

The Effect of Corporate Social Responsibility on Financial Performance of Large Manufacturing Firms in Addis Ababa, Ethiopia

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Article Info

Accepted on
January, 2022

Received in
revised form:

April, 2022

Published on:
June, 2022

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Abstract

Corporate Social Responsibility is a concurrent issue in the world. It is the integration of social, economic, and environmental aspects in business operations. The general objective of this study was to examine the effect of Corporate Social Responsibility practice on the financial performance of large manufacturing firms in Addis Ababa, Ethiopia. In the study, to measure Corporate Social Responsibility, the dimensions such as employee, customer, supplier, community, government, and environmental-related practices of firms were used. The financial performance of large manufacturing firms was measured using Return on Asset. Additionally, firm size was employed as a control variable to clearly understand the effect of Corporate Social Responsibility on Return on Assets. The research utilized an explanatory research design and a quantitative research approach. The sample size was 81 large manufacturing firms, but the data was obtained from 69 large manufacturing companies in Addis Ababa, Ethiopia, i.e., the returned questionnaires. A stratified sampling method was applied to select the sample from 102 large manufacturing firms. Questionnaire and document analysis of audited financial statements served as data collection instruments. The study used a multiple regression analysis model and Ordinary Least Square parameters estimator. The regression result shows that employee, community and government-related Corporate Social Responsibility practices and firm size positively and significantly affect Return on Assets. Supplier-related Corporate Social Responsibility practice has negative relationships and a significant effect on Return on Assets. Customers and environment-related Corporate Social Responsibility activities have an insignificant effect on Return on Assets. In general, large manufacturing firms are recommended to apply Corporate Social Responsibility initiatives to increase their productivity.

Keywords: Corporate Social Responsibility, Financial Performance, Return on Asset, Large Manufacturing Firms

1. Introduction

Business companies' concurrent environment is highly affected by the dynamic nature of globalization and market competition. This demands firms to develop a new management approach that needs the involvement of stakeholders that are affected by the decision of the business in the operation process to beat the market competition and create value (Hohnen, 2007).

In most developed countries, especially in Europe, the implementation of CSR is mandatory (Zhang, 2016). Therefore, they are firmly incorporated solid and wide approaches regarding the stakeholders' relations. But, these developed countries in the economy are moving their industries that have negative externalities to the developing nations, which have loose standards about the environment and society as a whole. Consequently, the environment and society in developing countries are going to be harmed (Mullerat, 2013). In developed countries, CSR is intensively implemented in all aspects, but in Africa, there is less concern to address CSR due to a lack of strong policies, strategies, and institutions. Hence, countries with developing economies are incapable of using high standards of CSR like that of developed nations (Mansaray et al, 2017).

The manufacturing area has a significant role in the progress of social and economic development within this globe (AfDB, 2014). But the increasing trend in the manufacturing sector will increase global concern about its performance and impact on it; because its overall growth result in depletion of natural resources and global pollution. As a result, manufacturing firms are going to use CSR to overcome their negative externality effect on the stakeholders. Because manufacturing entities with outputs that have minimum effect on nature can beat the market competition (Mwangangi, 2018; UNIDO, 2013).

In this era, the companies' single-minded pursuit of financial gain couldn't lead to sustainable corporate profit. It is believed that the existence of businesses is beyond the accumulation of economic benefits (Khamah, 2014). Stakeholders are increasing their pressure on firms by having a quest regarding the role of businesses in society. However, this will be achieved through the continual integration of frameworks like economic, social, environmental, and ethical values (Zu, 2009). Businesses, as part of the community, currently are giving high attention to social responsibilities. It is because of the development of international organizations like the International Standardization for Organizations (ISO) established ISO26000. This organization has its own standard regarding

corporate ethics, environmental protection, and labor. Therefore, companies are going to make these standards an integral part of their goal of making a profit (Oh, 2014).

In the Ethiopian context, there is no legal framework or regulatory body which obliged manufacturing firms to apply CSR. Moreover, CSR is in the infancy stage. Manufacturing firms are at the lower level of Carroll's pyramid of CSR. This means their focus is on economic responsibility (profit maximization) without the consideration of the stakeholders of the firm. In the current globe, unless manufacturing firms are involved in different societal matters the profitability of the firm and its sustainability would be questionable (Fantaye, 2018; Dakito, 2017).

Many scholars have been doing different investigations and theoretical discussions on the relationships between CSR and financial performance since the inception of the concept (Lu, et al., 2014). The result of empirical studies showed that the association between CSR and financial performance is not the same across time and industry. Research indicated that CSR and financial performance are positively related (Azumah, 2020; Ahamed, et al., 2014), but others showed a negative relationship (Crisostomo et al., 2011). This might be because of the varied interests of different groups, the methodology employed, and the size of the firm or other contributing factors. For Azumah (2020) and Ahamed et al. (2014), increasing a fund for CSR expenditure will have a positive impact on development, growth, and performance (both financial and non-financial). However, some scholars argued that financial performance is negatively affected by CSR. Crisostomo, et al. (2011) investigation revealed that CSR is negatively associated with firm value on Brazilian non-financial firms; therefore, it diminishes the value of firms.

In Ethiopia, there are limited investigations that were focused on the relationships between CSR and financial performance. Yitbarek, et al. (2015) examined the relationships between CSR and financial performance of private manufacturing firms in Tigray regional state. Bedilu et al. (2018) assessed the relationships between CSR and the perceived performance of manufacturing firms in Ethiopia. The other studies which were conducted to examine the relationship between CSR and financial performance are on the banking industry (Uvaneswaran & Hussien, 2017; Dakito, 2017). However, none of them investigated large manufacturing firms in Addis Ababa. Therefore, the authors intended to carry out research on the relationships between CSR and financial performance in large manufacturing firms. Larger firms may perform better social action as compared to smaller companies;

because they are characterized by stronger infrastructure and higher cash flow. At the same time, as a firm raises it becomes more visible and more responsible for different stakeholders' demands (Szegedi et al., 2015; Yitbarek et al., 2015).

Furthermore, the previous studies were focused on the CSR dimensions like employee, customer, community, and environment (Dakito, 2017; Uvaneswaran & Hussien, 2017; Yitbarek, et al., 2015)), but supplier and government-related practices were not seen. Suppliers have a direct impact on the performance of the business. They are the providers of inputs for production. Providing assistance in relation to the environment, fair price offer, and human rights protection to suppliers helps to create strong relationships with firms. This will bring reliable suppliers. It is therefore important to avoid fluctuation in production due to a lack of supplies (Zu, 2009). Even though the government is a secondary stakeholder, its related CSR practices help the firms' operations and products to go in line with both ethical and legal requirements, by regulating product information, health and safety, environmental concerns, and product quality (Lawrence & Weber, 2011). Hence, the value of manufacturing firms is highly affected by the attention given to those types of stakeholders (Pedersen, 2004). Hence, this study was carried out to examine the effects of CSR on the financial performance (ROA) of large manufacturing firms in Addis Ababa. Specifically, employee, customer, community, environment, supplier, and government-related CSR practices' effect on large manufacturing firms in Addis Ababa, Ethiopia were examined.

2. Literature review

2.1 Theoretical framework

Stakeholder Theory: This theory was first introduced by Freeman in 1984 in his book "Strategic Management: A Stakeholder Approach". The theory aims to consider all parties interested in the firm's operations, identify individuals or groups who affect or are affected by the company, and build policies and strategies that incorporate stakeholders to ensure the business's continuity and financial success (Krishnan, 2012). The theory emphasizes that firms have an obligation not only to generate profit but also to accommodate the interests of stakeholders, as the value of the organization is highly dependent on the attention provided to stakeholders (Saleh et al., 2011). If firms increase the value of

stakeholders, the value of the organization will be increased, and trade will be enhanced (Pedersen, 2004).

Triple Bottom Line Theory: The term Triple Bottom Line was initially used by Elkington in the mid-1990s. This model provides a framework to measure the performance and success of the business by using economic, social, and environmental dimensions (Goel, 2010). According to Roger and Hudson (2011), the triple bottom line model is the practical framework for sustainability. It is also referred to as the three P's which are People, Planet, and Profit (Marrewijk, 2003). Therefore, according to this theory, the traditional financial bottom line is not the only measure of a corporation's ultimate success or health, rather it can and should be measured by its social/ethical and environmental performance (Zu, 2009).

Legitimacy Theory: Legitimacy can be defined as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995). Hence, the survival of firms depends on the company-stakeholders' support within their operation. This means in order to well-functioning continually the company's operations, every activity within the firm has to be legitimate enough for society. If its legitimacy is loosed at the time of doomsday, it would end up its existence (Ojo, 2010). The practices of CSR performances in companies have an impact on corporate reputation, identity, and image (Abdullah & Aziz, 2013). Businesses' marketing activities that are built by integrating social dimensions will have a positive contribution to achieving legitimacy, which means CSR can be used as a tool to gain legitimacy (Handelman & Arnold, 1999). Therefore, the focal point for legitimacy theory would be seeking and achieving acceptance by the people. This would result from the growth in community awareness and concern (Wilmschurst & Frost, 2000).

2.2 Conceptual framework

A conceptual framework illustrates the relationship between the explained and the dependent variables. The explained variables are CSR dimensions and control variables. The dependent variable is financial performance (ROA). Therefore, based on the figure, employee, customer, supplier, community, government, and environment-related CSR practices, and firm size affected ROA large manufacturing firms.

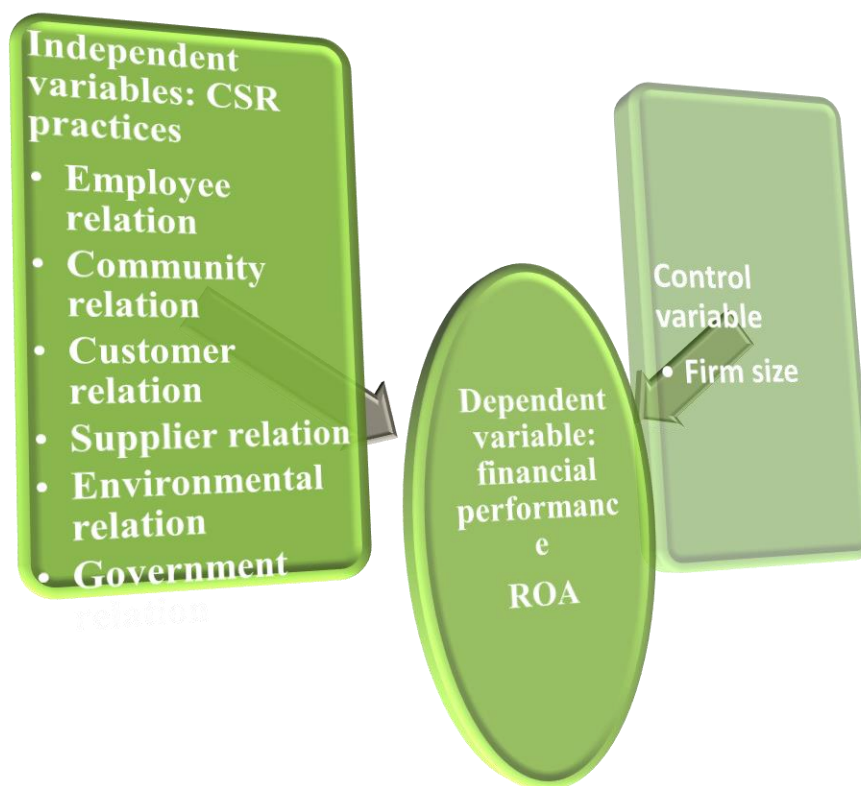


Fig.2.1. Conceptual framework: Adapted from different theoretical reviewed by researchers

2.3 Hypothesis development

CSR-related practices are currently implemented in different companies. This social performance has their own effect on the financial performance of firms. According to stakeholders' theory, the life span of firms is highly dependent on its stakes. To be profitable, managers have to take into account the interest of stakeholders in their decision-making (Krishnan, 2012). The more the CSR investment with respect to stakeholders helps to earn high profit for firms. The value given to stakeholders has parallel effect on productivity of firms (Pedersen, 2004). Therefore, stakeholders' related CSR practice has positive effect on the financial performance of firms. Hypothesis of this study was developed in the view of this theory.

To attain the organizational objectives, firms might be involved on different benefit packages of employee. There might be health and safety, professional development, recognition and recreational programs with in the organizations. These types of social performances can increase the motivations

of employees for work. Besides this, the turnover and absenteeism of staffs will be decreased. These factors have an increasing impact on productivity of firms. Since, employee- related CSR activities can increase the relationships of employees and firms; it increases the profitability of firms (Ekele & Dabo, 2018; Szegedi et al., 2015). Based on the preceding information regarding employee related CSR practice, the following hypothesis was proposed.

Ha1: Employee-related CSR practice has a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa.

Customers are one of the key stakeholders of firms. The social performances given by firms have great value to create loyal customers. Having customer care such as providing fair prices, quality products, and honest product information can increase the bondage of customers and companies. The social responsibilities of firms can increase the relationship between the two parties, and it enhances the size of markets for firms. Therefore, customers' related CSR practices can enhance the market environment and make profitable firms (Krishnan, 2012; Lawrence & Weber, 2011). Based on this information, the following hypothesis was proposed.

Ha2: Customer-related CSR practice has a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa.

The firm's CSR performance in relation to stakeholders such as suppliers have a positive effect on profitability. To increase the good relationships with suppliers, firms might go back to the suppliers and assist on environmental, social and economic aspects. In addition to this, firms are expected to provide fair purchase price for their vendors. This makes firms to build strong relationship with supplier and to own reliable source. Therefore, it helps firms to beat competitions and enhance productivity (Mullerat, 2013). Based on the mentioned information, this was the proposed hypothesis for supplier-related CSR practices.

Ha3: Supplier-related CSR practice has a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa.

Since companies are part of the community, they are engaged in different community development programs. Companies might provide educational and health contributions. Besides this, they might be

involved in philanthropic activities such as donations to the needy or NGOs. Hence, running on solving different aspects of societal problems helps to build the social belongingness of firms. Building the reputation of firms can help to broaden the market for firms (Lawrence & Weber, 2011; Tilakasiri, 2012). Having this information, the following is the proposed hypothesis regarding community-related CSR practices.

Ha4: Community-related CSR practice has a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa.

Environmentally friendly production system has to be designed within the firms. This is because the harmful practice of a company regarding environmental issues creates the wrong relations with different stakeholders. This will affect its reputation and increase its cost (Gupta, 2012). Besides this, environmental responsibility is a requirement for the survival and prosperity of human beings. For firms, CSR practice in relation to the environment needs great concern for their success (ISO 26000, 2010). According to this information, the hypothesis was proposed regarding environment-related CSR practice.

Ha5: Environment-related CSR practice has a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa.

Government is a regulatory body that makes the business environment suitable for firms by establishing and enforcing laws and regulations. If firms are not keeping laws and orders, they will incur unexpected additional costs. This leads to wrong relations between firms and governmental bodies. Hence, in the business operation process, firms are expected to go in line with the established laws and regulations. It helps to create good relationship with government and have recognition from government. This has a direct impact on profitability of business firms (Cheng et al., 2015; Fu & Shen, 2015; Mwangi & Oyenje, 2013). Based on the preceding information, the following hypothesis was proposed.

Ha6: Government-related CSR practice has a positive and significant effect on the financial performance (ROA) of large manufacturing firms.

Firm size was the control variable designed for the study. It is the logarithmic value of the total assets of firms. As the investment in total asset increases, the acquisition of new technologies would increase. This helps to be cost-effective in the production process and to have quality products. These will help to enhance profitability (Dakito, 2017; Yitbarek et al., 2015). Based on this information, a hypothesis was proposed as follows:

Ha7: Firm size has a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa.

3. Research Methodology

Research Design and Approach: Explanatory research design was employed in order to carry out this research. In this investigation, because the natures of data are numeric, a quantitative research approach was employed.

Population, Sample, and Sampling Technique: As data gathered from the Ethiopian chamber of commerce website, in Addis Ababa there are 102 large manufacturing firms (ethiopianchamber.com). Each company is considered as a unit of analysis, and 81 large manufacturing firms are taken as samples. But from the total sample size, only 69 of them responded. Therefore, the data was gathered from 69 large manufacturing firms in Addis Ababa, Ethiopia. The sampling technique was stratified sampling.

Data Type, Source, and Collection Instrument: primary data were collected from managers/key informants of large manufacturing firms in Addis Ababa, Ethiopia through the questionnaire. Secondary data was taken from the 2012 E.C. audited financial statements of the firms.

Data Analysis: The collected CSR-related data was edited, coded and a factor analysis index was taken to ease the analysis part of this investigation. The inferential econometric analysis was made using STATA14. A coefficient of determination and regression analysis was applied for inferential statistics. The p-values were determined to examine the significance level of the effect of CSR practice on the financial performance of large manufacturing firms in Addis Ababa, Ethiopia.

Measurement of CSR: In this study, six key stakeholders' related CSR practices were adopted to measure CSR. These are employee, customer, supplier, community, government and environmental-

related social performances. The questionnaire was adapted through a Likert scale for each dimension to measure CSR. After the data were collected, indexes were calculated for each of the dimensions through the principal component factor analysis method. The principal component factor analysis method helps to decompose the original data into the most manageable form. It is therefore concerned with establishing linear components within the data and identifying a particular variable that might contribute to that component (Field, 2009).

Measurement of Financial performance: Investigators measure financial performance of firms using market-based measure, accounting based measure or combination of the two measures (Nizamuddin, 2018). In this investigation, ROA is chosen as a measure of financial performance. It helps to measure the overall efficiency of the invested assets with in the firm. It is not influenced by the differential degree of leverage present in firms. Because ROA and stock price are positively correlated; a higher ROA indicated higher value creation for shareholders. Besides to this, since manufacturing firms are asset-heavy companies, ROA is a better financial performance measure (Mishra & Suar, 2010). ROA can be determined through dividing net income after tax by the total asset employed with in the firm (Van Horne & Wachowicz, 2009).

Measurement of Control Variable: The study measures firm size by using log of the total assets of the firm.

Model Specification: To determine the impact of CSR on financial performance of large manufacturing firms in Addis Ababa, Ethiopia, multiple regression analysis was applied. According to Gujarati and Porter (2009), multiple regression analysis entertains more explanatory variables that affect dependent variables simultaneously. It assists to develop a better model by incorporating many factors that affect the dependent variable. Therefore, it is more flexible and helpful to organize fairly general functional form relationships of dependent and independent variables. The parameters were estimated using ordinary least square (OLS) method.

The econometric estimate equation of the model is:

$$\text{ROA} = \beta_0 + \beta_1 \text{employee} + \beta_2 \text{customer} + \beta_3 \text{supplier} + \beta_4 \text{community} + \beta_5 \text{government} + \beta_6 \text{environment} + \beta_7 \text{LSIZE} + e$$

Where, FP= financial performance, ROA=return on the asset, employee = employee-related activities, customer = customer-related activities, supplier= supplier related activities, community= community-related activities, government=government related activities, environment=environment related activities, LSIZE= firm size which is the *log* of total asset, β_0 = intercept, β_1 - β_8 =the coefficients of explanatory variables which measures the relative effect of CSR and control variable on financial performance, and e= stochastic error term

4. Result and Discussion

Diagnostic Test

To understand the effect of CSR on the financial performance of large manufacturing firms in Addis Ababa, Ethiopia, a multiple linear regression model was applied. The model estimate was OLS. To apply it, the appropriate diagnostic tests were conducted to check whether the possible assumptions for OLS are maintained or not. In the diagnostic test model specification test, multicollinearity test, heteroskedasticity test, and normality of the residual test were conducted.

Model specification is the presentation of independent variables in econometric models. Based on the result revealed in appendix-A of the Ramsey RSET test, we fail to reject the null hypothesis because the p-value is insignificant (.1007>.05). Therefore, there is no specification of the model due to omitted variables. In OLS regression, one of the estimating mechanisms for multicollinearity is the variance inflating factor (VIF). If there are correlations among the predictors (variables), it can be said that multicollinearity problems existed within the model. Multicollinearity between the variable is not avoidable in OLS. The basic issue is to know the acceptable cutoff level of collinearity in VIF. To say there is strong multicollinearity, its tolerated existence value should be less than 0.10 and the Variance Inflation factor (VIF) should be greater than 10 in the correlation matrix (Woodridge, 2012).

Based on appendix-A the mean VIF of the study is 2.86. The maximum VIF which is observed at the individual level is 5.01. Which means the observed VIF result is less than 10. The tolerance level is also above 0.10. Therefore, there is no multicollinearity problem within the model. To say, there is no heteroskedasticity problem; the error term should hold constant variance over the predictors. According to appendix-A Breusch-Pagan/Cook-Weisberg test, there is no heteroskedasticity in the model because the p-value is insignificant, i.e., the p-value (0.2326) is greater than the 5% level. The

last diagnostic test was the Shapiro-Wilks normality of error terms test. The p-value (.77051) is insignificant at 5%. It means the sample data are not significantly different from the normal population, because the error term is normally distributed to the normal population. It can be concluded there is no normality problem within the data set.

Regression Analysis

According to Table 4.1, the econometric model result revealed that among the factors that determine the financial performance (ROA) of large manufacturing firms in Addis Ababa, Ethiopia, 56.55% was explained by CSR-related practices and firm size. The remaining 43.45% was determined by the unobservable factors of financial performance. The F-test, which measures the overall goodness-of-fit of the sampled data to the population, is significant ($.000 < .01$).

Table 4.1: OLS regression result (ROA)

				Number of obs	=	69
				F(7, 61)	=	11.34
				Prob > F	=	0.0000
				R-squared	=	0.5655
				Adj R-squared	=	0.5157
				Root MSE	=	.03466
Roa	Coef.	Std. Err.	T	p> t	[95% conf. interval]	
employee	.0187861	.0058009	3.24	0.002**	.0071865	.0303858
customer	.0084565	.0094114	0.90	0.372	-.0103628	.0272758
supplier	-.0268726	.0089371	-3.01	0.004**	-.0447434	-.0090018
community	.0218261	.0075676	2.88	0.005**	.0066937	.0369586
environment	-.0003145	.0064974	-0.05	0.962	-.013307	.0126779
government	.0160436	.0058111	2.76	0.008**	.0044236	.0276637
Lsize	.0167138	.0064616	2.59	0.012*	.0037931	.0296345
_cons	-.2364209	.1295677	-1.82	0.073	-.4955074	.0226657

Source: STATA14 output of 2021survey; **significant at 1%, * significant at 5%

Ha: Employee related CSR practice has positive and significant effect on financial performance (ROA).

According to Table 4.1, employee-related CSR activities have a positive and significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa. The statistical test was also significant ($.002 < .05$) at 1% level. As a result, a 1% proportional increase in employee-related CSR practice will increase by 1.88% on ROA; the opposite is also true. Therefore, there might be firms' CSR engagement programs like staff promotion (giving recognition), preparation of capacity

building programs, taking of employees in the decision-making process, refreshment schemes of employees, change in life balance of employees, offer of employee health and safety programs. This will increase the morale and productivity of employees. Besides this, employee turnover will be decreased. As the employee retention rate increases, the firms will get a chance to exploit their experience. Hence, involvement in creating a conducive working environment for employees will increase the profitability of firms.

This result is therefore supported by the empirical findings of Yitbarek et al. (2015), Kakakhel et al. (2015), and Ahamed et al. (2014). All the investigators argued that more on CSR activities in general and salaries and wages spending of employees, and employees' welfare funds and other benefits in particular leads to higher profitability and better performance. Since employee benefits can affect their motivation for work, which results in higher productivity and performance, firms should involve in CSR investment. Besides this, according to Cherian et al. (2019), it will positively impact the emotional link of employees with their organizations. This will diminish the rate of absenteeism and turnover. Therefore, it improves the productivity of firms. It is also consistent with stakeholder theory. The more the firm is involved in keeping the interest of stakeholders, the more it is profitable. Hence, firms have to take into account stakeholders in every decision-making. The sustainability of the firms and their strength in financial performance depends on the attention given to stakeholders (Saleh et al., 2011).

Ha: Suppliers' related CSR practice has positive and significant effect on financial performance (ROA).

According to Table 4.1, supplier-related CSR practice has a significant effect on the financial performance (ROA) of large manufacturing firms in Addis Ababa. The statistical test is significant at 1% level ($.004 < .01$) for ROA. Suppliers-related CSR activities have a negative association ($-.0268726$) with ROA. This means a 1% increase in supplier-related CSR practices will have a 2.69% decrease in ROA. Hence, involvement in suppliers' related CSR investment does not have rewards for the firms. Prices of inputs of production might be increased beyond the normal scenario, at this time stopping operation is not an option. Especially at this time since most large manufacturing firms are importers of inputs, due to COVID-19 importing of raw materials was very limited. Besides this, the dollar value is increasing over time. However, to keep the operation normal and meet the demand of

customers, firms might purchase those inputs at high prices. Due to this, the sales price would be increased. This decreases customers, which leads to decreased profit.

This regression result is supported by institutional theory. According to the theory, companies might incorporate CSR actions even without an obvious economic return. This is to earn legitimate practices or legitimize their practices in the eye of other stakeholders (Glover et al., 2013). Based on the needs of different stakeholders, such as suppliers, customers, environment protection organizations, etc. companies in different industries should involve in corporate social responsibility activities to ensure their legitimacy.

Ha: Community related CSR practice has positive and significant effect on financial performance (ROA).

As shown in Table 4.1, community-related CSR practice has a positive coefficient (0.0218261), and a statistically significant p-value ($.005 < .01$) at 1% level on financial performance (ROA). This result revealed that an increase in community-related CSR practices has a positive and significant effect on ROA. This means a 1% increase in CSR performance in relation to the community has an increasing effect on ROA at 2.18% of large manufacturing firms in Addis Ababa. Corporate giving, involvement in different social work initiatives, reaching quality products to the community, practicing compensation plans for the negative externalities of the firms, and changing the life standards of the local communities would be the task of manufacturing firms. This type of community-based initiative helps the firms to build a good image and increase the social acceptance of the firms.

Yitbarek et al. (2015) and Muñoz et al. (2015) supported the result of regression analysis, ROA is affected by community-related CSR activities. Since the firms show responsibility for their doings, the communities can build trust in the firms. This result is also consistent with stakeholder theory, triple-bottom-line theory, and legitimacy theory. Three of them agreed on the consideration of the social dimension within the operation of the business. Involving in the social affairs of the community will help to create common values between the community and companies.

Ha: government related CSR practice has positive and significant effect on financial performance (ROA).

According to Table 4.1, government-related CSR practice has a positive coefficient (.0160436) and significant p-value ($0.008 < .001$) at 1% level on ROA. This means if government-related CSR activities are increased, the profitability (ROA) of large manufacturing firms in Addis Ababa will be increased. This result was consistent with the suggested hypothesis. The firms should be engaged in

respecting the laws which are enacted by the regulatory body. At this time, they can free themselves from additional costs, such as penalties due to the breach of law. When they are operating in line with the established rules and regulations, they can avoid those unconditional costs and earn recognition from the regulator. It helps to build a good name in the eye of the government and strengthen the relationships between them. The results suggested above are consistent with the legitimacy theory and stakeholder theory. One of the core elements of firms should be to alleviate societal problems, and it is considered a legal responsibility and ethical and moral obligation. Besides this, disregarding the party who affects or is affected by the company, leads to the failure of the firm. Therefore, doing tasks with the government has rewards (Papazolomou-Doukakis et al., 2005, cited in Yohannes, 2017; Zu, 2009).

Ha: firm size has positive and significant effect on financial performance (ROA)

As it is stated in Table 4.1, firm size (log of Total Asset) has a positive coefficient (.0167138) and a statistically significant p-value (.012<.05) at 5% level on ROA. As Br.1 investment is added to the asset, the ROA of large manufacturing firms in Addis Ababa will increase by Br 0.0167; the opposite is also true. The result is therefore in line with the stated hypothesis. Cash investment helps firms to have new technologies, to expand businesses (increase investing capacities), and to offer quality products for the market. This will help to beat competitors and earn maximized profit. Therefore, for large manufacturing firms in Addis Ababa, additional cash investment in keeping the optimum production capacity has a rewarding situation. This result is supported by the empirical research findings of Nyeadi et al. (2018); Mansaray, et al. (2017), and Kakakhel et al. (2015).

5. Conclusions

The main objective of this study was to investigate the effect of CSR-related practices on large manufacturing firms' financial performance in Addis Ababa, Ethiopia. The finding of the quantitative analysis reveals that employee-related CSR performance positively and significantly affects ROA at a p-value of .002. This means engagement in CSR activities in relation to employees has an increasing impact on the financial performance of large manufacturing firms in Addis Ababa. On the contrary to this, if firms ignore the concern of employees, profitability will be diminished. Hence, firms are expected to involve in making smart their working habitat. At this time, the existing employees prefer

staying in their position. This also stimulates the outside skilled labor force. Due to this, the productivity of firms will be increased. As a result, firms' engagement in health packages, motivational schemes, housing programs, and other benefits has a positive effect on profitability.

Another important issue is supplier-related CSR practice. This type of CSR practice has a negative and significant effect on financial performance-ROA. An increase in supplier-related CSR has a decreasing effect on financial performance (ROA). Therefore, vendor selection plays a critical role in firms' supply chain management. Sometimes, with the operation, firms might be forced to do with negatives. Therefore, large manufacturing firms would be recommended to provide suppliers' related social performance by prioritizing the key activities.

In doing CSR activities, involvement in community-based social performance has a positive and significant effect on the ROA of large manufacturing firms in Addis Ababa, i.e., community-based initiatives can increase financial performance. Participating in charitable activities, life improvement programs for the needy, creation of job opportunities for locals, donations, and educational and health initiatives can increase the social bondage between the firm and the community. This social harmony helps firms to open smooth relationships with the community.

Government-based CSR engagement of large manufacturing firms in Addis Ababa has a positive and significant effect on financial performance- ROA. Keeping governmental laws, and respecting regulatory body orders, have a chance for firms to build strong paths with the government. Firms might earn incentives as a reward. Therefore, participating in government-based CSR performance can enhance the profitability of firms.

Based on the findings of this investigation, CSR has a reward for large manufacturing firms in Addis Ababa. Therefore, they are recommended to include CSR in their policy.

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Appendix-A: Diagnostic Tests

```
. ovtest
```

Ramsey RESET test using powers of the fitted values of roa

Ho: model has no omitted variables

F(3, 58) = 2.18

Prob > F = 0.1007

```
. vif
```

Variable	VIF	1/VIF
customer	5.01	0.199437
supplier	4.52	0.221169
community	3.24	0.308457
environment	2.39	0.418439
government	1.91	0.523117
employee	1.90	0.524953
Lsize	1.07	0.934718
Mean VIF	2.86	

```
. hettest
```

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Ho: Constant variance

Variables: fitted values of roa

chi2(1) = 1.42

Prob > chi2 = 0.2326

```
. swilk h
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
h	69	0.98831	0.711	-0.741	0.77051

Appendix-B: Regression Result

```
. reg roa employee customer supplier community environment government Lsize
```

Source	SS	df	MS	Number of obs	=	69
				F(7, 61)	=	11.34
Model	.095380213	7	.013625745	Prob > F	=	0.0000
Residual	.073274859	61	.001201227	R-squared	=	0.5655
				Adj R-squared	=	0.5157
Total	.168655072	68	.002480222	Root MSE	=	.03466

roa	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
employee	.0187861	.0058009	3.24	0.002	.0071865	.0303858
customer	.0084565	.0094114	0.90	0.372	-.0103628	.0272758
supplier	-.0268726	.0089371	-3.01	0.004	-.0447434	-.0090018
community	.0218261	.0075676	2.88	0.005	.0066937	.0369586
environment	-.0003145	.0064974	-0.05	0.962	-.013307	.0126779
government	.0160436	.0058111	2.76	0.008	.0044236	.0276637
Lsize	.0167138	.0064616	2.59	0.012	.0037931	.0296345
_cons	-.2364209	.1295677	-1.82	0.073	-.4955074	.0226657