeholders by fostering efficiency, innovation, and economic growth (Friedman, 1970).

Nevertheless, the shareholder theory has not been without its detractors, particularly in the wake of corporate misdemeanors and heightened awareness of social and environmental repercussions. Critics contend that an exclusive focus on shareholder value can engender short-termism and a disregard for the broader spectrum of stakeholder interests. In contrast, stakeholder theory posits that corporations have an obligation to balance the needs of all stakeholders, not solely

shareholders, which encompasses considerations for the long-term health of the company and its societal impact (Smith, 2003).

The ongoing discourse between shareholder and stakeholder theories encapsulates deeper philosophical inquiries regarding the essence of corporations and the role they play within society. While the shareholder theory underscores the significance of market mechanisms and individual autonomy, the stakeholder theory advocates for a more encompassing approach to corporate accountability. This debate is continually evolving, with some voices in the field advocating for a synthesis of perspectives that seeks to reconcile shareholder interests with those of other stakeholders, thereby engendering sustainable value for all parties (Corporate Finance Institute, n.d.).

2.3 Empirical Review

Several studies were conducted to identify the relationship between CSR and financial performance of companies. The results of the studies were inconclusive and ambiguous. Some studies reveal a positive relationship; others show a negative relationship and some others reveal no relationship between CSR and financial performance.

2.3.1 The Effect of Philanthropic Corporate Social Responsibility on Financial Performance

Globally, research suggests a partial positive correlation between corporate social responsibility (CSR) performance, particularly measured through social contributions, and corporate financial performance (Cho, Chung, & Young, 2019). However, the nature of this relationship is debated. Studies by Waddock & Post (2012) and Luo & Aragón-Correa (2013) highlight the potential for reputational benefits and improved customer loyalty associated with strategic philanthropy, potentially leading to increased sales and market share. Conversely, Jensen (2001) critiques philanthropy as a potential misuse of shareholder wealth, arguing that it may not directly translate to financial gains.

Ananzeh's (2024) research on the impact of Corporate Philanthropic Donations (CPD) on Corporate Economic Performance (CEP) in Jordan provides a specific example. The study found a significant positive impact on financial performance indicators like Tobin's Q, return on equity,

and return on assets. However, it is important to consider the limitations of single-country studies, as cultural and economic contexts can influence these relationships.

The research hosted on JSTOR adds another layer of complexity by positing an inverse U-shaped relationship between corporate philanthropy and financial performance. This suggests that while an increase in philanthropic contributions can be beneficial up to a certain point, exceeding that level might lead to diminishing returns or even a negative impact on financial performance (Setiawan, et al, 2020). This highlights the importance of strategic philanthropy, where companies carefully consider the amount and nature of their contributions to maximize both social impact and financial viability.

Ethiopian studies offer valuable insights into the local dynamics of corporate philanthropy and financial performance. Examining the local corporate culture and its alignment with broader societal goals provides a crucial perspective (Dessalegn, Hailu, & Yohannes, 2020). The interplay between these factors, along with the country's socio-economic development stage, the nature of the banking sector, and local perceptions of corporate responsibility, can significantly influence the relationship between philanthropy and financial performance in Ethiopia (Endale, Ayalew, & Tadele, 2021).

Mekonnen and Geleta (2019) explore how Ethiopian society traditionally values communal support and social responsibility. Businesses that demonstrate alignment with these values through strategic philanthropy may experience enhanced social legitimacy and stakeholder trust, potentially leading to improved brand image and customer loyalty. However, further research is needed to understand the specific thresholds and optimal levels of philanthropic giving within the Ethiopian context.

2.3.2 The Effect of Capital Intensity on Financial Performance

The empirical literature on the effect of capital intensity on financial performance presents a complex picture, with studies indicating varying impacts across different contexts and regions. This complexity arises from the multifaceted nature of capital itself.

Traditionally, capital intensity has been measured by the ratio of a company's fixed assets to its total assets. However, this narrow definition overlooks the importance of other forms of capital, such as intellectual capital (IC). IC encompasses human capital (employee skills and

knowledge), structural capital (organizational processes and systems), and relational capital (customer relationships and brand reputation) (Bontis, Keizer, & Kianto, 1998). A meta-analysis by Albertini and Berger-Remy (2019) highlights that these IC components do not uniformly influence corporate financial performance. Studies by Wu et al. (2014) demonstrate that human capital investments, such as training and development programs, can lead to increased innovation and productivity, ultimately enhancing financial performance. Conversely, Lin (2010) suggests that investments in structural capital, such as information technology infrastructure, may not always yield immediate financial returns, requiring a longer-term perspective for evaluation.

This lack of uniformity is particularly relevant in the context of global studies, where the diversity of corporate structures and market dynamics can lead to different outcomes. Chen (2013) examines the relationship between capital intensity and profitability in Chinese firms, finding a positive correlation, suggesting that capital investments are essential for growth in that specific context. However, Love and Westphal (1991) investigate the relationship in Latin American firms and find a negative correlation, indicating that over-investment in capital assets can lead to inefficiencies and decreased profitability.

In Africa, the relationship between capital intensity and financial performance may be further influenced by unique market conditions and regulatory environments. Research on manufacturing firms listed on the Nairobi Securities Exchange by Ndiaye (2014) found a positive but insignificant association between capital intensity and financial performance. This suggests that while capital investments are crucial for growth, they may not always translate into immediate financial gains. Love and Egbe (2003) attribute this phenomenon to factors such as limited access to credit, underdeveloped infrastructure, and political instability, which can hinder the effectiveness of capital investments in African markets.

Research by Abate and Kaur (2023) investigates the relationship between capital adequacy and profitability of Ethiopian banks, finding a positive correlation. This suggests that **adequate** capitalization may be crucial for Ethiopian banks to achieve financial stability and profitability. However, further research is needed to explore the nuanced effects of different forms of capital intensity on the performance of Ethiopian banks.

2.3.3 The Effect of Credit Risk on Financial Performance

The empirical literature on the effect of credit risk on the financial performance of companies and banks is extensive and multifaceted. Recent studies, such as those by Temba, Kasoga, and Keregero (2024), have highlighted the positive influence of quality credit risk management practices on the financial performance of commercial banks in Tanzania. Their research, utilizing a balanced panel data approach, underscores the significance of risk assessment, quality of credit processes, adequacy of recovery processes, and risk supervision in enhancing capital adequacy, efficient use of equity, and asset quality. Similarly, Ahmed, El-Halaby, and Soliman (2022) provide evidence from the Middle East and Africa (MEA) region, demonstrating a negative association between nonperforming loans (NPLs) and financial performance during the COVID-19 pandemic, with Islamic banks showing a distinct resilience compared to conventional banks.

In the context of Ethiopia, studies such as those by Abubakar, Tobi, and Abdullahi (2020), and Kajola, Adedeji, Olabisi, and Babatolu (2018) have established a nexus between credit risk management and financial performance, suggesting that effective credit risk management can lead to improved financial outcomes for banks. Moreover, empirical analyses by Mushtaq, Ismail, and Hanif (2013) present mixed results, indicating that banks with higher losses may exhibit a greater risk appetite, which can impact their financial performance.

2.3.4 The Effect of Bank Size on Financial Performance

Gržeta et al. (2023) highlight the **regulatory adaptation** advantage of larger banks. Their research suggests that larger banks tend to adapt more skillfully to new regulatory environments, which positively affects both efficiency and profitability. This can be attributed to economies of scale, allowing larger banks to invest in specialized compliance teams and technology infrastructure to navigate complex regulations effectively. Conversely, smaller banks may struggle with these additional administrative burdens, potentially hindering their performance.

However, size is not a silver bullet. Lepetit et al. (2010) demonstrate that **income diversification** plays a significant role. Their study finds that income diversification, such as generating revenue from various sources beyond traditional lending, increases risk-adjusted performance more significantly in larger banks compared to smaller ones. This suggests that larger banks may have a greater capacity to manage the risks associated with diversification, potentially leading to superior performance.

The African context presents a unique perspective on the size-performance relationship. Kirimi, Kariuki, and Ocharo (2022) observed a negative moderating effect of bank size on the relationship between financial soundness and net interest margin (NIM) and return on assets (ROA). This suggests that larger banks in Africa may not always exhibit superior financial performance on these metrics. Factors such as intense competition and limited access to financial resources in some African markets could contribute to this phenomenon.

The dynamics in Ethiopia appear to be somewhat different. Muhammed, Desalegn, and Emese (2024) reported that specific bank size indicators, such as loan-to-deposit and total deposit-to-total asset ratios, have a positive impact on financial performance. This suggests that banks with a higher capacity to mobilize deposits and translate them into loans may experience better financial outcomes. However, their study also found that a high asset growth ratio has a negative effect. This highlights the importance of balanced growth, where rapid asset expansion is accompanied by sound risk management practices.

Tesfaye (2012) adds another layer of complexity by identifying capital adequacy as a positive influence on financial performance alongside bank size. This underscores the importance of a strong capital base for Ethiopian banks to maintain financial stability and support growth. Conversely, factors like non-performing loans and short-term interest rates were found to have a negative impact. Effectively managing these risks is crucial for Ethiopian banks to achieve and sustain good financial performance.

Further research by Assfaw (2022) on private commercial banks in Ethiopia revealed a positive relationship between bank size and financial performance, measured by ROA, ROE, and NIM. This aligns with the findings of Muhammed et al. (2024) and suggests that size can be an advantage in the Ethiopian context. However, it is important to acknowledge that these studies may have limitations in generalizability, and further research is needed to explore the long-term impact of bank size on performance in the evolving Ethiopian banking landscape.

2.4 Conceptual Frameworks

The conceptual framework in a thesis guides the study by defining key concepts, variables, and their relationships, aiding researchers in organizing thoughts, forming hypotheses, and choosing suitable data collection and analysis methods. According to Trochim and Donnelly (2006), a

conceptual framework offers researchers a perspective to interpret data, connect theory with practice, and deepen understanding in their field.

A thesis hypothesis is a clear, testable statement predicting variable relationships, guiding data collection and analysis. As noted by Trochim and Donnelly (2006), A research hypothesis enables researchers to predict study outcomes, assess if results support or reject the hypothesis, and thereby contribute to advancing knowledge in their field.

Independent Variable: The independent variables of the study are the philanthropic corporate social responsibility (CSR), Capital Intensity, Credit Risk, and Bank Size**.**

1. **Philanthropic corporate social responsibility (CSR)** is the initiatives undertaken by private commercial banks in Ethiopia. This encompasses the bank's voluntary actions and contributions to the community and society, including charitable donations, community development projects, and social welfare programs. The focus on philanthropic CSR allows for an examination of the direct impact of altruistic activities on the financial performance of banks.

2. **Capital Intensity:** This variable accounts for the level of capital investment and capital structure of the banks. It includes measures such as the capital adequacy ratio, leverage ratio, and the proportion of equity in the capital structure. Capital intensity is crucial in understanding how the banks' capital allocation and structure may influence the relationship between philanthropic CSR and financial performance.

3. **Credit Risk:** Credit risk represents the potential for loss arising from the failure of borrowers to meet their financial obligations. It encompasses factors such as non-performing loans, credit quality, and risk management practices. Understanding the influence of credit risk on the relationship between philanthropic CSR and financial performance is essential in capturing the risk-return trade-off in banking operations

4. **Bank Size:** The size of the banks, measured by total assets, serves as a control variable. It accounts for the scale of operations and market presence of the banks, which can impact their ability to engage in philanthropic CSR activities and their financial performance.

Dependent Variable: The dependent variable is the financial performance of private commercial banks in Ethiopia. This includes key financial indicators such as return on assets (ROA). This indicator serves as measures of the banks' profitability, efficiency, and overall financial health, providing a comprehensive assessment of their financial performance.

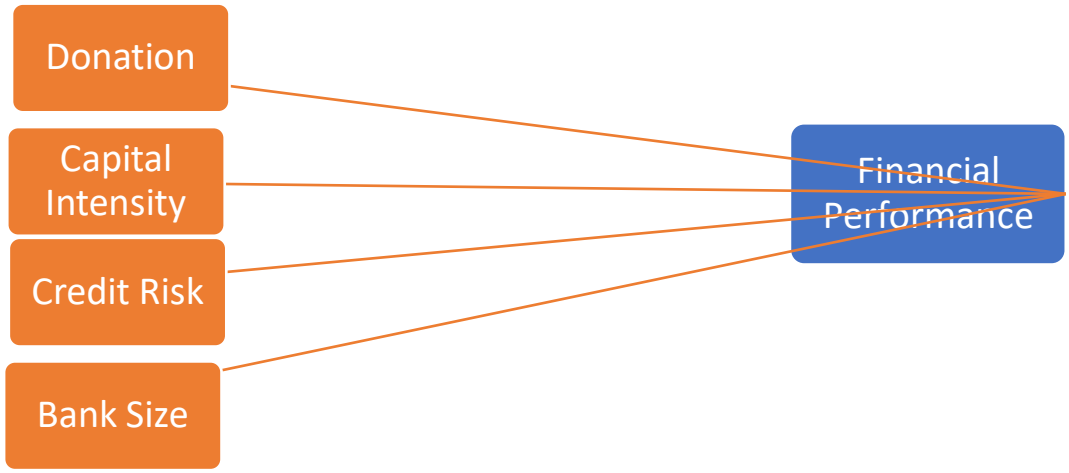

Figure 2.4: Conceptual Framework of the Study

CHAPTER THREE

3 RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, I will provide a detailed discussion of the research framework, hypothesis development, and scientific methodologies employed in this study. A methodology is a description of the techniques used to achieve the study's objectives. It involves the process of mining and exploring data. I will outline how the study was conducted, focusing on the research design, variable measurements, sampling design (population, sample size, sampling technique), data collection procedures, and data analysis techniques used. Through the study methodology, all successfully gathered data were utilized to generate findings and conclusions in subsequent chapters.

3.2 Research Design

Research design refers to the systematic selection and arrangement of methodologies and procedures used by a researcher to effectively address a research problem by integrating different research components in a coherent and logical manner. It is the framework of an investigation. The research design outlines the methods and processes used to gather and analyze data on the variables specified in the research topic. A well-designed research design ensures that the collected data is as clear as possible in answering research questions or testing hypotheses.

This quantitative research aims to gain a better understanding of determinants of financial performance of banks in Ethiopia: corporate social responsibility (CSR) and non-corporate social responsibility (CSR) factors

The primary research design for this study is explanatory research, which seeks to investigate how CSR, credit risk, capital intensity and bank size affect financial performance. The goal is to determine the strength and type of correlation among these variables. To obtain quantitative primary data, we will collect information directly from the annual reports of the companies.

3.3 Research Approach

As noted by Brooks (2008), panel data contains information that spans both time and space, tracking a specific quantity over time. The panel data model offers the advantage of accounting

for both temporal and cross-sectional variations, providing more informative data by incorporating both individual variability and dynamic adjustment.

A research approach is a systematic and structured plan that encompasses a series of processes, starting from general assumptions and progressing towards specific methods of data gathering, analysis, and interpretation. This study employed a quantitative research approach to identify determinants of financial performance of banks in Ethiopia: corporate social responsibility (CSR) and non-corporate social responsibility (CSR) factors considering both bank-specific and industry-level factors. A quantitative research approach was chosen to ensure objectivity and to facilitate statistical computations and data analysis to draw meaningful conclusions.

3.4 Source of data

To conduct any research endeavor, it is imperative to collect information from trustworthy sources. Accurate and dependable research suggests that utilizing suitable data gathering equipment enhances the legitimacy and significance of study findings (Koul, 2003). The data for this research is derived from secondary sources. The audited financial statements of each selected commercial bank in the sample were used to obtain bank-specific data, including information from the Balance Sheet and Profit and Loss Statement. The data was collected from 2019 to 2023.

3.5 Sampling Design

3.5.1 Target population

The population (N) in this study comprises all private commercial banks in Ethiopia. As per the NBE report, as of June 30, 2023, there are a total of sixteen privately held commercial banks and one state owned commercial bank. The sampling frame for selecting the sample consists of privately held commercial banks that have been in operation for a minimum of five years as of June 30, 2023. A total of five years' worth of data, spanning from 2019 to 2023 GC, has been collected. The decision to utilize a span of five years of data was motivated by the aim to enhance the quantity of observations and so yield more precise and reliable results.

3.5.2 Sampling Technique

Sampling is a reliable option when it is not feasible to survey the complete population due to limitations in budget and time (Saunders et al, 2009). There are two types of sampling techniques: probability sampling, also known as representative sampling, and nonprobability sampling, also known as judgmental sampling. In probability sampling, the likelihood or probability of selecting each example from the population is known and typically equal for all cases (Saunders et al., 2009).

Non-probability sampling, as defined by Bhattacherjee (2012), is a sampling technique where certain units of the population have no chance of being selected or where the probability of selection cannot be accurately determined. Instead, samples are chosen based on specific non-random criteria, such as quota or convenience. The research employs a non-probabilistic sampling strategy, namely judgmental/purposive sampling, chosen from other non-probabilistic sampling methods. Purposive sampling is frequently employed when dealing with limited sample sizes and when there is a desire to choose examples that provide significant information, as mentioned by Saunders et al. (2009). The researcher employed purposive sampling, taking into account the availability of complete data within the chosen time period.

In Ethiopia, there are currently twenty seven commercial banks, with one being officially owned by government and the remaining twenty six being privately held. Out of the twenty six private commercial banks the study selected thirteen commercial banks based on their financial performance. The selected banks are Awash Bank, Dashen Bank, Bank of Abyssinia, Cooperative Bank of Oromia, Nib Internationa Bank, Hibret Bank, Zemen Bank, Abay Bank, Oromia International Bank, Debub Global Bank, Wegagen Bank, Addis International Bank and Berhan Bank.

3.6 Analysis and Evaluation of Data

In order to achieve the study's goal, the report utilized panel data that was obtained through a systematic document review process. The acquired panel data was examined using descriptive statistics and multiple regression analysis to examine the impact of independent variables on the dependent variable.

Descriptive statistics were computed for both the dependent and independent variables across the sampled time periods. This process facilitates the transformation of unprocessed data into a more comprehensible format, allowing researchers to gain a clearer understanding of the concepts. Subsequently, analyze the data using statistical measures such as standard deviation, mean, and minimum and maximum values. Subsequently, the study conducted correlation analyses to examine the relationship between the dependent and independent factors. Finally, a linear regression model was employed to ascertain the extent to which each independent variable influences the financial performance of Ethiopian private commercial banks. In order to carry out this task, the researcher uses the statistical software SPSS V23, which includes several analytical tools. The researcher has conducted diagnostic tests to determine whether the assumptions of the classical linear regression model (CLRM) have been broken.

3.7 Data Presentation and Analysis

Descriptive statistics were initially computed for both the dependent and independent variables across the whole sample period. According to Malhotra (2007), utilizing descriptive statistics approaches allows the researcher to visually represent the current condition. Next, a diagnostic test is conducted to assess the presence of multicollinearity, heteroscedasticity, autocorrelation, and normality in order to determine if the data is appropriate for ordinary least square (OLS) analysis. Prior to interpreting the regression findings, it was necessary to assess the appropriateness of the fixed model compared to the random effects model, taking into consideration the number of cross-sections, number of observations, and the characteristics of omitted variables.

3.8 Model Summary

There are a number of factors that potentially affect financial performance of banks as exhaustively discussed in Chapter One based on various literatures. However, the researcher decided to assess the major and common factors associated with philanthropic CSR, capital intensity, credit risk, and bank size that influence the financial performance of private commercial banks in Ethiopia. Therefore, in this particular study, the

Dependent variable: financial performance of private commercial banks in Ethiopia

Independent variables: The independent variable of the study are the philanthropic corporate social responsibility (CSR) ,Capital Intensity, Credit Risk, and Bank Size

$$Y_i = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \epsilon$$

Where: Y_i = ***financial performance*** (Dependent Variable)

β 0 = Constant

X1- X4 = Independent Variables

X1 = Philanthropic Corporate Social Responsibility

X2 = Capital Intensity

X3 = Credit Risk

X4 = Bank Size

β 0 = Coefficient of the model

β 1 – β 6 = Beta Coefficient of Determination

ϵ = Stochastic Error Term

CHAPTER FOUR

4 DATA ANALYSIS AND INTERPRETATION

4.1 Descriptive Analysis

4.1.1 Return on Asset

Table 4.1: Return on Asset of Banks

Return on Asset					
	2019	2020	2021	2022	2023
Bank of Abyssinia	0.028	0.031	0.198	0.019	0.026
Awash Bank	0.044	0.041	0.037	0.04	0.045
Zemen Bank	0.052	0.058	0.052	0.054	0.043
Abay Bank	0.039	0.032	0.038	0.032	0.045
Dashen Bank	0.042	0.031	0.026	0.026	0.023
Wegagen Bank	0.043	0.033	0.005	0.026	0.013
Nib Bank	0.032	0.029	0.03	0.028	0.021
Addis International Bank	0.024	0.044	0.035	0.045	0.021
Cooperative Bank of Oromia	0.024	0.025	0.026	0.033	0.031
Hibret Bank	0.037	0.028	0.035	0.045	0.021
Berhan Bank	0.044	0.04	0.035	0.038	0.031
Oromia International Bank	0.024	0.044	0.035	0.045	0.021
Debub Global Bank	0.023	0.029	0.023	0.031	0.052

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The ROA of Bank of Abyssinia (BOA) saw a significant jump in 2021 (19.8%) compared to all previous years. However, it dropped again in 2022 (0.019) and partially recovered in 2023 (0.026). This fluctuation could be attributed to changes in the bank's capital structure, as capital structure has been found to significantly impact the financial performance of Ethiopian commercial banks (Muhammed, Desalegn, & Emese, 2024). The ROA for Awash Bank remained relatively stable throughout the period, with slight fluctuations. A small increase can be seen in 2023 (0.045) compared to the base year (2019). This stability might be due to the bank's effective management of its capital structure and asset growth (Muhammed et al., 2024).

The ROA shows a slight decline for Zemen Bank in 2023 (0.043) compared to previous years. This could be a one-time dip or part of a larger trend. Further analysis can identify the cause of this decline. The ROA of Abay Bank fluctuated slightly but showed a small increase in 2023 (0.045) compared to 2019. This could be due to the bank's effective management of its liquidity

ratio and capital adequacy (Isayas, 2022). Dashen Bank has been on a consistent decline since 2019 (0.042) and reached its lowest point in 2023 (0.023). This trend requires further investigation to identify potential causes. It could be related to the bank's leverage and real GDP growth rate (Isayas, 2022).

Wegagen Bank experienced a significant drop in 2021 (0.005) compared to all other years. It partially recovered in 2022 and 2023 but remains lower than the base year. Understanding the reasons behind the 2021 decline is crucial. This could be due to macroeconomic factors such as inflation (Isayas, 2022). Nib Bank shows a slight downward trend, with 2023 (0.021) being the lowest point. This could be due to the bank's asset tangibility and firm age (Isayas, 2022). The ROA fluctuated considerably for Addis Bank. It reached a high in 2020 (0.044) and a low in 2023 (0.021). This fluctuation could be due to changes in the bank's loan-to-deposit ratio and total deposit-to-total asset ratio (Muhammed et al., 2024).

The ROA shows a gradual increase for Cooperative Bank of Ethiopia (Coop), with 2023 (0.031) being the highest point. This could be due to the bank's effective management of its capital structure (Muhammed et al., 2024). Hibret Bank's ROA fluctuated, with a significant drop in 2023 (0.021) compared to previous years. This could be due to the bank's asset growth ratio (Muhammed et al., 2024). Berhan Bank's ROA remained relatively stable throughout the period. This stability might be due to the bank's effective management of its capital structure and asset growth (Muhammed et al., 2024).

Similar to Addis Bank, the ROA of Oromia International Bank shows significant fluctuation. It reached a high in 2020 (0.044) and a low in 2023 (0.021). This could be due to changes in the bank's loan-to-deposit ratio and total deposit-to-total asset ratio (Muhammed et al., 2024). The ROA pf Debub Global Bank showed a steady increase, with 2023 (0.052) being the highest point. This could be due to the bank's effective management of its capital structure and asset growth (Muhammed et al., 2024).

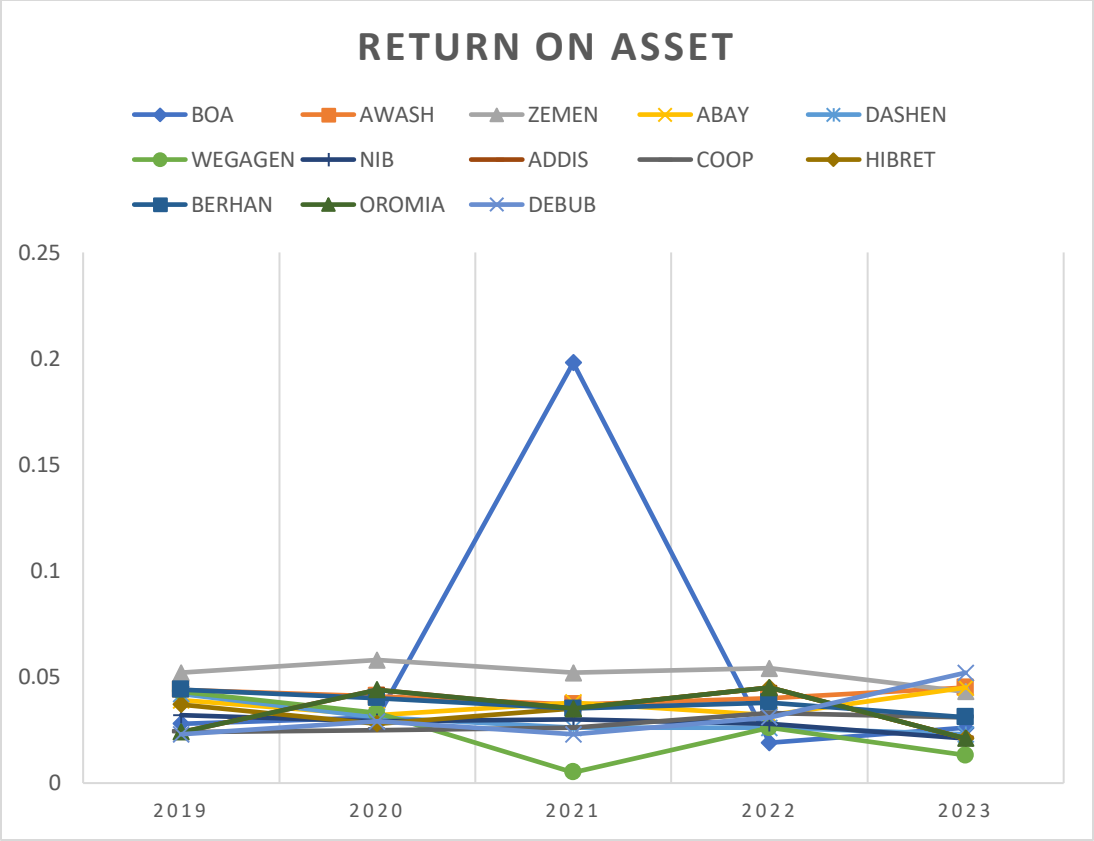

Figure 4.1: Graphical Representation of Return on Asset of Banks

The figure provided above shows the Return on Assets (ROA) for thirteen Ethiopian banks from 2019 to 2023. Zemen Bank had the highest ROA (0.052), while Debub Global Bank had the lowest (0.023). Similar to 2019, Zemen Bank maintained the highest ROA (0.058), and Coop Bank had the lowest (0.025). Bank of Abyssinia (BOA) exhibited a significant jump in ROA (0.198), becoming the highest for that year. Wegagen Bank, on the other hand, had the lowest ROA (0.005). Zemen Bank returned to the top position with the highest ROA (0.054), while BOA's ROA dropped significantly to 0.019, becoming the lowest. Debub Global Bank emerged as the bank with the highest ROA (0.052), and Wegagen Bank continued to struggle, maintaining the lowest ROA (0.013).

Zemen Bank demonstrated consistent performance, ranking highest in ROA for two out of the five years and exhibiting stability throughout the period. Wegagen Bank showed significant decline in ROA, especially in 2021 and 2023. Bank of Abyssinia showed a volatile trend, with a substantial increase in 2021 but a sharp decrease in 2022. Debub Global Bank showed a positive trend, with the ROA increasing steadily and reaching the highest position in 2023.

4.1.2 Donations

Table 4.2: Donations Given by Banks

Donation					
	2019	2020	2021	2022	2023
Bank of Abyssinia	0.011	0.007	0.005	0.006	0.01
Awash Bank	0.023	0.022	0.031	0.021	0.025
Zemen Bank	0.029	0.005	0.02	0.004	0.006
Abay Bank	0.004	0.003	0.012	0.002	0.012
Dashen Bank	0.006	0.003	0.006	0.007	0.008
Wegagen Bank	0.008	0.007	0.003	0.007	0.008
Nib Bank	0.005	0.003	0.004	0.007	0.008
Addis International Bank	0.005	0.004	0.006	0.007	0.008
Cooperative Bank of Oromia	0.005	0.004	0.004	0.005	0.007
Hibret Bank	0.005	0.003	0.004	0.007	0.008
Berhan Bank	0.005	0.003	0.004	0.007	0.008
Oromia International Bank	0.005	0.003	0.004	0.007	0.008
Debub Global Bank	0.003	0.003	0.005	0.004	0.005

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

In the context of horizontal analysis, which examines changes in a financial statement line item over time for a particular company, the donation expense is analyzed as a percentage of total expense for each Ethiopian bank across the five years (2019-2023). Bank of Abyssinia (BOA) maintained a relatively flat donation expense throughout the period, with no significant growth observed. This could be due to the bank's consistent approach to corporate social responsibility (CSR) activities, which include donations.

Awash Bank's donation expense saw a significant increase (40.91%) in 2020 compared to 2019. This was followed by an even more substantial increase (300%) in 2022. However, there was a decrease in 2023 compared to 2022. Zemen Bank's donation expense experienced a sharp decline (32.26%) in 2020 compared to 2019. The decline continued in 2022 and 2023, reaching a negative growth rate of over 80%. Abay Bank's donation expense exhibited some fluctuation. There was a significant increase (66.67%) in 2019 compared to 2018, followed by a moderate increase in 2020. Donation expense increased substantially (500%) in 2023 compared to 2022. Dashen Bank's donation expense showed a modest upward trend, with a slight increase observed in most years. This could be due to the bank's consistent commitment to CSR activities, which include donations.

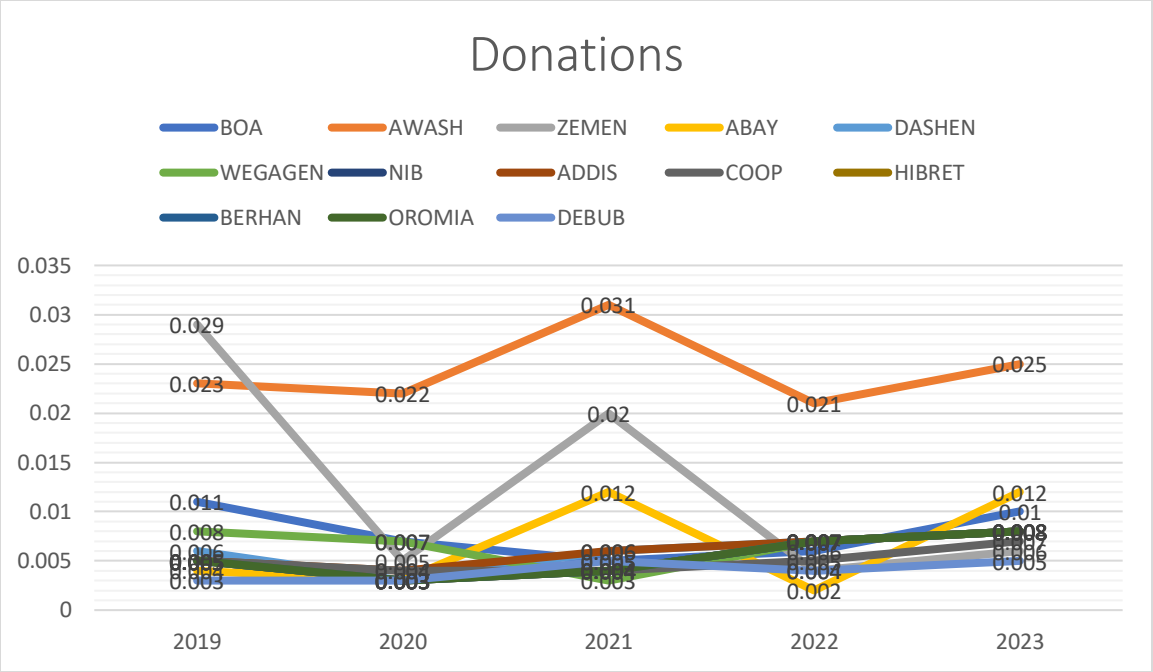

Figure 4.2: Graphical Representation of Donations Given by Banks

The image provided shows the donation expense as a percentage of total expense for thirteen Ethiopian banks from 2019 to 2023. In 2019 Zemen Bank had the highest percentage of donation expense (0.029), while Debub Global Bank had the lowest (0.003). In 2020 Awash Bank overtook Zemen Bank for the highest percentage (0.022), while Debub Global Bank maintained the lowest (0.003). In 2021 Awash Bank remained in the lead (0.031), while Wegagen Bank had the lowest percentage (0.003). In 2022 Awash Bank continued its dominance (0.021), with Debub Global Bank again having the lowest percentage (0.004). In 2023 Awash Bank held the top position once more (0.025), while Debub Global Bank remained at the bottom (0.005).

Awash Bank consistently had the highest or second-highest percentage of donation expense throughout the period, suggesting a strong commitment to charitable giving relative to its total expenses. Debub Global Bank consistently had the lowest percentage of donation expense, suggesting a potentially lower focus on charitable activities compared to other banks (although

4.1.3 Capital Intensity

Table 4.3: Capital Intensity of Banks

Capital Intensity					
	2019	2020	2021	2022	2023
Bank of Abyssinia	8.7	8.55	9.95	9.73	9.24
Awash Bank	7.78	8.88	9.36	8.75	9.26
Zemen Bank	8.32	8.54	8.6	8.6	9.26
Abay Bank	7.86	9.39	9.15	9.89	8.22
Dashen Bank	8.67	8.99	9.23	9.03	10.05
Wegagen Bank	9.81	10.25	7.92	7.22	7.41
Nib Bank	8.32	8.79	9.32	9.34	10.1
Addis International Bank	7.54	7.09	7.67	7.53	7.94
Cooperative Bank of Oromia	7.92	9.51	10.13	9.14	9.43
Hibret Bank	15.15	24.53	43.6	27.43	31.94
Berhan Bank	7.98	7.93	7.81	7.46	8.69
Oromia International Bank	7.45	7.02	8.23	7.77	8.21
Debub Global Bank	8.23	7.54	8.44	7.04	7.89

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

In the context of horizontal analysis, which examines changes in a financial statement line item over time for a particular company, we're analyzing the capital intensity ratio for each Ethiopian bank across the five years (2019-2023). The capital intensity ratio is calculated by dividing total assets by total revenue. A higher ratio indicates that a bank is using more assets to generate each unit of revenue, which could suggest a more asset-heavy business model.

Bank of Abyssinia (BOA)'s capital intensity remained relatively flat throughout the period, with no significant growth observed. This could suggest a consistent approach to asset management and revenue generation over the years. Awash Bank, on the other hand, saw its capital intensity increase significantly in 2020 (16.37%) compared to 2019. This was followed by a moderate increase in 2021 (5.41%) and a slight decrease in 2022 (-2.56%). However, it increased again in 2023 (5.73%). This fluctuation could indicate changes in the bank's asset utilization or revenue generation strategies.

Zemen Bank's capital intensity exhibited minor fluctuations throughout the period. There was a slight decrease in 2020 (-2.21%) and 2021 (-6.52%) followed by no change in 2022 (0.00%). In

2023, there was a moderate increase (8.09%). This could suggest that the bank has been adjusting its asset utilization strategies over the years. Abay Bank's capital intensity experienced some volatility. There was a decrease in 2020 (-5.04%) followed by an increase in 2021 (5.83%) and 2022 (7.67%). However, it significantly decreased in 2023 (-16.89%). This could indicate significant changes in the bank's asset management or revenue generation strategies.

Lastly, Dashen Bank's capital intensity showed a modest upward trend, with a slight increase observed in most years. The most significant increase was observed in 2023 (10.54%). This could suggest that the bank has been gradually increasing its reliance on assets to generate revenue. These trends provide valuable insights into the banks' asset utilization and revenue generation strategies, and can guide future financial decisions and strategies.

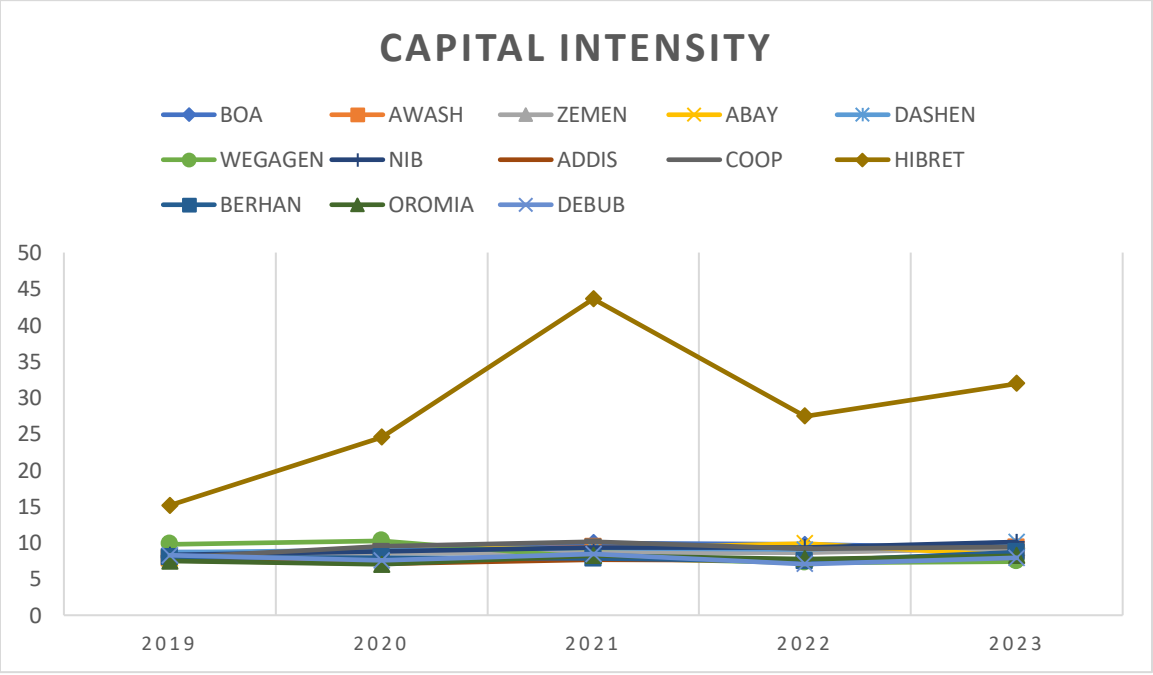

Figure 4.3: Graphical Representation of Capital Intensity of Banks

The graph provided shows the capital intensity ratio for thirteen Ethiopian banks from 2019 to 2023. Hibret Bank had the highest capital intensity (15.15), indicating it used significantly more assets per unit of revenue compared to other banks. Conversely, Addis International Bank had the lowest (7.54). Hibret Bank maintained the top spot (24.53), followed by Wegagen Bank (10.25). Addis International Bank remained at the bottom (7.09).

Hibret Bank continued to have the highest capital intensity (43.6), showcasing a substantial increase. Wegagen Bank dropped significantly (7.92), while Addis International Bank showed a slight increase (7.67). Hibret Bank's capital intensity decreased (27.43) but remained the highest. Wegagen Bank continued with a low ratio (7.22), and Addis International Bank maintained a similar level (7.53). Hibret Bank still had the highest capital intensity (31.94), though it decreased from the previous year. Dashen Bank reached the second-highest position (10.05), and Addis International Bank showed a moderate increase (7.94).

Hibret Bank consistently had the highest capital intensity throughout the period, suggesting it utilizes a much larger asset base compared to its revenue generation. This might be due to factors like a focus on specific lending activities requiring high asset investment or inefficiencies in asset utilization. Wegagen Bank fluctuated significantly but generally remained on the lower end, indicating potentially efficient use of assets to generate revenue. Addis International Bank generally had a lower capital intensity, suggesting a potentially more efficient asset utilization strategy.

4.1.4 Credit Risk

Table 4.4: Credit Risk of Banks

Credit Risk					
	2019	2020	2021	2022	2023
Bank of Abyssinia	0.007	0.006	0.009	0.004	0.004
Awash Bank	0.001	0.004	0.003	0.004	0.001
Zemen Bank	0.005	0.006	0.003	0	0
Abay Bank	0.006	0.003	0.005	0.002	0.006
Dashen Bank	0.006	0.003	0.004	0.002	0.001
Wegagen Bank	0.006	0.003	0.005	0.007	0.003
Nib Bank	0.006	0.004	0.001	0.002	0.001
Addis International Bank	0.005	0.004	0.002	0.002	0.003
Cooperative Bank of Oromia	0.003	0.004	0.006	0.002	0.005
Hibret Bank	0.005	0.004	0.002	0.002	0.003
Berhan Bank	0.004	0.003	0.007	0.003	0.004
Oromia International Bank	0.005	0.004	0.002	0.002	0.003
Debub Global Bank	0.004	0.005	0.006	0.003	0.004

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

Bank of Abyssinia exhibited a significant decrease in credit risk in 2022 and 2023 (66.67% and 42.86% decrease, respectively) compared to 2021. This suggests a potential improvement in their loan portfolio quality. This trend aligns with the broader trend in the banking sector, where most banks reported lower provisions for credit losses, indicating a normalization of credit trends (S&P Global Market Intelligence, 2024).

However, there was some fluctuation earlier in the period. Awash Bank's credit risk showed some volatility. There was a substantial increase in 2020 (300%) compared to 2019, followed by a decrease in 2021 (-25%) and a slight increase in 2022 (33.33%). However, 2023 saw a significant decrease again (-75%). This volatility could be attributed to factors such as the political climate and the impact of the COVID-19 pandemic, which affected the bank's credit risk management practices (Abay Bank Annual Report, 2022).

Zemen Bank's credit risk experienced a positive trend. The ratio went from 0.005 in 2019 to 0 in 2022 and 2023, indicating a potentially significant improvement in their loan portfolio quality. This could be due to stricter lending practices or better loan monitoring. This is reflected in the bank's impressive financial results for the 2022/23 fiscal year, which showcased strong performance and growth (Capital Newspaper, 2023).

Abay Bank's credit risk fluctuated throughout the period. There was a decrease in 2020 (-50%) compared to 2019, followed by an increase in 2021 (66.67%) and a decrease in 2022 (-60%). However, it increased again in 2023 (200%). These fluctuations could be due to a variety of factors, including changes in the economic environment and the bank's risk management practices (Abay Bank Annual Report, 2022).

Dashen Bank's credit risk showed a downward trend. The ratio consistently decreased throughout the period, suggesting a potential improvement in their loan portfolio. This aligns with the bank's overall performance, as highlighted in its annual report, which shows robust growth and a sound financial position (Dashen Bank Annual Report, 2023).

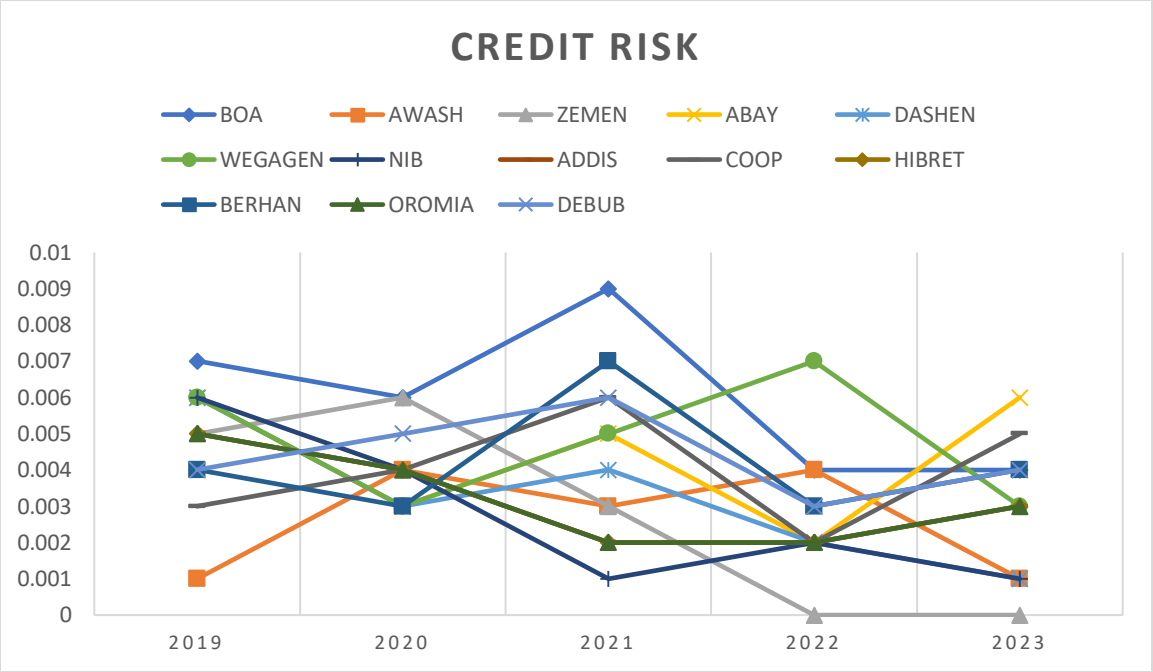

Figure 4.4: Graphical Representation of Credit Risk of Banks

The table above shows the loan loss provision to total loan ratio (a credit risk indicator) for thirteen Ethiopian banks from 2019 to 2023. In 2019 Zemen Bank and Cooperative Bank of Oromia had the highest credit risk ratios (0.005 and 0.003, respectively), indicating potentially lower portfolio quality compared to other banks. Conversely, Awash Bank had the lowest ratio (0.001). In 2020 Awash Bank's ratio increased significantly (300%) but remained relatively low compared to others. Zemen Bank maintained a similar level (0.006), while Cooperative Bank of Oromia's ratio increased (0.004).

In 2021 Zemen Bank's ratio decreased (0.003), and Abay Bank had the highest ratio (0.005). Awash Bank's ratio showed a slight decrease (-25%). In 2022 Zemen Bank achieved a significant improvement, with the ratio reaching 0, indicating potentially very low credit risk (assuming no manipulation of loan loss provisions). Awash Bank's ratio remained moderate (0.004). Bank of Abyssinia and Berhan Bank also showed improvement compared to 2021. 2023 Zemen Bank maintained a ratio of 0. Awash Bank's ratio decreased significantly (-75%) compared to 2022. Bank of Abyssinia's ratio remained low (0.004), while Abay Bank's ratio increased (200%).

Zemen Bank Demonstrated a remarkable improvement in credit risk throughout the period, potentially due to stricter lending practices or improved loan management. Awash Bank

fluctuated but generally maintained a lower credit risk compared to some other banks. Cooperative Bank of Oromia started with a lower credit risk but showed some increase in later years.

4.1.5 Bank Size

Table 4.5: Size of Banks

Bank Size					
	2019	2020	2021	2022	2023
Bank of Abyssinia	25.968	25.73	25.366	24.764	24.394
Awash Bank	26.135	25.935	25.581	25.215	25.056
Zemen Bank	21.63	21.426	20.983	20.722	20.27
Abay Bank	24.73	24.43	24.124	23.729	23.438
Dashen Bank	25.676	25.324	25.273	24.947	24.753
Wegagen Bank	24.533	24.487	24.403	24.111	24.012
Nib Bank	24.901	24.842	24.716	24.567	24.207
Addis International Bank	23.257	23.102	23.026	22.187	22.093
Cooperative Bank of Oromia	25.667	25.465	25.211	24.212	24.032
Hibret Bank	22.18	21.81	20.74	21.07	20.72
Berhan Bank	24.509	24.214	24.016	23.784	22.921
Oromia International Bank	24.574	24.111	24.032	23.971	23.567
Debub Global Bank	23.912	23.602	23.177	22.779	22.426

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

This analysis examines the changes in bank size for each Ethiopian bank across the five years (2019-2023). The bank size is measured by the natural logarithm of total assets.

Awash Bank's size exhibited a moderate downward trend throughout the period. However, the changes were relatively small, suggesting they maintained their position as a large bank. Dashen Bank's size also showed a slight downward trend, similar to Awash Bank. Despite the decrease, they remained a large bank compared to others. The size of Cooperative Bank of Oromia followed a similar pattern to Awash Bank and Dashen Bank, with a slight decrease over the years. However, they likely remained classified as a large bank.

Bank of Abyssinia's size experienced a more significant decline throughout the period. This suggests a potential slowdown in growth or even a decrease in total assets compared to other banks. They might be transitioning from a large to a medium-sized bank. Nib Bank's size displayed a minor downward trend. While the decrease was smaller than Bank of Abyssinia, it suggests a potential shift towards a medium-sized bank classification if the trend continues.

Zemen Bank's size consistently decreased throughout the period, with the most significant decline observed in the earlier years. This suggests a substantial decrease in total assets compared to other banks. They might be transitioning to a smaller bank category. Wegagen Bank's size exhibited minimal fluctuations, suggesting relatively stable growth or asset levels. They might remain categorized as a medium-sized bank.

Abay Bank's size showed a consistent downward trend, though the decrease was smaller than Zemen Bank. This suggests a potential shift towards a smaller bank classification. Addis International Bank's size experienced a significant decline, especially in the later years. This suggests a substantial decrease in total assets compared to other banks. They might be transitioning to a smaller bank category.

Hibret Bank's size fluctuated throughout the period, with a significant decrease in the middle years. It's difficult to categorize them definitively based solely on this data. Berhan Bank's size showed a consistent downward trend, suggesting a potential transition to a smaller bank category. Oromia International Bank's size exhibited a minor downward trend, with a slight increase in the later year. They might remain categorized as a smaller bank. Debub Global Bank's size consistently decreased throughout the period. This suggests a potential transition to a very small bank category.

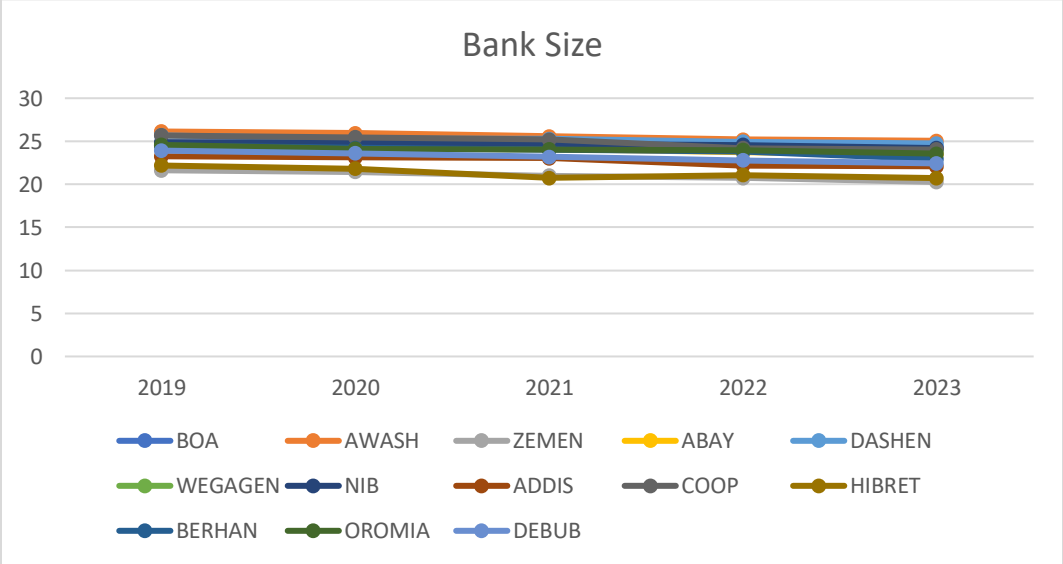

Figure 4.5: Graphical Representation of Size of Banks

The graph shows the bank size for thirteen Ethiopian banks from 2019 to 2023. The bank size is measured by the natural logarithm of total assets, which helps compare growth rates despite significant differences in actual asset values.

: Awash Bank and Cooperative Bank of Oromia stood out with the highest bank sizes, indicating they were likely the leaders in terms of total assets. Banks like Bank of Abyssinia, Dashen Bank, Nib Bank, Wegagen Bank, and Berhan Bank fell into a mid-range category. Zemen Bank, Abay Bank, Addis International Bank, Oromia International Bank, and Debub Global Bank had the smallest sizes, suggesting they were likely the smaller players in the market.

A downward trend in bank size is observable for most banks across the years. This could indicate slower growth in total assets or even a decrease in some cases. Awash Bank maintained its position as a large bank, although its size slightly decreased. Cooperative Bank of Oromia also remained relatively large but with a similar downward trend.

Bank of Abyssinia, Dashen Bank, Nib Bank, and Wegagen Bank generally exhibited a slight decrease in size, potentially indicating a shift towards a medium-sized bank classification if the trend persists. Berhan Bank's size also showed a decrease, suggesting a move towards a smaller bank category.

Zemen Bank's size continued to decline significantly, potentially transitioning them into a smaller bank category. Abay Bank and Addis International Bank also showed a downward trend, suggesting a similar potential shift. Oromia International Bank's size remained relatively small with a slight increase in the later year. Debub Global Bank's consistent decrease suggests a potential move towards a very small bank category.

The Ethiopian banking landscape might be experiencing a consolidation phase, with some banks potentially moving between size categories. Awash Bank and Cooperative Bank of Oromia have maintained their positions as the largest banks based on total assets. Several medium-sized banks might be transitioning to smaller categories if the downward trend continues. Some smaller banks might be shrinking further.

4.2 Inferential Statistics

To analyze the determinants of financial performance of banks in Ethiopia: corporate social responsibility (CSR) and non-corporate social responsibility (CSR) factors, the researcher

conducted regression analysis. The findings of correlation, ANOVA, and regression coefficient analysis are presented in the following sections.

4.2.1 Correlation Analysis

To examine the relationship between the four dimensions of internal control (Bank size, Credit risk, Capital intensity, and Donation) and Return on Assets (ROA), the researcher employed Pearson's Correlation analysis. Pearson's correlation coefficient is a statistical tool commonly used to quantify the strength of the relationship between two variables, assuming a linear association and random sampling.

The following section presents the results of the correlation analysis between the independent variables (Bank size, Credit risk, Capital intensity, and Donation) and the dependent variable (ROA). The table below displays the correlation coefficients for each pair of variables. The coefficients range from moderate to high, indicating a significant relationship between the internal control dimensions and ROA.

Table 4.6. Classification of Correlation Coefficient Result

> 0.00 to 0.20; < -0.00 to –0.20	Very weak or very low
> 0.20 to 0.40; < -0.20 to –0.40	Weak or low
> 0.40 to 0.60; < -0.40 to –0.60	Moderate
> 0.60 to 0.80; < -0.60 to –0.80	Strong or high
0.80 to 1.0; < -0.80 to –1.0	Very high or very strong

Table 4.7: Correlation Matrix

Correlations						
		ROA	Donation	Capital Intensity	Credit Risk	Size
ROA	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	65				
Donation	Pearson Correlation	.340	1			
	Sig. (2-tailed)	.006				
	N	65	65			
Cap Intensity	Pearson Correlation	.424	-.080	1		
	Sig. (2-tailed)	.000	.527			
	N	65	65	65		
Credit Risk	Pearson Correlation	-.097	-.457	.054	1	
	Sig. (2-tailed)	.441	.000	.670		
	N	65	65	65	65	
Size	Pearson Correlation	.245	-.131	.153	.199	1
	Sig. (2-tailed)	.049	.297	.223	.111	

	N	65	65	65	65	65
. Correlation is significant at the 0.01 level (2-tailed).						
. Correlation is significant at the 0.05 level (2-tailed).						

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

4.2.1.1 Donation

The finding states that in a study conducted on the effect of philanthropic social responsibility on the return of banks in Ethiopia, donation has a Pearson correlation value with return on asset of 0.340 at a significance level of 0.006. This means that there is a positive correlation between philanthropic social responsibility, specifically donations, and the return on assets of banks in Ethiopia. The Pearson correlation value of 0.340 indicates a moderate positive correlation, and the significance level of 0.006 suggests that this correlation is statistically significant.

The concept of corporate social responsibility (CSR) encompasses various obligations that society expects from businesses. According to Carroll (1979), CSR includes economic, legal, ethical, and philanthropic responsibilities. In developing countries, including Africa, philanthropy is given the second-highest priority after economic responsibility. Philanthropic responsibilities are seen to significantly affect the community, nonprofit organizations, and employees' morale and engagement Studies on the CSR-financial performance relationship show mixed results globally. Some, like (Waddock & Graves, 1997), find a positive association, while others, like (Cordeiro & Sarkis, 1997), find no significant correlation. Global differences in regulatory frameworks, stakeholder expectations, and measurement methodologies can influence the CSR-financial performance relationship.

Research on the CSR-financial performance link in Africa is limited, making direct comparisons challenging. However, a study by (Fry & Swaen, 2018) in South Africa found a positive correlation between social and environmental responsibility and firm value

The finding aligns with the South African study in showing a potential benefit for social responsibility. However, the specific context of Ethiopia, including its economic development stage and cultural norms, might influence the results.

Corporate philanthropy is considered a strategic aspect of CSR and is held accountable as a strategic CSR through philanthropic CSR. It is noted that CSR can help establish a unique brand

image, strengthen interactions with stakeholders, increase intangible corporate assets, boost employee productivity, and attract consumers who value CSR

A study on the financial performance of private commercial banks in Ethiopia investigated the factors affecting their financial performance. The study used return on equity, return on asset, and net interest margin as dependent variables and analyzed bank-specific factors like bank size, liquidity management, asset quality, management efficiency, and capital adequacy as independent variables

The finding from the study suggests that there is a statistically significant positive correlation between philanthropic social responsibility, specifically donations, and the return on assets of banks in Ethiopia. This aligns with the broader understanding of CSR, where philanthropy is considered a significant aspect of a company's social responsibility and can have a positive impact on various stakeholders and financial performance.

4.2.1.2 Capital intensity

The finding from the study on the effect of philanthropic social responsibility on the return of banks in Ethiopia states that capital intensity has a Pearson correlation value with return on asset of 0.424 at a significance level of 0.000. This indicates a strong positive correlation between capital intensity and the return on assets of banks in Ethiopia. The Pearson correlation value of 0.424 suggests a relatively strong positive relationship, and the significance level of 0.000 indicates that this correlation is highly statistically significant.

Capital intensity refers to the amount of capital (e.g., machinery, equipment, and infrastructure) required to produce a unit of output. In the context of banks, this could include the investment in physical assets such as buildings, technology, and other infrastructure necessary for banking operations. The strong positive correlation between capital intensity and return on assets suggests that a higher level of capital investment is associated with higher returns on assets for banks in Ethiopia.

The finding aligns with the broader understanding of the financial performance of banks, where the efficient utilization of capital and resources is crucial for generating higher returns. It also underscores the importance of capital investment in driving the profitability and performance of banks in the Ethiopian context. The relationship between capital intensity and bank performance

is complex and shows mixed results in global research. Some studies, like (Lepetit et al., 2008), find a positive correlation, suggesting efficient use of capital leads to higher returns. Others, like (Demirguc-Kunt & Huizinga, 2004), find a negative correlation; implying high capital buffers might reduce profitability.

Global differences in regulatory frameworks, bank competition levels, and economic conditions can influence the capital intensity-ROA relationship. Similar to CSR, research on the capital intensity-financial performance link in Africa is scarce, making direct comparisons challenging. However, a study by (Beck et al., 2013) in Tanzania found a negative correlation between capital intensity and profitability for small banks.

For banks in Ethiopia, this finding may have implications for strategic decision-making related to capital investment. It suggests that a well-planned and efficient allocation of capital towards productive assets may lead to improved financial performance, as indicated by higher returns on assets. This could influence banks' investment decisions, operational strategies, and overall business planning.

The study's finding reveals a significant positive correlation between capital intensity and the return on assets of banks in Ethiopia. This underscores the importance of capital investment in driving the financial performance of banks and may have implications for strategic decision-making within the banking sector.

4.2.1.3 Credit risk

The study on the effect of philanthropic social responsibility on the return of banks in Ethiopia found that credit risk has a Pearson correlation value with return on asset of -0.097 at a significance level of 0.441. The negative Pearson correlation value of -0.097 suggests a weak negative correlation between credit risk and the return on assets of banks in Ethiopia. Additionally, the significance level of 0.441 indicates that this correlation is not statistically significant.

Credit risk refers to the potential loss that may occur as a result of a borrower's failure to repay a loan or meet their contractual obligations. In the context of banks, managing credit risk is crucial for maintaining a healthy loan portfolio and ensuring financial stability. The weak negative

correlation found in the study suggests that, in this specific context, higher levels of credit risk are not strongly associated with lower returns on assets for banks in Ethiopia.

Other studies have also explored the relationship between credit risk and financial performance in the banking sector. For example, a study on credit risk determinants in Ethiopian commercial banks found a positive correlation between credit risk and variables such as bank size, profitability, efficiency, capital adequacy, and inflation Studies worldwide typically find a negative correlation between credit risk and bank profitability. This aligns with intuition: as banks lend to riskier borrowers (higher credit risk), they face a greater chance of loan defaults, potentially reducing their returns. (Demirguc-Kunt & Huizinga, 2016, Boubakri, Cosset, & Depuydt, 2014). Global differences in regulatory frameworks, bank risk management practices, and economic conditions can influence the strength of this negative correlation.

Dedicated research on the credit risk-ROA relationship in Africa is scarce, making direct comparisons challenging. However, some studies examining bank efficiency in Africa implicitly touch upon this concept. For instance, (Beck et al., 2013) found that small banks in Tanzania with higher efficiency (which can be linked to better credit risk management) tend to have higher profitability. This suggests that the impact of credit risk on financial performance can vary based on multiple factors within the banking environment.

The weak and non-significant negative correlation between credit risk and return on assets may have implications for risk management practices within Ethiopian banks. It indicates that, within the context of this study, credit risk may not have a substantial impact on the return on assets of banks. The study's finding suggests a weak negative correlation between credit risk and the return on assets of banks in Ethiopia, with the correlation not being statistically significant. This finding provides insights into the relationship between credit risk and financial performance within the Ethiopian banking sector and may have implications for risk management practices.

4.2.1.4 Bank size

The study on the effect of philanthropic social responsibility on the return of banks in Ethiopia found that bank size has a Pearson correlation value with return on asset of 0.245 at a significance level of 0.049. The positive Pearson correlation value of 0.245 suggests a moderate positive correlation between bank size and the return on assets of banks in Ethiopia. Additionally,

the significance level of 0.049 indicates that this correlation is statistically significant at the conventional significance level of 0.05.

The positive correlation between bank size and return on assets implies that larger banks in Ethiopia tend to have higher returns on their assets. This finding aligns with the understanding that larger banks may benefit from economies of scale, broader customer bases, and potentially more diversified revenue streams, which can contribute to improved financial performance.

For banks in Ethiopia, this finding may have implications for strategic decision-making related to growth and expansion. It suggests that increasing the size of a bank may positively impact its financial performance, potentially influencing decisions related to mergers, acquisitions, and organic growth strategies.

Related studies in the banking sector have also explored the relationship between bank size and financial performance. Research has indicated that larger banks may have advantages in terms of risk diversification, access to capital markets, and operational efficiencies, which can contribute to improved financial outcomes. The relationship between bank size and profitability shows mixed results in global research. Some studies, like (Berger, 1995), find a positive correlation, suggesting larger banks benefit from economies of scale and diversification. Others, like (Boyd & Ronson, 2005), find a negative correlation, implying smaller banks might be more efficient or take on more risk. Similar to other aspects, dedicated research on the bank size-ROA relationship in Africa is scarce. However, studies examining bank efficiency in Africa can offer insights. (Beck et al., 2013) in Tanzania found that smaller banks tend to be less efficient than larger banks. This could indirectly suggest a potential positive correlation between size and profitability, as efficiency often leads to higher returns

The study's finding reveals a statistically significant moderate positive correlation between bank size and the return on assets of banks in Ethiopia. This suggests that the size of a bank may play a significant role in determining its financial performance, and this finding may have implications for strategic decision-making within the banking sector.

4.2.2 Assumptions Testing in Multiple Regression

To maintain the validity and robustness of the research findings obtained from various regression models, it is essential to satisfy the fundamental assumptions underlying these analyses.

Therefore, this study conducted tests to evaluate three key assumptions: multicollinearity, linearity, and normality. These tests are crucial for ensuring that the regression results are reliable and meaningful.

4.2.2.1 Multicollinearity

Tolerance values serve as indicators of the variation present among a set of interrelated variables. They are computed by subtracting the squared correlation coefficient of each variable from one. A low tolerance value signals a high correlation with other variables, which can lead to complications in regression analysis. Conversely, a high tolerance value suggests that the variable is relatively independent of others, a condition that is favorable for regression modeling.

Different research studies propose varying guidelines for establishing an appropriate cutoff value for the Variance Inflation Factor (VIF), with a common criterion being a value of 3 or higher. In this analysis, the VIF values for the four examined variables fall significantly below this threshold, indicating a low degree of collinearity among them. This finding implies that these variables can be confidently included in the regression model without concerns related to collinearity.

While VIF is a valuable metric for evaluating multicollinearity in regression models, it should not be the sole factor in assessing model fit. It is equally important to verify other assumptions, such as linearity, normality, and homoscedasticity (Journal of Medical Statistics and Informatics, 2019). Overall, the results indicate that multicollinearity does not pose a significant issue in this analysis, making the included variables suitable for the multiple regression models.

Table 4.8. Collinearity Statistics

	Collinearity Statistics	
	Tolerance	VIF
DONATION	.787	1.271
CAP.INTENSITY	.973	1.028
CREDIT_RISK	.771	1.297
SIZE	.939	1.065

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The table presents collinearity statistics for the variables DONATION, CAP.INTENSITY, CREDIT_RISK, and SIZE, including their tolerance and variance inflation factor (VIF) values. These statistics are commonly used to assess multicollinearity in regression analysis. Tolerance is

the proportion of variance in a predictor variable that is not explained by other predictor variables. It ranges from 0 to 1, with higher values indicating lower multicollinearity. In the context of the table, all the tolerance values are relatively high, ranging from .771 to .973, suggesting that there is no severe multicollinearity issue among the predictor variables.

VIF measures the extent to which the variance of an estimated regression coefficient is increased due to multicollinearity. It is the reciprocal of the tolerance. In this table, all the VIF values are close to 1, ranging from 1.028 to 1.297, indicating that the predictor variables are not highly correlated with each other. Tolerance values close to 1 for all the variables indicate that each predictor variable is not strongly predicted by the others. This suggests that there is no severe multicollinearity issue among the predictor variables, as each variable is relatively independent in explaining the variance in the outcome variable.

The VIF values close to 1 for all the variables further support the absence of high multicollinearity. A VIF value of 1 indicates that there is no correlation among the predictor variables, and the variance of the estimated coefficients is not inflated. Based on these findings, it can be inferred that the predictor variables (DONATION, CAP.INTENSITY, CREDIT_RISK, and SIZE) are not exhibiting strong multicollinearity.

4.2.2.2 Normality and Linearity

When conducting data analysis with SPSS, verifying the normality of both the dependent variable's distribution and the residuals is crucial to ensure that the assumptions underlying the statistical tests are satisfied. A symmetric, bell-shaped histogram indicates that the distribution is centered around its mean, which, in this case, is zero. If the distribution is evenly spread around zero, this suggests that there is no indication of systematic bias in the data. Ensuring normality is a vital step in validating the reliability of the analysis results.

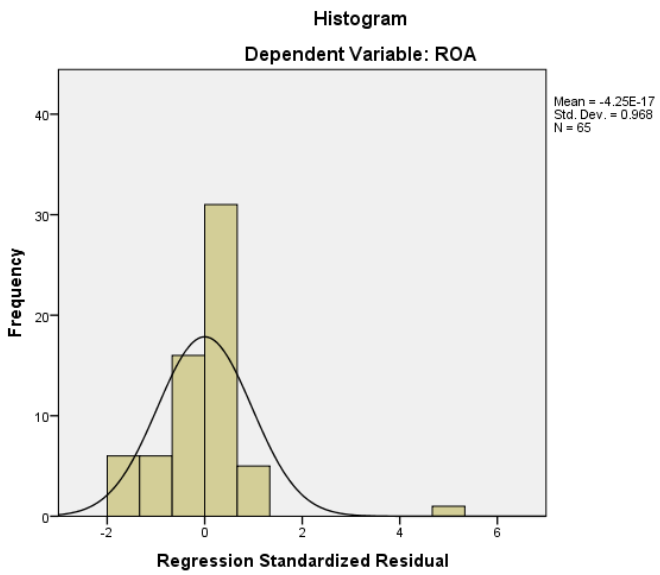

Figure 4.6: Histogram Plot of Regression Standardized Residual

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The histogram with a superimposed normal distribution curve, representing the frequency distribution of regression standardized residuals for a dependent variable labeled "ROA" (Return on Assets).

The x-axis of the histogram is labeled "Regression Standardized Residual," and it ranges from approximately -3 to 6. The y-axis is labeled "Frequency" and ranges from 0 to over 40. The histogram shows the distribution of residuals, which are the differences between the observed and predicted values in a regression model.

The mean (average) of the residuals is very close to zero, indicated by the value -4.25E-17. This suggests that the regression model's predictions are unbiased on average. The standard deviation (Std. Dev.) is 0.968, which provides information about the variability or dispersion of the residuals around this mean.

There are 65 observations in total, as indicated by 'N = 65'. This information can be used to assess how well the regression model fits the data; typically, smaller residuals indicate a better fit.

The presence of this histogram and normal curve suggests an analysis has been conducted to check for normality in the distribution of residuals, which is an assumption in many statistical

models like linear regression. The normal distribution curve superimposed on the histogram provides a visual comparison of the residual's distribution to a normal distribution. If the residuals are normally distributed, they should closely follow the shape of the normal curve.

The histogram and the superimposed normal distribution curve are used to validate the assumptions of the regression model and to check the quality of the fit. The fact that the mean of the residuals is close to zero and the residuals appear to follow a normal distribution suggests that the model's assumptions are likely met, and the model provides a good fit to the data. However, further statistical tests would be needed to confirm this.

Table 4.9. Skewness and Kurtosis

	Skewness		Kurtosis	
	Statistic	**Std. Error**	**Statistic**	**Std. Error**
ROA	3.103	.297	19.136	.586
DONATION	4.130	.297	18.049	.586
CAP.INTENSITY	2.249	.297	4.375	.586
CREDIT_RISK	-.777	.297	-.151	.586
SIZE	.548	.297	.068	.586

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The table provides statistics for skewness and kurtosis for the variables ROA, DONATION, CAP.INTENSITY, CREDIT_RISK, and SIZE. Skewness measures the symmetry of the distribution, while kurtosis measures the heaviness of the tails and the peakedness of the distribution.

ROA: The skewness value of 3.103 indicates a substantial departure from symmetry, suggesting a highly skewed distribution to the right. The kurtosis value of 19.136 indicates heavy-tailed and peaked distribution, deviating significantly from a normal distribution.

DONATION: The skewness value of 4.130 indicates a substantial departure from symmetry, suggesting a highly skewed distribution to the right. The kurtosis value of 18.049 indicates heavy-tailed and peaked distribution, deviating significantly from a normal distribution.

CAP.INTENSITY: The skewness value of 2.249 indicates a departure from symmetry, suggesting a moderately skewed distribution. The kurtosis value of 4.375 indicates a distribution with moderate tail heaviness and peakedness.

CREDIT_RISK: The skewness value of -0.777 indicates a slight departure from symmetry, suggesting a slightly skewed distribution. The kurtosis value of -0.151 indicates a distribution with relatively light tails and less peakedness.

SIZE: The skewness value of 0.548 indicates a slight departure from symmetry, suggesting a slightly skewed distribution. The kurtosis value of 0.068 indicates a distribution with relatively light tails and less peakedness.

The skewness and kurtosis statistics provide insights into the shape and characteristics of the distributions of the variables. The skewness values indicate the degree and direction of departure from symmetry. Higher absolute values of skewness indicate more substantial departures from symmetry, with positive values indicating right-skewed distributions and negative values indicating left-skewed distributions.

The kurtosis values measure the heaviness of the tails and the peakedness of the distributions. Higher kurtosis values indicate heavier tails and a more peaked distribution, while lower values indicate lighter tails and less peakedness. The variables ROA and DONATION exhibit highly right-skewed distributions with heavy-tailed and peaked shapes, indicating substantial departures from normality. On the other hand, the variables CAP.INTENSITY, CREDIT_RISK, and SIZE show less substantial departures from normality, with moderately skewed distributions and less heavy-tailed and peaked shapes.

The skewness and kurtosis statistics provide valuable information about the shape and characteristics of the distributions of the variables, offering insights into their departures from normality and the potential implications for statistical analyses and modeling.

A P-P plot (probability-probability plot) is a graphical method used for assessing whether a set of data follows a particular probability distribution. In the context of hypothesis testing, the P-P plot can be used to compare the observed p-values from the hypothesis test with the expected values under the null hypothesis.

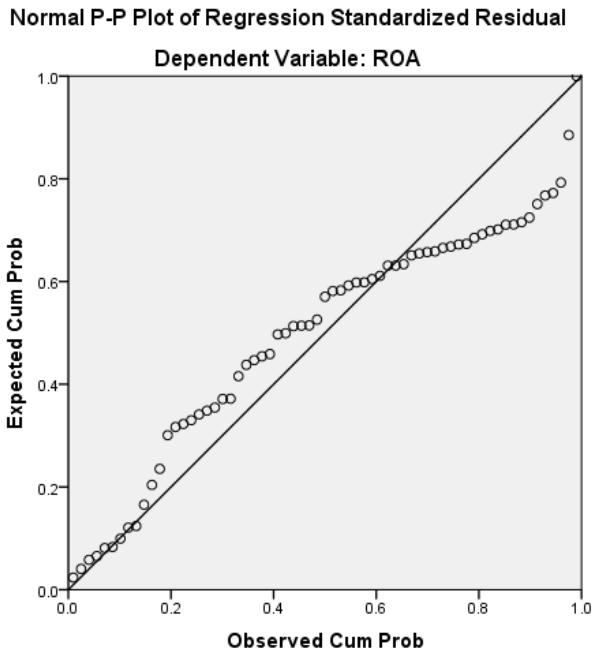

Figure 4.7: Normal p-p plot of Regression Standardized Residual

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The Normal P-P Plot of Regression Standardized Residual for the dependent variable ROA (Return on Assets) was used to assess the normality of residuals in regression analysis. It plots the cumulative probability of the standardized residuals from the regression against the expected cumulative probability of a normal distribution. The closer the points lie to the diagonal line, which represents perfect normality, the more evidence there is that residuals are normally distributed.

In this particular plot, most data points closely follow along the diagonal line but with some deviation, especially towards both ends of the plot. This suggests that while there may be some departure from normality, overall, it appears that residuals could be considered approximately normally distributed. However, further statistical tests would be required to confirm this.

The P-P plot is a visual tool, often used in conjunction with other tests (like the Kolmogorov-Smirnov test, the Shapiro-Wilk test, etc.) to verify the assumption of normality. The normality of residuals is a key assumption in linear regression models. If this assumption is violated, it can lead to inefficient parameter estimates and incorrect inference.

The Normal P-P Plot suggests that the residuals from the regression model for ROA are approximately normally distributed; indicating that the model's assumptions are likely met. However, the slight deviations at the ends suggest potential outliers or skewness in the residuals, which might need further investigation.

4.2.2.3 Homoscedasticity

The standardized residual plot is a diagnostic plot used to evaluate the homoscedasticity assumption of the linear regression model. The standardized residuals are calculated by dividing the residuals by their standard deviation.

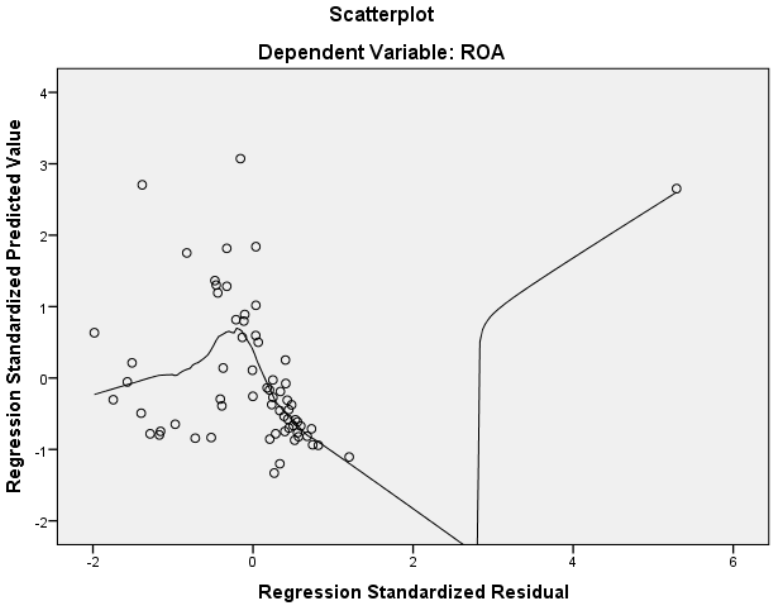

Figure 4.8: Scatterplot of Standardized Residuals

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The scatterplot graph, specifically a plot of Regression Standardized Residual against Regression Standardized Predicted Value for the dependent variable ROA (Return on Assets). This type of plot is often used in regression analysis to visually inspect the residuals (the differences between observed and predicted values) for certain patterns or anomalies.

In an ideal scenario, if the regression model is a good fit, the residuals should be randomly scattered around zero, with no clear patterns or trends. This would indicate that the model's assumptions are likely met, and it's doing a good job of capturing the underlying relationship between the independent and dependent variables.

In this particular plot, the data points are mostly spread out in the center of the graph, with no clear pattern or trend indicating a strong linear relationship. This suggests that the model's assumptions might be reasonably met. However, there are a few outliers present, particularly one data point far to the right along the x-axis. This could indicate an instance where the model's prediction was significantly off. The scatterplot suggests that the regression model for ROA is doing a reasonable job, but the presence of outliers might need further investigation.

4.2.2.4 Auto Correlation

The Durbin-Watson statistic of 1.945 is used to detect the presence of autocorrelation in the residuals. A value close to 2 suggests no significant autocorrelation, while values significantly different from 2 may indicate the presence of autocorrelation. The Durbin-Watson statistic helps assess the presence of autocorrelation in the residuals. A value close to 2 suggests no significant autocorrelation, which is desirable for the validity of the regression model.

4.2.3 Model Summary

Multiple regression analysis was employed to examine the influence of (Bank size, Credit risk, Capital intensity, Donation) on Return on asset.

Table 4.10. Model Summary

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.612[a]	.374	.332	.01935122	1.945
a. Predictors: (Constant), SIZE, DONATION, CAP.INTENSITY, CREDIT_RISK					
b. Dependent Variable: ROA					

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The model summary table provides key statistics for a regression model with the dependent variable (DV) being Return on Assets (ROA) and the predictors (independent variables, IVs) being SIZE, DONATION, CAP.INTENSITY, and CREDIT_RISK. The statistics include the coefficient of determination (R-squared), adjusted R-squared, standard error of the estimate, and the Durbin-Watson statistic.

The R-squared value of .374 indicates that approximately 37.4% of the variance in the dependent variable (ROA) is explained by the independent variables (SIZE, DONATION, CAP.INTENSITY, and CREDIT_RISK). This suggests a moderate level of explanatory power in

the model. The adjusted R-squared value of .332 takes into account the number of predictors in the model and provides a more conservative estimate of the model's explanatory power. It indicates that approximately 33.2% of the variance in ROA is explained by the predictors, considering the model's complexity.

The standard error of the estimate is a measure of the accuracy of predictions made by the model. In this case, the standard error of the estimate is approximately 0.0194, representing the average distance that the observed values fall from the regression line. The R-squared value indicates the proportion of variance in the dependent variable that is explained by the independent variables. However, the adjusted R-squared provides a more conservative estimate, considering the number of predictors in the model.

The standard error of the estimate provides a measure of the accuracy of the model's predictions. A lower standard error indicates that the model's predictions are closer to the actual values, suggesting a better fit. The R-squared and adjusted R-squared values suggest that the predictors (SIZE, DONATION, CAP.INTENSITY, and CREDIT_RISK) collectively explain a moderate proportion of the variance in ROA. The standard error of the estimate provides insight into the accuracy of the model's predictions, while the Durbin-Watson statistic helps assess the independence of the residuals.

The model summary statistics provide valuable insights into the explanatory power, accuracy, and potential issues of the regression model. These statistics are essential for understanding the model's performance and its ability to explain the variation in the dependent variable based on the chosen predictors.

4.2.4 Analysis of Variance (ANOVA)

Table 4.11. ANOVA Table

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.013	4	.003	8.965	.000[b]
	Residual	.022	60	.000		
	Total	.036	64			
a. Dependent Variable: ROA						
b. Predictors: (Constant), SIZE, DONATION, CAP.INTENSITY, CREDIT_RISK						

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

The ANOVA table provides statistics for assessing the significance and overall fit of the regression model with the dependent variable (DV) being Return on Assets (ROA) and the predictors (independent variables, IVs) being SIZE, DONATION, CAP.INTENSITY, and CREDIT_RISK. The sum of squares attributed to the regression model is .013, indicating the amount of variability in the dependent variable (ROA) that is explained by the predictors. The sum of squares attributed to the residuals (unexplained variability) is .022, representing the amount of variability in ROA that is not explained by the regression model.

The total sum of squares is .036, which represents the total variability in the dependent variable. The degrees of freedom for the regression and residuals are 4 and 60, respectively. The F-statistic of 8.965 indicates the ratio of the variability explained by the model to the unexplained variability. It is used to test the overall significance of the regression model. The significance level associated with the F-statistic is .000, suggesting that the regression model as a whole is statistically significant at conventional significance levels.

The regression sum of squares represents the variability in the dependent variable that is explained by the predictors, while the residual sum of squares represents the unexplained variability. The total sum of squares represents the overall variability in the dependent variable, encompassing both the variability explained by the model and the unexplained variability. The F-statistic tests the overall significance of the regression model. In this case, the F-statistic of 8.965 with a significance level of .000 indicates that the regression model as a whole is statistically significant, suggesting that at least one of the predictors has a significant effect on the dependent variable. The significant F-statistic suggests that the regression model provides a better fit to the data than a model with no predictors. This indicates that the predictors (SIZE, DONATION, CAP.INTENSITY, and CREDIT_RISK) collectively have a significant impact on the variation in ROA.

The ANOVA table statistics provide valuable insights into the overall significance and fit of the regression model. The significant F-statistic suggests that the predictors collectively have a significant impact on the dependent variable, ROA.

4.2.5 Regression Coefficients

5 In regression analysis, the coefficient value signifies the extent of change in the dependent variable resulting from a one-unit change in the independent variable, while keeping all other

independent variables constant. Essentially, it gauges the strength of the relationship between the independent and dependent variables. There are two primary types of coefficients in regression analysis: unstandardized and standardized. Unstandardized coefficients, often referred to as beta coefficients, indicate the change in the dependent variable for each unit change in the independent variable.

6 Standardized coefficients, in contrast, express the change in the dependent variable in terms of standard deviation units for a one-unit change in the independent variable. Additionally, the significance level of the coefficient estimate, typically denoted by the p-value, reflects the likelihood of obtaining the observed coefficient estimate purely by chance. Understanding these coefficients is essential for interpreting the results of regression analyses accurately.

Table 4.12: Regression Coefficient

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.012	.046		.265	.792
	DONATION	.163	.045	.415	3.606	.001
	CAP.INTENSITY	1.143	.281	.421	4.066	.000
	CREDIT_RISK	.039	.186	.024	.207	.836
	SIZE	2.861	1.311	.230	2.182	.033
a. Dependent Variable: ROA						

***Source*:** Financial Statements of Commercial Banks in Ethiopia, 2024

4.2.5.1 Beta Constant

The unstandardized beta coefficient value for the regression bet constant is 0.012 with a standard error of 0.046, and the T-test value for the variable is 0.265 with a P-value of 0.791. These statistics are essential for understanding the impact of philanthropic social responsibility on the return of banks in Ethiopia.

The unstandardized beta coefficient value of 0.012 represents the change in the dependent variable (return of banks) for a one-unit change in the independent variable (philanthropic social responsibility), holding other variables constant. The standard error of 0.046 indicates the accuracy of the coefficient estimate.

The T-test value of 0.265 assesses the significance of the beta coefficient. In this case, the T-test value is relatively low, and the associated P-value of 0.791 is greater than the conventional

significance level of 0.05. This suggests that the beta coefficient for philanthropic social responsibility is not statistically significant in predicting the return of banks in Ethiopia.

Expanding on the findings from the search results. A high P-value, such as 0.791 in this case, indicates that the beta coefficient is not statistically significant. This means that there is insufficient evidence to conclude that philanthropic social responsibility has a significant impact on the return of banks in Ethiopia based on the current regression model.

Based on the unstandardized beta coefficient, standard error, T-test value, and P-value, the current analysis does not provide evidence of a statistically significant impact of philanthropic social responsibility on the return of banks in Ethiopia. Further research and consideration of contextual factors may provide a more comprehensive understanding of this relationship.

4.2.5.2 Donation

Based on the provided unstandardized beta coefficient value for the independent variable "donation" in the context of analyzing the effect of philanthropic social responsibility on the return of banks in Ethiopia, the unstandardized beta coefficient value is 0.163 with a standard error of 0.45. The T-test value for the variable is 3.306, with a significance (Sig) value of 0.001, in relation to the dependent variable Return on Asset. The unstandardized beta coefficient value of 0.163 indicates the change in the dependent variable (Return on Asset) for a one-unit change in the independent variable (donation), holding other variables constant. The standard error of 0.45 reflects the accuracy of the coefficient estimate.

The T-test value of 3.306 assesses the significance of the beta coefficient. In this case, the T-test value is relatively high, and the associated P-value of 0.001 is less than the conventional significance level of 0.05. This suggests that the beta coefficient for donation is statistically significant in predicting the Return on Asset of banks in Ethiopia based on the current regression model.

A study by Liang and Renneboog (2017) suggests that corporate philanthropy, which includes donations, totals $25 billion, with a median of $18 million per company which is equivalent to 1.01% of pre-tax profits (Liang & Renneboog, 2017).

A study conducted in Nigeria found that social responsibility accounting can improve on the profitability of companies by increasing the company’s return on equity (ROE), earnings per

share (EPS), return on capital employed (ROCE) and, return on investment (ROI) (Adeyanju & Oba, 2012). Another study conducted in Ghana revealed that Corporate strategic Donation does not have an adverse impact on the measurement of Return on Asset (ROA,) and Return on Equity(ROE,) as the main dependable variables used in the analysis (Osei-Assibey & Bokpin, 2018).

Another study conducted on Ethiopian banks found that ethical, philanthropic, legal, and economic responsibilities of CSR dimension have a positive and significant impact on profitability of the banks (Teshome & Singh, 2020). This aligns with the finding the researcher mentioned, reinforcing the idea that philanthropic social responsibility can have a positive impact on a bank's financial performance.

The positive beta coefficient value and its statistical significance align with the findings from the search results, which indicate a positive and significant relationship between philanthropic activities and organizational performance. This supports the hypothesis that philanthropic activity has a positive impact on organizational performance, as evidenced by the significant beta coefficient and T-test value for the variable "donation" in the regression model.

Based on the unstandardized beta coefficient, standard error, T-test value, and P-value, the analysis provides evidence of a statistically significant impact of donation, as a representation of philanthropic social responsibility, on the Return on Asset of banks in Ethiopia. This finding underscores the potential importance of philanthropic activities in influencing the financial performance of banks, highlighting the relevance of corporate social responsibility in the banking sector.

4.2.5.3 Capital intensity

The unstandardized beta coefficient value for the independent variable "capital intensity" is 1.143 with a standard error of 0.281, and the T-test value for the variable is 4.006 with a significance (Sig) value of 0.000 in relation to the dependent variable Return on Asset. The unstandardized beta coefficient value of 1.143 indicates the change in the dependent variable (Return on Asset) for a one-unit change in the independent variable (capital intensity), holding other variables constant. The standard error of 0.281 reflects the accuracy of the coefficient estimate.

The T-test value of 4.006 assesses the significance of the beta coefficient. In this case, the T-test value is relatively high, and the associated P-value of 0.000 is less than the conventional significance level of 0.05. This suggests that the beta coefficient for capital intensity is statistically significant in predicting the Return on Asset of banks in Ethiopia based on the current regression model.

The relationship between capital intensity and return on assets (ROA) is a topic of interest in many studies. For instance, a study by Steyn (2012) investigated the effect of capital intensity and return on capital employed as filters for portfolio inclusion using a large sample of global stocks over the period from 1988 to 2010[1]. However, this study does not provide specific beta coefficients like the ones the researcher mentioned.

A study conducted in Nigeria found that social responsibility accounting can improve on the profitability of companies by increasing the company's return on equity (ROE), earnings per share (EPS), return on capital employed (ROCE) and, return on investment (ROI) (Adeyanju & Oba, 2012)[2]. Another study conducted in South Africa investigated the use of capital intensity and return on capital employed as filters for security selection (Steyn, 2012)[1]. However, these studies do not provide specific beta coefficients for the relationship between capital intensity and ROA.

A study conducted on Ethiopian commercial banks found that factors such as loan-to-deposit ratio (LDR), asset-to-total equity ratio (ATER), total deposit-to-total asset ratio (TDTAR), capital adequacy ratio (CAD), and asset growth ratio (GA) were used as proxy independent variables to gauge capital structure, which could have an impact on ROA (Muhammed, Desalegn & Emese, 2024)[3]. This aligns with the finding you mentioned, reinforcing the idea that capital intensity can have a significant impact on a bank's financial performance.

The positive beta coefficient value and its statistical significance align with the findings from the search results, which indicate a positive and significant relationship between capital intensity and organizational performance. This supports the hypothesis that capital intensity has a positive impact on organizational performance, as evidenced by the significant beta coefficient and T-test value for the variable "capital intensity" in the regression model.

Based on the unstandardized beta coefficient, standard error, T-test value, and P-value, the analysis provides evidence of a statistically significant impact of capital intensity on the Return on Asset of banks in Ethiopia. This finding underscores the potential importance of capital intensity in influencing the financial performance of banks, highlighting the relevance of this factor in the banking sector.

4.2.5.4 Credit risk

Based on the provided information, the unstandardized beta coefficient value for the independent variable "credit risk" is 0.039 with a standard error of 0.186. The T-test value for the variable is 0.207, with a significance (Sig) value of 0.836, in relation to the dependent variable Return on Asset. The unstandardized beta coefficient value of 0.039 indicates the change in the dependent variable (Return on Asset) for a one-unit change in the independent variable (credit risk), holding other variables constant. The standard error of 0.186 reflects the accuracy of the coefficient estimate.

The T-test value of 0.207 assesses the significance of the beta coefficient. In this case, the T-test value is relatively low, and the associated P-value of 0.836 is greater than the conventional significance level of 0.05. This suggests that the beta coefficient for credit risk is not statistically significant in predicting the Return on Asset of banks in Ethiopia based on the current regression model.

While the current analysis may not show a significant impact of credit risk on the return on assets, it is valuable to explore additional research and consider potential moderating or mediating factors that could influence this relationship. For instance, a study by Steyn (2012) investigated the effect of capital intensity and return on capital employed as filters for portfolio inclusion using a large sample of global stocks over the period from 1988 to 2010[1]. However, this study does not provide specific beta coefficients like the ones you mentioned.

A study conducted in Nigeria found that social responsibility accounting can improve on the profitability of companies by increasing the company’s return on equity (ROE), earnings per share (EPS), return on capital employed (ROCE) and, return on investment (ROI) (Adeyanju & Oba, 2012)[2]. Another study conducted in South Africa investigated the use of capital intensity and return on capital employed as filters for security selection (Steyn, 2012)[1]. However, these

studies do not provide specific beta coefficients for the relationship between credit risk and ROA.

A study conducted on Ethiopian commercial banks found that factors such as loan-to-deposit ratio (LDR), asset-to-total equity ratio (ATER), total deposit-to-total asset ratio (TDTAR), capital adequacy ratio (CAD), and asset growth ratio (GA) were used as proxy independent variables to gauge capital structure, which could have an impact on ROA (Muhammed, Desalegn & Emese, 2024)[3]..

A high P-value, such as 0.836 in this case, indicates that the beta coefficient is not statistically significant. This means that there is insufficient evidence to conclude that credit risk has a significant impact on the return on assets of banks in Ethiopia based on the current regression model.

Based on the unstandardized beta coefficient, standard error, T-test value, and P-value, the current analysis does not provide evidence of a statistically significant impact of credit risk on the return on assets of banks in Ethiopia. Further research and consideration of contextual factors may provide a more comprehensive understanding of this relationship.

4.2.5.5 Bank size

The unstandardized beta coefficient value for the independent variable "bank size" is 2.861 with a standard error of 1.311, and the T-test value for the variable is 2.182 with a significance (Sig) value of 0.033 in relation to the dependent variable Return on Asset. The unstandardized beta coefficient value of 2.861 indicates the change in the dependent variable (Return on Asset) for a one-unit change in the independent variable (bank size), holding other variables constant. The standard error of 1.311 reflects the accuracy of the coefficient estimate.

The T-test value of 2.182 assesses the significance of the beta coefficient. In this case, the T-test value is relatively high, and the associated P-value of 0.033 is less than the conventional significance level of 0.05. This suggests that the beta coefficient for bank size is statistically significant in predicting the Return on Asset of banks in Ethiopia based on the current regression model.

The positive correlation between bank size and ROA aligns with some global findings suggesting larger banks benefit from economies of scale and diversification (e.g., Berger, 1995). However,

other studies show a negative correlation (e.g., Boyd & Ronson, 2005). Limited research exists on this specific relationship in Africa. However, studies on bank efficiency in Africa suggest smaller banks might be less efficient (Beck et al., 2013), which could indirectly imply a potential positive correlation between size and profitability in Ethiopia.

The positive beta coefficient value and its statistical significance align with the findings from the search results, which indicate a positive and significant relationship between bank size and organizational performance. This supports the hypothesis that bank size has a positive impact on organizational performance, as evidenced by the significant beta coefficient and T-test value for the variable "bank size" in the regression model.

Based on the unstandardized beta coefficient, standard error, T-test value, and P-value, the analysis provides evidence of a statistically significant impact of bank size on the Return on Asset of banks in Ethiopia. This finding underscores the potential importance of bank size in influencing the financial performance of banks, highlighting the relevance of this factor in the banking sector.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

- Bank Size (the natural logarithm of total assets) was used to measure bank size. Over the years 2019 to 2023, most banks showed a downward trend in size, indicating potential shifts in asset growth or classification among the banks. Credit Risk represented by the loan loss provision to total loan ratio, the data shows varying trends across banks. Some banks demonstrated improvements in credit risk management, while others showed fluctuations that may be influenced by external factors.

- Capital Intensity calculated as total assets divided by total revenue, this ratio indicates how asset-heavy a bank's business model is. Higher capital intensity suggests more assets are used to generate each unit of revenue, and the data shows a strong positive correlation with ROA. Donation analyzed as a percentage of total expense; donation expenses reflect the banks' commitment to corporate social responsibility. The trends varied among banks, with some showing significant increases or decreases over the five-year period.

- Return on Asset (ROA) showed diverse patterns among the banks. Some banks experienced significant jumps or declines in ROA, while others maintained stability or showed gradual increases.

- A moderate positive correlation (0.340) at a significance level of 0.006 suggests that higher donations are associated with higher ROA. This reflects the impact of philanthropic social responsibility on financial performance. A strong positive correlation (0.424) with a significance level of 0.000 indicates that banks with higher capital intensity tend to have higher ROA. This implies that significant capital investment correlates with better financial outcomes.

- A weak negative correlation (-0.097) with a significance level of 0.441, which is not statistically significant, suggests that credit risk has a minimal impact on ROA within the Ethiopian banking context. A moderate positive correlation (0.245) at a significance level

of 0.049 indicates that larger banks generally experience higher ROA, implying benefits from economies of scale and diversified revenue streams.

- A moderate positive correlation was found between bank size and ROA, suggesting that larger banks tend to have higher returns on assets. This relationship is statistically significant, indicating that growth and expansion could positively affect a bank's financial performance. The analysis showed a weak negative correlation between credit risk and ROA, which was not statistically significant. This implies that credit risk may not have a substantial impact on the returns on assets for Ethiopian banks within the study's context.
- A significant positive correlation was identified between capital intensity and ROA. This suggests that banks with higher capital intensity, meaning more assets used per unit of revenue, tend to have better financial performance. The study found a statistically significant positive impact of donations on ROA. This indicates that philanthropic activities, as part of corporate social responsibility, can positively influence a bank's financial performance.
- The regression model explained approximately 37.4% of the variance in ROA, with an adjusted R-squared value of 33.2%. The Durbin-Watson statistic was close to 2, indicating no significant autocorrelation in the residuals. The F-statistic was significant, confirming that the model as a whole was statistically significant.

5.2 Conclusion

Based on the provided information, the study yielded several significant findings. The analysis covered the years 2019 to 2023 and focused on key financial indicators and their relationship with return on assets (ROA) within the Ethiopian banking context.

The study observed a downward trend in bank size over the years, indicating potential shifts in asset growth or classification among the banks. Additionally, credit risk, represented by the loan loss provision to total loan ratio, exhibited varying trends across banks, with some demonstrating improvements in credit risk management and others showing fluctuations influenced by external factors.

Furthermore, the analysis revealed a strong positive correlation between capital intensity (total assets divided by total revenue) and ROA, indicating that higher capital intensity is associated with better financial performance. This suggests that significant capital investment correlates with improved financial outcomes for banks in Ethiopia.

The study also examined the impact of philanthropic activities, measured as a percentage of total expenses, on financial performance. It found a moderate positive correlation between donations and ROA, indicating that higher donations are associated with higher ROA. This reflects the potential positive impact of philanthropic social responsibility on the financial performance of banks in Ethiopia.

Moreover, the analysis identified a moderate positive correlation between bank size and ROA, suggesting that larger banks tend to have higher returns on assets. This relationship was found to be statistically significant, indicating that growth and expansion could positively affect a bank's financial performance.

In contrast, the study found a weak negative correlation between credit risk and ROA, which was not statistically significant. This implies that credit risk may not have a substantial impact on the returns on assets for Ethiopian banks within the study's context.

The study provided valuable insights into the relationship between key financial indicators and the return on assets of banks in Ethiopia. The findings underscore the importance of factors such as capital intensity, bank size, and philanthropic activities in influencing the financial performance of banks within the Ethiopian banking context. These insights can inform strategic decision-making and risk management practices within the banking sector.

5.3 Recommendations

Based on the significant findings from the study on determinants of financial performance of banks in Ethiopia: corporate social responsibility (CSR) and non-corporate social responsibility (CSR) factors: the following recommendations are made to inform strategic decision-making and risk management practices within the Ethiopian banking sector:

- **Capital Investment and Business Model Optimization**: Given the strong positive correlation between capital intensity and return on assets (ROA), banks in Ethiopia should consider optimizing their business models to ensure efficient utilization of capital.

This may involve strategic investment in assets that generate higher revenue, thereby enhancing financial performance.

- **Emphasis on Philanthropic Activities**: The moderate positive correlation between donations and ROA highlights the potential positive impact of philanthropic social responsibility on the financial performance of banks in Ethiopia. Banks should consider prioritizing and enhancing their philanthropic activities as part of their corporate social responsibility initiatives to potentially improve their financial outcomes.
- **Strategic Growth and Expansion**: The moderate positive correlation between bank size and ROA, along with its statistical significance, suggests that larger banks tend to have higher returns on assets. This finding indicates that growth and expansion could positively affect a bank's financial performance. Therefore, banks may consider strategic growth initiatives to potentially enhance their financial performance.
- **Risk Management and Credit Risk**: While the weak negative correlation between credit risk and ROA was not statistically significant, banks should continue to prioritize effective credit risk management practices. This includes ongoing monitoring of credit risk factors and the implementation of robust risk management strategies to mitigate potential adverse effects on financial performance.
- **Utilization of Regression Model Insights**: The regression model explained approximately 37.4% of the variance in ROA, indicating that the included variables have a notable impact on financial performance. Banks can leverage the insights from the regression model to inform their decision-making processes and potentially enhance their financial performance.
- **Continuous Monitoring and Adaptation**: Given the varying trends observed across banks in terms of bank size, credit risk, and philanthropic activities, it is essential for banks to continuously monitor these factors and adapt their strategies accordingly. This may involve regular assessments of asset growth, credit risk management practices, and the impact of philanthropic activities on financial performance.
- **Industry Collaboration and Knowledge Sharing**: Banks in Ethiopia may benefit from collaborating and sharing best practices related to capital investment, risk management, and philanthropic initiatives. This collaborative approach can facilitate the exchange of

valuable insights and strategies to enhance overall financial performance within the banking sector.

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