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Keywords: *CSR, CFP, content analysis, CSR pyramid.*

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I. Introduction

Corporate Social Responsibility (CSR) was first noticed in the Anglo-Saxon world in 1950s with the idea of contributing societal welfare and environmental responsibility (Kostyuk et al, 2008). This implies generally, CSR is defined as the voluntary activities undertaken by a company to operate in an economically, socially and environmentally sustainable manner. However, the basic question here is that, how business could discharge CSRs while maximizing corporate financial performance in today's competitive market? The problem is very much rough to understand the concept of CSRs activities in developing economy, particularly in Ethiopia where majority of the society are poor and illiterate. As the living standard of society is low, the CSR expected from business firms are much higher than it is used to be in developed economy as long as the government in developing nation is unable to fulfill all the needs of the society. Though it looks difficult, if companies operate in an economically, socially and environmentally responsible manner, it helps firms to have shared value and social license. Management and mitigation of social and environmental risk factors are increasingly important for business success abroad, as the costs to companies of losing that social license, both in terms of share price and the bottom line may be significant (Foreign Affairs, Trade and Development Canada, 2009).

From business point of view, a given firm may incur a loss because of two main reasons viz. because of high operating costs as compared to sales revenues and lose of customer as a result of loss of social license. For a business firm, loss of profit because of lose of customer is much harsh to get it back. In my view, however, this can be realized in the short-run, if the market is competitive. Some business firms in Ethiopia are discharging their social responsibility although the approach used while implementing CSR seems unsystematic and which may adversely affects financial performance. In other word, in order to discharge CSRs properly, firms need to be proactive and outward than reactive or push factor. However, according to Asemamaw Tilahun (2011), corporations and social enterprises in Ethiopia engage in environmental management or CSR as a result of the influence of external factors such as legislators, customers and competitors, on the one hand and own responsibility, public recognition and improve relations with the local community, on the other.

Corporate Social Responsibility is concerned with treating the stakeholders of the firm ethically or in a responsible manner. This means treating stakeholders in a manner thought acceptable in an enlightened and educated society. Stakeholders exist both within and outside a firm. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the firm and society. Corporate Social Responsibility therefore means the ethical behavior of business towards its constituencies or stakeholders. Conversely, there are a wide variety of concepts and definitions associated with the term

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corporate social responsibility even if finding a single definition is difficult. Bowen (1953) defines social responsibility of businessmen as to the obligation of businessmen to pursue those policies, to make decision or to follow those lines of action which are desirable to society.

Corporate Social Responsibility concept emphasizes community participation by business enterprises. It proposes that a private firm has responsibilities to society that extend beyond making a profit. It is the obligation of the firm's decision makers to make decisions and act in ways that recognize the relationship between the business and society. It is therefore important for a business to continue in its commitment to behave ethically and contribute to economic development while improving the quality of life of the workforce and the surrounding community at large. This can be achieved through the various CSR activities that the business chooses to engage in for the benefit of its stakeholders. This means, firms can discharge CSRs in different ways such as through paying standard salaries and providing securities to employees, contributing financial and non-financial resources to the community at the time of disasters, and providing educational and health services to the society if needed and possible. Contrary to this, private commercial banks of Ethiopian has looser attitude to support greener industries, lower lending options to low income individuals and small business, less engage in community development and less understanding on poor financial management in banking organizations which results to adverse effect to the environment and society (Yeneneh Tadesse, 2015).

From theory point of view, there are two schools of thought regarding the role of business firms to the overall society; one is against and the other is pro to corporate social responsibility practices. The former one assumes that businesses are meant for making profit so that firms are not supposed to involve in any kind of societal activities as one part of its responsibility. Of course, the overall objectives of a business organizations are profit as well as shareholders wealth maximization. Here, the logical question that might rise is that, isn't profit and/or shareholders wealth maximization part of CSRs activity? Though maximization of profit and/or wealth of shareholders are for individual investors, technically it is part of discharging CSR since investors are part of the society. This is true because of the fact that the efficiency of business firm increases productivity thereby maximizes employment opportunities to the society. On the other hand, the second school of thought believes that, even if businesses are established to make profit and /or maximize shareholders' wealth, they are also responsible to discharge their social responsibilities. This means that, business firms should go beyond maximization of profit and /or wealth to the shareholders and put some effort to maximize the welfare of the society directly. The justification for this is that, business firms are part of the society and they could not have survived if there was no society at all. Supporting and involving in societal activities proactively and sometimes also reactively when the need arises will help to enhance mutual benefits. For the researcher, both schools of thought are correct even if they differ in terms of the approaches (indirect versus direct) the firms involve in the societal activities. In one or other way, business firms in Ethiopia are discharging their social responsibilities.

According to the social contracts theory, businesses must not just act in a responsible manner because it is in their commercial interest, but because it is how society expects the business to behave. Society is a series of social contracts between members of society and society itself (Gray et al, 1996). Managers are therefore expected to take decisions in an ethical manner. Donaldson and Dunfee (1999) developed an integrated social contracts theory as a way for managers to use their discretion to make decisions but to ensure their decisions do not have negative effects on others. Businesses are expected therefore, to provide some support to the community under given circumstances. Since the contract is not written, businesses only get to feel its consequences when they fail to do what is expected. Although contradicting results existed, the common understanding is that investment in CSR promotes product differentiation at firm levels UNIDO (2002). Obviously, product differentiation will result in an improved welfare of the society, both the firm and the customer, which is win-win approach. In my view, however, this comes true if and only if all the stakeholders have a clear understanding about the concept of CSR. But there were no specific studies have done to explore the awareness of management about CSRs in Ethiopia context, particularly in the banking industry. According to OluwarotimiKude, and Derek Watson (2012), 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. With the increasing rate of competition among banks in the real world, attracting new customers is no longer the sole objective of financial institutions. What concerns most is whether or not banks are able to maintain existing customers with a positive impression and improving rate of meeting desired expectations of customers. Reliability and satisfaction are vital elements to keeping existing customers to ensure they have a pleasant and good experience while enjoying what the banks have to offer in terms of services.

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On the other hand, even if abundant studies were undertaken throughout the world, mainly in the context of advanced economy, to investigate the correlation between corporate social responsibility (CSR) and corporate financial performance (CFP), the studies came up with conflicting results. Some studies shows a positive relationship between corporate social responsibility practice and firm financial performance (see for example, Waddock & Graves, 1997; Cheruiyot, 2010), on the other hand, some of the studies shows negative relationship (Cordeiro & Sarkis, 1997; Wagner et al, 2002) and still others showing that there is no relationship between the two variables (McWilliams & Siegel, 2000; Aragon & Lopez, 2007). Therefore, the objective of the study is to examine the relationship between CSR practices and financial performance of banking industry in Ethiopia.

II. Review of Related Literature

The concept of corporate social responsibility (CSR) refers to the general belief held by many that modern businesses have a responsibility to society that extends beyond the stockholders or investors in the firm. These other societal stakeholders typically include consumers, employees, the community at large, government, and the natural environment. The CSR concept applies to organizations of all sizes, but in this paper the discussions tend to focus on firms in the banking industry because they tend to be more responsive than others sectors as long as the banking sector is highly levered. Moreover, in Ethiopia context except the financial institutions, no one has a formal website to disclose accounting records and reports. Hence, only firms in banking sector were included in the study as many have observed, with power comes responsibility. The concept of corporate responsibility draws upon the strategic management theory that says managers can add value to an enterprise by taking into account the social and economic effects of an enterprise's operations when making decisions (Freeman RE, 1984). According to this theory, managers can best promote the long-term viability of an enterprise by balancing the needs of its stakeholders with the financial requirements of sustaining and growing a business. Reporting on an enterprise's performance (CSR disclosure) in this area is therefore a means to provide owners and other stakeholders an account of an enterprise's impact on society. This added transparency can lead to greater accountability of the enterprise to its principal stakeholders. Since stakeholders are understood as groups of persons that are affected by and/or can influence an enterprise, without necessarily holding an equity share of the enterprise. Their actions can affect an enterprise's brand and reputation, its financial performance, and even its license to operate.

According to Carroll (2000), as society expects business to make a profit (as an incentive and reward) for its efficiency and effectiveness, society also expects business to obey the law. The law, in its most rudimentary form, represents the basic rules of the game by which business is expected to function. Society expects business to fulfill its economic mission within the framework of legal requirements set forth by the society's legal system. Thus, the legal responsibility is the second part of Carroll's definition. However, in Ethiopia businesses operate their activities based on their feeling and interest since the businesses as well as the regulatory body are not strong and efficient enough to set or obey laws. This is because of the fact that, in Ethiopia there is no formal accounting standards and the business environment is guided by the oldest Commercial Code of Ethiopia issued in 1960's. By taking the human nature in mind, one can easily conclude that, in the absence of formal standards and rules, expecting people will act lawfully is foolishness. Moreover, the other two responsibilities represented Carroll's attempt to specify the nature or character of the responsibilities that extended beyond obedience to the law are ethical and discretionary responsibility. The ethical responsibility was claimed to represent the kinds of behaviors and ethical norms that society expected business to follow. These ethical responsibilities extended to actions, decisions, and practices that are beyond what is required by the law. Though they seem to be always expanding, they nevertheless exist as expectations over and beyond legal requirements.

Finally, Carroll argued there are discretionary responsibilities. These represent voluntary roles and practices that business assumes but for which society does not provide as clear cut an expectation as in the ethical responsibility. These are left to individual managers' and corporations' judgment and choice; therefore, they were referred to as discretionary. Regardless of their voluntary nature, the expectation that business perform these was still held by society. This expectation was driven by social norms. The specific activities were guided by businesses' desire to engage in social roles not mandated, not required by law, and not expected of businesses in an ethical sense, but which were becoming increasingly strategic. Examples of these voluntary activities, during the time in which it was written, included making philanthropic contributions, conducting in-house programs for drug abusers, training the hard-core unemployed, or providing day care centers for working mothers. Later, Carroll began calling this fourth category philanthropic, because the best examples of it were charitable, humanistic activities business undertook to help society along with its own interests. Hence, given this all facts, the study use philanthropic contributions made by each firm as a independent variable to run the regression in

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addition to the content analysis of the accounting report of the respective firms. Of course this aspect, philanthropic contribution, gives more sense whiling talking or evaluating the corporate social responsibility in developing country, especially in Ethiopia. This is because of the fact that, most people in Ethiopia earns less than one dollar, which is below poverty line, needs contribution or assistance from the business firms since government is unable to satisfy the basic needs of the society in the market economy. Financial, philanthropic, contribution made by firms to the community, employees, and environmental protections were used to measure CSR. Though many studies have ignored these factors or attributes to measure CRS, this paper employed the attributes to assess the relationship.

Several studies have been carried out on the relationship between CSR, measured using content analysis, and CFP resulting in different conclusions. Klassen and McLaughlin (1996) studied 14 manufacturing sector firms to conclude that environmental management can play a positive role in improving corporate financial performance. In exploring the linkages between environmental performance and financial performance with respect to the market value, Konar and Cohen (2001) argued that a firm with a better environmental performance has a significant positive impact on its market value. Fauzi (2009) did a research on firms listed on the New York Securities Exchange (NYSE) to determine the relationship between CSR and corporate financial performance. Using a sample of 101 companies listed at the NYSE and a regression model with financial performance as the dependent variable and CSR index as the independent variable, he found that CSR has no effect on CFP. He however found that leverage (a control variable in the model) has a moderating effect on the interaction between CFP and CSR.

Financial performance considers one of the most important studied indicators of the strategic value of CSR (Orlitzky, et al. 2003). Researchers have started the empirical study of corporate social responsibility (CSR) and financial performance (FP) over a past few decades ago in western countries. Many firms have faced the pressure for corporate accountability which it is increasing from their stakeholders (managers, employees, customer, government, shareholders, and so on) (Waddock, 2004). This pressure includes some aspects such as legal, social, moral, and financial aspects. In addition to this, as a result of an ongoing of government attention towards social activities, there are some government restrictions with respect of social conduct, even in times of liberalization. Stakeholder's demands are increasing with the growing transparency of markets. One of the most important stakeholders is customers who are asking for sustainable products (Gauthier, 2005). According to Hailu FK and Nigatu TF (2015), study aimed at investigating the question of what are the employee oriented CSR practices in the first level hotels and lodges in Gondar city, Ethiopia; gender equality acceptance, the commitment to balance the private and professional life, the employees freedom to go freely in sick and maternity were the highly practiced. However, reward and proper salary system, secure job and promotion of work were less practiced issues to the employees.

Financial performance is not only the main objective for numbers of investors which are looking at it in a Corporation's portfolio, but they are also valuing the way corporations meet their social responsibilities (Barnett & Salomon 2006). All these developments lead to the focus of corporate attention from a merely financial orientation to the importance of CSR activities and disclosure into a firm. This focus has led to the ongoing debate whether corporate social responsibility disclosure (CSRD) affects financial performance in terms of the firms share price, its consumer support, the loyalty of its employees and the amount of attention. The potential for stakeholder demands to compete with one another for firm attention and prioritization and the consequences of conflicting demands being (or not being) met are rarely considered (Barnett 2005). But in Ethiopia, much of the population is agrarian and illiterate so that what so ever efforts have been done in providing quality report may not make differences among firms as long as either they provide philanthropic contribution to the society or produce quality product at reasonable price which is visible for the decisions. Understanding the link between CSRD and financial performance is significant as managers balance stakeholders' expectations of the firm to be socially responsible against demands for firm financial performance (Bertels & Peloza 2008). According to Emebet Melese (2009), study conducted to understand the state of non financial reporting: CSR and environmental reporting practices in Ethiopian corporate firms and NGOs, there is the practice of reporting CSR and environmental issues in Ethiopian NGOS in full. In addition many public enterprises used to report their CSR and environmental issues within their corporate annual reports since they are forced by the Privatization and Public Enterprises Supervising Agency (PPESA). On the other hand, with regard to the privately owned corporate firms the company characteristics has influence on non financial reporting or disclosures. In order to see the conformity between CSRD measured using content analysis of accounting report and CFP, the study tested this in Ethiopia context.

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a) Relationship between CSP and CFP

Perhaps the first attempt to establish the business case for CSR has been the pursuit of establishing a positive relationship between CSP and CFP. Margolis and Walsh (2003) describe this endeavor as a 30-year quest for an empirical relationship between a corporation's social initiatives and its financial performance. Griffin and Mahon (1997) present a review and an assessment of studies exploring the CSP–CFP relationship. The authors conclude that there is a positive relationship between CSP and CFP. They argue that inconsistencies in the results of previous empirical studies investigating the CSP–CFP relationship may be attributed to methodological differences. Roman et al. (1999) disagree with Griffin and Mahon and offer a different conclusion. They argue that results produced by CSP–CFP studies fall into three categories. One category shows a positive link between CSP and CFP, the second shows a negative link, and the third shows no link. The authors thus conclude that the results are inconclusive. Mahon and Griffin (1999) respond to Roman et al. (1999) by acknowledging that the CSP–CFP relationship merits further investigation; however, they contend that the findings of Roman et al. (1999) are influenced by interpretation biases. In order resolve these conflicting results, this paper used two models to measure the CSR, these are content analysis and philanthropic contribution since the variation of the former studies were because of the fact that the proxies used to measure CRS may not be correct.

Some studies argue that activities might be consistent with wealth maximization motives of the firm and provide appropriate information for corporate decision making (Keim 1978; Pava & Krausz 1996). Hence, short and long run financial impacts are employed to measure the impact of CSR activities and disclosure on financial performance. However, this does not mean that all CSR program must satisfy the traditional cost-benefit criterion. There are two types of empirical studies of the relationship between corporate social responsibility disclosure (CSRD) and corporate financial performance. The first set uses the event study methodology to measure the short-run financial impact when companies appoint in socially responsible or irresponsible acts (e.g. Hannon & Milkovich 1996; Margolis & Walsh 2003; McWilliams & Siegel 2000; Orlitzky et al. 2003; Saleh et al. 2008; Wright & Ferris 1997). Market-based measure of financial performance was employed to achieve these studies such as the firms share price, share price appreciation. Market-Based measure reflects the concept that shareholders are the most important stakeholder group whose satisfaction determines the firms‟ fate (Cochran & Wood 1984). Mixed results have been produced by studies conducted in developed nation on the effects of CSR activities and disclosure on firm value yet no or few studies were undertaken to test this fact in developing countries, particularly in Ethiopia. Of course it impossible to conduct event study since well-developed capital market is absent in Ethiopia context to explore stock price overtime. Hence, two proxies, content analysis and philanthropic contribution and donation, were used to measure CSR of business firms in Ethiopia.

Few studies have concluded the positive beneficial effects of CSR activities on CFP while others found that the effects are negative or no relationship. For example, Margolis and Walsh's found that 4% of the 160 studies examined considered a negative relationship between CSR and financial performance, 55% a positive relationship, 22% was no relationship, and 18% reported a mixed relationship. Furthermore, Orlitzky, Schmidt and Rynes (2003) achieved another of higher order analysis and revealed similar results. While other studies are not similarly stable concerning the relationship between CSRD and short-run financial return (McWilliams & Siegel 2001).

The examination of the nature of the relationship between measures the long-term financial performance and a measures of CSRD is the second set that is used from accounting and financial measures of profitability (e.g. Aguilera et al. 2007; Mahoney & Roberts 2007; McGuire et al. 1988; McWilliams & Siegel 2000; Simpson & Kohers 2002; Waddock & Graves 1997). In addition, McWilliams and Siegel (2000) examined the relationship between two with a regression model that measures financial performance as the dependent variable while social performance as the independent variable for the period 1991-1996 for 524 large companies. They reached that there was no link between a CSRD and financial performance if the regression model is properly specified. Furthermore, Moore and Robson (2002) analyzed the link between CSRD and financial performance of eight firms. Mahoney and Roberts (2007) also examined the relationship between CSRD and financial performance in a large sample of public companies of four years of panel date in Canada. This study yielded no significant relationship between them. Yet, they revealed a significant relationship between some CSR activities and disclosure such as environmental and international activities and financial performance. Finally, Rettab, Brik and Mellahi (2009) in the UAE market as an emerging economy did the latest study of corporate social and financial performance. They tested the relationship in 280 industries (Manufacturing, Trading and repairing services, Hotels and restaurants, Real estate, rental, and business services, Education, Banking and financial services, Mining and quarrying, and Others). Although there are some challenges that have contributed to ineffective engagement with

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stakeholders and the lack of communication of CSR activities, they found a strong positive relationship between CSR and financial performance.

b) Philanthropic responsibilities in practice

The discretionary or philanthropic responsibilities of business encompass those corporate actions that are in response to society's expectation that business be a good corporate citizen. This includes, actively engaging in acts or programs to promote human welfare or good-will (Carroll 1991). Many businesses make donations directed at various causes such as education, community improvement, and arts and culture (Seifertet al., 2004). Currently businesses in Ethiopia are intensively involving in different social affairs especially in promoting human welfare through philanthropic contribution as compared to the former practices. This might be because of emerging competition as a result of adoption of IFRS in Ethiopian business which made the market to be free and easy for international businesses firms to join all businesses except financial institutions. Hence, the business culture has already changed from only local to international which made the business to be tough to survive without having strong relation and support to the overall society. Surprisingly, the involvement of businesses firms in CSR activities in the country is booming, even if the level of stakeholders/customers reaction is unknown, as it is common to see the contribution made by firms displayed in different media especially at the time of holiday. Unlike developing countries, in advanced economy the level of customers' awareness is known and high. Australia was said to achieve the utmost CSR prospects in business (Environics, 1999) in a 23-nation poll of public attitudes, followed by the American region with 86% and the UK, 74%. The respondents indicated that an organization's behaviour in terms of ethical sales and marketing strategies would influence their purchasing decisions (Pomering et.al, 2009). Therefore, firm's involvement in any CSRs activities in such countries, advanced economy, will have mutual benefits. Though financial contribution to the society is necessary, it is equally important to see or evaluate its effect on the company performance since the contribution will continue if and only if the company is able to survive by maximizing its profit or wealth. However, it is unsure to generalize the cointegration between discharging CSR and firms performance in developing countries. According to Alan Pomering et.al (2009), if consumer awareness is low, the effect of CSR initiatives on purchasing behaviour is only of theoretical, not practical, relevance. On the other hand, the contribution of business firm in the country economy and eradicating poverty in Ethiopia is significantly increasing. Though discharging CSRs are equally important both for firm and the society, no empirical studies were made to examine the tradeoff between CSR and CFP in developing economy like Ethiopia.

Bruch and Walter (2005) observe that in the United Kingdom alone, leading publicly traded companies made donations to non-profit organizations in 2003 and 2004 that were valued at more than $1.6 billion and that equaled close to 1% of the companies' pre-tax profits. Corporate philanthropy is not a new phenomenon. Seifertet al. (2003) reports that corporate philanthropy as a percentage of profits averaged 1.3% in 1999'. Corporate philanthropy is also global in scope. Of course, there is no formal recorded data that shows which company has made how much they have made in philanthropic contribution so as to rank the firm. Many corporations engage in philanthropic activities directed at foreign recipients. A number of Fortune 500 companies made donations for disaster relief in the US, Kashmir and South Asia (Muller and Whiteman 2009).

To appreciate the importance of the corporate philanthropy movement, one needs to acknowledge its scope. Corporate philanthropy is not just limited to monetary donations made by corporations. Many corporations encourage philanthropic activities by their employees and customers through various forms of collaboration. Microsoft, Ashland Oil and JPMorgan Chase are among the members of the Workplace Giving campaign, which is an employer-sponsored program that offers employees the opportunity to make a charitable contribution through payroll deduction (Global Impact 2009).

Bruch and Walter (2005) argue that companies use philanthropy to enhance their competitive advantage through combinations of market (external) and competence (internal) orientations. Through a market orientation, companies design their philanthropic activities to fit external demands and meet the expectations of key stakeholders. The companies therefore improve their competitive advantage through improved marketing and selling capabilities, higher attractiveness as an employer or better relationships with governmental and nongovernmental organizations (ibid). Deutsche Lufthansa AG, for example, enhances its relationship with communities within which it operates by operating a community-involvement program (ibid).

c) Hypotheses

Finance theory differs on how the firm should be responsible to in the course of its business. According to stakeholder theory, firms possess both explicit and implicit contracts with various constituents, and are responsible for honoring all contracts (Freeman, 1984). As a result of honoring these contracts, a company develops a reputation that helps determine the terms of trade it can negotiate with various stakeholders. While explicit contracts legally define the relationship between a firm

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and its stakeholders, implicit contracts have no legal standing and are referred to in the economic literature as self -enforcing relational contracts. Since implicit contracts can be breached at any time, Telser (1980) argues that they become self-enforcing when the present value of a firm's gains from maintaining its reputation (and, therefore, future terms of trade) is greater than the loss if the firm reneges on its implied contracts. This theory, therefore predicts a positive relationship between CSR and corporate financial performance (CFP). However, stakeholder theory has acquired opponents from various areas including classical economics, industrial relations and management. Sternberg (1997) for example, argues that the principles of stakeholder theory undermine the property rights of the owners of the company, compromise the mechanism of the free market, destabilize the operations of governments and thus subvert the very nature of capitalism.

Despite the conflicting results, all of the studies above were done in western countries and US except Rettab, Brik, and Mellahi study (2009). This indicates that there is no or limited research that have done to investigate the relationship between CSR and financial performance in developing countries, particularly in Ethiopia where the business are infant and well-developed capital markets are absent. Moreover, many businesses engage or donate for different social activities as a means of promoting their business without considering its effect on their financial performance. Hence, the main contribution of this study is to assess the effect practicing social practices on the financial performance of banking industry in Ethiopia. In other word, this study used mixed research approach to test 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.

III. Materials and Methods

The study comprised all Banking firms in Ethiopia. This sector was selected because of the importance of the firms in enhancing economic growth through discharging CSR activities properly and sensitivity of the industry as it deals with different stakeholders. Moreover, the level of competition in discharging CSR activities among the firms in the sectors is tough so as to maximize market share and even to sustain in the future. Census surveys were carried out due to the small number of the population though only 10 of them have fulfilled the requirement and also were willing to respond the questionnaire and interview. It is known that a census is feasible when the population is small, only 18 banks were operating as of June 2016, and necessary when the elements are quite different from each other. However complete data, financial report, for the study period under consideration were not available for 8 of the companies and therefore only 10 financial institutions firms, banks were finally used to run the regression model for the study.

a) Research Design and Methods of Data Collection

Mixed research approach (quantitative and qualitative) was used in order to address the research questions under study. According to Creswell (2000), the use of mixed approach, both quantitative and qualitative data are important to address the research objective. The primary source data were collected through questionnaire and semi-structured interview with top-management of the respective firms. Data gathered from the interviews were recorded using tape recorder of the firms enabled the researchers to gain the deeper insights on this issue in this research.

Secondary data were obtained from audited financial reports and other publications by the companies including information from the company websites for six years from 2009 to 2014. The ability of companies to convey their intentions and actions to the societies in which they are located is recognized as being integral to the relationship between business and society. The use of websites to disseminate company information serves this purpose.

b) Measurement of Variables and Model Specification

The models used in this study were adopted and modified in the context of developing economy from past studies undertaken in developed nation since measuring CSR activities are complex. As a result, the study used philanthropic contribution and CSR disclosures as a proxy to quantify the dependent variable, corporate social responsibility. CSR disclosure is generally seen as an important tool for companies to manage their relationship with society at large, and its subsequent stakeholders in particular. On the other hand, accounting-based measures was used to quantify the independent variable, Corporate Financial Performance and define financial performance as return on assets (ROA). One of the best ways to measure company performance is ROA since it explicitly takes into account the assets used to support business activities. It determines whether the company is able to generate an adequate return on the assets rather than simply showing robust returns on sales. Although considerable research has been done to conceptualize and measure corporate social activity

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within several social, environmental and consumer behavioral contexts, there is no general solution or answer as to which is the right model for an ideal or optimal level of CSRs investment while maximize corporate financial performance (see for example Cheruiyot, 2010, Aragon & Lopez, 2007). While, some authors claim it is impossible to do a 'one-for-all' model, others have already designed these kinds of models under specific conditions. Such a model design faces considerable constraints with regard to the contextual differences in which the corporations must operate, as well as the varying levels of stakeholders social responsibility awareness. The development of this kind of 'one-for-all' long-term model, balancing and maximizing financial and social responsible performance should initially focus on larger international firms where awareness and context towards CSR is more homogeneous. Otherwise, research should focus on the different specific firm contexts (Martinez and Kang, 2013). Therefore, this study incorporated/used one unique but logical proxy to measure CSR, financial contribution of the respective firms for any CSR activity even though, many studies have been done using only content analysis of the audited report as a proxy for CSR.

Multivariate regression models were used to determine the relationship between the two variables, CSR and financial performance of the firm. As a control variable, company's efficiency and capital intensity were also introduced in the regression models and the dependent variable used was return on assets. Company's efficiency is measured in terms of minimizing cost of production as measured by the relative value, which is cost of sales divided by total sales revenue; whereas, capital intensity using the total assets employed to total sales revenue of the company. The multivariate regression was used to measure, explain and predict the degree of linkage among variables. As a result, the following regression models were used;

$$CFP = \beta_o + \beta_1 DX_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i \quad (1)$$

$$CFP = \beta_o + \beta_1 PX_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon_i \quad (2)$$

Where:

- ✓ CFP- Financial performance measures return on assets (ROA) as dependent variables
- ✓ β_o- Constant
- ✓ DX_1– CSR disclosure score measured using content analysis of the report which represents the independent variables such as Employee concern (EMP), Community involvement (COM), Consumers concern (CON), and Environment concern (ENV)
- ✓ PX_1- CSR score measured using financial (philanthropic) contribution made to discharge CSR activities.
- ✓ X_2-Efficiency = Cost of sales/Total sales,
- ✓ X_3- Capital intensity = Total assets/ Total sales
- ✓ X_4 – Age of the firm
- ✓ β_i- a constant (coefficient) of various elements
- ✓ ε_i- the error term

One of the variables considered in this study was to explore whether the banking sector has an understanding about the concept of corporate social responsibility. Hence, in addition to the econometric model, the study employed descriptive analysis to assess the awareness about the concept and meaning of corporate social responsibility in the banking sector in the country.

IV. Result and Discussion

a) Awareness about CSR

The effectiveness of CSR activity depends upon the level of awareness of top-management as well as the society. According to Shirley Yeung (2011), understanding the key elements of a CSR framework can help fulfill the principles of CSR and improve the level of customer satisfaction for increasing market share and profits ultimately. This implies, awareness of top-management helps the effectiveness of implementing CSR activities properly in such a way that will optimize (win-win) to both the firm and society. As confirmed through the survey tools and presented in Table 4.1, all managers working in the position of CSR have awareness about the concept. This implies that, the null hypothesis accepted. In other words, the researcher fails to reject the null hypothesis.

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Table 4.1: Awareness of CSR

	Do you know what does mean by CSR?		
How do you come to know about CSR?		Yes	No
	Through formal education	50%	
	Through training	10%	
	From Commercial code	0	
	Through Reading	30%	
	Your company's code	10%	

On the other hand, about half (50%) of the managers come to know about the concept of CSR for the first time through formal education; whereas, the remaining through reading, training and their companies code. However, no one has learned from the commercial code or business rule of the country about the concept of CSR. This indicates that, the commercial code of the country, Ethiopia, either doesn't say something about the CSR or even though it exists, there might be no mechanism or institution that can push the firms to implement it. As investigated from interview with top-management, on the other hand, however, very insignificant number of the stakeholders knows about the CSR activities undertaken by the firm. As a result of this, the positive reaction of the stakeholders to the company's product is not satisfactory which is not good for firms to be committed to discharge their responsibility as long as they don't see any differences.

b) Multivariate regression analysis

In order to test the two hypothesis, two regression models were analyzed and presented in two tables (table 4.12 and Table 1.13) respectively. The results in table 4.12 revealed that there were no significant relationship between level of financial contribution to CSR activity and CFP as well as CSRD and financial performance at the even at 10% significance level.

Table 4.12: Random-effects GLS regression Output

ROA	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
ENVD	.4449356	.3401744	1.31	0.191	-.221794	1.111665
COND	-.6415586	.355375	-1.81	0.701	-1.338081	.0549637
COMD	-.4211408	.1942476	-2.17	0.301	-.801859	-.040425
EMPD	.3748464	.3976096	0.94	0.346	-.4044542	1.154147
Efficiency	-.1163348	.2532339	-0.46	0.646	-.6126641	.3799946
Capital Intensity	-1.71e-07	3.49e-06	-0.05	0.961	-7.01e-06	6.67e-06
Age	-.0010807	.0011999	-0.90	0.368	-.0034324	.001271
_cons	.3549777	.2921096	1.22	0.224	-.2175467	.9275021

As in the table 4.12, the coefficients of the independent variables are 0.44, -0.64, -0.42, and 0.37 for disclosure about environmental, consumer, community, and employees' concern respectively. This indicates that, disclosure about consumer and community concerns has negative effect on the performance of the firm though statistically insignificant. On the other hand, disclosure about the environment and employees' concern on the annual report of the banking sector shows positive relationship with firm's financial performance measured using return on assets (ROA), though statistically insignificant.

The potential reasons for this insignificant relationship between CSRD and CFP might be:

- Majority of the people in the country are farmers and illiterate so that whether the company has clearly stated it's concern about the community or the environment, few people could able to read and understand and positively react accordingly. As explored through interview with top-managements of the companies, very few numbers of their stakeholders knew properly their organizations active involvement in different CSR activities. Hence, if only few stakeholders knew about their involvement in different CSR activities, the cost outwaits the benefit they could have earned had the societies were literate. And/or
- Even if few of the societies are literate and able to understand the secondary data of firms in the sector, it is very much tough to find the financial reports easily. Most of the time firms in Ethiopia consider themselves as a loser if their financial and

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management information were disclosed to someone out of their firms' compound. However, financial reports are produced not only for internal users but also to all external users timely.

Table 4.13: Random-effects GLS regression Output

ROA	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
Donation	9.55e-09	4.19e-08	0.23	0.820	-7.25e-08	9.16e-08
Efficiency	-.289055	.1726948	-1.67	0.094	-.6275307	.0494207
Capital Intensity	-3.11e-07	2.85e-06	-0.11	0.913	-5.90e-06	5.27e-06
Age	-.0015627	.0011022	-1.42	0.156	-.0037229	.0005975
_cons	.2038436	.0940006	2.17	0.030	.0196059	.3880814

The beta coefficient for the independent variable, financial contribution for firms for different CSR activities, which was the summation of donation, membership fees and grant as proxy, was 0.00000001. This indicates that, the relationship between financial contribution for CSR activities by firms and corporate financial performance was just nonexistence. As also indicated in the table 4.13, the statistical relationship between the two variables was insignificant. The possible reasons as it was explored through interview and discussion with top-management, for the nonexistence of the two variables relationship might be as follows.

- Most firms in Ethiopia use donation as a means of competition than as a responsibility as indicated on table 4.4. The main motive was just to snatch the market share in unfair/unsystematic way that is why they distribute or donate to the needs mostly at the time of holiday.
- Except one firm, almost all firms considered for study did not have a standardized written guideline for how to discharge their CSR activities. This implies that, firms consider CSR activities as something that they could do it based on personal judgments. And /or
- Absence of full-time employee who can handle the societally issue made CSR activities in the firms not to be effective and systematic so as to maximize their financial performance.
- Hence, as tested using the econometric model, both the hypotheses are rejected at 10% level of significance. This shows that, there were no relationships between CSR and firms financial performance.

V. Conclusion

The study was conducted to assess the relationship between CSR and CFP using the approaches used by different research by modifying to the Ethiopian context. The modification was mainly made of the proxies used to measure the independent variable, CSR activities. Hence, in addition to the descriptive statistics, two econometric models were used to analyze the relationship between the two. One was the financial contribution made by firms in all activities of CSR, and the other proxy was the corporate social responsibility disclosure using the content analysis. Of course several studies were undertaken throughout the world, mainly in the context of advanced economy, to see the correlation between corporate social responsibility (CSR) and corporate financial performance (CFP) although results were different and even sometimes contradicting one another. For example, studies conducted by Waddock & Graves, 1997; Cheruiyot, 2010 shows a positive relationship between corporate social responsibility practice and firm financial performance. Contrary to these, some of the studies shows negative (Cordeiro & Sarkis, 1997; Wagner et al, 2002) and still others showing that there is no relationship between the two variables (McWilliams & Siegel, 2000; Aragon & Lopez, 2007). The root cause for this variation might be because the fact that the research approach used and the proxies used to measure CSR activities were not efficient. Therefore, this study used a mixed research design approach and applied multiple econometric models to assess the relationship between CSR and firm's financial performance in Ethiopia since one size does not fit all.

Moreover, the study explored the perception of top-managements' and different stakeholders' awareness about CSR through questionnaire and interview; and also analyzed using descriptive statistics. The finding shows that, there is no significant relationship between the financial contribution for CSR activities and CFP which similar to the findings of McWilliams & Siegel, 2000; Aragon & Lopez, 2007. Similarly, the study proved that corporate social responsibility disclosure (CSRD) and CFP have no relation even at 10% significance level. This might be because of the fact that, the accounting reports and disclosures issued by firms are uniform, just copy and paste, across the year. This shows that, reports

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produced by firms in Ethiopia are just for formality and as a means of pretending the regulators that is why reports are not available on some firms' website timely. Furthermore, the reports disclose only the customers and employees aspect ignoring the community at large as well as the environmental issues. This implies that, firms in the sector are much more concerned about the competition and totally ignoring their role in the community and environmental concern. To conclude, a lot of improvements are expected from firms in the country to discharge their CSR properly; this is because as proven in finding, majority of the business firms in Ethiopia were in the lower layer of Carroll's 1991, CSR pyramid, which is profit maximization, ignoring the other three pillars even though top-management has an understanding/awareness.

Summary of the hypotheses

	Hypothesis	Expected	Actual
H1	Relationship between corporate social responsibility disclosure and Financial Performance	Positive	No relationship
H2	Relationship between corporate social responsibility activity and Financial Performance	Positive	No relationship
H3	Most firms in the banking industry have awareness about the concept	Yes	Yes

VI. Recommendation to Firms and Policy Implications

- As explored through survey questionnaires, interview, and other related queries most firms in the sectors did not have any written guidelines on how to discharge CSR properly. Hence, the top-management should develop clear guidelines and also assign full-time staff otherwise their little effort will become zero-sum game.
- As investigated through the above finding (see table 4.4), majority of the firms in the sector used financial contribution for different CSR activities as a means of competition by pretending stakeholders that is why mostly businesses donate to the poor only at the time of holiday. To be effective and efficient enough, firms in the sectors should use proactive approach for discharging their CSR properly.
- All firms should need to have website where they can post all the CSR activities and also annual financial reports timely.
- The role of government in curbing unwanted social behavior and unlawful acts is very sound and effective in all aspects; the government of Ethiopia should develop and enforce how the businesses in the country should discharge their responsibility properly though some of the CSR activities are discretional.

VII. Limitations and Further Research Need to be Addressed

Though considerable efforts were made to address the research objective, the study has faced limitation in measuring corporate social responsibility disclosures and CSR activities. The study used items disclosed on the annual report of the firms so as to measure CSR disclosure and amount of donation for philanthropy as a measure of corporate social responsibility activities. Hence, further study need to done so as to identify which measurement techniques are more explanatory.

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Appendixes

Table 4.2: CSR Activities for Financial Institution Firms in Ethiopia

CSR Activities	Rank
a) Philanthropic or Humanitarian contribution	8th
b) Doing business lawfully	1st
c) Doing everything ethically	3rd
d) Producing quality product	2nd
e) Fair pricing of products	6th
f) Protecting Environment	7th
g) Providing employees sufficient benefit	4th
h) Preparing and issuing quality financial report periodically	5th

Table 4.3: Discharging CSR

	Does your company properly discharge CSR?			
How many percent of firms in Ethiopia do properly discharge CSR?		Yes	No	Partially
	Less than 10%	40%		
	11-25%	30%		10%
	26-50%	20%		
	Above 50%	0		

Table 4.4: Reasons for discharging CSR

Reasons for discharging CSR	%
a) Commercial code/rule and regulation of the country forces to do so	30%
b) Every company has their own rules and regulation to discharge CSR	
c) Because of competition in the industry both from domestic and international firms	40%
d) Discharging CSR has an effect on the profitability of the company	10%
e) Do not know	10%

Table 4.5: Financial Contribution to CSR Activities

CSR Activities	Percent (%)
a) Donation to government development projects	30%
b) Donation to NGOs'	26%
c) Establishing school for the community and/or employees'	3%
d) Establishing health center for the community and/or employees'	3%
e) Infrastructure (electric, water, road……) for the community and/or employees'	1%
f) Supporting suppliers/farmers in transferring technology	2%
g) Sponsorship for Sport, arts and culture	10%
h) Donating the country's disasters or Humanitarian activities	10%
i) Environmental protection	14%

Table 4.6: Budget for CSR Activities

	Does your company has budget for financial contribution to CSR?			
How do you estimate the budgeted cost for all financial contributions to CSR?		Yes	No	Sometimes
	Guess			
	Past experience	80		10
	Based on competitors			
	Some other formula		10	

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Table 4.7: CSR disclosure Areas

Categories and subcategories of corporate social responsibility disclosure (CSRD)	Rank
a. Environmental disclosure:	
1- Environmental policy or company concern for the environment. 2- Environmental management, systems and Environmental audit. 3- Environmental friendly product and processing system. 4- Environmental protection financially costs. 5- Sustainability of the environment protection. 6- Energy usage and emission reduction. 7- Environmental other	4th
b. Consumer disclosure 1- Product and consumer safety 2- Consumer complaints 3- Prevision for disabled 4- Provision for difficult-to- reach customers.	1st
c. Community involvement disclosure 1- Charity and political donations 2- Support for education. 3- Support for public health. 4- Support for the arts and culture. 5- Sponsoring sporting or recreational projects	3rd
d. Employee disclosure 1- Employee data 2- Pension data 3- Consultation with employees 4- Employment of disabled 5- Value added statement 6- Health and safety 7- Share ownership 8- Equal opportunities 9- Employee other	2nd

Table 4.8: Summary for Descriptive Statistics for CSRD & CFP (Model 1)

Variable	Mean	Std. Dev.	Min	Max
ENVD	.203	.1340162	0	.29
COND	.65	.123508	.5	.75
COMD	.28	.1613502	0	.6
EMPD	.556	.0860666	.45	.67
ROA	.0383944	.1072129	-.0197645	.8376265
Control Variables				
Efficiency	.42055	.113756	.2481005	.7303137
Capital Intensity	1347.203	5481.54	13.46302	32961.8
Age	28.9	19.15211	6	73

Table 4.9: Summary for Descriptive Statistics for Donation & CFP (Model 2)

Variable	Mean Std. Dev.	Min	Max
ROA	.0383944 .1072129	-.0197645	.8376265
Donation	177320.2 374428.7	0	1818202
Control Variables			
Efficiency	.42055 .113756	.2481005	.7303137
Capital Intensity	1347.203 5481.54	13.46302	32961.8
Age	28.9 19.15211	6	73

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Table 4.10: Correlation Coefficient

	ENVD	COND	COMD	EMPD	ROA	Efficiency	Cap.Intey	Age
ENVD	1.0000							
COND	0.8018	1.0000						
COMD	0.6001	0.1531	1.0000					
EMPD	0.5574	0.5357	0.4921	1.0000				
ROA	-0.2664	-0.2031	-0.3006	-0.0228	1.0000			
Efficiency	-0.0625	0.0028	-0.0798	-0.4913	-0.1547	1.0000		
CapitalInt~y	0.1596	-0.2922	0.4797	-0.0197	-0.0526	-0.1268	1.0000	
Age	0.1229	-0.1225	0.2132	-0.0687	-0.1274	-0.5266	0.2810	1.0000

Table 4.11: Correlation Coefficient

	ROA	Donation	Efficiency	Capita~y	Age
ROA	1.0000				
Donation	0.0615	1.0000			
Efficiency	-0.1547	0.1488	1.0000		
Capital Intensity	-0.0526	-0.0583	-0.1268	1.0000	
Age	-0.1274	-0.1588	-0.5266	0.2810	1.0000

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