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COLLEGE OF BUSINESS AND ECONOMICS

Effect of Corporate Social Responsibility on the Financial Performance of Commercial Banks in Ethiopia

**A Thesis submitted to Addis Ababa University in partial
fulfillment of the requirements of the Degree of Master of
Business Administration in Finance**

BY – Lidiya Solomon

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**Effect of corporate social responsibility on the Financial
Performance of Commercial Banks in Ethiopia**

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I, the undersigned, declare that this thesis titled "**Effect of Corporate Social Responsibility on Financial Performance of Commercial Banks in Ethiopia**" is my original work, prepared under the guidance of Dr. Habtamu Birhanu. 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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This research project paper titled “**Effect of Corporate Social Responsibility on Financial Performance of Commercial Banks in Ethiopia**” has been submitted to Addis Ababa University, with my guidance and approval as a university advisor.

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List of Acronyms

CSR – Corporate Social responsibility

CR – Credit risk

FP- Financial Performance

INC- Income diversification

ROA- Return on asset

Size – Bank size

Abstract

Corporate social responsibility (CSR) is a self-regulating business model that helps a corporation to be socially accountable to itself, its stake holders, as well as the public in general. In a developing country like Ethiopia the banking sector can play an active role as part of its CSR activity while also benefiting i.e. attracting new customers, keeping existing customers loyal which in turn may have an impact on financial performance of the bank. The aim of the study is to determine the effect of corporate social responsibility on the financial performance of 11 commercial banks in Ethiopia. The study employed both primary and secondary sources of data. Primary data was collected using questioners with department heads responsible directly for issues relating to CSR, while secondary data was obtained from annual reports and other published documents of the banks. Econometric regression model was used to determine the relationship between CSR and Financial performance for the period of 7 years from 2013 – 2019. In addition, the study controlled for bank size, income diversification and credit risk, collected data was analyzed using E-views 9 and the findings show that social responsibility measured as a fraction of donation expense to total expense has a positive but insignificant effect on financial performance, rather size, income diversification and credit risk showed a significant effect on the dependent variable. Hence, the researcher concluded that CSR is an expense with no return for now but if implemented properly and disclosed consistently the outcomes will be different. Finally, the study recommended banks to improve in the areas of CSR disclosure, and to be proactive rather than reactive in carrying out these activities.

Keywords: *Corporate Social Responsibility, Financial Performance*

CHAPTER ONE

Introduction

1.1 Background of the study

Corporate social responsibility (CSR) is not a new concept rather it has been practiced since early the 1940's and firms have been benefiting from it for a while now. CSR has been studied by many scholars, though they failed to give one universal definition to it. Hence, often CSR can be defined and its concepts need to be interpreted under given context of economic, social and environmental perspectives (Yeneneh, 2015). To mention, Bowe (1953) as cited by Hamid et al (2015) defined CSR as the obligations of businessmen to follow those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of a society. Also, Chen (2020) defined CSR as a self-regulating business model that helps a company be socially accountable to itself, its stake holders, and the public.

Although the primary objective of business is to earn maximum return to owners in ethical way, it is also expected to operate in a way that fulfills social obligation (Helen & Raymond, 2015). For decades, CSR has been assumed to be undertaken by companies whose operations may harm certain communities & resources. Therefore, the intention was to mitigate or reverse the damage inherent in doing the business. But now many consider profit and society to be inextricable (Adisalem, 2016). To this end, McDonald and Rundle (2008) as cited by Yeneneh (2015) , noted the benefits of corporate social responsibility (CSR) for companies, include increased profits, customer loyalty, trust, positive brand attitude and combating negative publicity, are well-documented in the works of other scholars.

Amir (2008) as cited by Bruk and Wassie (2017) mentioned that CSR is a business organization's contribution to sustainable development and helps the organizations on their way to long term success while being good for society. Myšková&Hájek (2019) mentioned that it is necessary to link the area of CSR to the area of economics in the sense of companies' financial results and the value of their assets. This means that it is necessary to find and evaluate the indicators with which company activities can be

accessed from the financial perspective, if companies that adopt socially responsible policies are more profitable, then socially responsible investments will provide an incentive for businesses to increase investments in CSR programs (Pava, 2008) in (Fernandez, 2016) . Moreover, the more a firm invested in CSR, the more profitable it becomes, (Daniel, 2014).

In a banking sector, the key role of CSR is knowing complexity of monetary services, risk management; strengthen ethics within the banking business, strategy implementation for financial crisis, protection of customers' rights and channels settings for customer complaints (Yeung, 2011).

1.2 Statement of the problem

CSR is a core component of corporate strategy that emerges as a safeguard to shield financial scandals and diminish reputation of the banks; it also advocates and works to minimize the conflicts with stakeholders (Essays, 2018). Freeman & Dmytriiev (2017) mentioned that according to Stakeholder theory the essence of business primarily lies in building relationships and creating value for all its stakeholders whether it's internal or external.

Imran et.al (2016) pointed out CSR directed at internal stakeholders such as employees focus on policy and practices of an organization i.e. respect for human right, employee health and safety, employee training, equal opportunity and diversity (ethical labor practices)these elements make employees more loyal and satisfied by the organizations they work for, Carroll (1979) in Imran et al (2016) described external CSR activates as relating to environmental and social practices that strengthen the firms' legitimacy and reputation among its external stakeholders and reducing conflicts with both external and internal stakeholders.

The researcher chose to undertake this study of CSR on the banking sector mainly because banks create benefit to the society by acting as financial intermediaries between borrowers and lenders and by the provision of resource to and from the society (i.e. loans and deposit) therefore they are much more involved with their community than other

sectors (Mravlja, 2017). When people come together to establish a firm, they do so to allocate their resource for the purpose of a common goal and such may be to earn profit. To achieve this goal, they also interact with society (Ibrahim & Bambale, 2016). Moreover, (Matuszak & Róžańska, 2017), banks have been considered as public trust institutions for a long time, which enforces special obligations associated with social responsibility on them.

Kanwal et.al (2013) stated that financial performance plays the vital role to carry out the CSR activities as the strong financial performance results in provision of necessary and reasonable funds and investments to carry out their social activities. Ullah (2016) noted these CSR activities not only enhance the firm's social value and reputation but the profitability also. (Abebe, 2020) the banking sector has been witnessing high growth and profitability. Even if they are profitable currently, higher performance could be achieved by engaging in social activities (Grant, 1991) as cited by (Daniel, 2014). (Samson, 2019) currently there are a total of 18 commercial banks operating in Ethiopia.

CSR can play an important role as competitive advantage by gaining new customers and also keeping existing customers loyal, and public good will. But this can only be achieved if the banks are willing to invest more especially in areas of government priorities such as healthcare, education and job creation (Robertson, 2009) in (Tewelde, 2013). However, previously done studies show that there is little involvement aside from job creation in the banking sectors.

Mathias (2016) stated that commercial banks in Ethiopia have been practicing some CSR activities with the main area of focus being donation to vulnerable groups and charitable nonprofit organizations such as Mekedonnea, and Gergesonan, various monetary donations in times of need i.e. online publications such as Addis fortune (2020) reported that Covid -19 pandemic donations have been made by various banks. In addition, these activities are disclosed in annual reports of some commercial banks and regular disclosure is believed to be important to inform the society and reap the benefits associated (Mravlja, 2017) ,since the success of practicing CSR depends on the stakeholders' awareness (Dakito & Jaladi, 2017)

The banks which involve in these CSR activities also view it as a means to promote the bank while benefiting the society without the financial benefit it may bring them in the long run i.e. good reputation and profitability but Bushman & Wittenberg-Moerman (2012) in Mravlja (2017) mentioned that higher bank reputation is associated with credit quality and higher profitability and is also closely linked with future cash flow.

According to Daniel (2014) theoretically, CSR is expected to improve a firm's financial performance in the long run, implying a positive relationship between the CSR involvement of a company and its financial success Weber (2008) as cited by Daniel (2014). Elif & Halil (2017) pointed out that if socially responsible activities add value to the firm, then firms may be encouraged to pursue such activities

There have been attempts by scholars in relation to CSR and its effect on performances of entities operating in the financial sector. They have paved the way for other researchers by recommending further areas and additional things to consider but majority of these literatures have been conducted for developed countries, corporate social responsibility is a less explored topic that is in the infant stage in the case of Ethiopia, were the limited amount of studies also resulted in mixed conclusion. It is at the center of such mixed conclusions, as well as ongoing debate regarding the issue of CSR and its effect on performance, that it becomes vital to carry out this study since it is under researched .Moreover, studies done in Ethiopian context such as Dakito (2017) and Uvaneswaran & Hussien (2017), were limited in investigating the drivers of CSR and motive behind carrying them out by commercial banks which the researcher plans to find out in this study.

So undertaking this study is important to examine the real effect of CSR on financial performance of commercial banks to motivate banks involvement in the activities and contribute to the shortage of available literature in the case of Ethiopian banking sector.

1.3 Objective of the study

The main objective of the study is to determine the effect of corporate social responsibility on financial performance of banking sector in Ethiopia.

1.3.1 Specific objectives

- Examine the effect of CSR measured by Philanthropic Contributions on financial performance measured by ROA of commercial banks
- Analyze the effect of credit risk on the financial performance of the commercial banks
- Evaluate the effect of firm size on the financial performance of the commercial banks.
- Identify the effect of income diversification on financial performance of commercial banks
- Determine the motive behind banks that involve in CSR activities

1.4 Hypothesis of the study

Based on the research objectives and literatures discussed in the following pages, the following hypothesis are formulated

H1: There is a positive and significant relationship between corporate social responsibility and financial performance

H2: There is a positive and significant relationship between bank size and financial performance

H3: There is negative and significant relationship between credit risk and financial performance

H4: There is a positive and significant relationship between income diversification and financial performance

1.5 Scope and limitation of the study

The scope of the study was limited to commercial banks in Ethiopia based on availability of data 11 commercial banks have been selected and these are :- Awash international bank , Oromia international bank , Dashin Bank , Abyssinia Bank , Hibret Bank , Zemen Bank , Addis International Bank , Abay Bank , Cooperative Bank of Oromia , Bunna Bank and Birhan Bank. Data was collected using both primary and secondary data.

Primary data was collected using questioners with management in the position of deciding on CSR activities and secondary data was collected using annual reports and other published documents. Variables to carry out this research are Return on Asset (ROA) as the dependent variable and Donation contribution (DON) as the independent variable whereas, bank size (Size), income diversification (INC) and credit risk (Cr) were the control variables.

Limitation of the study are due to difficulty of CSR measurement and unavailability of many similar literatures for effect of CSR on Financial performance in the Ethiopian context therefore, most references are made from other studies undertaken outside of Ethiopia, in addition sufficient data regarding CSR expenditure is not available as most banks don't involve widely in the area.

1.6 Significance of the study

The study is significant mainly to strategic managers and policy makers of banks, the finding of this study will encourage them to deeply consider CSR activities and develop guidelines for implementing it as well as timely disclosure for a positive outcome.

This paper will also benefit the society as it persuades banks to involve more and implement CSR programs, hence, the community will benefit from actions of the banks targeted towards them.

In addition, this study will be useful to other researchers who are interested in studying CSR and its effect on financial performance in the Ethiopian context by adding to the limited amount of literature available currently.

1.7 Organization of the study

The study contains five chapters. The first chapter is an introduction to the study which includes Background of the study; statement of the problem, objectives of the study; hypothesis formulation; significance of the study; scope of the study; limitation of the study and organization of the paper. The second chapter contains theoretical and empirical literature review on concepts of corporate social responsibility and financial performance. The third chapter contains methodology of the study. The fourth chapter covers diagnostic test results and interpretation as well as regression output analysis and interpretation, whereas chapter five is about summary of findings, recommendation and conclusion.

Chapter – Two

Literature Review

Introduction

This chapter highlights different theories regarding CSR and empirical review of literatures concerning corporate social responsibility (CSR) and financial performance, Conceptual framework and research gaps from the related empirical literature review.

2.1 Theoretical Literature

There have been wide ranges of approaches to explain corporate social responsibility (CSR) but one of the widely accepted explanations was given by Carroll in 1976 which he classified CSR in to economic , legal , ethical and philanthropic responsibility. There are also additional theories regarding CSR and its association with financial performance such as Stakeholder and shareholder theory and they will be discussed below.

2.1.1 Concept of Corporate Social Responsibility

Howard Bowen an American economist and Grinnell college president is usually cited as the “father of CSR” in various literatures, he connected the responsibility of the firms to society and published a book in 1953, that supported business ethics and responsiveness to societal stakeholders called Social Responsibilities of the Business man. (ACCP, n.d).

According to Hiremath & Sateesh (2012) CSR is founded on the notion that corporations are in relationship with other interests in, such as economic, cultural, environmental and social systems because business activities have an effect on and are affected by such interests in society. These relationships may have a strong economic dimension, but they may also have a primary focus on social and environmental concerns, for business, CSR includes understanding and managing these relationships (Dobers & Halme, 2009).

Porter & Kramer (2006) as cited by Feng et al (2017) suggested that companies should start with generic social impacts just by being good citizens, improving relationships with local authorities and bringing pride to employees. Second, they ought to identify, and

seek to mitigate, the varied sorts of social harm arising out of their value chain activities. Finally, strategic CSR involves pioneering innovations to profit both society and a company's own competitiveness.

Hamidu et.al (2015) stated that firms are expected to involve in activities which are sustainable development practices , transparent and accountable ,maintain good stakeholder relationship management, advocacy on different aspects of human rights, justice and democratic principles ,compliance with accepted international standards on CSR and ethical business practice.

There are different models used to explain and capture firms' responsibilities as well as understand what society expects from firms i.e. The Triple Bottom line Theory that was founded by John Elkington (Brin & Nehme, 2019) , the same authors also stated that this theory is a CSR frame work to measure performance with three dimensions : economic, social and environmental, according to Kenton (2010), this theory believes that firms should plan to specialize in social and environmental concerns as they are doing on profits.

The highly renowned model of CSR is Carroll's CSR pyramid. Carroll (1991) suggested four forms of social responsibilities constitute CSR: - economic, legal, ethical and philanthropic. Visser (2006) cited Carroll (1979) and explained that these four classes of the pyramid are simply to remind us that motives or actions can be categorized as primarily one or another of these four kinds. This factor has existed for quite sometime but philanthropic and ethical functions began to be significant in recent years.

2.1.2 Economic responsibility

The foundation upon which all the others rest on and its main point is to "Be Profitable" It may seem unusual for a business to think about an economic expectation as social responsibility, but society expects and requires business organizations to sustain themselves and that can only be possible by being profitable, (Carroll, 2016).

2.1.3 Legal responsibility

Explains about complying to the minimum rules that have been set, operating in consistent way in accordance with government requirements and the law (Janse, 2020).

This is the most important responsibility out of the four as this will show how companies conduct their business in the market place (Thacker, 2019).

2.1.4 Ethical responsibility

Focuses about performing in a way that is consistent with society's expectation and being proper business citizen by doing what's ethically or morally expected (Janse, 2020).

2.1.5 Philanthropic responsibility

According to Janse (2020) it includes the voluntary or discretionary activities and practices of business. These activities are animated by the desire of the enterprise to involve itself in community activities which are not imposed or requested by law Grigore (2010). And it's a way of giving back to the society.

Thacker (2019) mentioned that according to Carroll's pyramid, responsible business is one which qualifies all the levels of responsibilities before taking up philanthropy. Without fulfilling the others, a business cannot sustain.



Figure 2.1: Carroll's Corporate Social Responsibility Pyramid.

Source: adopted from Carroll (1991)

This Carroll's' CSR pyramid is widely accepted and the most cited around the globe however, according to Visser (2006) he adjusted the pyramid to be more fitting for African countries arguing that Carroll's CSR pyramid is more fitting in the American context and culture may have an important influence on the perceived CSR priorities. Carroll's pyramid has been adjusted as an indicator of relative emphasis assigned to various responsibilities and according to Visser, in Africa economic responsibility still comes first then philanthropy is given the second priority followed by legal and ethical responsibilities.



Figure 2.2: Vissers African CSR

Source: - Adopted from Visser, (2006)

This CSR pyramid adjusted for the African context has similar definitions for these four classes. Visser has defined them as follows

- **Economic responsibility:** - since most African countries suffer from shortage of foreign direct investment, unemployment and poverty the goal of CSR at this level is to supply investment and make employment opportunities therefore companies that operate in developing countries increasingly report on their economic responsibilities by constructing 'economic value added' statements (Visser, 2009)

- **Philanthropic responsibility:** - Visser stated that philanthropic activities are given priority in Africa due to socio economic needs of the society it is expected from companies to involve in them. This can be administered in terms of setting aside funds for community projects. Visser (2009) mentioned the possible reason being that for over decades, many developing countries have been reliant on aid or donor assistance. Hence, there's usually an embedded culture of philanthropy, additional reason for developing countries' prioritization of philanthropy is that they are generally still at an early stage of maturity in CSR, sometimes even equating CSR and philanthropy, instead of embracing the more embedded approaches now common in developed countries.
- **Legal responsibility:** - This can be done by having good relations with government officials but Visser (2009) stated that it is given little priority in developing nations and mentioned some reasons like the legal infrastructure being poorly developed, and usually lacking independence, resources, and administrative efficiency
- **Ethical responsibility:** - Involves adopting voluntary codes of governance ethics. However, Visser stated that ethics has the slightest influence in CSR related agenda and there is a long way to go before embedding ethical responsibilities in developing countries.

Visser also argued that the practice of CSR tends to be less formalized or institutionalized in terms of CSR benchmarks commonly utilized in developed nations. This happens to be true in the case of Ethiopia where there is no benchmark set aside to measure CSR. Moreover, according to Dakito (2017) financial firms in Ethiopia are in lower layer totally focusing on economic responsibility while ignoring the remainder. Akinpelu, et al (2013) cited by Mocan et al (2015) argued that CSR in most Nigerian banks is focused on engaging in social activities and less on the environment supporting Vissers argument that philanthropic responsibilities are given priorities.

Finally, Visser added that many of the problems regarding CSR in developing countries are seen as trade-offs, for instance, development versus environment, job

creation versus higher labor standards and strategic philanthropy versus political governance.

2.1.6 Theoretical arguments of CSR

There has been various theoretical argument that are for and against CSR regarding why firms engage in them according to (“Lumen learning”, n.d) there are two views in favor of and against corporate social responsibility. Proponents of CSR argue that socially responsible practices can have a positive impact since some evidence links CSR to financial performance as well as non-financial rewards, while some critics see CSR as unrelated to the primary aim of business” making profit for its shareholders. These two arguments are discussed below.

I. Stakeholder theory

Chen (2020) defined a stakeholder as a party that has an interest in a company and may either affect or be affected by the business. Primary, stakeholders in a certain firm are its investors, employees, customers and suppliers but modern theory goes beyond this original notation to incorporate external community and government.

Ibrahim &Bambale (2016) mentioned that this theory suggests CSR is positively linked with financial performance since it enhances the satisfaction of diverse stakeholders and consequently the firm’s external reputation resulting in a far better financial performance

Freeman (1994) cited by Szegedi et.al (2020) mentioned that it primarily emphasizes two main issues: primarily, it deals with the corporations core values, which are shared by stakeholders, and bringing them together. Secondly, it deals with the problems associated with the responsibilities of the managers towards all the parties affected by the business.

This theory also advocates the view that additionally to making a profit and obeying the law a corporation should try to alleviate or solve social problems (Cheers, 2011). Additionally, this theory states that acting in an ethical and trustworthy manner, and ensuring greater fairness with the consideration of various stakeholders may allow the organization to build a relationship based on trust leading to future profit (Essays,

2018). Socially responsible companies are expected to gain greater financial returns through indirect effects like the recruitment of more qualified employees (Greening & Turban, 2000) as cited by (Selcuk & Kiyamaz, 2017).

II. Legitimacy theory

An extreme version of the stakeholder theory is the Legitimacy theory arguing that companies have an implicit contract with the stakeholders to offer with their long term needs and wants and by meeting those needs a company legitimates its existence (Guthrie & Parker, 1989) as cited by (Chowdury, 2019). Additionally, this theory assumes that organizations persistently seek to ensure that they operate within the bounds and norms of their respective societies and it is widely used to explain environmental and social disclosures (Guthrie et al, 2006).

III. Shareholders theory

According to Cheers (2011) Milton Friedman was a proponent of this theory and he argued that involving on discretionary social investments was improper for companies, the goal of an organization is to generate return to shareholders and when involving on external social responsibilities the corporation is distracted from its sole purpose. Smith (2003) stated that Friedman wrote “There is one and just one social responsibility of business which is to use its resource and employ activities designed to increase its profits as long as it engages in open and free competition without deception or fraud.”.

(Aupperle et al., 1985; Reinhardt and Stavins, 2010) as cited by Giannarakis et al (2016) said that CSR engagement is seen as a competitive disadvantage, the reason the author mentioned is that incurring costs can negatively impact product prices, employee wages, corporate profits and dividends.

This theory is very criticized by the advocates of the stakeholder theory they argue that it's morally imperative a business takes in to account all of the people who are impacted by its decisions (Harrison et al, 2015). Moreover, just like shareholders invest their money in enterprises, employees invest their time and intellectual capital, customers invest their trust and repeated business and communities provide infrastructure and education for future employees (Graves et al, 2001). So considering the interests of both internal and external stakeholders is helpful to the company.

The business paradigm has changed from maximization of shareholders' wealth to maximization of stakeholders' wealth in the present era. Since, it's the responsibility of all the organizations, regardless of the character of their business to practice CSR to keep their business viable and sustainable for long, (Niresh&Silvia, 2018).

Similarly the **Economic Agency Theory** sees CSR as a tool for wealth creation and social initiative are only methods to attain the desired economic outcomes. (Le &Thao, 2019)

2.1.7 CSR in Banking Industry

Product and services differ among industries; banking is an establishment where activities such as borrowing money and depositing money are provided to users. Banks are assumed to have a lower negative impact on the environment and the society compared to other firms i.e. those that produce industrial waste. However, Castelo (2013) argues that they must share the responsibility because they lend to firms that pollute, produce unsafe products and violate human rights.

Yeung(2011) emphasized that CSR in banking industry should comprise elements such as risk assessment, effective and efficient internal audit process with value added to stakeholders , hence, so as to maintain competitiveness within the market and be responsible to customers, bankers have to understand the economic situation, re-focus marketing strategy with practical risk management system, identify the concerns of clients and implement fair operation measures to protect customers as well as the community in general.

According to Kude, and Watson (2012) as mentioned by Dakito (2017), CSR activities are present in banks around the world. On the other hand, banks lack the effort to ensure that customers are aware of their implemented CSR criteria both externally and internally.

Corporate Social Responsibility (CSR) in banks has become a universal demand. Now days, by recognizing CSR, banks from all over the world endorse programs of educational, cultural, and environmental, as well as health initiatives , besides, they implement sponsorship actions towards vulnerable groups and charitable nonprofit organizations (Persefoni Polychronidou et.al, 2013) as cited by (Tran, 2014).

The following figure summarizes CSR activities in banks

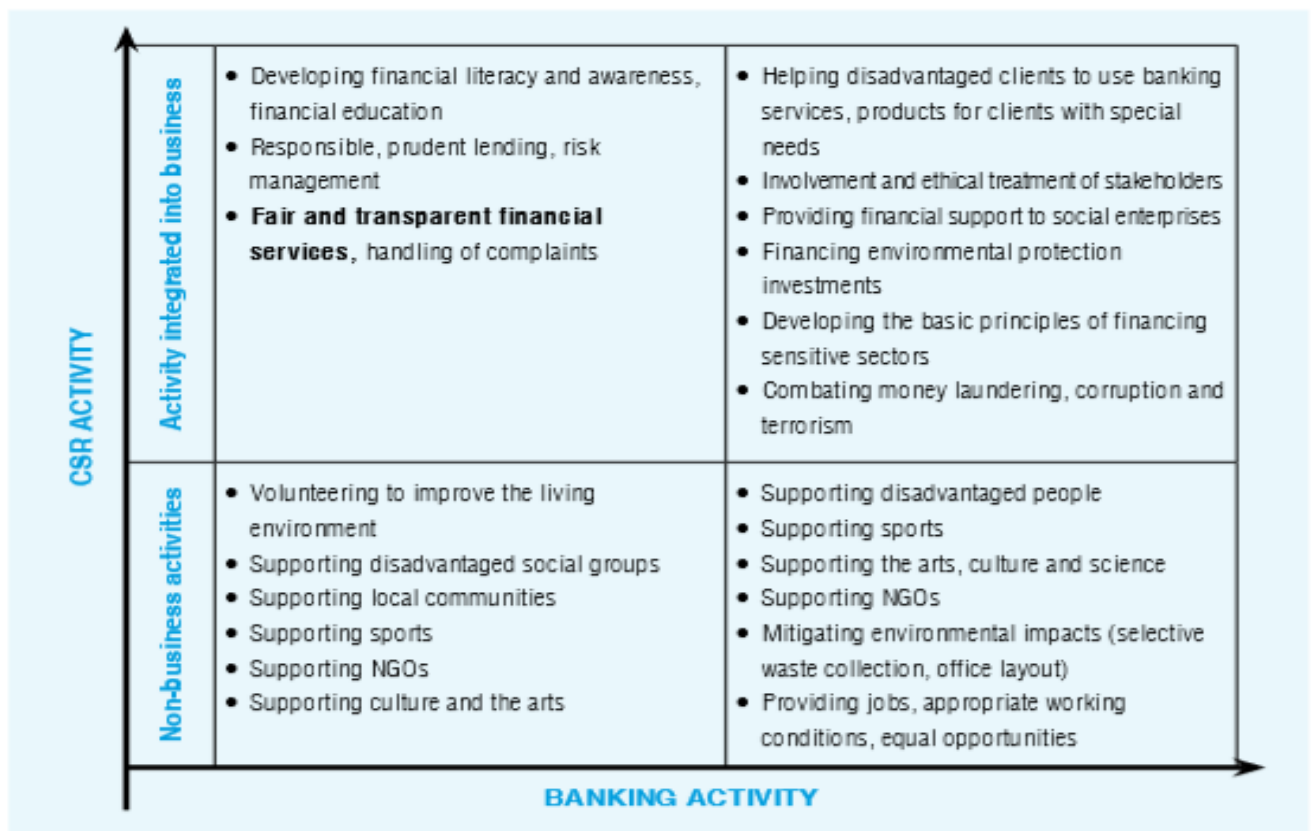


Figure 2.3: CSR in the banking sector

Source: Lentner, C., Szegedi., K. &Tibor., T. (2017). Corporate Social Responsibility in the banking sector. Research gate,1(51),53-64

2.1.8 Determinants of Financial Performance in Commercial Banks

Determinants of financial performance can be classified in two. Daniel (2014) stated that factors that management can control are classified as internal determinants while, those that are beyond their control are referred to as external determinants. Internal factors are specific to the banks while external ones are similar to every firm, they can be economic or market factors. In an article published by All answers LTD (2018) by citing Rasiah (2010) stated that the profitability performance can be measured using ROA indicating that higher the ROA ratio, the better bank profits. ROA shows how efficiently the resources of the company are used to generate the income (Dawit, 2016) . Therefore, the researcher used ROA as a proxy for financial performance and included internal factors as control variables which are further discussed below.

- **Bank Size**

Bank size is measured as the natural logarithm of the value of total assets (Laeven et.al, 2014) .Increasing bank size can increase profitability by allowing banks to realize economies of scale (Kahan et.al, 2015) for instance increasing size allows banks to spread fixed costs over a greater asset base, thereby reducing their average costs (Tesfaye, 2014) and (Medley, 2016). However, they may also have a harder time improving profitability because even if they have the advantage of more access to financing they tend to face liquidity and diversifying risk issues (Aladwan, 2015). Bank size is included in this study as a control variable as there has been literatures that found evidence of a significant relationship between firm size and profitability (Belayneh, 2011) , (Tesfaye, 2013) , (Dawit, 2016)) as well as (Ofori et.al, 2014)

- **Credit Risk**

Credit risk is one of the control variables under study. In an article by Labarre (2020) credit risk was defined as the likelihood of a loss resulting from a borrower's inability to repay a loan or meet contractual obligations. It is calculated us the ratio of loan loss provisions to total loan. Gemechu (2016) mentioned that the loan loss

provisions are reported on a bank's profit and loss statement and it is a measure of capital risk, as well as credit quality of the bank. For commercial banks, managing credit risk for the principal asset, credit, is a key task for success, survival and to succeed on the existing competitive environment (Yohannes, 2016). According to Girma (2001) as banks make loans, they need to make provisions for loan losses in their books. The higher this provision becomes, relative to the size of total loans, the riskier a bank becomes in addition, Magali (2014) as cited by Hiwot (2019) mentioned that when credit risk management is conducted in improper approach, then overdue loans occur, when unpaid loans accumulate, the banks return will be lower as the bank increases the provision it holds allocating a significant portion of its gross margin.

Credit risk was included to avoid excluding an important variable because various studies have found that it had a significant relationship with profitability of banks (Gemechu, 2016) and (Hiwot, 2019).

- **Income Diversification**

Kiweu, (2012) in Mudesir (2016) Mentioned that income diversification involves the change of reliance from the interest income sources that are commonly linked with traditional intermediation activities to innovative and unique non-interest income earning activities .These non interest incomes could be from transaction fees, account service charges and they represent a key source of bank revenue (Rasiah, 2010). In this study income diversification is measured as the ratio of non - interest income to average assets.

2.1.9 CSR and Financial performance

Roben (2020) argues that what most executives believe, that CSR can improve profits .It is feasible and almost no large public company today would want to be seen unengaged in it, which is clear admission of how important CSR could be to their bottom line, regardless of how difficult it might be to define CSR and link it to profits Masud (2015) to further explain this relationship McGuire et.al (1988) clearly stated that a high level of corporate social responsibility may permit a firm to have relatively low financial risk as

the result of more stable relations with the government and the financial community , additionally , to the degree that a firm has high social responsibility, it may also have a low percentage of total debt to total assets , a low total debt ensures that a firm can easily still continue to satisfy implicit claims. The same authors also added that the benefits of CSR mentioned will be carried over into later periods and that a firm with relatively high social responsibility can realize implicit contracts, its financial performance. Moreover, the costs of being socially responsible are outweighed by improvement in productivity or other associated financial performance indicators, and the resources used to be socially responsible are not so high to make the bank unprofitable (Helen & Raymond, 2015).

Park et al (2019) as cited by Szegedi(2020) argued that the CSR practices undertaken resulted in the positive performance of a firm however; such activities initiated by overconfident managers have negative impacts on a firm's long-term performance.

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

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

Moreover, largest institutions appeared to be rewarded for being socially responsible since the more a firm invested in CSR, the more profitable it become, a firm was considered socially responsible only if it took under consideration the social needs of its

stakeholders. Implementation of CSR strategy and firm size are crucial in determining ROE of a firm (Carmen-Pilar, Rosa and Lisa, 2011) as cited by Daniel (2014)

2.1.10 CSR Disclosure

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

2.2 Empirical review of related literature

Several studies have been undertaken to investigate the relationship between corporate social responsibility and financial performance across nations and mixed results were obtained. Similarly in the Ethiopian context for the banking industry in particular two studies were carried out and the outcome of these studies was different.

I. No relationship between CSR and CFP

Dakito (2017) investigated the impact of CSR on financial performance of commercial banks. The study used philanthropic contribution and CSR disclosures as a proxy to quantify the independent variable, CSR, while the dependent variable was corporate financial performance measured as Return on asset (ROA). The researcher used data of 6 years from 2009 to 2014. Multivariate regression models were used to determine the relationship between the two variables and tested the following hypothesis.

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

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

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

According to the finding there was no significant relationship between level of financial contribution to CSR activity and CFP as well as CSRD and financial performance at 1% significance level. So the researcher rejected H1 & H2, while he failed to reject the last hypothesis H3, according to finding from interview and questioner managers in the industry did have awareness about CSR.

II. Positive Relationship Between CSR and CFP

A study was carried out by Uvaneswaran&Hussien(2017) to assess investment on CSR and its effect on financial performance covering 11 commercial banks for the period of five years (2012-2016). The researchers analyzed data using descriptive statistics as well as econometrics via multiple regression analysis which the researchers later modified to a single regression due to existence of multicollinearity with the three independent variables they intended to study. The study had taken financial performance in terms of Net profit before tax (NPBT) as the dependent variable Y, and CSR activities in monetary value as the independent variable X. The findings indicated a p-value of 0.000 proving there is a significant relationship between CSR activities and NPBT at 1% significance level.

More over the above study determined in detail the type and exact figures that were invested in various CSR activities and concluded that commercial banks generally engage in education activities, followed by health and environment CSR activities.

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

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

Yigit & Mukhtar(2017) aimed to examine the effect of CSR dimensions on corporate financial performance (CFP) of commercial banks in emerging economies, namely Turkey and Nigeria. Secondary data was used to collect data for the period of six years 2009-2014 from 12 selected banks from turkey and 14 banks were selected from Nigeria stock exchange making the number of observations 156. The researchers used Descriptive statics and Panel data multiple linear regression analysis to determine the relationship between CSR and CFP. The researchers took CFP as the dependent variable whereas CSR is corporate social responsibility score is the independent variable. Size as a log of total assets and age as the number of years passed from the foundation of the bank were the control variables. The study employed accounting based measurement for financial performance using Return on asset (ROA) and net interest margin (NIM). The findings show that CSR has a positive impact on CFP in Nigeria. However, there was no statistically significant relationship between CSR and CFP in Turkey. Additionally, Bank size and CFP were revealed to have a significant relationship.

Ofori et.al (2014) studied the views of Ghanaian banks on CSR practices, the motives behind their CSR activities and the relationship between CSR practices and their financial performance. Both primary and secondary data was used with a sample size of 22 Ghanaian banks and purposive sampling method was employed to select respondents from the banks. Moreover, to determine the relationship between CSR and CFP correlations and regression analyses was used. ROE and ROA were taken as the dependent variable while mean scores of banks' CSR practices were taken as the independent variable in addition debt ratio (DR), origin (ORIG), size (SIZE) and growth (GROW) were the control variables. The researchers found that banks in Ghana view corporate social responsibility practices to be a strategic tool; banks are motivated to practice corporate social responsibility by legitimate reasons as much as they are

motivated by profitability and sustainability and positive relationship between corporate social responsibility practices and financial performance, the financial performance of banks in Ghana does not depend significantly on their corporate social responsibility practices instead it depends on other control variables, like growth, origin, debt ratio, and size.

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

III Negative Relationship between CSR and CFP

Selcuk & Kiyamaz (2017) studied the relationship between financial performance and corporate social responsibility (CSR) of firms listed on Borsa Istanbul stock exchange during the period of 2009-2011 using return on asset (ROA) as the dependent variable and CSR disclosure in three dimensions the depth of CSR (the total number of sentences the company devotes to the seven CSR dimensions in its annual report), depth of CSR (the total number of pages dedicated to CSR), and CSR breadth (the number of CSR dimensions that the corporation refers to in its annual report) as the independent variable while controlling size, liquidity, risk, R&D, leverage and growth of the firms. The researchers found a negative relationship between CSR and financial performance of firms who disclosed their CSR activities. However, larger and more liquid firms have higher profitability than smaller and less liquid firms while highly levered firms and firms with higher beta coefficients experience lower profitability and research and development expenditures do not have a significant relationship with profitability.

Another study carried out by Taskin (2015) analyzed the bidirectional relationship between CSR practices of Turkish banks and their financial performance which is proxied by ROE, ROA and NIM where as content analysis was employed to find out the degree of CSR level while controlling for Size. The researcher concluded that CSR scores were found to decrease ROA and ROE, no statistical significance and that banks with more CSR practices have lower profitability. However, CSR-index had a positive and significant coefficient, suggesting that banks with higher CSR scores tend to charge higher NIMs from their customers. Lastly Size was found to have a positive and significant effect on the ROA and ROE but a negative effect on the NIMS.

2.3 Summary and Literature gap

In summary studies undertaken by multiple researchers to determine the effect of CSR on financial performance resulted in different outcomes and this is mainly due to difference in measurement of variables studied according to some studies for instance the studies undertaken by Dakito(2017) and Uvaneswaran&Hussien(2017) resulted in different conclusions mainly due to difference in measurement the first researcher developed two models in the first model he used CSR disclosure measured using content analysis representing the independent variables such as Employee concern (EMP), Community involvement (COM), Consumers concern (CON), and Environment concern (ENV). While the second model took CSR score measured using financial (philanthropic) contribution made as the independent variable. In addition, the dependent variable Y was Financial performance measured as Return On Asset(ROA) while the latter researcher used Net Profit Before Tax (NPBT) to measure the dependent variable.

Other reason could be due to difference in economic development most studies done in developed countries have shown a positive impact where as in developing nations such as Ethiopia this can be different due to lack of specific CSR measurement or benchmark, and the practice not being developed well enough for it to have an impact on performance,

society awareness may have played the part as there is a need for CSR disclosure for it to have an impact.

Another issue was that most studies undertaken in developed nations applied market based measurement in addition to accounting based measurement. However, that can't be applied to developing countries such as Ethiopia with no or undeveloped capital market.

2.4 Conceptual frame work

According to empirical evidences such as Dakito (2017) to examine the effect of CSR on the financial performance of commercial banks through panel data for the years 2013-2019, the financial performance will be measured by Return on asset (ROA) while CSR is measured by Philanthropic Contributions where as bank size, income diversification and credit risk will be control variables for the banks under study. Hence, the conceptual schema of the relationship between the dependent variable and independent as well as control variables is depicted below.

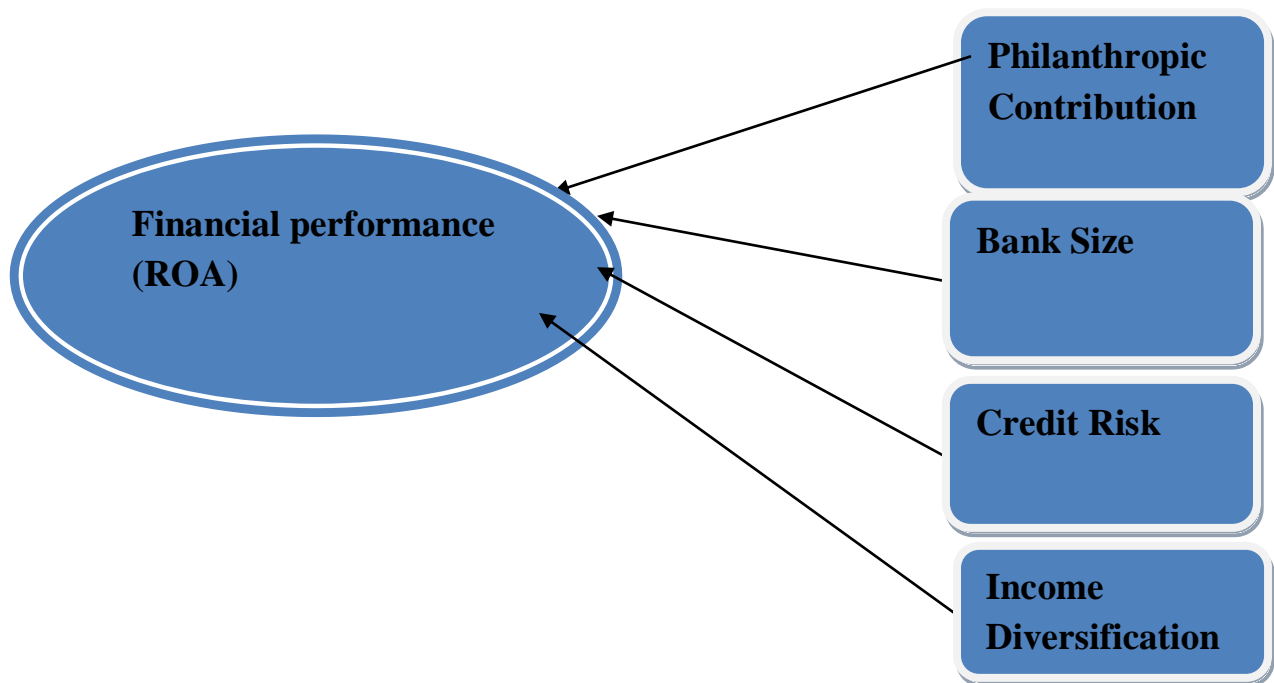


Figure 2.4: Conceptual frame work

Source: developed by researcher from various literatures

Chapter Three

RESEARCH METHODOLOGY AND DESIGN

Introduction

This chapter contains the research design; sources of data the target population sampling technique and method of data analysis. Both primary and secondary sources were employed to achieve the objective. Classical regression model assumptions diagnostic tests were carried out and finally regression was used to explain the variables of the study.

3.1 Research Methodology

To answer the research objectives stated quantitative approach is used in this study, data type is panel data according to Hsiao (2005) panel data contains more degrees of freedom and, less multicollinearity than cross-section or time series data; hence the econometric estimates are efficient. The source of data was mainly secondary as well as unstructured electronic questionnaires with bank managers of the selected 11 banks to obtain additional information. Panel data was employed for 77 number of observation and was analyzed using E-views 9.

3.2 Research Design

This study employed a descriptive research design with the aim of describing the effect corporate social responsibility has on financial performance of commercial banks in Ethiopia. The study was done using panel data for the period of seven years starting from 2013 -2019 on banks who are involved in CSR activities.

3.3 Source of Data

The study used both secondary and primary data necessary to achieve the objective. Quantitative secondary data was collected from published annual reports of banks as well as other documents. Primary data was collected via semi structured electronic

questionnaires from bank managers of the 11 commercial banks who work directly in the area of CSR .Accordingly, the study had 77 number of observations 7 observation from each bank.

3.4 Target Population

Since the aim of this paper is to identify the effect of CSR on financial performance the researcher focused on commercial banks with available data regarding their CSR involvement therefore, the following 11 Banks were chosen:- Awash international bank , Oromia international bank , Dashin Bank , Abyssinia Bank , Hibret Bank , Zemen Bank , Addis International Bank , Abay Bank , Cooperative Bank of Oromia , Bunna Bank and Birhan Bank

3.5 Sampling design and techniques

The study used a non-probability sampling which is purposive sampling by considering the CSR involvement and availability of data as well as establishment time of banks to select sample from the total population of eighteen commercial banks.

3.6 Method of Analysis

The study used quantitative tools such as tables and figures. As an analysis technique, descriptive statistics and regression are employed to identify the effect of CSR on the selected commercial banks performance. Classical linear regression model is used to analyze the relationship between the dependent and independent and control variables at 5% significance level. Financial performance measured by Return on asset (ROA) being the dependent variable and corporate social responsibility measured by the ratio of donation expense to total expense as the independent variable .The researcher included bank size, credit risk and income diversification as control variables in order not to omit any important variable. Other variables such as debt ratio, age and liquidity that were included initially but resulted in insignificant relationship has been dropped from the research (see annex 5). The collected data was analyzed using E-views 9.

3.7 Model Specification and Operational Definition of variables

3.7.1 Model Specification

This section involves the adoption of a model to explain the effect of the corporate social responsibility on financial performance. Depending on previous literature from the Ethiopian context a panel regression model was employed and the model will be developed as follows

$$ROA = \alpha + \text{Donation expense} + \text{Size} + \text{Income diversification} + \text{Credit risk} + \epsilon$$

$$ROA_{it} = \alpha_i + \beta_1 * DON_{it} + \beta_2 * SIZE_{it} + \beta_3 * Cr_{it} + \beta_4 * INC_{it} + \epsilon$$

Where:

ROA = Return on Asset for time i at time t

SIZE_{it} = the natural logarithm of total asset for bank i at time t

Cr_{it} = Credit risk measured by loan loss provision to total loan for bank i at time t

INC_{it} = income diversification measured by non-interest income over average asset for bank i at time t

ϵ = error term

3.7.2 Operationalisation of study variables

3.7.2.1 Dependent variable

In this study in order to identify the effect of CSR on financial performance the researcher used return on an asset as a proxy for performance which is ratio of net income before tax to total asset. Since ROA tells us how efficiently the company's resources are used to generate income.

3.7.2.2 Independent and Control variables

The study used donation expense as a proxy for corporate social responsibility by identifying the amount of donations contributed for various reasons by the bank. It is calculated as the ratio of donation expense to total expense for the period 2013 – 2019. In

addition, the control variable studied were bank size (SIZE), income diversification (INC) and credit risk (Cr)

The following table summarizes the variable used and measurements.

Table 3.1: Operational definition of variables, expected sign and relationship

| Variable | Notation | Measurement | Used by | Expected Sign | Expected Relationship |
|-----------------------------------|----------|--------------------------------------|---------------------------------|---------------|-----------------------|
| Dependent Variable | | | | | |
| Return on Asset | ROA | Net income before tax to total asset | (Dakito, 2017) | + | + |
| Independent Variables | | | | | |
| Philanthropic contribution | | Donation expense*100 | Upgraded from (Dakito, 2017) | Positive | Significant |
| Control Variables | | | | | |
| Bank size | Size | Natural log of total asset | (Dawit, 2016) & (Tesafye, 2004) | Positive | Significant |

| | | | | | |
|-------------------------------|-----|-----------------------------------|---|----------|-------------|
| Income Diversification | INC | Non-interest income average *100 | (Tesfaye, 2014) | Positive | Significant |
| Credit Risk | CR | Loan Provision to total loans*100 | (Gemetchu, 2016) & (Ramamohana & Tekeste, 2013) | Negative | Significant |

Chapter Four

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This study aimed to identify the effect of corporate social responsibility on the financial performance of eleven commercial banks by using panel data for the period of seven years starting 2013 – 2019. This chapter presents the descriptive statistics, CLRM assumptions diagnostic test results for multicollinearity, heteroskedasticity, autocorrelation, normality and analysis and interpretation of regression output from Eviews-9.

4.2. Descriptive Statistics

This section presents the descriptive statistics of dependent, independent and control variable used in this study. The dependent variable used in this study was Return on Asset (ROA) as a proxy of financial performance. The independent variable was Donation expenditure (DON) as a proxy of CSR – philanthropic contribution while the control variables under study were bank size (Size), credit risk (Dr) and income diversification (INC) . Other control variables that had been initially included in order to avoid the omission of important variables such as debit ratio, liquidity and firm age where excluded since they resulted in an insignificant relationship (See appendix 5).

The result of the descriptive statistics which includes mean, median, maximum, minimum, standard deviation and others statistics value and its interpretations are presented below.

Table 4.1: Summary of descriptive statistics of study variables for the period 2013-2019

| | ROA | DON | SIZE | CR | INC |
|---------------------|------------|------------|-------------|-----------|------------|
| Mean | 2.871039 | 0.257322 | 10.03286 | 0.646942 | 4.212597 |
| Median | 2.800000 | 0.071434 | 10.07468 | 0.434000 | 4.100000 |
| Maximum | 5.130000 | 1.583765 | 10.87294 | 7.198606 | 9.040000 |
| Minimum | 0.270000 | 0.000000 | 8.915661 | 0.002867 | 1.930000 |
| Std. Dev. | 0.831607 | 0.393676 | 0.424226 | 1.057967 | 1.608866 |
| Skewness | 0.103545 | 1.784401 | -0.365360 | 4.821051 | 0.903982 |
| Kurtosis | 3.958566 | 4.924512 | 2.586026 | 27.34624 | 3.811277 |
| | | | | | |
| Jarque-Bera | 3.085568 | 52.74531 | 2.262924 | 2199.423 | 12.59881 |
| Probability | 0.213785 | 0.000000 | 0.322561 | 0.000000 | 0.001837 |
| | | | | | |
| Sum | 221.0700 | 19.81377 | 772.5306 | 49.82586 | 324.3700 |
| Sum Sq. Dev. | 52.55932 | 11.77857 | 13.67755 | 85.06694 | 196.7223 |
| | | | | | |
| Observations | 77 | 77 | 77 | 77 | 77 |

Source: E Views 9 Output descriptive statistics

As shown in the above table 1 the mean value of return on asset (ROA) is 2.87 which indicate that on average selected commercial banks have achieved 2.87 percent of ROA for the period 2013-2019. The standard deviation for return on asset is 0.83 percent which implies that return on asset of commercial banks may deviate from the mean value by

0.83 percent ranging from 2.04 percent to 3.7 percent. We can also observe that selected commercial banks ROA had a maximum of 5.13 percent and a minimum of 0.27 percent.

The independent variable donation expenditure which was taken as the fraction of total expense has a mean value of 0.25 percent which implies that the on average the selected commercial banks 0.25% of their total expense were for donation purpose. The standard deviation for the donation expenditure is 0.39% which means that the donation expenses may deviate from the mean value by ranging from -0.14% to 0.64%. In addition, it is shown that donation expense as a fraction of total expense had a maximum value of 1.58 percent and a minimum value of 0. This indicates that donation expenditure was not always consistent and carried out in the period of seven years.

One of the control variable included in this study was bank size which is calculated as the natural logarithm of total asset of the selected commercial banks. The mean value of 10.03 percent shows that on average the size of the eleven commercial banks was 10 percent. The standard deviation for bank size is 0.4 percent which indicates that the banks size may vary from the average by ranging from 9.6 percent to 10.4 percent. In addition, it was also observed that the banks had a maximum bank size of 10.8 percent and minimum size of 8.9 percent respectively for the years 2013 - 2019.

Another control variable included to avoid omitting an important variable credit risk had a mean value of 0.64 percent which means that on average the selected commercial banks had a loan loss provision to total loan of 0.64 percent and a standard deviation of 1.05 percent implying that on average the credit risk of the eleven commercial banks will deviate from the mean value of 0.64 % by ranging from -0.41 percent to 1.69 percent. The results also show that loan loss provision to total loan ratio had a maximum and minimum value of 7.19 percent and 0.002867 percent respectively.

The last control variable under study was income diversification using the ratio of non-interest income over average assets as a proxy has a mean value of 4.21 percent which means that on average commercial banks included in this study have diversified their income on average by 4.21 percent .the standard deviation of 1.6 percent tells us that the

results may deviate from the mean on average by ranging from 2.61 to 5.81 percent. We can also observe that the selected commercial banks had a maximum and minimum income diversification of 9 and 1.9 percent respectively.

4.3 Model validity

This study was undertaken to determine the effect of corporate social responsibility on financial performance of selected commercial banks. The researcher has used econometric model of multiple regression with one dependant variable, one independent variable and three control variables. All the assumptions of the classical linear regression model have been checked. Multicollinearity test was done by using the correlation matrix to check for the violation of this assumption .Skewness and Kurtosis and Jargue Bera tests have been done to check the normality. The absence of Heteroskedasticity was done by using white test and finally, autocorrelation was checked by using Breustch Godfrey serial correlation LM test. After these tests prove the validity of the model, the study continued into regression analysis. The results will be discussed as follows.

4.3.1. Multicollinearity Test

The researcher used a correlation matrix to identify if there is any almost perfect relationship between the independent and control variables. Multicollinearity is said to exist when the independent variables have a correlation of more than 0.8 or an almost perfect or linear relationship that's close to positive 1 or negative 1(Gujarati, 2004), thus the result is shown below

Table 4.2: Correlation Matrix

| | ROA | DON | SIZE | CR | INC |
|------|-----------|-----------|-----------|-----------|-----------|
| ROA | 1.000000 | 0.150984 | -0.251377 | -0.116914 | 0.673445 |
| DON | 0.150984 | 1.000000 | 0.370919 | -0.092448 | -0.120528 |
| SIZE | -0.251377 | 0.370919 | 1.000000 | -0.167615 | -0.642057 |
| CR | -0.116914 | -0.092448 | -0.167615 | 1.000000 | 0.261154 |
| INC | 0.673445 | -0.120528 | -0.642057 | 0.261154 | 1.000000 |

Source: E-views 9 Output

From the above correlation matrix we can see that every independent variables have a correlation of less than 0.8 , the highest correlation value of -0.64 was observed between income diversification and bank size , but since there is no correlation value of more than 0.8 , the researcher concluded that there is no multicollinearity issue or a linear relationship between the explanatory variables present in this study

4.3.2. Normality Test

A normal distribution is said to have a skewness of 0 and a kurtosis of 3. According to Brooks (2014) if the residuals are normally distributed, the histogram should be bell-shaped and the Jarque- Bera statistic would not be significant. In this study normality test was done and the result show that the skewness of the residuals is -0.04 which is close to zero while the kurtosis is 3.8 which is close to three. From the figure below using the Jarque- Bera test p-value result of 0.33 which is greater than 0.05 we don't reject the null hypothesis of normality assumption being met.

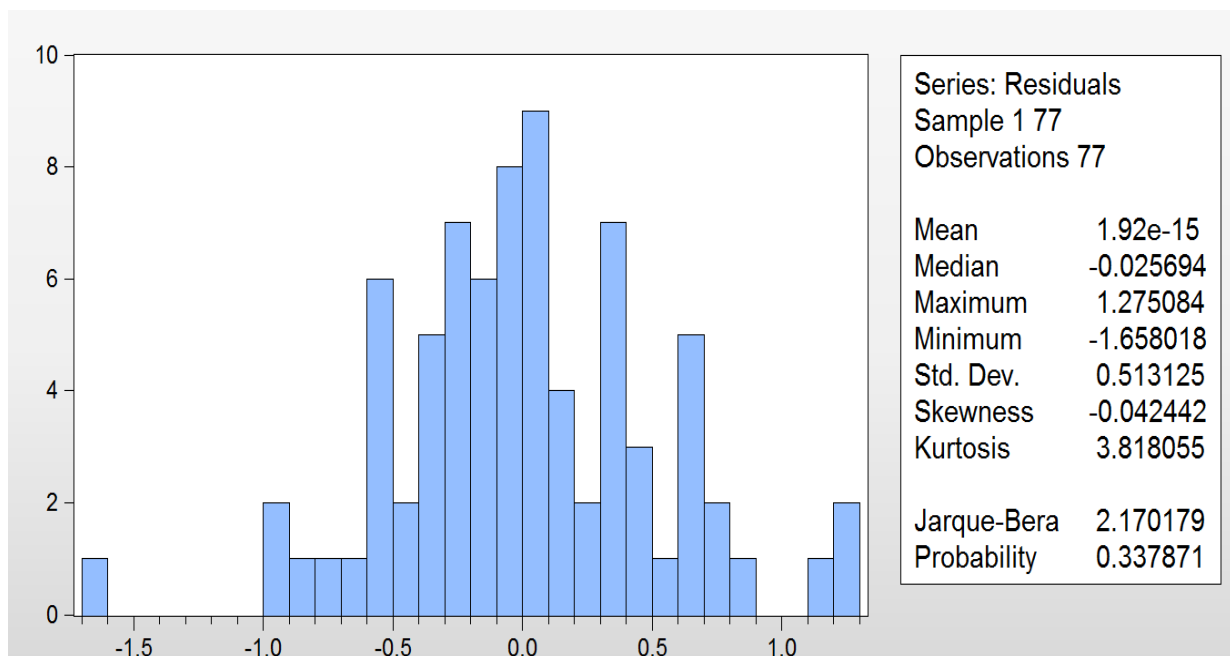


Figure 4.1: Normality test result

Source: E-Views 9 output

4.3.3 Heteroskedasticity Test

Homoscedasticity is the assumption that the variance of the errors is constant. If the errors do not have a constant variance, they are said to be heteroscedastic (Brooks, 2014). The researcher used a general test Whites test to check for the presence of Heteroskedasticity in the residuals. As shown in the table below we can conclude that there is no presence of Heteroskedasticity and the second assumption of the Classical Linear Regression Model has not been violated.(see appendix 3)

Table 4.3: Heteroskedasticity Test: Whites test

| | | | |
|---------------------|----------|----------------------|--------|
| F-statistic | 1.813729 | Prob. F(14,62) | 0.0564 |
| Obs*R-squared | 22.37271 | Prob. Chi-Square(14) | 0.0713 |
| Scaled explained SS | 27.56269 | Prob. Chi-Square(14) | 0.0163 |

Source: E-Views 9 output.

From the above table all the p-values of both the F-statistic and Obs*R-squared are greater than 0.05 which indicates the absence of Heteroscedasticity. So we don't reject the null hypothesis of Homoscedasticity at 5% significance level

4.3.4 Autocorrelation Test

The third classical linear regression model assumption is that the covariance between the error terms over time is zero or there is no correlation between them (Brooks, 2014). The researcher used Breusch-Godfrey Serial Correlation LM test to identify if there is any correlation or pattern between the residual terms. The study lagged for and tested fifth order autocorrelation. The null hypothesis is that there is no autocorrelation and the results will be depicted below.

Table 4.5: Breush-Godfrey serial correlation LM Test

| | | | |
|---------------|----------|---------------------|--------|
| F-statistic | 2.056537 | Prob. F(5,67) | 0.0818 |
| Obs*R-squared | 10.24507 | Prob. Chi-Square(5) | 0.0686 |

Source: E-Views 9 Output/

As shown in the above table the Breush-Godfrey Serial Correlation LM Test gives an F-statistic of 2.05 with a probability of 0.0818 while the Obs*R-squared gives statics of 10.24 with a probability Chi-Square of 0.0686. Since both are greater than 0.05 we don't reject the null hypothesis that there is no correlation between the error terms at 5% significance level.

4.4. Interpretation, Analysis and Discussion

According to Brooks (2014) regression is an attempt to explain movements in a variable by reference to movements in one or more other variables. Therefore in this study regression was used for one dependent variable, one independent variable and three control variable to determine if these independent and control variables affect the dependent variable using E-Views 9. The dependent variable is return on asset (ROA) as a proxy of financial performance where as the independent variable is donation expenses as a fraction of total expense (DON) and the control variables are bank size (Size), credit risk (Cr) and income diversification (INC) the researcher used panel data for the period of seven years 2013- 2019. The operational model used is as follows:

$$ROA = \alpha_i + \beta_1 * DON_{it} + \beta_2 * SIZE_{it} + \beta_3 * Cr_{it} + \beta_4 * INC_{it}$$

Accordingly the following table 5 presents the result of the linear regression to determine the effect of Donation, SIZE, Cr and INC on the dependent variable ROA.

Table 4.6: Results of linear Regression Model

Dependent Variable: ROA
 Method: Least Squares
 Date: 12/29/20 Time: 19:22
 Sample: 1 77
 Included observations: 77

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|--------|
| C | -3.674360 | 2.149204 | -1.709638 | 0.0916 |
| DON | 0.310507 | 0.168108 | 1.847063 | 0.0688 |
| SIZE | 0.459912 | 0.201597 | 2.281339 | 0.0255 |
| CR | -0.239429 | 0.059353 | -4.033956 | 0.0001 |
| INC | 0.476237 | 0.050862 | 9.363355 | 0.0000 |
| R-squared | 0.619275 | Mean dependent var | 2.871039 | |
| Adjusted R-squared | 0.598124 | S.D. dependent var | 0.831607 | |
| S.E. of regression | 0.527186 | Akaike info criterion | 1.620205 | |
| Sum squared resid | 20.01063 | Schwarz criterion | 1.772400 | |
| Log likelihood | -57.37790 | Hannan-Quinn criter. | 1.681082 | |
| F-statistic | 29.27826 | Durbin-Watson stat | 1.315254 | |
| Prob(F-statistic) | 0.000000 | | | |

Source: E-views 9 output

Based on the above output the relationship between the dependent, independent and control variables included in the model will be represented as follows

$$ROA_{it} = -3.6 + 0.3 * DON_{it} + 0.45 * SIZE_{it} - 0.23 * Cr_{it} + 0.47 * INC_{it} + \epsilon$$

4.4.1 Interpretation of R-squared and Adjusted R-squared

According to Brooks (2014), R- squared is a standardized measure or a goodness of fit statistics that tells us how well a sample regression model fits the data, the same author defined Adjusted R-squared as modification to R² is often made which takes into account the loss of degrees of freedom associated with adding extra variables.

In this study the R² and the adjusted R² are 0.619 and 0.598 respectively, this implies that 59.8 percent of volatilities in return on asset (ROA) are explained by volatilities in the independent and control variables donation expense (DON), size (SIZE), credit risk(Cr) and income diversification(INC) .Thus, we can conclude that 59.8 percent of the dependent variable has been explained by the variables included in this model where as the rest 40.2 percent is unexplained.

- **Philanthropic Contribution**

According to Carroll (1991), Philanthropic responsibility is one of the four classifications of corporate social responsibility (CSR) it is defined as the voluntary or discretionary activities that are not imposed by any law making body instead the organization involves in them purely to give back to the society . As shown in table 6 the result show that donation expenditure as a fraction of total expense used as a proxy to capture philanthropic contribution has a positive and insignificant relationship with return on asset at 5 percent significance level. The coefficient 0.3 indicates that holding other factors constant, a 1 % increase in the expense for donation as a fraction of total expense will result in a 0.3 % increase in return on asset however, this relationship is statistically insignificant. This positive and insignificant relationship might have been resulted because the effect of CSR might be more reflected on changes in stock prices however; this cannot be studied in the Ethiopian context where capital market is absent. The limited amount of CSR disclosure from the banks side may also have caused a communication gap .This result is similar to that of Dakito (2017) who found out that the relationship between philanthropic contribution and financial performance is positive but insignificant as well as Ofori et.al (2014). However, the finding is different from a study by. Yigit&Mukhtar (2017) they found a positive and significant relationship with financial performance measured by ROA and CSR in banks in Nigeria.

- **Bank size**

One of the control variables included in this study was bank size which was measured as the natural logarithm of total asset, coefficient of the average size is 0.45 and it's significant at 5 percent significance level. This value indicates that holding other factors constant, when bank size increases by 1 % return on asset on average will also increase by 0.45% and this relationship is statistically significant at 5 % significance level. The result is as expected; this positive and significant relationship is that whenever a banks size increases it can gain from economies of scale. This finding is similar to that of Ofori et.al (2014), Tesfaye (2014) and Dawit (2016).

- **Credit risk**

Credit risk was another control variable in this study the coefficient shows -0.23 and it's significant at 5 % significance level. This negative and significant relationship implies that holding other factors constant, on average when credit risk increases by 1 % ROA will decrease by 0.235% and this relationship is statistically significant at 5 % significance level. This finding is similar to that of Gemechu (2016) & Hiwot (2019).

- **Income Diversification**

The other control variable included in this research was income diversification measured using the ratio of non-interest income to average asset. There is a positive and significant relationship between financial performance and income diversification at 5 % significance level the coefficient for income diversification as shown on table 6 is 0.47 which means that holding other factors constant on average when the ratio of non-interest income to average asset increases by 1 % return on asset will also increase by 0.47%. This positive and significant is as a result of diversifying ones income source boosts income statement this finding is similar to that of Ofori et.al (2014) and Tesfaye (2014).

4.5 Result and discussion from Questioner

In this study besides identifying the relationship between the dependent and independent variables the researcher wanted to identify the motive behind the selected commercial banks involvement in CSR, a semi structured electronic questionnaire was provided to bank managers of the departments who involve directly in the CSR activities .Out of the eleven bank manager only seven of them were willing to participate in this questioner where as one bank Wegagen Bank which was not included initially in the inferential statistics has also been included in this questioner for the sake of increasing the sample and making the results unbiased and more representative of commercial banks in Ethiopia. From the questioner the researcher was able to find out that there is no separate department to carry out the CSR activities rather majority of the banks carry them out

under the marketing department, strategic management and business development directorate.

4.5.1 Motive behind CSR involvement

75% of the bank managers disagreed when asked if the CSR involvement was by profit motive while the rest 8.3 % agreed and the other 16.7% chose to remain neutral. Moreover, 75% percent of the bank managers who responded agreed that the involvement is because of the vision of the bank and for image building, 16.6% disagreed while the rest 8.4 % chose to be neutral. When asked if commercial banks involvement is due to community pressure 58.4% disagreed while 25% remained neutral and 16.6 % agreed on the matter and In addition, 75% also disagreed that the reason of their involvement was legal pressure, the rest 16.7 % was neutral while 8.3% agreed.

Finally, when asked if bank managers believe that involving in CSR improves financial performance 41.7 % chose to remain neutral and the other 41.7 agreed while the rest 16.6% disagreed. 90.1% the bank managers also believe that CSR improves relation with the community. The rest 9.9 disagreed. Similarly, 91.6 % percent agree that it strengthens relationship and moral of employees, while bringing competitive advantage.

Therefore, we can conclude that the motive behind commercial banks involvement is image building and company value rather than profit motive.

The banks also seem to involve in areas such as poverty alleviation, Supporting under privileged groups and job creation.

Additional point discussed in the questionnaire is the method commercial banks used to disclose their involvement in CSR, all of the managers who responded commented that Annual reports where the main methods to disclose the activities they involve in. However, in the researchers' opinion the annual reports are public but are not sufficient enough to communicate the banks involvement to the community surrounding it. CSR of banks started to be discussed in a small portion of the annual reports in recent years

however, more work needs to be done in this area. As the researcher discussed in the literature section of the study involvement in CSR needs to be communicated to the society for it to have any kind of effect on the financial performance

4.6 Result Vs Hypothesis

The findings of this research indicated that that most of the results were similar to the hypothesis except with the independent variable philanthropic contribution measured by donation expenses as a fraction of total expense in order to normalize the coefficients.

H1: Philanthropic contribution has a positive and significant relationship with financial performance.

The researcher expected a positive and significant relationship between donation expense and Return on asset. Since from various literatures carried out outside of Ethiopia there is evidence that involving in CSR activities resulted in good public image, helped gain new customers and maintain existing customers however, the results in this study showed a positive but insignificant relationship Therefore, the null hypothesis is rejected.

H2: There is a positive and significant relationship between financial performance and the Control Variables bank size (Size)

The researcher expected a positive and significant relationship between return on asset and size. When firms' size increases it's said that they achieve economies of scale. And as expected the findings in this study showed that there is indeed a positive and significant relationship between firm size and financial performance of the selected 11 commercial banks. Therefore we don't reject the null hypothesis.

H3: There is a negative and significant relationship between financial performance and credit risk

Similar to what the researcher expected the findings also show that there is a negative and significant relationship between financial performance measured by return on asset and credit risk of the selected 11 commercial banks. The more a bank is exposed to credit risk

it affects its profitability negatively. Accordingly since the findings also support that we fail to reject the null hypothesis at 5 % significance level.

H4: There is positive and significant relationship between financial performance and control variable income diversification

There has been evidence that income diversification also affects profitability the findings of this study were similar to the hypothesis the results showed a positive and significant relationship at 5% significance level therefore we don't reject the null Hypothesis

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This study was carried out to find out the effect of corporate social responsibility as measured by Donation expenses as a fraction of total expense on financial performance measured by return on asset. The researcher also added control variables such as bank size (SIZE), income diversification (INC) and credit risk (Cr) to avoid the omission of important variables. The study used both primary and secondary data. The primary data was collected from bank managers who directly involve in CSR related activities while the secondary data was collected using secondary data sources from published annual reports of the selected eleven commercial banks for the period 2013 - 2019.

5.1. Summary of Major Findings

In this study the dependent variable was return on asset (ROA) as a proxy of financial performance and the independent variable donation as a fraction of total expense as a proxy of Philanthropic contribution , and control variables such as bank size (SIZE), credit risk (Cr) and income Diversification (INC) , this variables were regressed using E-views 9 software .

The results from the regression showed that there is a positive and insignificant relationship between ROA and donation expense, where as the control variables size and income diversification showed a positive and significant relationship with the dependant variable. The other control variable, credit risk also showed a negative and significant relationship.

5.2 Conclusion

The study tried to examine the effect of corporate social responsibility on the financial performance of selected 11 commercial banks in Ethiopia. Hence, on the basis of the major findings the following conclusions can be drawn.

- Philanthropic contribution has a positive but insignificant relationship with financial performance. This indicates that even if involving in CSR is said to have various benefits such as building good public image, improved relationship with the society surrounding the banks, attracting new customers as well as keeping existing customers loyal this is not significant in explaining financial performance of commercial banks in Ethiopia, the involvement in banks seem to follow industry trends i.e. beautifying Sheger project and Abay dam contribution.
- There doesn't seem to be a constant trend followed to carry out these activities too rather the CSR expenses tend to be dispensed when there is a certain kind of pressure from a third party, or a proposal submitted by vulnerable groups. Another factor for this insignificant relationship could also be due to a communication gap occurring from unavailability of stock market, where researches done in developed nations have evidence that the outcome of CSR is usually reflected on changes in stock price however, carrying out this type of study is not an option in a country such as Ethiopia with no capital market. Therefore, for now we can conclude that CSR expense is a mere expense with no return.
- Bank size has a positive and significant effect on financial performance of the selected commercial banks. The researcher controlled for bank size as there had been different literatures carried out in the Ethiopian banking sector that found significant relationships. This positive and significant relationship is due to the fact that bigger banks tend to have the advantage of economies of scale.
- Credit risk has a negative and significant effect on financial performance. There had been different studies done on credit risk, it is defined as the risk that is associated with borrowers default, in this study, the researcher measured it as the ratio of loan loss provision that's available in banks profit and loss statement to the total loan and advances, since banks are well aware of the assessment they carry out before giving credit they always have an estimated allowance set aside

and that can be used as an indicator of credit risk. Therefore, this negative and significant relationship implies that when credit risk increase or when a bank is exposed to it, it negatively affects the financial performance of commercial banks.

- The last control variable, Income diversification has a positive and significant effect on financial performance. This indicates that whenever a bank diversifies its sources of income from the common sources of interest from loans to others sources such as fees or services charges; it significantly affects its financial performance positively.
- The finding from questionnaire distributed electronically from bank managers also indicated that motive behind their involvement in CSR activities is not any kind of financial motive rather; it is for image building and vision or philosophy of the bank. Some of bank managers have the belief that involving in CSR has financial implication and that it improves financial performance.

5.3 Recommendations

The following recommendations are suggested as possible solution based on the findings of this study.

- The study resulted in a positive and insignificant relationship, however, the researcher would like to stress the fact that the positive sign indicates that with better measurement for CSR and better disclosure that is standardized and detailed regarding information about their yearly involvement; the return gained from CSR could be significant. In addition, there need to be a standardized way of carrying out CSR activities with a planned out method of communicating this activities in order to inform internally the employees which will in return raise their moral and loyalty as well as externally the society as a whole. So that in a competitive industry, such as banking, certain banks who are more involved and that disclose this involvements become the bank of public choice. Lastly, similar

to Dakito (2017), the researcher was able to find out from discussions with bank managers banks way of engaging in CSR is more or less in a reactive way as the initiative comes from conformity by following industry trend or from proposal submitted from vulnerable groups, however, they need to be proactive rather than reactive while carrying them out for the best results, in a way of reaping the benefits developed nations and other developing countries are enjoying as a result of their involvement in CSR.

- Commercial banks in order to reduce their exposure to credit risk they need to work more in improving the credit granting process to potential borrowers.

- Income diversification was also another factor that had a significant effect on performance of selected banks, banks should try to diversify their sources of income by discovering new and unique ways i.e. technological innovations that make the customers experience easier and satisfactory while charging some additional fees in order to enjoy a boost it results in financial statements.

Areas of further research ; the study used only one independent variable which was philanthropic contribution measured as the ratio of donation expense to total expense by up grading from a previous study in order to add to the limited literature .Thus the researcher recommend other researchers to identify a better measure of CSR to explain the relationship .Moreover , since the number of observation for the study is 77 ; 11 banks and 7 years , further research can be carried out by increasing the number of observation by including additional banks . Lastly, further research could be carried out when a capital market is developed, by using event study on changes of stock price as a result of CSR involvement.

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APPENDICES

Appendix 1: Questionnaires

Addis Ababa University

College of Business and Economics

Master of Business Administration

Graduate Program

This questionnaire is designed to collect information about the Corporate Social Responsibility practice in Commercial banks and its impact on financial performance. The data or information collected in such a way shall be used as Primary data in the study, which I am conducting as a partial fulfillment for the requirement of my study in Master of Business Administration at Addis Ababa University. The researcher would like to thank you in advance for your kind response in giving your precious time in filling the questionnaire.

Does your organization have a separate department that carries out CSR activities?

Yes

No

In your opinion what are the motives behind involvement in CSR activities? Please tick or fill accordingly

| No | Motive behind banks involvement in CSR activities | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|----|---|----------------|-------|---------|----------|-------------------|
| 1 | The bank involves In CSR activities by profit motive | | | | | |
| 2 | The bank involves In CSR activities for image building | | | | | |
| 3 | The bank involves In CSR activities because of the Vision or philosophy of the Organization | | | | | |
| 4 | The bank involves In | | | | | |

| | | | | | | |
|---|---|--|--|--|--|--|
| | CSR activities for because of legal pressure | | | | | |
| 5 | The bank involves In CSR activities due to community pressure | | | | | |

Rate your opinion about the following items regarding benefits of adoption of CSR practices by commercial banks

| NO. | Benefits of CSR | Strongly agree | Agree | Neutral | Disagree | Strongly disagree |
|-----|--|----------------|-------|---------|----------|-------------------|
| 1 | Increase financial Efficiency/ promotes financial performance | | | | | |
| 2 | Improve relation with Community | | | | | |
| 3 | Competitive market advantage | | | | | |
| 4 | Strengthens relationship and moral of employees | | | | | |
| 5 | Enhancing corporate Reputation | | | | | |

Other _____

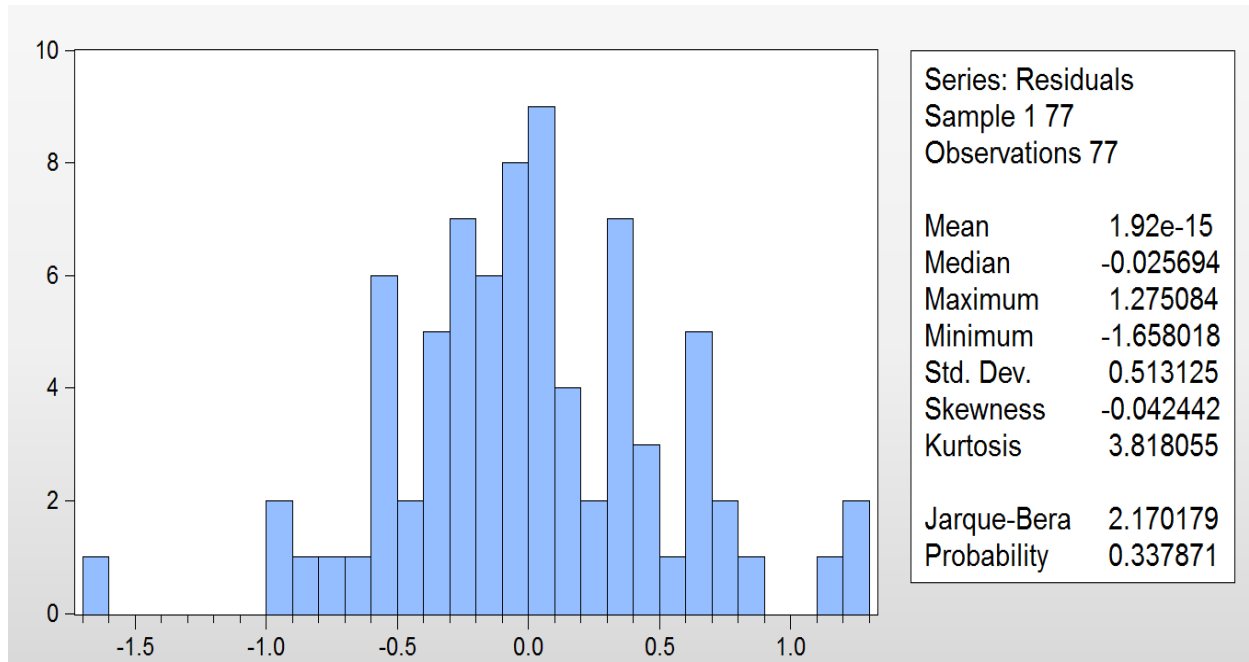
Which of the following concrete actions towards community where carried out by the bank? Please tick all that are applicable

- Donation to vulnerable groups and charitable nonprofit organizations
- Sponsorship of Cultural or other events
- Environmental Protection activities
- Corporate Voluntary
- None

What methods were used by the bank to disclose its involvement in CSR to the community?

-----**Thank You**-----

Appendix 2: Normality Test Result



Appendix 3: Heteroskedasticity Test: White

| | | | |
|---------------------|----------|----------------------|--------|
| F-statistic | 1.813729 | Prob. F(14,62) | 0.0564 |
| Obs*R-squared | 22.37271 | Prob. Chi-Square(14) | 0.0713 |
| Scaled explained SS | 27.56269 | Prob. Chi-Square(14) | 0.0163 |

Test Equation:
 Dependent Variable: RESID^2
 Method: Least Squares
 Date: 12/29/20 Time: 19:33
 Sample: 1 77
 Included observations: 77

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|--------|
| C | 12.77824 | 44.60693 | 0.286463 | 0.7755 |
| DON^2 | 0.322134 | 0.465869 | 0.691469 | 0.4919 |
| DON*SIZE | 0.125923 | 0.648267 | 0.194246 | 0.8466 |
| DON*CR | -0.091549 | 0.555726 | -0.164737 | 0.8697 |
| DON*INC | -0.131959 | 0.183964 | -0.717309 | 0.4759 |
| DON | -1.177654 | 6.973116 | -0.168885 | 0.8664 |
| SIZE^2 | 0.051519 | 0.411080 | 0.125326 | 0.9007 |
| SIZE*CR | -0.345650 | 0.490776 | -0.704292 | 0.4839 |
| SIZE*INC | 0.210930 | 0.197145 | 1.069926 | 0.2888 |
| SIZE | -1.670180 | 8.533880 | -0.195712 | 0.8455 |
| CR^2 | -0.049302 | 0.041973 | -1.174594 | 0.2446 |
| CR*INC | -0.048729 | 0.038568 | -1.263457 | 0.2112 |
| CR | 3.808629 | 5.077070 | 0.750163 | 0.4560 |
| INC^2 | 0.088369 | 0.039545 | 2.234626 | 0.0291 |
| INC | -2.740955 | 2.236089 | -1.225781 | 0.2249 |
| R-squared | 0.290555 | Mean dependent var | 0.259878 | |
| Adjusted R-squared | 0.130357 | S.D. dependent var | 0.439120 | |
| S.E. of regression | 0.409500 | Akaike info criterion | 1.225179 | |
| Sum squared resid | 10.39679 | Schwarz criterion | 1.681764 | |
| Log likelihood | -32.16939 | Hannan-Quinn criter. | 1.407809 | |
| F-statistic | 1.813729 | Durbin-Watson stat | 2.025927 | |
| Prob(F-statistic) | 0.056426 | | | |

Appendix 4: Breusch-Godfrey Serial Correlation LM Test

| | | | |
|---------------|----------|---------------------|--------|
| F-statistic | 2.056537 | Prob. F(5,67) | 0.0818 |
| Obs*R-squared | 10.24507 | Prob. Chi-Square(5) | 0.0686 |

Test Equation:

Dependent Variable: RESID

Method: Least Squares

Date: 12/29/20 Time: 19:34

Sample: 1 77

Included observations: 77

Presample missing value lagged residuals set to zero.

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|-----------|-------------|------------|-------------|--------|
| C | -0.645155 | 2.131253 | -0.302711 | 0.7630 |
| DON | -0.081490 | 0.170029 | -0.479273 | 0.6333 |
| SIZE | 0.055039 | 0.200369 | 0.274687 | 0.7844 |
| CR | 0.000917 | 0.058539 | 0.015664 | 0.9875 |
| INC | 0.027878 | 0.051236 | 0.544106 | 0.5882 |
| RESID(-1) | 0.355513 | 0.125095 | 2.841945 | 0.0059 |
| RESID(-2) | 0.023469 | 0.133242 | 0.176139 | 0.8607 |
| RESID(-3) | -0.072421 | 0.130714 | -0.554045 | 0.5814 |
| RESID(-4) | 0.114003 | 0.134468 | 0.847806 | 0.3996 |
| RESID(-5) | 0.027767 | 0.132834 | 0.209035 | 0.8351 |

| | | | |
|--------------------|-----------|-----------------------|----------|
| R-squared | 0.133053 | Mean dependent var | 1.92E-15 |
| Adjusted R-squared | 0.016597 | S.D. dependent var | 0.513125 |
| S.E. of regression | 0.508849 | Akaike info criterion | 1.607298 |
| Sum squared resid | 17.34816 | Schwarz criterion | 1.911688 |
| Log likelihood | -51.88098 | Hannan-Quinn criter. | 1.729052 |
| F-statistic | 1.142521 | Durbin-Watson stat | 1.988887 |
| Prob(F-statistic) | 0.346183 | | |

Appendix 5: failed attempts that resulted in insignificant relationship

Dependent Variable: ROA

Method: Least Squares

Date: 12/29/20 Time: 19:36

Sample: 1 77

Included observations: 77

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|--------------------|-------------|-----------------------|-------------|----------|
| C | -3.415720 | 3.357725 | -1.017272 | 0.3126 |
| DON | 0.289640 | 0.187182 | 1.547374 | 0.1263 |
| SIZE | 0.546368 | 0.439765 | 1.242410 | 0.2183 |
| CR | -0.230602 | 0.063773 | -3.615960 | 0.0006 |
| INC | 0.466706 | 0.057543 | 8.110574 | 0.0000 |
| DR | -0.013079 | 0.029857 | -0.438059 | 0.6627 |
| LAR | 0.001358 | 0.011133 | 0.121966 | 0.9033 |
| AGE | 0.000249 | 0.018398 | 0.013559 | 0.9892 |
| R-squared | 0.620447 | Mean dependent var | | 2.871039 |
| Adjusted R-squared | 0.581942 | S.D. dependent var | | 0.831607 |
| S.E. of regression | 0.537695 | Akaike info criterion | | 1.695044 |
| Sum squared resid | 19.94903 | Schwarz criterion | | 1.938556 |
| Log likelihood | -57.25920 | Hannan-Quinn criter. | | 1.792447 |
| F-statistic | 16.11328 | Durbin-Watson stat | | 1.310245 |
| Prob(F-statistic) | 0.000000 | | | |