

**ST. MARY UNIVERSITY
SCHOOL OF GRADUATE STUDIES**



DEPARTMENT OF BUSINESS ADMINISTRATION

**THE EFFECT OF CORPORATE SOCIAL
RESPONSIBILITY ON PROFITABILITY:
THE CASE OF ABAY BANK S.C**

BY SOLOMON MEKONNEN

ADVISOR

SHOA JEMAL (ASST.PROF)

**A THESIS REPORT SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF
GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION**

**JUNE, 2024
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APPROVED BY BOARD OF EXAMINERS

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Shoa Jemal (Asst. Professor). All sources of material 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 institutions for the purpose of earning any degree.

Solomon Mekonnen

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St. Mary's University, Addis Ababa

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June, 2024

ENDORSEMENT

This thesis has been submitted to St. Mary's University, School of Graduate Studies for examination with my approval as a university advisor.

Shoa Jemal (Asst. prof)
Advisor

Signature & Date

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ACRONYMS/ABBREVIATIONS

ANOVA- Analysis of Variance

CSR-Corporate Social Responsibility

CFP-Corporate Financial Performance

ECONR- Economic dimension of CSR

ETHCR-Ethical dimension of CSR

LEGAR-Legal dimension of CSR

PHILANR-Discretionary / Philanthropic dimension of CSR

SPSS- Statistical Package for Social Science

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Abstract

Corporate social responsibility is becoming a tool for competitive positioning. It is the basis for profitability among other advantages and therefore, it described as a strategic tool in marketing. In spite of these observations, there appears to be a rareness of studies, linking corporate social responsibility to profitability. Therefore, the purpose of this study was to examine the effect of corporate social responsibility on profitability in the context of Abay Bank S.C. Specifically the study examined how company's corporate social responsibility activities (economic, legal, ethical and philanthropic) related to profitability (the bank's management and employees awareness and which CSR practice applied more). A conceptual framework developed based on a review of extant literature to depict the relationships among the study variables. This study employed descriptive and explanatory research design to answer the research questions and to know the current conditions of the bank with regard to corporate social responsibility and employees' perception towards it. The questionnaire administered to 320 samples of respondents using stratified random sampling technique. The data were analyzed using descriptive statistics, correlation and regressions model. The findings of the study showed that the overall corporate social responsibility practice of the company's makes a significant contribution to the company's profitability. All, economic, philanthropic, legal and ethical corporate social responsibility practice of the company has positive significant effect on profitability. Therefore, it knows that the practice valued by the employees of Abay Bank and has a significant effect on the company's profitability. The bank should consider working on making awareness to its employees and the public about the practice of corporate social responsibility activities by using different mechanisms in more organized way, in order to get the return from its good deeds.

Key Words: Corporate Social Responsibility, Profitability, Abay Bank S.C.

CHAPTER ONE

1.1 Background of the study

During recent years, corporate social responsibility (CSR) has become a widely and over and over again discussed topic in the educational community given the effects that business-environment activities have on employees, clients, authorities, society, business partners, investors, environment, and local communities (Saxton, 2014).

The ever-growing curiosity in CSR has drawn the attention of researchers and of the business environment on its acceptability and its sound effects on company performance. Stakeholders play a significant role in the financial performance of a company (Garriga & Mele, 2004). Companies are more and more aware of the fact that they must accept the responsibility regarding the impact of their business activity on all the stakeholders and support, through voluntary actions, the communities where they perform their economic activity (McWilliams & Siegel, 2001).

In the earlier period, financial performance was one of the key measurements of a firm's value. Greater rank was also given especially who have a high financial margin also, Maximization of shareholders wealth as well as crucial point especially for firms who are revenue driven organizations. In this regard, the emphasis that is given for CSR was not obvious through times the emphasis (CSR) has changed because the value of one organization success is determined by its participation to the society (Nari & Raman , 2012) and (Benjamin, 2017) .

CSR has been rising as a worthy corporate strategy in this regard there are two motives for the growing interest in CSR. On one hand, consumers are demanding from firms something more than a high-quality product at a low price, and they have a preference for brands that are socially reputed when evaluating similar products (Porter and Kramer, 2006).

Many studies (Aguinis & Glavas, 2012); (Anderson Linda Ackerman, 2010); (Anderson and Fornell, 2004); (Aragón and López, 2007); (Andriof, 2002); (Aragón and López, 2007); (Aupperle; Carroll and Hatfield, 1985); (Babalola, 2012); (Brammer and Millington, 2008) and (Carrol, 2016) examining the association between CSR and company performance are done in the case of developed countries and very few studies were performed in the case of developing or emerging countries like Ethiopia. CSR in developing countries or emerging countries is assumed as a philanthropic, public-relation, or marketing activity (Sanclemente-Téllez & Wicks, 2017).

Corporate responsibility should be clearly understood as a responsibility toward stakeholders. Accordingly, in current management CSR has come equivalent importance as firms profitability (CFP); Still, CSR is not about one-off project it is all about reducing the adverse effect that takes place from the activities of business entities open emotional connectivity with customer inclines to development of a business, assessing a corporate beyond its product and beneficial features to a higher level of meaning and commitment to customer well-being (Madhusanka., 2015).

CSR is a current occurrence in the Ethiopian business perspective. The opinion of CSR is talked over mostly at the university and government levels and its application has been low (Potluri, 2008- 2011). But, nowadays good starts are evident in some industries. For instance, (Tilahun, 2011) mentions that social enterprises, as well as multinational and local companies in the country, are playing significant roles in the environmental perspective of CSR. By engaging in CSR activities the firms are working in the direction of cultivating sustainable environmental management in the country.

Corporate Social Responsibility (CSR) is a concept that has involved worldwide thought and developed a different significance in the global economy. Whereas globalization and worldwide trade have given way to great openings, it has also unlocked the entrance to bigger complications for countries across the globe. This has resulted in the call and need for greater transparency and corporate citizenship and opened the gateway for a culture called corporate social responsibility or CSR which in fact allows for corporations to take on a role in the society, to play the caretaker, and to show it carefulness. As a well-managed modern rival organization operating in the 21st century, the business entity has to care for the fundamentals and expectations of its stakeholders (Madhusanka., 2015).

Corporate action might have numerous kinds of negative impacts happening in the surrounding natural environment because of business operations. Such impacts might include overuse of natural, non-renewable resources of energy, pollution wastage, and degeneration of biodiversity, climate change, deforestation and so forth (Uddin;Hassen and Tarique, 2008).

However, according to (Debas, 2011), companies and social enterprises in Ethiopia participate in environmental management or CSR as a result of the influence of external factors such as policymakers, customers and competitors, on the one hand, and own responsibility, public recognition and improve relations with the local community.

The purpose of the study is to assess the corporate social responsibility activities and its effect on corporate profitability in the case of Abay Bank S.C.

1.1.1 Background of Abay Bank S.C

Abay Bank S.C is a private financial institution established in 2009, with its head quarter based in Addis Ababa. It started its banking service in October 2010. Banking service is the flourishing industry of the country; Currently 32 banks have started their operation all over the country. Though for a country like Ethiopia 32 banks seems few but the trend and development of using the bank service is limited. These realities forge Abay bank to start its operation with better products and services.

The major services that provide by the bank are saving service, current service, loan service, promissory notes, foreign exchange services, local and international money transfer service, card payment services, electronic banking service and import- export service. There are also unique products and services that provide by the bank, i.e., evening service up to 9:00 PM, provide advice and financial support for entrepreneurs, provide professional advice to clients to be successful in their business and work in partnership with clients on viability of projects. Comparing to the bank's peer groups, in terms of establishment period, the bank known by its aggressive branch expansion, as of December 22, 2023, the bank expanded the number of its branches to 523, and the total number of staffs reached 7014

1.2 Definition of Key Terms

- ✓ **Corporate Social Responsibility** is a self-regulating business model that helps a company be socially accountable to itself, its stakeholders, and the public. By practicing corporate social responsibility, also called corporate citizenship, companies can be conscious of the kind of impact they are having on all aspects of society including economic, social, and environmental. To engage in CSR means that, in the normal course of business, a company is operating in ways that enhances society and the environment, instead of contributing negatively to them. (Chen, 2019).
- ✓ **Philanthropic Responsibility:** Philanthropic responsibility refers to voluntary giving and service to society (Jusubova, 2015).
- ✓ **Financial performance:** is a measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general

measure of a firm's overall financial health over a given period. Analysts and investors use financial performance to compare similar firms across the same industry or to compare industries or sectors in aggregate. (Kenton, 2019)

1.3 Statement of the Problem

In today's rapidly varying business environment, firms of all sizes are under pressure to establish ethical behavior. Firms are responsible not to shareholders, but also to stakeholders, such as employees, consumers, suppliers, local communities, competitors, and the environment. Businesses must not act in a responsible manner since it is in their commercial interest, but it is how society expects the businesses to behave (Chang and Darcy, 2017). CSR is a concept inspiring positive volunteering-based social activities or accountabilities towards the stakeholders of a company (Laisc, 2017). Such social activities carried out by the companies are not directly linked to the business, but their effects have an indirect positive influence on company activity (Hopkins;Justice And Ariyabandu, 2012) and (Ariyabandu, 2018).

Now a day the study of CSR and its relation to financial performance is rising. Sustainable firms expect the upcoming needs of the public and regulate their business priorities to different needs, making sure they have the assets to carry on doing business. (Aupperle; Carroll and Hatfield, 1985).

Today, more companies initiate CSR strategies in Ethiopia. Apart from multinational companies, we can also detect an increased number of NGOs and a few national companies. Also, a study conducted by (Kassaye, April 2016) identified that since the people interviewed in Ethiopia showed the need for companies and organizations to engage in philanthropy (charity) because the government and institutions did not get to the top to support the socio-economic needs of the Ethiopian society.

The specified literature also highlights the fact that CSR practices create additional costs for companies unless such costs produce positive elements returned in an added company performance, such costs can affect the company results, which, in turn, may lead to a competitive disadvantage (Agarwal, 2008). Friedman (Friedman, 1970) emphasized that the only responsibility a company has is to increase shareholder wealth. Friedman's followers argued that CSR only brings additional costs to the company; therefore it reduces shareholder wealth (Reich).

Moreover, (Bogomolova & Romaniuk, 2008) found not only a negative relation between

CSR and company financial performance (CFP) but, also showed that companies adopt CSR practices whenever their brand or image is affected. Researchers found a negative relation between CSR and CFP when market base measures were included in their analyses (Momente and Reggiani, 2007), different control variables, as well as multiple-industries inclusion in the regression models (Gossling and Beurden, 2008) Hence, CSR activities continue to aggravate uncertainties as to whether such initiatives may lead to improved company performance and whether they are a source of sustainable competitive advantage.

Earlier studies have revealed the presence of a positive relation between CSR and firm profitability as well as a negative relation or the lack of a statistically significant relation to the need to conduct this type of research (O'Bannon & Preston; Graves, 1997).

Most of the empirical studies about the effect of CSR on a firm's profitability have focused on the developed countries while only fewer studies have been conducted in developing countries like Ethiopia. Of these studies conducted in Ethiopia, they were skewed towards the oil gas firms, telecommunication, and manufacturing sector or they were only focused on CSR not with the relation of profitability, plus, there were relatively small numbers of studies found in the banking industry in Ethiopia context.

The banking industry is one of the most profitable sectors in Ethiopia. According to the national disaster risk management commission, WFP and OCHA 2023 report Ethiopia has more than 11 million people who are in need of food assistance. By taking this fact and considering the banking sector profitability it is difficult to find from their annual reports to understand the level of banking sector involvement in the application of CSR activities they have made to such needy citizens or other social groups. As per the preliminary mini research conducted by the researcher, there is a gap on awareness of the management and employees of Abay Bank S.C on the effect of CSR on its profitability. Therefore, this study contributes its share to fill the gap by examining the effect of CSR on firm's profitability in Abay Bank Share Company.

1.4 Research Question

To recognize the point of this study the researcher will answer the following research questions:

- 1) To what extent economic CSR practice influence profitability in Abay Bank S.C?

- 2) To what extent the bank's philanthropic CSR activity contribute for profitability in Abay Bank?
- 3) To what extent Abay Bank's legal CSR practice affect bank's profitability?
- 4) What is the effect of ethical CSR activities in Abay Bank's profitability?

1.5 The objective of the study

1.5.1 General Objective

The main objective of the study is to determine the effect of Corporate Social Responsibility on profitability, In Abay Bank S.C.

1.5.2 Specific Objective

The study examines the following points while reviewing the Banking industry specifically Abay Bank S.C performance,

- To investigate economic CSR activities have statistically significant effect on profitability in Abay Bank S.C.
- To identify philanthropic CSR practices has statistically significant relationship on profitability in Abay Bank S.C.
- To evaluate the influence of legal CSR activities on profitability in Abay Bank S.C
- To identify if ethical CSR practices have statistically significant effect on profitability in Abay Bank S.C.

1.6 Significance of the study

The findings likely to be essential in providing insight towards which, CSR activities are the most operative in terms of their effect on the bottom line of the banking-business of profitability. This insight would enable them to regulate the balance between maximization of the social good that can be drawn from CSR activities and profitability. The above-mentioned idea has attracted the need to explore how corporate social responsibility expenditures influenced the profitability of banking-industry in Ethiopia.

- Enable the researchers to have more knowhow about CSR and CFP.
- It will serve as a source for other researchers to deal with the matter further.
- Management: Administration could be interested in identifying indicators of drives CSR to take the necessary actions to improve the profitability of the bank.

1.7 Scope of the study

In this study, the effect of CSR on firms Profitability eagerly defined. The effect of CSR on profitability of the firms clearly show whether if there is an association and the effect of CSR on firm profitability in Abay Bank S.C. When looking effects of corporate social responsibility, the study was limited to its effect on Abay Bank's profitability.

Due to financial problems and time constraints and geographical distribution of branches, not all employees could be included in the study. The researcher therefore limited the study to Abay bank S.C head office and Addis Ababa branches only.

The study employed quantitative research design, approach based on questionnaire and descriptive and inferential analysis made for the measurement of CSR the model developed by Carroll (1991).

1.8 Limitation of the study

The limitation that this research encountered is that since it is conducted on a single company and does not cover the whole employees of the bank, the finding of the study would be hard to make generalizations. In addition to the above limitation, some of the officials of the bank are not willing to provide certain relevant information's by assuming that information requested is very confidential, even if it is not.

Moreover, omission of customers to participate in the study and might affect the validity of the study findings. Thus, further and more comprehensive study needed to fully understand this area of research. On the basis of time required to complete the research it is one time research.

1.9 Organization of the study

This research consists five chapters. Chapter one includes the introduction, definition of terms followed by statement of the problem, research question and objectives of the study, significance of the study, limitation and delimitation of the study. Under chapter two, the literature review is presented, it include various views of theorists with regard to the importance, process and its effect on profitability ,empirical review, conceptual frame work analyzed and discussed. Chapter three deals with the methodology employed in the study, the study finding and their interpretation are presented in the fourth chapter. Finally, the fifth chapter finalizes the study by giving summarization of findings, conclusions and recommendations based on the research findings.

CHAPTER TWO

REVIEW OF RESEARCH LITERATURE

2.1 Theoretical Review

The purpose of businesses is to produce products or services that meet consumer demand. However, with the depletion of resources and environmental pollution, people have gradually realized the importance of sustainable development. Furthermore, with better living standards, people pay attention to social issues such as health and human rights. Various factors have led to higher expectations regarding the role of businesses in society (Huang, 2014). In addition to their growth, companies need to consider the overall well-being of society and make moral contributions beyond economic and legal aspects. Enterprises are not only economic entities that operate for profit but also exist to create an ideal society (Carroll and Shabana, 2010). Therefore, corporate social responsibility (CSR) has become an important research topic in recent years (Yuan et al., 2020).

Human history has witnessed countless economic crises and now we have to face environmental crises raised by climate change. The more modern society becomes, the more polluted the environment is. In some underdeveloped and developing countries, many people do not have clean water due to a lot of companies and factories being constructed. That sets an urgent requirement for companies to ensure basic conditions related to the environment and humaneness following the law and it is called “corporate social responsibility” (CSR).

Stakeholders were first introduced to the term CSR through the book *Social Responsibilities of the Businessman* (Bowen, 2013). As per Aurélien et al. (2011), the Social Responsibility Board (SRB) delineates social responsibilities as the businessmen's duty to pursue policies, make decisions, or adopt actions that align with the objectives and values of our society. Carroll first defined CSR in four parts in 1979. In 1991, he presented a pyramid-shaped example of the concept. According to Carroll (2016), here are a few different ways to define CSR. The European Commission defines corporate social responsibility (CSR) as the voluntary integration of social and environmental issues into business operations and stakeholder interactions by enterprises. Going above and beyond legal requirements is a sign of social responsibility. CSR is a method for obtaining sustainability's primary advantages (Tsoutsoura, 2004). Several scholars have reflected, along the years, many elements of the CSR concept (Ali, 2010) and (Saxena and Gupta, 2006) in their studies, these authors study

CSR activities about their influence on company employees. These study outcomes have revealed that the companies carrying out CSR activities relate better to the employees, clients, shareholders, environment, suppliers, and the local communities. In keeping with the same authors, companies produce added value through proper communication and understanding of the company stakeholders' demand. From country to country, the form of communication and performance of the CSR-type activities is to some extent different in terms of economic development, culture, religion, traditions, government actions, and the severity of the social and environmental problems the country faces (Williams, 1999) and (Al-khatib and Suliman, 2014).

Firms can achieve a competitive advantage through strategies such as cost leadership, marketing differentiation, and innovative differentiation (Porter & Kramer, 2006). These are strategies used by corporations in order to improve their employees' engagement and to include factors such as closer community, better collaboration, employee loyalty and dedication to the company, and more active participation initiatives at the workplace.

Furthermore, the benefits that companies receive from high employee morale and higher productivity more than offset the costs that they incur from allowing CSR initiatives (Kelley and Glavas, 2014; Igalens; Jacques and El Akremi, 2010). In 2002, Post and Preston It is advised that businesses enhance the human capital of their workforce, as this is a particular measure linked to competitive advantage. The authors then demonstrate how committed staff members might aid in the accomplishment of organizational goals. The company's competitive edge is further expressed by the products and services that managers and employees decide represent the quality of the work (Prusak and Cohen, 2001). Consumers are the company's primary stakeholder and are thought to be the primary motivator for businesses adopting CSR measures. A comprehensive assessment of a customer's purchasing behavior and overall consumption of a particular good or service over time is known as client fulfillment (Vercuic©and Coric, 2018); (Gerbing and Anderson, 1988); and (Fornell.) Given that Gruca (2005) noted that customer satisfaction has a significant impact on a company's long-term profitability as well as its market value, these objectives are thought to be the primary drivers of businesses implementing and utilizing CSR activities. (Davenport, Corporate Citizenship: A Stakeholder Approach to Determining Metrics for Measuring Corporate Social Performance. Business Societies, 2000) Additionally (Wood, 1991) suggested future-oriented ideas for corporate social responsibility initiatives that addressed client concerns, such as upholding consumer rights, offering high-quality goods and services,

and disseminating accurate information about the goods and services that businesses sell. According to specific research, a company's market value is impacted by its CSR efforts in terms of customer satisfaction (Mosley, Brady, and Walsh, 2007; Anderson and Fornell, 2004). However, according to the same authors, some aspects of CSR practices have evolved and help to raise customer satisfaction by raising the caliber of goods and/or services that businesses provide through CSR initiatives. The research conducted by Lee and Heo (2009) revealed that CSR actions have a favorable impact on buyer satisfaction, so positively influencing firms' profitability.

Green protection is considered to be of public concern (Mazurkiewicz, 2004) (Mishra & Suar, 2010) Emphasized that performance in the field of environmental responsibility actions is heightened by the improvement of three aspects. These features regard the use of recycled materials and other resource-saving programs in product technology; technological processes such as efficient-production systems; and management systems such as continuous employee-training programs and environmental auditors. The researchers' evidence suggested that proactive environmental management increases the market value of a company, as well as its reputation and financial performance (Klassen ;Simionescu and McLaughlin., 1996) and (Dumitrescu D. , 2015).

Firms are responsible for protecting the environment. Many organizations do this voluntarily. So, through environment-protection practices, companies must minimize the actions that might harm natural resources. Also, the efficient management of pollutant emission and waste disposal needs to be associated with an expansion of a firm's resource productivity and efficiency. (Davenport, 2000). Though there are various ways of demonstrating the CSR of business, a common and widely understood mechanism to demonstrate the CSR activities is Triple Bottom Line (TBL) concept developed by (Elkington, 1994) which is commonly known as three Ps and argues for businesses to measure their success according to three perspectives: people, planet, and profits. People refer to how companies carry out their business in regard to the affected labor force, Planet attributes to how the company takes its responsibility towards environmental parameters and Profit refers to how the company's economically generates benefits to society. These three dimensions should properly be evaluated, corporate sustainability and capital growth meet the needs of a company's direct and indirect stakeholders (Dyllick, 2003).

An earlier study showed that targeted on studying the relationship between environmental performance and the firm's profitability highlights a significant point of view regarding the

result of such a relation (Elsayed & Paton, 2005) put emphasis on that the “faith of the win-win strategy followers” (Porter, 1991); (Vanderlinde and Porter , 1995) says that the advancement or protection of the environment can benefit not only the company interest but also the company mutual benefit at a wider level” (Elsayed & Paton, 2005) . Yet, (Palmer K. O., 1995) and (Whitehead, 1994) debated that corporations must make a finding the middle ground (at least, in the short term) between environmental act and the firm's profitability. (McWilliams & Siegel, 2001) support the argument of (Elsayed & Paton, 2005), agreeing to which the “optimal level of the CSR investments for a company can be assessed in the same way the other investments are valued, by taking into account the marginal costs and benefits” (Elsayed & Paton, 2005). Scholars, conversely, indicated that an optimistic relation exists between environmental CSR practices and a firm’s profitability (Elsayed & Paton, 2005) and (McWilliams & Siegel, 2001). The drive of the study is primarily to gain a first understanding of CSR on a firm’s profitability from Abay Bank S.C perspective to form a baseline for further research.as mentioned in the background.

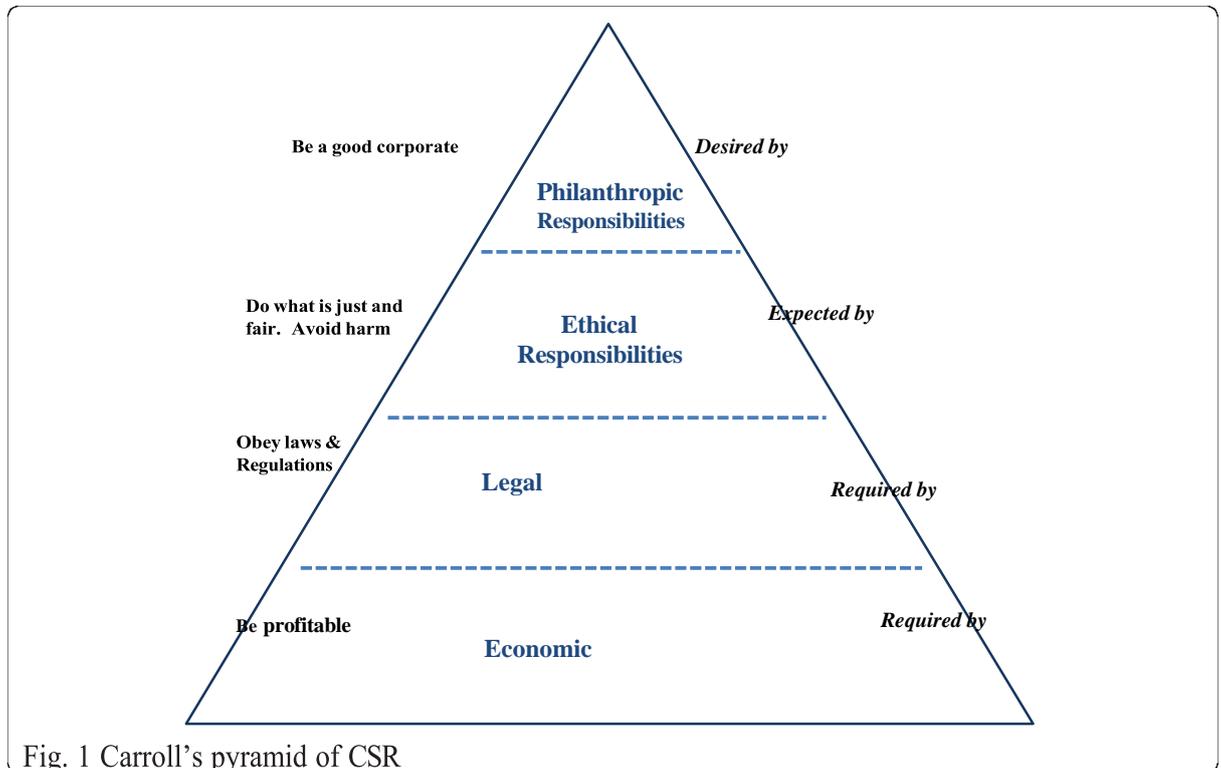
2.1.1 The pyramid of CSR

The four-part definition of CSR was originally published in 1979. In 1991, Carroll extracted the four-part definition and recast it in the form of a CSR pyramid. The purpose of the pyramid was to single out the definitional aspect of CSR and to illustrate the building block nature of the four part framework. The pyramid was selected as a geometric design because it is simple, intuitive, and built to withstand the test of time. Consequently, the economic responsibility was placed as the base of the pyramid because it is a foundational requirement in business. Just as the footings of a building must be strong to support the entire edifice, sustained profitability must be strong to support society’s other expectations of enterprises. The point here is that the infrastructure of CSR is built upon the premise of an economically sound and sustainable business.

At the same time, society is conveying the message to business that it is expected to obey the law and comply with regulations because law and regulations are society’s codification of the basic ground rules upon which business is to operate in a civil society. If one looks at CSR in developing countries, for example, whether a legal and regulatory framework exists or not significantly affects whether multinationals invest there or not because such a legal infrastructure is imperative to provide a foundation for legitimate business growth.

In addition, business is expected to operate in an ethical fashion. This means that business has

the expectation, and obligation, that it will do what is right, just, and fair and to avoid or minimize harm to all the stake- holders with whom it interacts. Finally, business is expected to be a good corporate citizen, that is, to give back and to contribute financial, physical, and human resources to the communities of which it is a part. In short, the pyramid is built in a fashion that reflects the fundamental roles played and expected by business in society



Economic responsibilities: As a fundamental condition or requirement of existence, businesses have an economic responsibility to the society that permitted them to be created and sustained. At first, it may seem unusual to think about an economic expectation as a social responsibility, but this is what it is because society expects, indeed requires, business organizations to be able to sustain themselves and the only way this is possible is by being profitable and able to incentivize owners or shareholders to invest and have enough resources to continue in operation. In its origins, society views business organizations as institutions that will produce and sell the goods and services it needs and desires. As an inducement, society allows businesses to take profits. Businesses create profits when they add value, and in doing this they benefit all the stakeholders of the business.

Profits are necessary both to reward investor/owners and also for business growth when profits are rein- vested back into the business. CEOs, managers, and entrepreneurs

will attest to the vital foundational importance of profitability and return on investment as motivators for business success. Virtually all economic systems of the world recognize the vital importance to the societies of businesses making profits. While thinking about its' economic responsibilities, businesses employ many business concepts that are directed towards financial effectiveness attention to revenues, cost effectiveness, investments, marketing, strategies, operations, and a host of professional concepts focused on augmenting the long-term financial success of the organization. In today's hypercompetitive global business environment, economic performance and sustainability have become urgent topics. Those firms that are not successful in their economic or financial sphere go out of business and any other responsibilities that may be incumbent upon them become moot considerations. Therefore, the economic responsibility is a baseline requirement that must be met in a competitive business world.

Legal responsibilities: Society has not only sanctioned businesses as economic entities, but it has also established the minimal ground rules under which businesses are expected to operate and function. These ground rules include laws and regulations and in effect reflect society's view of "codified ethics" in that they articulate fundamental notions of fair business practices as established by lawmakers at federal, state and local levels. Businesses are expected and required to comply with these laws and regulations as a condition of operating. It is not an accident that compliance officers now occupy an important and high level position in company organization charts. While meeting these legal responsibilities, important expectations of business include their

- Performing in a manner consistent with expectations of government and law
- Complying with various federal, state, and local regulations
- Conducting themselves as law-abiding corporate citizens
- Fulfilling all their legal obligations to societal stakeholders
- Providing goods and services that at least meet minimal legal requirements

Ethical responsibilities: The normative expectations of most societies hold that laws are essential but not sufficient. In addition to what is required by laws and regulations, society expects businesses to operate and conduct their affairs in an ethical fashion. Taking on ethical responsibilities implies that organizations will embrace those activities,

norms, standards and practices that even though they are not codified into law, are expected nonetheless. Part of the ethical expectation is that businesses will be responsive to the “spirit” of the law, not just the letter of the law. Another aspect of the ethical expectation is that businesses will conduct their affairs in a fair and objective fashion even in those cases when laws do not provide guidance or dictate courses of action. Thus, ethical responsibilities embrace those activities, standards, policies, and practices that are expected or prohibited by society even though they are not codified into law. The goal of these expectations is that businesses will be responsible for and responsive to the full range of norms, standards, values, principles, and expectations that reflect and honor what consumers, employees, owners and the community regard as consistent with respect to the protection of stakeholders’ moral rights. The distinction between legal and ethical expectations can often be tricky. Legal expectations certainly are based on ethical premises. But, ethical expectations carry these further. In essence, then, both contain a strong ethical dimension or character and the difference hinges upon the mandate society have given business through legal codification.

While meeting these ethical responsibilities, important expectations of business include their

- Performing in a manner consistent with expectations of societal mores and ethical norms
- Recognizing and respecting new or evolving ethical/ moral norms adopted by society
- Preventing ethical norms from being compromised in order to achieve business goals
- Being good corporate citizens by doing what is expected morally or ethically
- Recognizing that business integrity and ethical behavior go beyond mere compliance with laws and regulations (Carroll 1991).

As an overlay to all that has been said about ethical responsibilities, it also should be clearly stated that in addition to society’s expectations regarding ethical performance, there are also the great, universal principles of moral philosophy such as rights, justice, and utilitarianism that also should inform and guide company decisions and practices.

Philanthropic responsibilities: Corporate philanthropy includes all forms of business giving. Corporate philanthropy embraces business’s voluntary or discretionary activities.

Philanthropy or business giving may not be a responsibility in a literal sense, but it is normally expected by businesses today and is a part of the everyday expectations of the public. Certainly, the quantity and nature of these activities are voluntary or discretionary. They are guided by business's desire to participate in social activities that are not man- dated, not required by law, and not generally expected of business in an ethical sense. Having said that, some businesses do give partially out of an ethical motivation, that is, they want to do what is right for society. The public does have a sense that businesses will "give back," and this constitutes the "expectation" aspect of the responsibility. When one examines the social contract between business and society today, it typically is found that the citizenry expects businesses to be good corporate citizens just as individuals are. To fulfill its perceived philanthropic responsibilities, companies engage in a variety of giving forms gifts of monetary resources, product and service donations, volunteerism by employees and management, community development and any other discretionary contribution to the community or stakeholder groups that make up the community.

Although there is sometimes an altruistic motivation for business giving, most companies engage in philanthropy as a practical way to demonstrate their good citizenship. This is done to enhance or augment the company's reputation and not necessarily for noble or self-sacrificing reasons. The primary difference between the ethical and philanthropic categories in the four part model is that business giving is not necessarily expected in a moral or ethical sense. Society expects such gifts, but it does not label companies as "unethical" based on their giving patterns or whether the companies are giving at the desired level. As a consequence, the philanthropic responsibility is more discretionary or voluntary on business's part. Hence, this category is often thought of as good "corporate citizenship." Having said all this, philanthropy historically has been one of the most important elements of CSR definitions and this continues today.

2.1.2 The association between CSR and CFP

The link among CSR and profitability, or a firm's financial performance, has been debated for many years. Numerous empirical studies carried out by different scholars show various findings. In the meantime, most articles do not explain the difference between profitability and financial performance of a company precisely. Also, the link between CSR and profitability has a reciprocal association the researcher not only study how CSR influence the

profitability , but also focus on how financial performance has effect on CSR. But, in this mutual linkage, some scholars made more detailed research and pointed out that, the causation between CSR and profitability is in fact unequal. According to the researches from (Scholtens, 2008) and (Peloza, 2009), it is evidenced that profitability has much more positive impacts on CSR than CSR has on profitability. However, this study is going to examine the CSR-profitability relationship and the financial effects of CSR performance.

2.1.3 CSR-profitability association

Favorable Linkage

As stated by (Pava & Krausz, 1996) research, which is based on examining 53 multinationals that are recognized as social-responsible and 21 empirical studies, companies who implement a good CSR performance also has a strong, or even better, financial performance than other firms who do not. (Aupperle; Carroll and Hatfield, 1985). Also debates that social responsibility is a smart investment for the firm even if there is no sufficient evidence to prove its direct relation with capital markets. Likewise, (Robertson, 2009) rely on that the progress of a firm's CSR has both immediate and continuing positive financial effect on the corporation.

Also, a decent act of CSR gets a better reputation and market opportunities for the company (Pava & Krausz, 1996) mainly in the food industry, since customers are more willing to purchase products from those companies who promote products related to their social responsibilities.

Additionally, (Barnett, 2007) discuss that a firm who does higher-level social responsibility may get less labor problem, faces less financial risks from a bank, investor and government, and reduce costs from monitoring, because of the advantage that the company improves its relationship with its stakeholders on the basis of mutual trust. It is also supported by (Verschoor, 1998) that companies who promise to obey the rules ethically in their annual reports or put emphasis on meeting the terms of code of conduct have healthier financial performance than those who do not.

In general, environmental initiatives, energy consumption, waste reduction, etc., and social initiatives, care for the employee's safety and health, etc., are linked with positive financial performance (Peloza, 2009). In contrast, (Banyte, 2010) concluded that environment protection activities have high costs so they may be negatively related to profitability.

Unfavorable Linkage

Still, (Kolstad, 2007) debates that company's CSR performance cannot constantly go together with profitability, in the meantime; the author relies on implementing CSR with a promoting-profit intention in mind that is narrow and unethical. Yet, a wide number of firms still follow making a profit in their ethical CSR work, and stakeholders in a firm are not willing to loss profit to increase social responsibility performance (Pava & Krausz, 1996). CSR requires a firm understanding of its social responsibilities and then carrying out them, no matter whether they can lead to adding profit or not for the corporation. But, it does not mean that there is no potential room for maximizing profit in ethics since, (Kolstad, 2007) advises that a company should have conditional attention for maximizing profit and profit can be gained through fulfilling other duties. CSR and profitability can only go together in a systematic way. Also, some scholars also think CSR is only an investment for the company and it will get less contribution on profitability (Rainey, 2006) Various extra costs, such as launching environmental technology, retaining plants and training employee, strengthen the financial burden for the company and bring economic disadvantages (Banerjee, 2001).

Vague or neutral relationship

Unlike from above-mentioned interpretations, the study from (Aupperle; Carroll and Hatfield, 1985) concludes that there is no statistically significant relationship between CSR and profitability. Specific scholars reflect that there is no final agreement in this linkage due to its difficulty and bias (Aguinis & Glavas, 2012) and there is no clear form that could be identified in this relation (Brammer & Millington , 2008). (McWilliams and Siegel, 2000) Also, regenerate that many empirical studies may neglect the financial outcomes from R&D investment in a company, and if bearing in mind, the effect of the CSR on profit is changed from positive to neutral. (Surroca & Waddock, 2009) Similarly point out there is only an indirect relation depends on the association among CSR and profitability through facilitating some intangible resources, e.g. innovation, reputation, human capital, and culture. When CSR cannot improve these features in its performance, neutral or negative relation emerges then.

2.1.4 Stakeholder Theory

Satisfying the requests of stakeholders are a significant aspect for companies to takeoff their CSR strategy. Strengthening the connection among the company and stakeholder is recommended as a basis of competitive advantage to the corporation (Andriof, 2002). Expectations of internal and external stakeholders also are significant factors to deliberate

building a trade-off among costs and benefits. For that reason, stakeholder theory offers a decent framework to understand, investigate, and analyze the effect of CSR on profitability.

Likewise, it is essential for the company to meet and balance the needs of those who have direct or indirect effects on the company's business, also to understand firm's stakeholders rather than only to focus on generating shareholder's value, in order to achieve sustainable success in the complex business environment (Freeman and Harrison, 1999).

As stated by (Freeman, 2004), stakeholders are those who have the power to shake the company, have the legitimacy associated with the firm,, and have the urgency of stakeholder's claim on the firm, as well. In terms of the stakeholder theory, while numerous definitions can be found in most literature (Freeman, 1984) definition is the most widely mentioned in the literature (Freeman, 1984) Revealed that if a business examines and recognizes the associations among its business and individual or groups who can be affected by it, and then the company has an enhanced way to tackle with business efficiently. Common stakeholder groups that identified by most corporations are customer, employee, shareholder, local community, and supplier. Besides, further stakeholder groups also can be acknowledged depending on companies' different business situations. The diverse stakeholder group has various anticipations on the company. Then again, corporations cannot meet all the anticipations at the same time (Harrison & Freeman, 1999) because of interest conflicts (Rainey, 2006).

2.1.5 Motivation and effects of implementing CSR

(Rainey, 2006) Say's that social, political, environmental, and economic forces are drivers for the business to implement CSR. Social forces, from market, customer, and stakeholders, are direct forces for most companies to make the strategic decisions of carrying out social responsibility. Political forces from national or international laws and regulations involve the corporation to implement CSR strategy.

Environmental forces assist companies to be accountable for their environmental impacts, and take their responsibility to reduce pollution, air emission, produced waste, etc. Economic force is also an additional critical factor to associate social responsibility with the firm's profitability. Mainly, other scholars sustain and also build up the meaning of the economic driving factor. (Aguinis & Glavas, 2012) And (Carroll, 1979) believes that the primary goal that firms involve in CSR is to gain an expected financial outcome, and CSR is observed as a valuable asset in the long-term perspective.

Firm's profitability is closely linked with CSR, and it is essential to associate a firm's concern for society with its financial performance. (Hawkins, 2006) It also holds the view that CSR is more than social regulatory compliance, and the profitability of CSR comes from the awareness that CSR is not only a just sustainability work but also a method that can enhance profit to the business.

Apart from these, globalization also could be an indirect drive for executing CSR strategies. In globalization, firms must increase their fair competency, and the bigger the company is the additional accountabilities the company should take (Rainey, 2006).

Additionally, from (Lynes & Andrachuk, 2008) standpoint, there are 7 motivations to incentivize the company to accept its social responsibilities. They are: (1) to achieve the long-term financial

strategy; (2) to be eco-efficiency and reduce the firm's environmental impacts; (3) to increase the firm's competitive advantage; (4) to be an appropriate social responsible business ; (5) to boost the corporate image; (6) to meet pressures and requirements from the stakeholders; (7) to avoid or delay regulatory burden. Most of these above-mentioned motivations are accomplished after executing CSR strategies. According to (Aras & Crowthier, 2010), (Pava, 2008), and (Kotler, 2008) , a worthy CSR performance gets quite a lot of positive impacts for the company:

- ✓ Generating the profitability.
- ✓ Improving firms' image, brand value, and reputation
- ✓ Boost the firm's sales and market share.
- ✓ Reducing costs, e.g. maintaining cost, operating costs, etc.
- ✓ Increasing appeal to investors and financial analysts.
- ✓ Providing better relationships with communities and governments.
- ✓ Improving awareness with laws, regulations, and environmentally conscious, etc.
- ✓ Improving equity between employees and the company.
- ✓ Motivating employees and increasing their loyalty.
- ✓ Improving the customer's goodwill.
- ✓ Lowering firms' financial risk.

- ✓ Leading to higher productivity due to efficiency.
- ✓ Consequently lowering recruitment and training costs.
- ✓ Reducing environment costs, through using energy in an efficient way, reducing waste, saving resources, and encouraging eco-innovation of products, etc.
- ✓ Closing relationships with stakeholders and shareholders.
- ✓ Enhancing the ethical discussions between the company and society by ways of aiming at the employee's health and safety, respecting human rights, communicating with NGOs, investing in infrastructure, engaging in charity, etc.

In keeping with the above, lucrativeness is the primary drive along with a significant advantage for companies in the process of implementing CSR strategies (Hawkins, 2006). It is shown that most of the other positive influences have direct or indirect positive effects on the firm's profitability at a different degree. On one side, costs reduction in energy saving, waste, maintenance, operating, etc. have direct impacts on the firm's profitability. On the other side, some intangible assets, e.g. relationship with government, customer loyalty, employees' encouragement, etc., influence profitability indirectly. CSR aids the company to build long-term relationships with customers, employees, investors, and suppliers, and boost sustainable culture. There is no doubt it also can improve companies' reputation and enhance their brand name, which causes sales increase and growth of customer numbers. Then, a powerful viable environment will help to appeal and retain excellent staff and provide a safe working condition for all employees. The rise of employee satisfaction and loyalty has an effect on productivity and then impacts the firm's profitability.

2.2 Empirical Review

(Sha and Zhang, 2014), analyzed the relation between CSR and firms' financial performance on listed Chinese mineral companies from 2010 to 2013. Their results showed a positive and significant relation between CSR and firms' financial performance. Moreover, the authors' empirical study proves that CSR practices toward shareholders, employees, the environment, suppliers, customers, and consumers increase the Firm's Profitability. Similarly, (Chang and Darcy, 2017) found that listed companies from Taiwan adopting CSR practices enhanced their financial performance. The study of (Senyigit and Shuaibu, 2017) on emerging countries showed mixed results. The authors examined listed banks from Turkey and Nigeria over the period from 2009 until 2014. Their results showed that CSR activities positively influenced listed banks in Nigeria.

Previous related studies have found different results on the effect of sustainability accounting and the financial performance of firms. In the middle of the studies revised are (Olayinka, 2011) who empirically examined the relationship between corporate social responsibility and financial performance in Nigeria. These variables studied are Return on Assets and Return on Equity, community performance, employee relation, and environmental management system. The result shows that CSR has a positive and significant relationship with financial performance measures.

(Yahya, 2014), explored the impact of corporate social responsibility disclosure (CSR D) on the financial performance of companies listed on the Tehran stock exchange, using multiple linear regression analysis. The CSR D was the independent variable as measured by economic, social, and environmental while Return on Assets, Return on Equity and Price Earnings Ratio were used in measuring financial performance. The analysis produces inconsistent results.

(Babalola, 2012), surveyed the effect of corporate social responsibility on firms profitability in Nigeria. The numerical tool used to analyze the data collected was ordinary least square. The result from the firms sampled showed a smaller amount of investment on social responsibility meanwhile less than 10% of their annual profit is accounted for. The scholar, therefore, mentions that CSR has to be forced on firms in Nigeria by the government through the execution of relevant laws and regulations.

2.2.1 Profitability –CSR linkage

Numerous scholars mention that a better social performance brings a better financial performance and better financial performance also facilitates a better CSR (Sun, 2012); (Orlitzky & Rynes, 2003)& (Waddock and Graves, 1997). Revenue can be a foundation for CSR then only those firms with healthy economic health more often larger companies indicate a better CSR performance, and are more eager to invest in CSR through seeing their social responsibilities in a broad view (Beliveau & Cottrill, 1994) e.g. considering environmental impacts, customer relations and health of employees, etc. (Sun, 2012). Additionally, certain scholars point that instead of analyzing the following financial performance, firms should pay more attention to the prior financial performances since, they are more significant in showing a firm's corporate social performance (Scholtens, 2008) that is, and firm's profitability has more influences on CSR activities than CSR has on profitability.

2.2.2 Identifying the Association

The link among CSR and profitability is nonlinear and depends on lots of elements (Porter & Kramer, 2006), for instance, type of industry (Griffin & Mahon, 1997); (Porter and Kramer, 2006); (Beliveau & Cottrill, 1994) and (Peloza, 2009). But, (Orlitzky, 2001) study was unsuccessful to validate that the link among CSR and profitability is influenced by the firm's size; both small and large businesses can get profits from CSR

Plus, the reason why a vast number of empirical studies point to different assessments probably are also because the social-investing term is unclear and vague (Pava & Krausz, 1996); the trials and models that search the link among CSR and profit are different and are used under different hypothesis; various profit measurement lead to different result e.g. market-based measurement shows positive with traditional financial performance but accounting measurement lag the performance; various ways used to measure a firm's CSR, e.g. annual report, reputational index, etc. Lacking theoretical foundation; lacking complete measurement of corporate social performance. The most in an unclear and debated issue that delays the analysis about the link between CSR and profitability is the various research methodologies and measures of financial performance (Aupperle; Carool and Hatfield, 1985); (Beliveau & Cottrill, 1994); (Pava & Krausz, 1996), (Peloza, 2009). It is almost impossible to measure CSR because it is related to both internal and external characteristics of firm on various levels (Van Beurden & Gossling, 2008). There are no consistent metrics for measuring the financial effects of CSR performance (Peloza, 2009).

Finally, earlier studies only emphasis on the functional connection among CSR and profitability, which means too much focus on proving the connection result (positive, negative, neutral), but direct the connection process between them (Peloza, 2009). Mainly those refereeing effects from intangible resources, e.g. innovation, human capital, culture, and reputation, are regarded to play vital roles to explain the causality between CSR and profitability (Surroca & Waddock, 2009)

2.2.3 The Financial effects of CSR

To emphasize the CSR-profitability link clearer, it is crucial to create a logical measure for measuring the financial effects from CSR (Peloza, 2009) and a fundamental way to see how CSR has financial effects on the company. From Peloza's research that focuses on gathering and reviewing CSR measurement methodology from around 159 studies, about 65% of environmental and 55% of the social show a similarly positive link with the firm's financial performance.

But, the findings are not statically significant but recommend that the environment and social aspect are more likely positively related to the firm's profitability. Additionally, around a total of 36 distinctive measurements for measuring the financial influences of CSR are found by (Peloza, 2009).

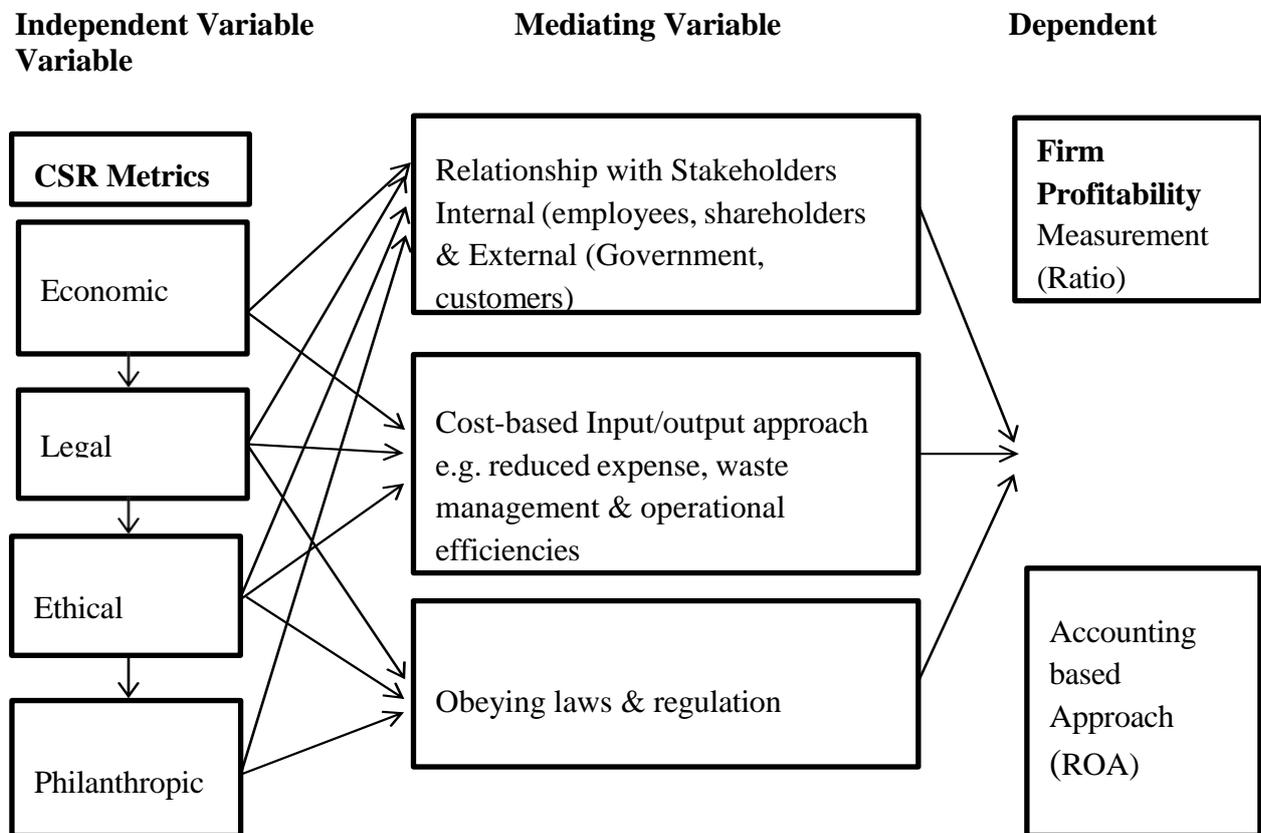


Figure 2 CSR metrics.

2.3 Conceptual Framework

Making profit has been the prior concern of a company on the previous business tradition. But, according to the concept of corporate social responsibility, companies should hold understanding that there are multiple dimensions that should affect a company's actions. As many of the literatures, CSR is presented in three dimensions which are economic, legal and ethical values which include not only profit but other stakeholder concerns.

Companies use different measurement standards and parameters to evaluate their compliance on implementing CSR and Abay Bank S.C is the one which is widely used. Abay Bank S.C deliver important direction and assessable requirements to firms into how to apply CSR. These CSR standards of Abay Bank S.C are labor practice, environment, human rights, organizational governance, fair operating practice, consumer issues and social issues. Therefore, the conceptual framework of the study is developed by relating the Practices of CSR and how it is affecting the profitability of Abay Bank S.C.

**Independent variables
variable**

Dependent

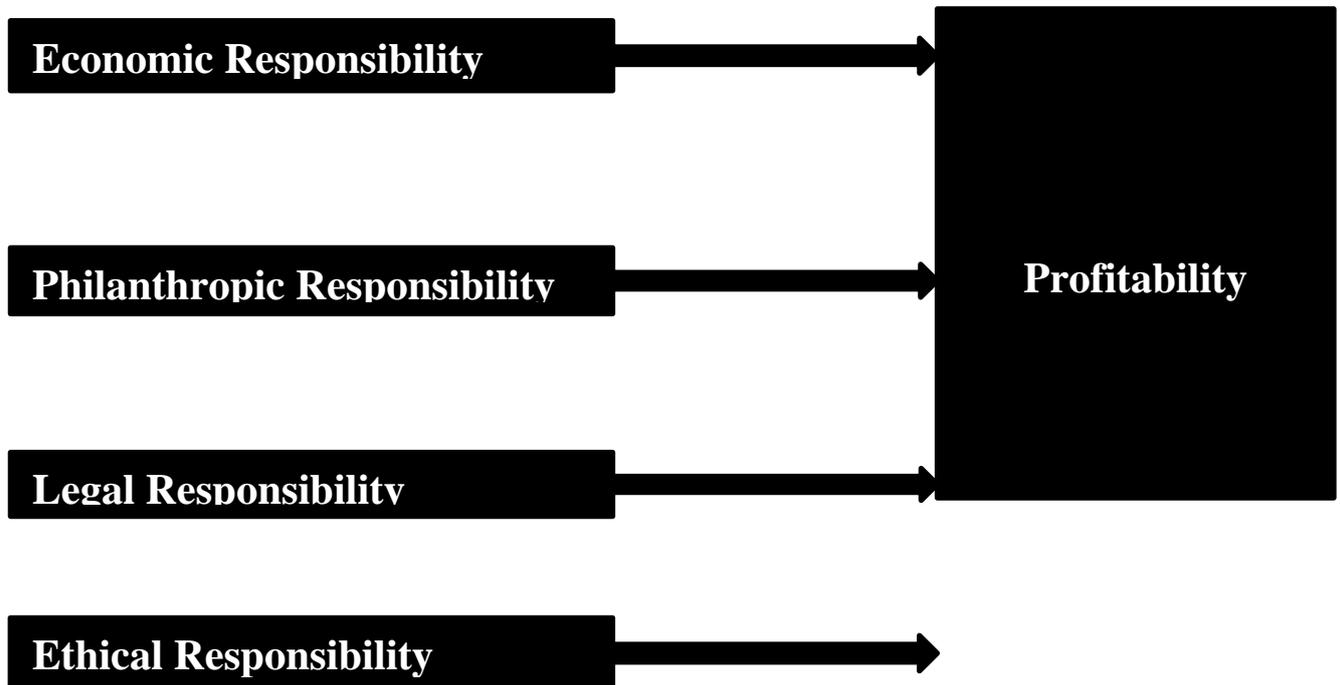


Figure 3 Conceptual frameworks.

2.4 Hypotheses of the study

The following hypothesis are formulated to be tested based on empirical review of the literature

H-1: Economic corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.

H-2: Ethical corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.

H-3: Legal corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.

H-4: Philanthropic corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on its profitability.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

In order to achieve the objective of this paper, using of appropriate methodology that helps to approach the research scientifically is the priority attention given by the researcher. Therefore this chapter includes research design, sample and sampling technique, instrument for data collection, procedure of data collection, method of data analysis, reliability and validity and ethical issue.

3.1 Research Design and Approach

3.1.1 Research Approach

There are three approaches that can be employed in the research studies namely Quantitative, Qualitative Mixed, where one of them is not better than the others, all of this depends on how the researcher want to do a research of study (Ghauri and Kjell, 2005).

Quantitative research is a means for testing objective theories by examining the relationship among variables. On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively. Mixed approach uses the combination of both quantitative and qualitative approaches. Quantitative approach involves studies that make use of statistical analyses to obtain their findings. Key features include formal and systematic measurement and the use of statistics (Geoffrey, et. al., 2005). To achieve the aforementioned objectives, the study used the quantitative approach, which enables the collection of numerical data for analysis using methods based on mathematics, regression and correlation, in order to provide an explanation for a phenomenon.

3.1.2 Research Design

The research design helps the researcher to obtain relevant data to fulfill the objectives of the study (Churchill & Iacobucci, 2002). In order to fulfill the research objectives, it is important that research should be designed in approach that data collected in both accurate and relevant. It is the structure that specifies the kind of information to be collected, the sources of data and the data collection procedure. An examination of research literatures suggests that research design can be classified according to the research objectives or the type of research being employed. Therefore the researcher must step carefully throughout the research process.

Since the aim of the study is to investigate the effect of corporate social responsibility on profitability, a descriptive, explanatory and correlation type of research design was followed. In descriptive research, information about events is gathered, and the gathered data was arranged, tabulated, illustrated, and described.

3.2 Population, Sampling Size and Sampling Techniques

3.2.1 Research population

The target population for this research is 1620 permanent staff members of Abay Bank S.C who work at Head office and Addis Ababa branches. Out of the total population 235(14.5%) staffs their current working status are managerial and the remaining 1385(85.5%) staffs working status are a non- managerial position.

Table 3.1: Total Population Distribution

Current Position	No-of Employees
Managerial	235
Non-Managerial	1385
Total	1620

Source: Own Survey

3.2.2 Sample size

As the geographic area and the number of employees that can be used for the study is very large, it is impossible, economically and timely, for the researcher to cover this population for this research. Accordingly, to facilitate easier in timely and cost effective way of collection of data, the target population was reduced to employees that are working at Head offices and Addis Ababa branches. Hence, the target population for the study is comprised of 1620 bank professionals who have at least one year service in the bank. The rationale of selecting these employees as a target population is because they have better understandings of the bank’s activity of CSR since, they have at least one year banking experience and the remoteness and difficulty of accessing outlying branches’ employee make it impossible to include them in this research.

3.2.3 Sampling Technique

A sample selection technique is the process of selecting a subset of a population to take part in a study. It is the process of selecting a group of people for a study in such a way that the individuals picked represent the larger population from which they were drawn. Stratified Random sampling is adopted and conducted by simple random sampling, because method of

sampling from a population can be separated into sub-populations. The research has targeted a sample from management and non-management employees within the sampling frame. And randomly select participants from the given 13 strata in order to give equal chances for all groups of employees found in each stratum and the questionnaires have been distributed to these selected employees respectively. Even if the population assumed to be uniformly distributed, the size of each stratum varies, then the researcher decide to choose a disproportionate stratified sample to increase the sample size of those stratum with lower number of respondents to make sure that the data are meaningful (Dawson, 2002).

To determine the size sample, the Yamani Taro (1967) formula cited by Isreal (2013) will use. It states that the desired sample size is a function of the target population and the maximum acceptable margin of error (also known as the sampling error) and it expressed mathematically thus:

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

Where: n= sample size; N = size of population; and e = precision level

Therefore, number of suitable sizes of sample from all branches was decided using the above formulaby taking 95% confidence level as follows and 0.05% precision:

$$n = \frac{1620}{1 + 1620(0.05)^2} = 320$$

Based on the above information a total of 320 sample permanent employees of Abay Bank S.C located in Addis Ababa used.

Table 3.2. The population and sample distribution

Stratum	Department	Number of Employee	Percentage	Sample Size
S ₁	Credit Department	52	3.2	10
S ₂	E-Banking Service Department	34	2.2	7
S ₃	Finance and Accounts Department	37	2.2	7
S ₄	Human Resource Department	44	2.8	9
S ₅	Legal Department	34	2.2	7
S ₆	International Banking Department	58	3.5	11
S ₇	Logistic and Property Administration Department	35	2.2	7
S ₈	IT Department	46	2.8	9
S ₉	Engineering Department	35	2.2	7
S ₁₀	Corporate Banking Department	72	4.6	15
S ₁₁	Retail Banking Department	78	5	16
S ₁₂	North east district	604	37.1	119
S ₁₃	South west district	491	30	96
Total		1620	100	320

Source: Own Survey computed in SPSS data, 2024

3.3 Source of data

According to Sekaran (2003), data that is gathering for research from the actual site of occurrence of events is called primary. For the purpose of this study, questionnaire using as the research instrument and distribute to employees working in Abay Bank S.C at head office and braches. The researcher used both primary source & secondary source of data. Structured data collection is the use of a formal questionnaire that presents questions in a prearranged order.

Primary Data: The researcher was collected primary data through questionnaires. The questionnaires at most effort try to translate research objectives into specific questions. The respondent can answer and try to motive the respondent to cooperate with the survey and to provide the information correctly. Primary sources are responses of employees of Abay Bank,

Secondary data: The secondary data we used for supporting the study and to use the findings of other researchers in this area. The sources of secondary data were from staff human resource management manual, banks annual report and staff related manual. From these secondary sources, the related concepts of the study were obtained.

3.4 Data Gathering Instruments

The primary data source for this study came from survey respondents; the questions were closed-ended, prepared in five-point Likert scale ranging from strongly disagree to strongly agree. The questionnaires were standardized and adapted from previous research with some modification. The questionnaire was given to the selected samples. The questionnaire was divided into two sections, general information section and researched question part. Information about the respondents' demographic profile, the subsequent section concentrated on the four variables (i.e., economic, philanthropic, legal and ethical) that are thought to influence profitability of the bank. Profitability also measured in the second section.

3.5 Procedures of Data Collection

The researcher assembled the data that are needed to accomplish the proposed research through stratified random sampling method. The survey questionnaires were administered to the target population of 320 employees of the organization. By using the bank's ERP system the questioner distributed for all participants and collected accordingly.

3.6 Reliability and validity of Data Collection Instruments

3.6.1 Reliability test

Reliability refers to a measure of degree to which research instruments yield consistent results. On the other hand, it is the extent to which results are consistent over time and an accurate representation of the total population under study and if the result of the study can be reproduced under a similar methodology, then the research instrument is considered to be reliable or reliable analysis is concerned with the internal consistency of the research instrument (Thatcher, 2010). In quantitative research, the reliability of the tool is very essential for decreasing faults that would arise from measurement difficulties in the research study. The reliability indicates how it is free from random errors and can ensure consistency of the phenomenon and is designed to capture. The data tested for its reliability using Cronbach's alpha the most common measure of scale reliability test. The value for Cronbach's Alpha (α) started from 0.70 is the accepted value (Nunnally, 1978).

3.6.2 Pilot Test

A pilot study was carried out on 4 department total respondents 33 in the bank to test the validity and reliability of the data collection instrument.

Reliability Statistics	
Cronbach's Alpha	No of Items
0.899	5

Table 3.3 Reliability Test

Source: Own Survey computed in SPSS data, 2024

The test conducted for the final analysis on the data collected from the sampled respondents.

Variables	Cronbach's Alpha
Economic CSR	0.7113
Philanthropic CSR	0.7334
Legal CSR	0.7241
Ethical CSR	0.7960
Profitability	0.7992

The overall internal consistency of 25 items was tested and the result showed the high Alpha value ($\alpha=0.7992$ see table 3.3 above). Thus, it concluded that the questionnaire was reliable and consistent, because the Alpha value is greater than the acceptable value of 0.70.

3.6.3 Validity test

Validity refers to how well the data gained represents the variables of the study, whereas reliability refers to the degree to which a research instrument gives consistent results or data after numerous trials to verify its dependability (Saunders et al., 2003). The phrase validity refers to the extent to which an instrument assesses the concept under examination. For a data collecting instrument to be considered legitimate, the information chosen and included must be relevant to the need or gap identified (Saunders et al., 2003).

The questionnaire's validity was assessed through a collaborative review process involving the researcher and the advisor. Prior to the study, the instruments were thoroughly discussed with the advisor to ensure their appropriateness. This rigorous validation process not only ensures that the questionnaire gathers accurate information but also enhances the likelihood of a higher response rate.

3.7 Methods of Data Analysis

In the data analysis phase, a comprehensive approach was adopted, incorporating both descriptive and inferential statistical methods using the statistical software SPSS 26. Descriptive statistics was employed to summarize and present key features of the quantitative data collected through the structured questionnaire with a 5- Likert scale. This was including measures such as mean, standard deviation, and frequency distributions, providing a clear overview of the central tendencies and variations in the dataset.

Additionally, inferential statistics was utilized to draw conclusions and make inferences about the larger population based on the sample data. This involved techniques such as correlation analysis and regression analysis. Multiple linear regression analysis was employed to further explore the relationships between multiple independent variables and the dependent variable. The regression model is specified as follows:

$$P = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \beta_4 \chi_4$$

Where: P = Profitability

χ_1 = Economic activity

χ_2 = philanthropic activity

χ_3 = Legal practice

χ_4 = Ethical Practice

β_{1-n} = the regression coefficient or change included in P by each

χ_e = error term

β_0 is constant and β_1 up to β_4 is coefficient of estimate. Profitability is dependent variable and X1 to X4 are independent variables.

3.8 Ethical Considerations

The employees at Abay Bank S.C were treated fairly. Every individual involving in the study was entitled to the right of privacy and dignity of treatment, and no personal harm has been caused to subject in the research. They were informed that the data filled by them in the questionnaire remained confidential and used only for academic purpose. To avoid humiliating situation for the employees and the research, no names and designations was taken in the questionnaire. For some of the questions even 'Neutral' option was given in case they are uncomfortable in answering. All assistance, collaboration of others and source from which information to be drawn was properly acknowledged.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

This chapter presents the results of the survey data analysis, incorporating both descriptive and inferential approaches. It provides details on the demographic characteristics of the respondents and their perceptions on different dimensions of CSR activities, using frequencies, percentages, means, and standard deviations. The causal relationship between the dependent and independent variables is analyzed using multiple linear regressions.

4.1 Demographic Information of Respondents

Out of the initial sample of 320 respondents who were selected to participate in the study, a total of 309 individuals provided responses. This response rate of approximately 96.6% indicates a high level of engagement and participation among the sampled population.

The majority of participants were male, constituting 68.3% of the total sample, while females made up 31.7%. When considering educational level, the distribution varied, with the highest percentage holding a degree at 64%, followed by master's degree holders at 18.8% and diploma holders 14.9%. Participants with above Master's degree were the smallest group at 2.3%. Regarding age groups, the largest proportion fell within the 18-30 age group at 36.9%, followed by 31-40 at 30.4%, 41-50 at 23.6%, and the smallest group being Above age 50 at 9.1%. The experience of employees in Abay Bank, the majority of respondents working in the bank more than 3-7 years at 39.8%, followed by 1-3 years at 37.5%, above seven years at 22.7%. The academic qualification work experience and age of respondents expected to enhance the quality of the data, as they are likely to understand the questioner and forward their view accurately.

Table 4.1: Demographic Information of the Respondents

Variable	Response	Frequency	Percent
Gender	Male	211	68.3
	Female	98	31.7
	Total	309	100
Educational level	Diploma	46	14.9
	Degree	198	64
	Master Degree	58	18.8
	Above	7	2.3
	Total	309	100
Age	18-30	114	36.9
	31-40	94	30.4
	41-50	73	23.6
	Above 50	28	9.1
	Total	309	100
Experiences in the Bank	1-3	116	37.5
	More than 3-7 years	123	39.8
	More than 7 years	70	22.7
	Total	379	100

Source: Own Survey computed in SPSS data, 2024

4.2 Analysis of Collected Data

4.2.1. Descriptive Statistics

The discussion attempts to accomplish the objectives of the study, and answer the research questions. The survey was conducted with 309 respondents representing 96.5 percent of the sample size.

One statistical approach for determining equivalence between groups is to use simple analyses of means and standard deviations for the variables of interest for each group in the study (Marczyk, Dematteo and Festinger, 2005). The mean indicates to what extent the sample group averagely agrees or does not agree with the different statement. The lower the mean, the more the respondents disagree with the statement. The higher the mean, the more the respondents agree with the statement. On the other hand, standard deviation shows the variability of an observed response from a single sample.

The mean scores of each CSR activities and employee perception were calculated as well as the mean scores of each item under these questions. On a 5point scale for 25 different aspects about CSR were developed to measure their perception about Abay Bank S.C CSR activities. The respondents were then asked to rate their perception, knowledge, feelings and attitudes on CSR on a five-point Likert scale ranging from one (strongly disagree) to five (strongly agree).

4.2.1.1 Economic CSR.

The results indicate economic responsibility from different dimensions of Abay Bank's economic CSR activities. Regarding to creation of employment opportunities for the local communities, a majority of respondents either agreed or strongly agreed by the creation of employment, with a mean score of 3.91 (SD = 0.784), when it comes to providing of affordable service to the customer, agreeing or strongly agreeing, and a mean score of 3.67 (SD = 0.816), indicating a high level respondents taking the bank's service provided at reasonable price to its customers. Similarly, perceptions of economical contribution made by the bank to the national economic growth, strategies to reduce operating cost and service excellence also show a high numbers of respondents agreed or strongly agreed, with mean scores of 3.61 (SD =0.899) and 3.54 (SD = 0.921) and 3.64 (SD = 0.892) respectively.

Table 4.2: Economic Responsibility

	N	Mean	Std. Dev.
The bank created employment opportunities for the local communities.	309	3.91	0.784
The bank provides affordable service to the customers.	309	3.67	0.816
The bank contributes for the national economic growth.	309	3.61	0.899
The bank has clearly designed strategies to reduce operating cost.	309	3.54	0.921
The bank strives to achieve service excellence.	309	3.64	0.892
Grand Mean		3.674	

Source: Own Survey computed in SPSS data, 2024

4.2.1.2 Philanthropic CSR

The results regarding the bank participate in charitable activities, agree or strongly agree with this statement, reflected in a mean score of 3.61 (SD = 0.901). Similarly employees of the bank participate in charitable activities shows positive agreement, leading to a high mean score of 4.13 (SD = 0.701). Sponsor cultural, science and sport shows, mean score of 3.56 (SD = 0.924). Again provides support for the health and related initiative, with a mean score of 3.60 (SD = 0.908). For responds to natural and human made disasters, respondents feel that the bank provide supports for citizens suffered from such disasters 3.58 (SD = 906).

Table 4.3: Philanthropic Responsibility

	N	Mean	Std. Dev.
The bank makes donation to charitable bodies and community.	309	3.61	0.901
Managers and employees of the bank participate in charitable activities of their local communities.	309	4.13	0.701
The bank sponsors cultural, science and sport.	309	3.56	0.924
The bank provides support for the health and related initiative programs for community.	309	3.6	0.908
The bank responds to natural and human made disasters.	309	3.58	0.906
Grand Mean	3.696		

Source: Own Survey computed in SPSS data, 2024

4.2.1.3 Legal CSR

The respondents show, agreeing or strongly agreeing the bank operates in compliance to laws and regulations, reflected in a mean score of 3.94 (SD = 0.907). Reporting with in international standards, resulting in a mean score of 3.71 (SD = 0.921). Similarly, the respondents, agreeing or strongly agreeing that the bank disclosed its financial statement to the public, resulting in a mean score of 3.69 (SD = 0.926). About legal assurance for depositors money, a majority of respondents agreed or strongly agreed that the bank gives legal assurance for depositors money, the mean score of 3.98 (SD = 0.889). A considerable proportion of respondents either agreed or strongly agreed that the bank gives legal assurance for shareholders investment money, with mean score of 3.29 (SD = 1.109).

Table 4.4: Legal Responsibility

	N	Mean	Std. Dev.
The Bank operates in compliance to laws and regulations.	309	3.94	0.907
The bank reports its financial reports accordance with international reporting standards.	309	3.71	0.921
The bank communicates its financial statement to the public.	309	3.69	0.926
The bank gives legal assurance for its customer's deposited money.	309	3.98	0.889
The bank gives legal assurance for shareholders for their investments.	309	3.29	1.109
Grand Mean	3.722		

Source: Own Survey computed in SPSS data, 2024

4.2.1.4 Ethical CSR

Participants were asked to rate their agreement levels on the bank’s involvement in environmental protection, respondents agreed or strongly agreed, with the mean score was 3.42 (SD = 0.946). Regarding developed ethical principle and communicated to its employees, the mean score was 3.86 with a standard deviation of 0.894. For working with social and ethical norms, participants agreed or strongly agreed with mean value of 3.64 (SD = 0.933). Similarly, for request of the bank’s operation in ethical norms, respondents agreed with mean value of 3.68 (SD = 0.935). Again for good governance culture request, respondents agreed or strongly agreed, with the mean score was 3.36 (SD = 0.997). Regarding favor to use environmental friendly materials, respondents reported that the banks gives priority to use environmental friendly materials for its activities with mean value of 3.32, SD = 0.984).

Table 4.5: Ethical Responsibility.

	N	Mean	Std. Dev.
The Bank is involved in environmental protection activities.	309	3.42	0.946
The Bank has well developed ethical principle and communicated to its employees.	309	3.86	0.894
The bank operates in a manner consistent with social expectations and ethical norms.	309	3.64	0.933
The bank has good corporate governance culture.	309	3.68	0.935
The bank favors to use environmental friendly materials for its business activities.	309	3.36	0.997
The bank work towards improving working condition to its employees.	309	3.32	0.984
Grand mean	3.545		

Source: Own Survey computed in SPSS data, 2024

4.2.1.5 Profitability

The results regarding profitability of the bank by applying CRS present positive picture. Initially, when considering improving of the bank’s market share by using CSR practice in the bank, respondents agree or strongly agree with this statement, reflected in a mean score of 3.81 (SD = 0.873), indicating that there is improvement of market share. CSR practice guarantees the customer confidence and loyalty, mean score of 3.72 (SD = 0.890). This suggests practicing of CSR boost customers’ confidence and their loyalty for the corporate. Similarly, a significant majority participants expressed CSR practice improve the bank’s

brand image a mean score of 4.01 (SD = 0.799). For Corporate social practice gives a positive reputation advantage to the bank, mean score of 3.98 (SD = 0.804).

Table 4.6: Profitability

	N	Mean	Std. Dev.
CSR increase the bank’s market share.	309	3.81	0.873
The bank CSR practice guarantees the customer confidence level and corporate loyalty.	309	3.72	0.89
The bank’s brand image increased by CSR practice.	309	4.01	0.799
CSR practice gives a positive reputation advantage to the bank.	309	3.98	0.804
Grand mean	3.88		

Source: Own Survey computed in SPSS data, 2024

4.2.2 Correlation Analysis

A correlation analysis method has been implemented to analyze the relationship between the independent variables of the corporate social responsibility and the dependent variable profitability.

Table 4.7: Correlation of independent variables and the dependent variable

Correlations		
Independent variables		Profitability
Economic responsibility	Pearson Correlation	.494**
	Sig. (2-tailed)	.010
Philanthropic responsibility	Pearson Correlation	.468**
	Sig. (2-tailed)	.010
Legal responsibility	Pearson Correlation	.468**
	Sig. (2-tailed)	.010
Ethical responsibility	Pearson Correlation	.542**
	Sig. (2-tailed)	.010

** . Correlation is significant at the 0.01 level (2-tailed)

Source: Own Survey computed in SPSS data, 2024

The above table shows the correlation between CSR dimensions (economic, philanthropy, ethical, and legal responsibilities) and profitability in Abay bank.

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

The relationship between bank's profitability and economic activities of the banks is positive and significant ($r = 0.494^{**}$, $p < 0.010$), which means that bank's with created employment opportunities for the local communities, provides affordable service to the customers, contributes for the national economic growth will increase the profitability of the banks.

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

4.2.3. Regression Analysis.

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

The regression model summary indicates that the predictors (Economic, philanthropic, legal and ethical) account for a substantial proportion of the variance in profitability, with the value of the adjusted R square is 0.712. According to the scores obtained from the ANOVA table, it is indicated that the model is significant with the value of 0.000. This value clearly suggests that there is a strong relationship between economic, philanthropic, legal, ethical activities and Abay bank profitability. This indicates corporate social responsibility effect of a variation of 71.2% on profitability in Abay bank. The conclusion is that the Four variables explains 71.2% of the variation on the dependent variable hence there are other factors to be consider that influence profitability and are not captured in the model.

4.2.4 Assumption test of regression Analysis

4.2.4.1. Multicollinearity

The study checked for multicollinearity among independent variables using SPSS 26 and no multicollinearity problem detected in the data. Tolerance values were less than 1 and VIF values were around 1.00 and not more than 1.6, indicating no multicollinearity.

Table 4.8: Collinearity statistics

Model	Collinearity Statistics	
	Tolerance	VIF
Economic	.835	1.198
Philanthropic	.699	1.431
Legal	.927	1.078
Ethical	.872	1.147

Source: Analysis of survey data using SPSS data, 2024

4.2.4.2 Normality of the Error Term Distribution

Normality refers to the shape of a normal distribution of the matrix variable (Roberts & Priest 2007). For variables with normal distribution, the values of skewness and kurtosis are zero, and any value other than zero indicated deviation from normality (Hair, 2010).

Skewness indicates the symmetry of the distribution. A value of zero indicates symmetry, while positive and negative values indicate right and left skew, respectively. Kurtosis measures how much the peak of a distribution differs from a normal distribution. Positive values indicate a more pointed distribution, while negative values indicate a flatter distribution. Table 3 shows that all variables have acceptable skewness statistics for normality (-1.0 to +1.0). The skewness and kurtosis values are between the acceptable ranges and the data still meets the assumption of normality for multiple regressions.

Table 1.9: Skewness and Kurtosis

Descriptive Statistics					
	N	Skewness		Kurtosis	
	SD	Statistic	Std. Error	Statistic	Std. Error
Economic	0.7867	0.337	0.125	-0.793	0.25
Philanthropic	0.4304	0.526	0.125	1.087	0.25
Legal	0.73376	0.844	0.125	1.14	0.25
Ethical	1.28265	0.289	0.125	-1.147	0.25
Profitability	0.43182	-0.19	0.125	0.583	0.25

Source: Analysis of survey data using SPSS data, 2024

4.2.4.3. Auto-correlation

The Durbin Watson test detects auto-correlation in regression analysis, which occurs when the dependent variable at time t is related to its value at the previous time period. A value of 2 indicates no auto-correlation, while values 0-2 indicate positive autocorrelation and values 2-4 indicate negative auto-correlation. The acceptable range for no auto-correlation is $1.5 < DW < 2.5$. The Durbin-Watson value in this study is 1.65, which falls within the acceptable range, indicating no significant auto-correlation.

Table 4.10 Regression Model Summary of the relationship

Model Summary^b

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	.851 ^a	.725	.712		.39195

a. Predictors: (Constant), econom, philan, legal, ethica

b. Dependent Variable: profit

Source: Own Survey computed in SPSS data, 2024

Table 4.11: ANOVA test of the relationship

ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	667.760	4	166.940	201.375	.000 ^b
Residual	252.240	304	0.829		
Total	920.000	308			

a. Dependent Variable: profitability

b. Predictors: (Constant), econom, philan, legal, ethica

Source: Own Survey computed in SPSS data, 2024

The results in Table 4.11 indicates that the overall models was a good fit since the value of F- statistic was found to be 201.375 and their p-values were found to be 0.000 which is less than the critical value of 0.05. This suggests that all the variables economic, philanthropic, legal and ethical were relevant in increasing profitability.

Table 4.12: Regression analysis of individual independent variables against profitability

Effect of CSR on Profitability

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.500	.800		3.125	.002
	Economic	.350	.035	.175	10.000	.010
	philanthro	.410	.050	.293	10.000	.000
	Legal	.300	.050	.196	6.000	.014
	Ethical	.400	.050	.226	7.050	.000

a. Dependent Variable: profit

Source: Own Survey computed in SPSS data, 2024

The relative importance of each individual predictor is explained by the value of beta which tells us that a certain improvement or problem on these variables will improve or decrease by the given values which is statistically significant. Hence, the regression model overall predict, profitability significantly improve by using the following formula which relates the dependent and the independent variables, that is:

Model

$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$ Where by: Y_i = Profitability β_0 =Constant intercept $\beta_1, \beta_2, \beta_3, \beta_4$ = the parameters (coefficients) to be estimated X_1 =economic X_2 =philanthropic X_3 =legal X_4 =ethical ε = Error Term or residual. The fitted regression model is

$$Y = 2.500 + 0.350 \text{ economic} + 0.410 \text{ philanthropic} + 0.300 \text{ legal} + 0.400 \text{ ethical} + \varepsilon$$

Philanthropic came as the most influential factor, with a significant positive impact on profitability (Beta = 0.410, p = 0.000). This indicates that higher levels of philanthropic activities in practicing of corporate social responsibility results in increased profitability. And ethics came second place to have a significant positive effect on profitability (Beta = 0.400, p = 0.000), showing the detrimental impact of applying ethical practice of CSR on overall profitability. Economic activity also played a significant role in enhancing profitability (Beta = 0.350, p = 0.010), emphasizing the importance of having ethical consideration to increase profitability. Finally legal practice was identified as a significant positive predictor of profitability (Beta = 0.300, p = 0.014), implying that legal consideration also impact profitability.

4.3. Hypothesis Testing

H1 Economic corporate social responsibility practice of Abay Bank S.C has significant and positive effect on profitability.

The results of regression as presented in table 12 indicate that economic activities of the corporate social responsibility has significant effect on Abay bank profitability with a beta value of $\beta_1 = 0.350$ (sig = 0.010 which is lesser than $\alpha = 0.05$). The result is consistence with prior studies (Lai et al. 2015), Lam (2016), Rosemary (2013) and Tadess (2017) Tewodros (2021), (yohannes et al. 2021). Hence the hypothesis one is accepted.

H2 Philanthropic corporate social responsibility practice of Abay Bank S.C has significant and positive effect on profitability.

The results of regression presented in the table 12 has also indicated that philanthropic activities of corporate social responsibility has a positive and significant effect on Abay bank profitability with a beta value of $\beta_2 = 0.410$ (sig = 0.000 which is lesser than $\alpha = 0.05$). These study findings confirmed by the studies done by, Bimir, (2016), Esmailpour and Barjoei, (2016), Saeidnia&Souhani (2013), Riaz, (2010), Siegel (2001) Wolde, (2014), (yohannes et al. 2021) Hence the hypothesis two is accepted.

H3 Legal corporate social responsibility practice of Abay Bank S.C has significant and positive effect on profitability.

The results of regression presented in the table 10 has also indicated that legal activities of corporate social responsibility has a positive and significant effect on Abay bank profitability with a beta value of $\beta_3 = 0.300$ (sig = 0.014 which is lesser than $\alpha = 0.050$). yohannes (2021) Wolde, (2014), Bimir, (2016), Esmailpour and Barjoei, (2016), Saeidnia & Souhani (2013), Riaz, (2010) also pointed out the positive relationship between these two variables. Hence the hypothesis three is accepted.

H4 Ethical corporate social responsibility practice of Abay Bank S.C has significant and positive effect on profitability.

The results of regression presented in the table 10 has also indicated that ethical activities of corporate social responsibility has a positive and significant effect on Abay bank profitability with a beta value of $\beta_4 = 0.400$ (sig = 0.00 which is lesser than $\alpha = 0.050$). Findings of current study relating to rewarding performance also similar to the findings obtained by Bimir, (2016), Esmailpour and Barjoei, (2016), Saeidnia&Souhani (2013), Riaz, (2010), Siegel (2001) Wolde, (2014), (yohannes et al. 2021). Hence, Hypothesis four is accepted.

SN	Hypothesis	Sig.	Result
H1	H1: Economic corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.	.010	Accepted
H2	H2: Philanthropic corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.	.000	Accepted
H3	H3: Legal corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.	.014	Accepted
H4	H4: Ethical corporate social responsibility activities of Abay Bank S.C have a positive and significant influence on profitability.	.000	Accepted

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Major Findings

The study is associated with the dimensions of CSR towards profitability in banking industry. The objective of this study is to examine the relationship between CSR practice and profitability in the banking industry, specifically in Abay banks, by analyzing the relationship of every construct in the theoretical framework.

The theoretical framework of the study is adopted from Carroll (1991) model of social responsibilities, particularly philanthropic, ethical, legal and economic responsibilities. In this regards the finding of the study revealed that all the four dimensions of CSR are commonly practiced in Abay bank. To this end, the most performed CSR practice in Abay bank is legal responsibilities (mean = 3.722), followed by philanthropic responsibilities (mean =3.696), economic responsibilities (mean =3.674) and ethical responsibilities (mean = 3.545).

Furthermore, the legal responsibilities of CSR practice mostly associated with, gives legal assurance for its customer's deposited money, gives legal assurance for shareholders for their investments, operates in compliance to laws and regulations, preparing its financial statement according to international reporting standard and also communicating the same to the public.

Similarly, the common CSR practice with respect to the ethical responsibilities in selected private banks comprise; involvement in environmental protection activities, operating in a manner consistent with expectations of societal and ethical norms, having well developed ethical principles, having good corporate governance, favors to use environmental friendly materials for its business activities, works towards improving working conditions to its employees.

CSR practice of Abay bank related with economic responsibilities includes, created employment opportunities for the local communities, provides affordable service to the customers, its contribution for the national economic growth, has clearly designed strategies to reduce operating cost and also strives to achieve service excellence.

The last CSR practice with respect to the philanthropic responsibilities in the bank includes making of donation to charitable bodies and community, Managers and employees of the bank participate in charitable activities of their local communities, sponsors cultural, science

and sport, provides support for the health and related initiative programs for community, and also responds to natural and human made disasters.

The research results came up with proves CSR and profitability in selected bank has a significant relationship. In this regard, the results of ordinary least square regression analysis has shown the impact of CSR expenditure on profitability in Abay bank whihe revealed (Beta=0.851, $p<1$). This means that for every unit change increment the CSR expenditure will lead to .851 or 85.1% increase in the profit. The R-square shows that CSR practice can explain 71.2% variation of profitability in Abay Bank.

The four dimensions of CSR such as, economic, philanthropic, legal and ethical responsibilities have a positive and significant relationship with profitability of Abay bank; The finding of the result further revealed that philanthropic responsibilities of CSR dimension has more impact on profitability with $B=0.410$ followed by ethical responsibility with $B=0.400$, economic responsibility with $B=0.350$ and legal responsibility with $B=0.300$.

Though all the four dimensions of CSR are commonly practiced in Abay bank, the philanthropic responsibilities of CSR dimensions is the most dominant practice in selected private banks in Ethiopia.

There is a strong positive correlation between banks CSR practices and their profitability, 71.2% of the variation on profitability in Abay bank are explained by their CSR practice.

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

Based on the standardized beta coefficients all the four dimensions of CSR activities have a positive impact on profitability of bank. philanthropic responsibility with a beta value of 0.410 is the highest predictors of profitability of Abay bank, Followed by ethical responsibility with a beta value of 0.400, economic responsibility with a beta value of 0.350 and legal responsibility with a beta value of 0.300. Therefore, based on the results of the finding the study concludes that CSR practices have a significant impact on the profitability of Abay bank.

5.2 Conclusion

The Concept of CSR provided the backbone for the entire study as it served as independent variable by Carroll's Pyramid.

The review of literature on the impact of Corporate Social Responsibility on profitability showed that the studies produced varying results. Although many studies concluded that relationship existed but the relationship was not directly interlinked with Corporate Social Responsibility and profitability. The researcher identified four categories that influence or impact consumer's perception of Corporate Social Responsibility and profitability.

Businesses are an integral part of the communities in which they operate. Due to the highly competitive nature of today's market, companies must maintain high moral integrity in order to survive since strength in ethical values have drastic impact on employees, consumers, and society ratings, which will affect reputation and business. Good executives know that their long term success is based on continued good relations with a wide range of individuals, groups and institutions. Moreover, the general public has high expectations of the private sector in terms of responsible behavior. Consumers expect goods and services to reflect socially and environmentally responsible business behavior and competitive prices.

From the above analysis, it is clear that CSR has a significant impact on the profitability of Abay bank. So the CSR expenditure provides goods returns for the company in short run in the long run it will provide better return surely. The study concludes that there is a significant relationship between CSR and profitability and the null hypothesis is rejected.

The descriptive result showed, Abay bank S.C made tremendous CSR activities. There is some sort of weakness disclosure of the corporate social responsibility activities for the participant employees. This thing creates some problem in awareness about CSR practice of the company and revealed by participants response but they still gives value for the practice. Thus, it is believed that able to aware the bank's employees it brings much more results on the bank profitability.

Findings collected by questionnaire analyzed with SPSS 26 software to check the reliability, Correlation and Regression between Corporate Social Responsibility and profitability. Based on that the researcher find out there is a direct relationship of Corporate Social Responsibility and profitability and they are somehow, interlinked with each other. The result showed that Corporate Social Responsibility and Overall profitability with the correlation between

Corporate Social Responsibility and overall profitability with a significance level of 0.000 shows that they are highly correlated with each other.

The regression analysis predicts Overall profitability very well with the value of R square has a value of 0.725, which means 72.5% of change in profitability comes only through Corporate Social Responsibility. The p-value or the sign value is (.000).

This study initiated to examine the effect of Corporate Social Responsibility practice on Abay bank profitability. The bank contributes a lot in CSR activities of the country socially and environmentally by giving value to the society as a corporate citizen. But, it is not known whether it has gotten the publicity it deserves and the return from its good deeds.

More specifically, in this study the bank's employee perception towards the company's CSR practice and its effect on profitability through its dimension (awareness) assessed. The study also found that CSR practice of the company significantly related with the bank's profitability.

Based on the results of regression analysis it indicated that more than 71.2% of variation on profitability explain by CSR practice of the company. The linear regression model (Beta coefficients) also tested the proposed hypotheses through its dimension. The result shows that economic, philanthropic, legal and ethical coefficients of the predictor variable are statistically and positively significant at less than five percent.

The hypothesis of the regression analysis result of the proposed hypothesis looks like the following.

35% of profitability significantly explained by 35% of economic, 41% of philanthropic, 30% of legal and 40% of ethical CSR practice in Abay Bank.

5.3 Recommendations

- There should be interactive sessions on regular basis between the bank management, employees and its customers to create understanding and enhance harmonious business relationships especially on moral and ethical ground. Such interactions would impact positively on the ethical performance of both the company's and the customers thereby improving transparent business transactions.
- The bank should fully integrate itself with the host communities; this can be realized through performing their social responsibilities adequately and to the best of their abilities. The need for harmonious relations between the bank and host communities

is absolutely inevitable for smooth business operations and reciprocation of gesture.

- Representatives of stakeholders (employees, customers, society, government etc.), Should be have representatives whom deal with the board of directors of Abay bank for direct representation and participation in the decision making process of the the bank's CSR practice.
- The bank should subject itself to the dos and don'ts of their communities, and see to the consistent growth and development, and wellbeing of these communities while doing its business operations and recording stable profit as well.
- Made donation based on the request of different social and humanitarian organizations after review of their proposal. The company should explore potential areas that necessitate donation by itself. This will make the company to contribute more in corporate social responsibility activities to the society that will intensify awareness of its effort to the society.
- The company's CSR activities need guided by clearly defined policy.
- The bank should set up a functional mechanism that will constantly check the state of customer's and community management equally.
- Publication of social responsibility activities doing by the company.

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Appendix: Questionnaires form of study survey

**ST MARY'S UNIVERSITY
SCHOOL OF POSTGRADUATE STUDIES
MBA PROGRAM**

The Questionnaire was distributed to the Employees of the Abay Bank S.C

Dear Respondents;

This questionnaire is developed for an academic purpose, for the collection of data to conduct a thesis paper on the title **“The Effect of Corporate Social Responsibility on Company’s Profitability in Abay Bank S.C”** in order to fulfill the University’s (St Mary’s University) requirement set for the award of a Master of Business Administration in General Management. The information obtained from this questionnaire will be kept confidential and will not be used for any other purposes. Hence, I am kindly asking respondents to give your candid information.

Name: Solomon Mekonnen

Phone: +251912102414

Email: solomonan2012@gmail.com

NB:

- It is not necessary to write your name
- Try to address all the question given below
- Use (√)mark for your choice in the given box

Thank you for your cooperation!

Section 1: Demographic Data

Part I. Demographic information

1 Gender

Male Female

2 Educational Levels

Diploma Degree Master Degree Above

3 Ages

18-30 years 31-40 years 41-50 years above 50 years

4 Experiences in the Bank

1-3 years More than 3-7 years More than seven years

Section 2: Close ended question

Please respond to the following questions by putting (√):

(a) Strongly agree (b) Agree (c) Neutral (d) Disagree (e) Strongly Disagree

No	Description	SA	A	N	D	SD
1	Economic responsibility					
1.1	The bank created employment opportunities for the local communities.					
1.2	The bank provides affordable service to the customers.					
1.3	The bank contributes for the national economic growth.					
1.4	The bank has clearly designed strategies to reduce operating cost.					
1.5	The bank strives to achieve service excellence.					
2	Philanthropic responsibility.					
2.1	The bank makes donation to charitable bodies and community.					
2.2	Managers and employees of the bank participate in charitable activities of their local communities.					
2.3	The bank sponsors cultural, science and sport.					
2.4	The bank provides support for the health and related initiative programs for community.					
2.5	The bank responds to natural and human made disasters.					

3	Legal responsibility.					
3.1	The Bank operates in compliance to laws and regulations.					
3.2	The bank reports its financial reports accordance with international reporting standards.					
3.3	The bank communicates its financial statement to the public.					
3.4	The bank gives legal assurance for its customer's deposited money.					
3.5	The bank gives legal assurance for shareholders for their investments.					
4	Ethical responsibility.					
4.1	The Bank is involved in environmental protection activities.					
4.2	The Bank has well developed ethical principle and communicated to its employees.					
4.3	The bank operates in a manner consistent with social expectations and ethical norms.					
4.4	The bank has good corporate governance culture.					
4.5	The bank favors to use environmental friendly materials for its business activities.					
4.6	The bank works towards improving working conditions to its employees.					
5	Profitability					
5.1	Corporate social responsibility increase the bank's market share.					
5.2	The bank corporate social responsibility practice guarantees the customer confidence level and corporate loyalty.					
5.3	The bank's brand image increased by corporate social practice.					
5.4	Corporate social practice gives a positive reputation advantage to the bank.					

Thank You!